Investment Management

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Our approach to investment management begins with an assessment of the risk environment and the likely capital market returns over a time frame determined by our clients. Tax effects, charitable giving, asset transfer requirements, and retirement plan characteristics all are considered in setting the appropriate mix of financial assets in a portfolio.

In evaluating risk, we are very specific. Does the current environment reward risk-taking? To Glencrest, risk means the odds that your capital will be impaired during a selected period of time, which is as significant as an analysis of what an investor should expect to receive for taking on the risk of losing money.

This is a different approach to examining risk and return from Wall Street and most money managers. Glencrest's focus is not on market indexes in judging the appropriate amount of risk and return in clients' portfolios. Rather, Glencrest focuses on how much we expect to be paid to risk our capital.

Historically, stocks have returned about 5% more per year than bonds. That return premium ebbs and flows in different market environments. When that cushion is low, the extra return may not be enough to compensate for the risk of investing in volatile securities like stocks. Glencrest makes continuing assessments of this relationship in determining the best mix of assets for our clients' portfolios.

Usually, when price/earnings ratios are high relative to their norm, the risk premium of stocks relative to bonds is small, and the portion of a client's portfolio in equities is low. Contrarily, when the premium for holding stocks versus bonds is high, price/earnings ratios are low relative to the norm. In that case, the portfolio asset mix is weighted toward equities.

Assessing the risk/return environment and setting asset allocation is the most important factor that determines long run portfolio returns. Successfully implementing that asset mix involves the careful choice of individual securities. Our approach is a value-oriented, research-driven process whereby equity candidates for purchase are screened by several criteria: price-to-book value, price-to-sales, price-to-earnings, dividend growth and quality of earnings. Qualitative assessments of management, utilization of the asset base, and incentive structures that align with shareholders' interests are important factors in our decision process. We search for companies that can be purchased at a discount to our estimate of their earning power, or the intrinsic value of their assets. By approaching the selection in this way, we cushion the impact of adverse market environments on our holdings and open the upside once the market recognizes the undervaluation.

Security selection of taxable bonds, municipals, and preferred stocks follow strict value and tax-efficient criteria. Yield spreads between these different types of securities are assessed and compared to underlying credit quality. There are periods in market cycles where taxable bonds and preferred stocks have better after-tax yields and prospective returns than tax-free securities. Also, there are market environments where tax-free yields have been greater than those on taxable bonds due to investor flight from municipalities because of the perceived risk of default.

Risk management is more than insisting on adequate returns to compensate for the possible impairment of capital. It requires a sell discipline that cuts losses short to preserve the value of client portfolios. For Glencrest, if a holding drops 10% from its purchase price, it is immediately sold. This insures that we do not rationalize the initial error in purchasing the security, and prevents the doubling down strategy that often leads to ruin. Our sell discipline also requires strict attention to valuation and an individual security's supply/demand dynamics in the initial purchase decision. In order to benefit from financial markets that may reach extremes on the downside, our clients' capital must be intact. That is the way to preserve and grow wealth over time.