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Our Definition of “Thoughtful Investing”

The underpinnings of the equity portfolio management and stock selection process at Sigma are predicated upon six fundamental tenets. First, is the recognition that we are the sole investment manager for the majority of our clients. We seek to maximize returns for the equity portfolios, yet we must also manage the risks inherent in the equity markets.

Second, is our strong belief that diversification is a primary tool required for managing the risks of an equity portfolio. A similar diversification philosophy is also applied in our fixed income portfolios. Diversification across the equity spectrum allows us to manage the risks of equity exposure in a portfolio in a prudent manner and at the same time provide competitive after-fee returns.

Third, while we seek to quantify the expected returns and the upside/downside risks in equity markets, investing is not an exact science. The reality is that even fully quantitative investment approaches (black box/computer generated) are based on the assumptions and inputs of individuals. Combined with clients' unique needs and circumstances, the portfolio management process resembles an art form, as opposed to a pure science.

Fourth, while our equity portfolios are more diversified than the S&P 500 benchmark, clients and prospects continue to measure our investment performance relative to the S&P 500. The long term attributes of the S&P 500 index provide expected return parameters that allow clients to meet their long term goals at an acceptable risk level, providing a reasonable and logical basis for clients to judge investment performance.

Fifth, our clients are primarily domiciled in the United States. International markets, particularly emerging and frontier markets, will continue to be higher growth arenas than the United States. Higher growth means higher equity returns but it also means higher risks. The U.S. now represents less than 50 percent of global equity indexes. However, the idea of a 50 percent plus non-U.S. equity portfolio is tempered by the higher risks that international investments bring to the portfolio. More importantly, the future needs and liabilities of our clients are denominated in dollars. This leads to a bias in our equity portfolios towards dollar denominated assets (U.S. stock market).

Finally, despite all of our professional training, we too are subject to the emotions that investments can create. To buffer our investment decisions and portfolios from being taken in by the human emotions to which we are all subjected, we have designed many parameters and disciplines into our process.

As our clients know, we begin our asset allocation process by spending a significant amount of time understanding each client's goals and objectives, needs and constraints. From this dialogue an investment policy statement emerges. A key conclusion of the statement is asset allocation which takes into consideration not only the funds to be managed by Sigma but also incorporates a discussion of the client's entire financial picture.

Our equity portfolios are based on two models maintained in-house; an all ETF portfolio and a combined ETF and individual stock (hybrid) portfolio. Regardless of which portfolio approach is chosen, all portfolios are based on

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an equity strategy which incorporates five core investments designed to provide a balance that is focused on maximizing returns without taking undue risks. The responsibility for investment selection and overall management of these models rests with Sigma's Chief Investment Officer. However, there is continuous dialogue and input from the members of Sigma's Investment Committee, punctuated by daily morning briefings and weekly investment meetings.

Sigma's model equity portfolios include exposure to five core equity sectors; large, mid and small capitalization (cap) sectors of our domestic market as well as exposure to international developed markets and international emerging markets. Careful consideration and deliberation goes into determining what should be a core sector and what the minimum and maximum desired exposure to each of those core sectors should be within the models. We have developed procedures and models to analyze the valuation of each of the core sectors. The valuation is done on both an absolute basis as well as its attractiveness relative to each of the other core sectors. Consequently, changes to portfolio weightings are not an activity of a rote rebalancing to "target" at the end of a quarter. Rather, adjustments are made within the designated ranges based on a thoughtful analysis of continuous data and other information we include in our decision making process. In addition, the overall range parameters for each of the core sectors are revisited on a periodic basis.

For hybrid portfolios, exposure to the large cap domestic sector (S&P 500) is accomplished by investing in 40-50 stocks diversified across all S&P 500 industry sectors. Our stock selection process is based on seeking out companies where management has demonstrated an ability to improve corporate performance and grow the company in a profitable manner. In short, we are looking for management teams that have demonstrated good stewardship over the assets entrusted to them by shareholders. Key metrics used in our screening process include an analysis of Cash Flow Return on Investment (CFROI); sales trends, margin analysis and asset utilization. We measure the data in both absolute terms as well as relative to industry peers. In addition to

these metrics, earnings expectations, capital structure, quality of earnings and cash flow and market capitalization are evaluated. Finally, management's historical ability to sustain or improve the level of returns on their investments and management's ability to grow the company in a profitable manner are considered. Once we have produced our screens of viable candidates for purchase, we do our own analysis and research on selected companies, making judgments about future CFROIs and growth rates. This analysis allows us to make judgments about valuation relative to the current stock price. We typically seek purchase opportunities where we perceive there is at least 30% upside from the current price. At the time of purchase an initial portfolio position of 2-2.5% is established. After the initial purchase we may decide to trim or add to holdings as the markets move. However, the maximum position size for any one individual stock in the hybrid portfolio is 5%. At all times stocks are ranked within each sector from most to least attractive at that given point in time. This allows a portfolio manager reviewing a portfolio to determine the best places to add new money or sell a stock to raise cash for the portfolio.

The companies of the S&P 500 are divided into 10 industry sectors. In managing portfolios we have lower and upper limits for each sector, based upon the sector weighting of the S&P 500. This helps to manage the risk in the portfolio by making sure a sector that appears to have an attractive valuation does not become inappropriately over weighted in a portfolio or that an unattractive sector becomes inappropriately underweighted.

Overlaid on this process is a thoughtful ongoing dialogue within the investment committee about macro trends and special opportunities. The macro trends lead to the desired weightings of the core sectors at any given point in time. For the hybrid portfolio these discussions also lead to decisions about industry sector weighting relative to the sector's weight in the S&P 500. For both models we seek to be opportunistic when a mis-priced asset is perceived. This has resulted in investments such as gold, real estate and more recently a municipal bond ETF.

A sell discipline is a crucial component for any thoughtful investing process. There is a lot of time and effort that goes into researching a stock. Without a sell discipline the resistance to sell a stock can be significant. It is human nature to want to hang on to winners and not admit we were wrong on the losers. At Sigma, our discipline has three primary sell triggers. The first trigger is when a stock has met our expectations and upon further review we see no need to revise our outlook upwards. The second trigger is when our least favorite holding needs to be sold to make room for a better idea. Finally, the third trigger is the one we all dread, but it is the most important; the stock isn't working out as expected. Any stock holding that underperforms the S&P 500 by 20% in any given 3 month period is flagged. We try to determine if something has changed since our initial analysis that is now negatively impacting the company; if expectations/expected activities of the company are not being met or is playing out in a different/exact opposite way from what we expected to happen; or, if our analysis is correct and the market has not yet recognized the value in the company. When the analysis is completed, if we determine it is the latter we will continue to hold the stock. Otherwise, the stock is sold. If the company continues to underperform the market by another 10% in almost all cases we will sell the holding.

The final piece of our thoughtful investing strategy is that which is most transparent to the clients. It is the technology and compliance systems we have developed which has enhanced portfolio managers productivity. This translates directly into higher levels of value added services for our clients. While Sigma uses off the shelf industry products, we have modified them significantly to provide the truly important information for portfolio management in a quick and concise manner and to remove administrative burdens from the portfolio managers, automating tasks in almost all cases. This includes interweaving any unique client circumstances and requests into the system as well as overlaying our own standards of compliance into our systems and processes.

Over the years, through a variety of venues and circumstances, it has become clear to us that we are on the

leading edge of technology in our industry. One way to illustrate this is the way in which a portfolio is rebalanced. The vast majority of rebalancing in our equity portfolios is not driven by a compliance requirement to rebalance to target. Rather our portfolio managers have time to spend reviewing individual portfolio holdings to determine whether each holding is over or under weight relative to its target for that client portfolio. (The same holds true for overall asset allocation.) Depending on the timing of when someone becomes a client and market moves since that time, the weighting of a given stock in the portfolio maybe over or under the desired weight. At any point in time the portfolio manager can quickly quantify the over weights and under weights in a portfolio or group of portfolios and make trades accordingly. This greatly facilitates the investment of new cash into the best opportunities in the portfolio as well as determining the best sources of cash in the portfolios. This may seem like a trivial matter but the fact is our system designs have freed up significant time for our portfolio managers. Managers are not burdened with compliance and administrative tasks that result in portfolio management becoming a robotic rebalancing task with no real thought given to the unique needs of the client portfolio. Each portfolio position and weighting is deliberate. This focus on technology and systems allows portfolio managers at Sigma more time to focus on higher value added activities for clients.

Market Update

After a tremendous rise since September of last year, the equity markets have experienced several consecutive weeks of decline. And, despite the increase in real inflation (including food and energy) interest rates have backed down. Investors have become nervous that the recovery is weak and may turn into a double dip recession. Recent data indicates a renewed downturn in the housing markets, while consumers have less discretionary spending as gas and food prices continue to climb. Further, recent jobs reports are disheartening and other economic data points remain positive but weak. If that were not enough, it

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interactive creative local independent personal
knowledgeable thoughtful ethical experienced

appears once again that Congress is incapable of providing the leadership or political will needed to address the debt ceiling. We expect that the conversation over the debt ceiling will continue to be a focal point for the markets this summer and markets will respond daily to commentary out of Washington on this issue. However, we also continue to believe the U.S. economy will remain in a recovery mode, albeit weak. While our expectation is still for an upward bias in interest rates, the magnitude is likely to be less and higher rates may be pushed out towards 2012.

Finally, we believe the Japanese tsunami has impacted the data significantly. While we expect the pace of increased earnings projections and economic data to abate from recent levels, the slowdown in growth may be overstated and temporary in nature, as much of the economic data released over the next few months will be heavily impacted by the tragedy and ensuing turmoil in Japan.

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