CLEAR VIEW WEALTH ADVISORS, LLC
Plan Well. Invest Smart. Live Better.

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Our Investment Philosophy

Our core beliefs:

- Costs matter
- Markets are efficient
- Focus on reducing risk
- Assets tend to revert to the mean
- Diversification works over the long haul
- Exchange Traded Funds and Individual Stocks Offer Overall Value and Efficiency
- Dividend-paying stocks are a key building block for wealth, income, and risk control
- Certain factors tend to improve return and reduce risk: Small Cap vs Large Cap, Quality of earnings and dividends, 'Value' tends to do better over time vs 'Growth'

MarketFlex Portfolios Structured as an Integrated "Core/Satellite" Approach

Individual Allocations Typically Contain These Components

- The "Core" Piece *Allocation ranges between 20% and 80% of a client's portfolio*
    - Similar to a traditional 60/40 stock/bond portfolio
    - Traditional long-only asset classes with a focus on a buy-hold approach and index investing
    - Mix of conventional stock and bond asset classes with global diversification
    - Core based on low-cost index stock and bond funds or ETFs as well as low-cost active mutual funds from Vanguard. Also, may include individual dividend-paying stocks.
- The Hedge and Alternate Satellite *Allocation ranges from 5% to 25%*
    - Chosen to mitigate portfolio risks by allocating to diversifying liquid alternative investments
    - May include non-traditional bond holdings to diversify the core
    - Assets that tend to exhibit non-correlated returns or offer a hedge to volatility
    - Typical holdings may include a mix of real estate, private equity, natural resources or emerging market bond and equity assets
- The "Tactical" Piece *Allocation ranges from 5% to 50%*
    - Investments made in a range of asset classes considered attractive to improve returns or reduce risks
    - May include active investment managers (mutual funds or separately-managed accounts) and Closed-End Funds

Notes on Investment Philosophy

Our approach is driven by academic research and not Wall Street hype. This means we focus on what we believe is time-tested, optimal, and prudent rather than faddish and fashionable. As noted by a wise investment commentator, "when Wall Street builds a better mousetrap, investors are generally the mouse." And it should be noted that it is often NOT different this time. Our approach is long-term, strategic, and based on well-established financial and economic theories, data, experience, and a little judgement. **That means building broadly diversified portfolios that have meaningful international exposure and are built to be tax efficient.**

- With few exceptions, we accept that markets are efficient most of the time. This means that individual securities are generally priced correctly. Incurring additional costs in the hopes of finding a mispricing is usually a futile exercise though, of course, an apparent mispricing will seem obvious after the fact. To summarize, active management does not consistently add value through security selection or market timing. **So, we will invest almost exclusively through index funds and other similar passively managed vehicles** (ETFs for example).
- While markets are mostly efficient, there are persistent anomalies that tend to be evident most of the time. These are termed "factors" and the most significant of these are "value" and "momentum." **So, we will tilt portfolios toward factors such as value and, to a lesser extent, momentum**, meaning we won't "fight the tape" when a trend is evident in an asset class or stock.
- It also appears that stocks of smaller and midsize companies have periods of outperformance compared to larger companies. **So, we will tilt portfolios toward smaller and midsize companies.**
- Including such tilts means that our portfolios will most likely give rise to "tracking error" which means that **your portfolio will not exactly track vanilla indices like the S&P 500**. Results are not guaranteed, and it can take time for outperformance or lower risk to show itself.
- Diversification AND cost control are crucial. So, **we will primarily use Exchange Traded Funds (ETFs) and other open- and closed-ended mutual funds** to gain the exposure needed to various asset classes. We will use these because of their broad holdings and low costs. We will seek out funds that tend to have lower turnover which also reduces costs.
- From peak to trough, US stocks declined in nominal dollars between 45 and 55 percent in multiple time periods: 1973-1974, 2000-2002, and 2007-2008. Market corrections of lesser amounts are not unheard of as well: 34% during the CORONA Virus sell-off; 20% during the tech bubble sell-off in early 2000; 10% during the Asian and Long-Term Capital Management crises near the end of the 1990s. **So, during poor markets, investors should expect the risky portion of their portfolio to decline by up to half.** The "risky asset portion" is everything that is not investment grade bonds or cash. For example: An investor with a $1M portfolio with 60% in stocks and 40% in bonds and cash should expect to experience a decline to $700,000 periodically. This is the necessary pain to achieve the higher returns that are expected from risky assets. This is not a "worst-case" scenario but an expected periodic case. If stocks did not occasionally experience losses, they would cease to be attractive to earn superior returns over the long-term. **It is our job to make sure client portfolios are positioned at an appropriate level of risk** and that our clients do not increase their risk when things look rosy and do not decrease their risk exposure when the outlook is frightening (2008 and 2020).
- Foreign investments will be used for added diversification. So, **we will include international exposure** including smaller companies in emerging markets.
- In the end, **what matters is not how your portfolio tracks an index but whether it is positioned to fulfill your goals.** While comparisons with benchmarks are helpful, our real benchmark is how well a selected allocation helps you meet your goals even after market corrections.