CAPSTONE
investment financial group, inc

Our Secret Sauce

How Capstone differs in crafting of portfolios for our thoughtful investors

Capstone Investment Financial Group portfolios are different for one very special reason. We believe passive, buy-and-hold investing is too risky. It leaves the investor vulnerable to market declines, changing investor sentiment and economic doldrums.

A Capstone portfolio encompasses:

1) A wider playing field – There are many exciting asset classes beyond the traditional stocks, bonds, and cash. Capstone uses focused sector investments as well as broad asset classes. When appropriate, client portfolios will include real estate, currencies, precious metals, timber, and other real assets (i.e. commodities). We also diversify through the use of strategies with the potential to improve risk adjusted results - including managed futures, long/short, market neutral and inverse strategies.

2) Tactical management – Capstone's use of Tactical Allocation takes our clients beyond the limits of Strategic Investing with its focus on allocating among "style boxes" and periodic re-balancing of the portfolio. We strive to place your funds into assets that we expect to have a good return over the next one- to five-year period. If an asset class is performing poorly or has limited potential for the foreseeable future, we see no need to include it in your portfolio just for the sake of having its style box represented.

Capstone also avoids periodic re-balancing for the sake of re-balancing. Legendary investor Peter Lynch refers to this type of investing as being "like watering the weeds and cutting the flowers." There can be good reasons to take money from good investments and there can be reasons to add to investments that have not been doing well, but the simple passage of a set amount of time cannot possibly be an acceptable reason. It is an absurd practice which does not serve your portfolio well.

3) A Plan for Risk Management – We buy an investment because we believe it will be a worthwhile one for you. Unfortunately, we will not always be right in this regard whether from a faulty decision or a market downturn. So, when we take a position in an investment, we set a "stop loss." If the investment falls below that value, we will take action to replace it or to mitigate its affect on your portfolio. That is true risk management, to which we believe you are entitled. As an investment succeeds, the "stop loss" price is moved up to preserve gains should the position start to lose value. A targeted gain is also set for every investment. Should an investment reach that profit target, we will examine the investment. Is it still worth keeping? Should some or all of the position be sold? We believe this level of careful analysis and risk management is what you deserve when you pay for professional money management.

Unfortunately, most advisors do not have a plan in place to control losses. Instead, they will advise you to wait for time to heal your losses. We have a system and a plan for every investment.

4) Humility and a Contrarian Leaning - The markets have a way of humbling even the most experienced investors. It is therefore essential that we see ourselves as learners, always willing to admit when we might be wrong and to reconsider a decision before it is too late. Warren Buffet says "Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."

Buffett also suggests "Be fearful when others are greedy. Be greedy when others are fearful." It is that contrarian bent that we believe is so important in quality investment management. It is why we bought millions of dollars worth of closed end funds at huge discounts when others were selling in panic. You have to manage your emotions rather than falling prey to them. This is the key skill of a successful, contrarian investment manager.

5) Fair Pricing – Capstone fees are fair and earned the hard way, through ongoing due diligence, tactical investing and risk management. In essence, you get plenty of hard work from us for a fee that generally trends towards to lower side of fee-based management. Our goal is to maximize your returns. That means going far beyond static asset allocations and periodic rebalancing. By helping you attain your life goals, we both win.

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