

# How To Invest

## Goldsmith Mellon DeLosReyes, Inc. Registered Investment Adviser

*We manage peace of mind with your investment*

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**"Serious investing is not buying one single stock after another hoping to hit home runs. Serious investing is making money on your investments by minimizing risk," Gilbert M. De Los Reyes, Chairman**



## Investing By Minimizing Risk - Often Asked Questions

**Q: What is wrong with buying individual stocks if you have done due diligence on them?**

**A:** There is nothing wrong with it, if you don't mind disproportionate risk. Let me explain in simplest terms. If you buy one stock, on the average, you have a fifty-fifty chance of making money. If you buy two stocks you improve your chances. You need to buy a lot of individual stocks to achieve sufficient diversification and reduce risk exposure.

**Q: What would you advise an investor?**

**A:** First, you have to identify your investment objective, your risk tolerance, and your investment time horizon, or how long you intend to keep the money invested without withdrawing it. Then you build a well-diversified portfolio that conforms to those parameters.

**Q: Is there such a thing as riskless investing?**

**A:** Is there such a thing as riskless living? To answer your question, no. Even the U.S. Treasury Bill, which is referred to in the investment management world as a riskless asset, is exposed to some risks, even if you hold it to maturity. Inflation risk, for one.

**Q: Can you eliminate risk if you diversify?**

**A:** There are two kinds of risk in investing. Market Risk, which is influenced by economic conditions, such as inflation rate, interest rate, exchange rate, employment rate and all those other macroeconomic factors. Then, there is the Firm-Specific Risk, which is influenced by management effectiveness, production capability, research and development, and other factors that affect only a particular firm or security. You can eliminate Firm-Specific Risk by diversification. However, you can not eliminate Market

Risk.

**Q: How do you diversify to eliminate Firm-Specific Risk?**

**A:** The process, as you know, is called Asset Allocation. In a research study of pension plan performance conducted by Brinson, Hood and Beebower in 1986 and updated in 1991, it was concluded that asset allocation accounted for 92% of the investment results, 5% from security selection, and 3% from tactical or market timing. Technically, the asset allocation process involves some statistical calculations of variance, covariance, standard deviation and correlation coefficient. But in layman's terms, it simply combines different asset classes, such as stocks, bonds, money-market, CD's, precious metals, real estate, both domestic and foreign investments in proportions that would either increase total return and corresponding risk, or reduce both, depending on the risk-tolerance of the investor. Let me quote a Wall Street dictum. "The higher the expected return on your investment, the higher the risk." With asset allocation you would have eliminated the Firm-Specific Risk. Now you are left with the Market Risk, and you have to look for your comfort level among various combinations of assets with degrees of lower return with lower market risk, or higher returns with higher market risk.

**Q: Is it worth going through this complicated process to manage your investment?**

**A:** It is really not that complicated for clients. We do all the work, including writing the investor's investment policy statement, which formalizes the investment objectives, risk-tolerance, and performance evaluation guidelines. Then we do an asset allocation. Once that is done, we handle the execution of the plan by helping the client search out and select the right investment managers, or if the client prefers, help him select the individual investment vehicles to fit into the asset allocation guideline. We then monitor the performance of the portfolio and recommend adjustments, if necessary. Is it worth it? Wouldn't you like to sleep better at night?

**Q: Can you apply the asset allocation approach to pension and retirement plans as well as individual investing?**

**A:** Yes, and firms or individuals can call us anytime for a free consultation on their investments.

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