Carrie Houchins-Witt CFP® | EA
Tax & Financial Services

Illuminating your family's path to a brighter financial future.

STATEMENT OF INVESTMENT PHILOSOPHY & APPROACH

One of the major, perennial arguments in the investment world is the "active" versus "passive" debate. Active investing is characterized by stock picking and market timing. Passive investing is characterized by buying, holding and rebalancing a globally diversified portfolio of index funds. Along with the University of Chicago, multiple Nobel Prize recipients, John Bogle (founder of The Vanguard Group) and Warren Buffett, we believe the research shows that the "passive" side of this debate has won the day for the common investor. As such, when designing portfolios, we use passively managed, broadly diversified, core index mutual funds and Exchange Traded Funds (ETFs) for these reasons:

- **Low Cost** – Fees have a tremendous impact on future fund returns. Researchers such as Morningstar have found that a fund's expense ratio is the most proven predictor of future fund returns and should be among the top two criteria when selecting funds for a portfolio.
- **Diversification** – Index mutual funds and ETFs typically contain securities from hundreds or even thousands of companies/entities, which means that the poor performance of a handful of securities or even a sector does not unduly reduce the portfolio's overall return.
- **Style Purity** – When active managers "style drift," they do not stay true to the type or the name of the fund in which the money is invested. One study for the time period 2009 through 2013 found that less than 50% of actively managed funds remained true to their style. This presents a serious problem because it distorts a portfolio's asset allocation. Utilizing rules-based index funds allows pure and consistent exposure to the portfolio's intended asset classes/allocation.
- **Lower Taxes** – In taxable investment accounts, the buying and selling of stocks and bonds that is characteristic of an active manager results in greater exposure to capital gains taxes, which drag down the return of the portfolio. A recent statistic from a former Morningstar researcher showed an average turnover of 63% for managed domestic funds in 2019. Index funds only buy or sell when the benchmark they are tracking changes (Vanguard's Total Stock Market Index fund had a turnover of 3.4% in 2022).
- **Fair Return** – Active fund managers attempt to "beat the market" by outperforming the fund's benchmark. Passive funds attempt to achieve a "fair return" by obtaining the return of the market or index. A recent study by the S&P Dow Jones Indices found that not one of 2,132 actively managed funds outperformed the market regularly or convincingly over the last five years (as of 2022). While some active managers do outperform the market, it is difficult to identify which will do so consistently. Another analysis by the S&P Dow Jones Indices found that the top 25% of performers in a 12-month period ending June 2018 did not repeat this performance in the following four years.

As an index fund oriented financial planner, our investment advice focuses on helping you by:

- Creating a broadly diversified, global, properly allocated portfolio spread across the major asset classes, utilizing low-cost index mutual funds and ETFs.
- Locating assets between taxable and tax-advantaged accounts to increase tax efficiency and reduce the drag taxes have on investment performance.
- Monitoring your portfolio (as needed and requested by you) and assisting you to rebalance the portfolio's asset allocation on a regular basis.
- Planning a strategy for portfolio withdrawals, particularly in retirement, to improve portfolio longevity and adherence to IRS required minimum distribution rules.
- Helping you adhere to your financial plan, especially during periods of market volatility.

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