

Evidence-Driven Investing

At Copper Leaf Financial we are fiduciaries and bound to act in the best interests of our clients. As part of that commitment we take an evidence-driven approach to their investment portfolio with a special focus on understanding the investment best practices and body of knowledge defined by the last 50-plus years of academic and practitioner research. This research is ongoing and will continue to guide the recommendations we make to our clients.

Importantly, our investment strategy guidance is not defined by what is often referred to as an “active management” approach which revolves around what a so-called expert “thinks” markets, the economy or interest rates are going to do. Active management has been shown to be a counterproductive and unreliable way to achieve investment goals.

We believe there are six key tenets associated with evidence-driven investing (EDI).

1. Outperforming the market is difficult.

While we believe there are ways to build portfolios with higher expected returns than the stock market through strategic allocation decisions informed by academic evidence, we never lose sight of the fact that outperforming the market is not easy. Given this fact, we recommend low-cost, tax-efficient portfolios to our clients.

2. Size, value, and momentum tilts can increase expected return.

There is abundant academic evidence showing that small-cap stocks have generated higher long-term returns than large-cap stocks, that value stocks — which are stocks with low prices relative to earnings — have outperformed growth stocks and that positive momentum stocks — which are stocks with high returns over the last year — have outperformed negative momentum stocks. We try to capture these long-term return premiums through the stock and alternatives funds we use to give our clients the best possible chance of generating returns equal to or better than the overall market.

3. Global stock market diversification is the starting point.

The academic evidence shows that investors should own U.S., international and emerging markets stocks, not concentrating solely on U.S. companies. Research shows that diversification across countries makes sense in the same way that diversification across companies does. We have no way of knowing which particular country will generate the highest long-term returns (and we do not believe anyone else does either), so diversification is the best strategy. Another argument for global diversification is that approximately half of the world's stock market value is located in non-U.S. companies.

4. The primary role of fixed income is to reduce portfolio volatility.

Academic and practitioner evidence shows that the most efficient way to build portfolios is by taking risk through the stock and alternatives portion of the portfolio and using fixed

income to reduce portfolio risk. This means that our fixed income recommendations primarily emphasize U.S. government-backed securities and high-quality municipal bonds since these securities tend to provide the most effective diversification of stock and alternative market risks.

5. Academic evidence supports modest use of alternative investment strategies.

While we are generally skeptical of most alternative investment strategies, we believe there are a few alternative strategies accessed in mutual fund form that can enhance portfolio expected return and/or reduce portfolio volatility.

Allocations here, however, should be relatively modest since some of these strategies have relatively high expense ratios and may be tax inefficient.



6. EDI slowly evolves over time.

EDI is not static and our investment strategy recommendations will evolve as academic and practitioner evidence evolves.

Conclusion. Copper Leaf Financial develops a customized wealth management (financial) plan designed to integrate every aspect of your financial life. We apply a methodical process to develop and maintain your investment portfolio. Throughout the entire process you can rest assured that we are guided by this evidence-based approach to safeguard your long-term investment success. This is "true wealth management" - a holistic, all-encompassing approach that goes beyond just investment advice. Call us today at (802) 878-2731 to schedule a strategy session and begin building your road map to financial success.

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