UI | UNCONVENTIONAL INVESTOR

BUILDING INVESTMENT WEALTH WITH UNCONVENTIONAL INVESTOR

Nearly everyone understands the importance of accumulating savings for the future, yet to most investors the actual mechanics of building wealth remain largely a mystery. The straightforward Unconventional Investor (UI) approach to building investment wealth rests on three pillars:

1. an evidence-based investment strategy centered on low-cost equity index funds for superior long-term performance,
2. a tax efficient, low fee model with transparent and well-aligned incentives, and
3. a personal adviser relationship with UI's principal, Paul O'Leary.

Absent a large inheritance (or lucky lottery ticket), wealth building is the result of disciplined savings and smart investing – sustained over many years. Three vital components – savings levels, investment performance, and time -- make all the difference in how flexible and comfortable your after-work years will be.

Consider this "so obvious it's overlooked" fact about investment return. Expressed as a formula, net investment return is the result of two things:

	Gross Portfolio Return
Less:	<u>Taxes & Mgmt. Expenses</u>
=	Net Investor Return

Before more discussion on UI's approach to maximizing gross portfolio return and minimizing expenses and taxes, consider the material long-term impact of seemingly small improvements in annual net investment return. Table 1, below, shows four hypothetical investors, each of whom (a) starts with $250,000, and (b) saves / invests $50,000 annually for the subsequent 25 years. The *only* difference is their annual investment return, which differs by increments of 0.5% annually. The Portfolio Balance column shows the value of the portfolio after 25 years. While 25 years may seem a long time, a time horizon of this scale is nearly always appropriate. In this illustration, the net returns earned by Investor 1 were only 1.5% greater annually than Investor 4. Yet 25 years later, due to the power of compounding, Investor 1 ends up with 30% more than Investor 4…a difference of over $1,500,000!

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Table 1	Annual Portfolio Return	Portfolio Balance 25 Years Later	How Much More than Investor 4?
Investor 1	9.0%	$6,581,000	30%
Investor 2	8.5%	$6,022,000	19%
Investor 3	8.0%	$5,514,000	9%
Investor 4	7.5%	$5,051,000	--

In this light, seemingly small improvements in return become very meaningful (and therefore interesting.) UI's entire strategy and approach is built around consistently delivering maximum net returns from the markets over time. As discussed earlier, net investor return can be improved two ways – increasing returns and reducing the performance drag associated with unnecessary taxes and management fees.

First, consider UI's considerable structural expense advantage, which is passed on to clients in the form of extraordinarily low fees. Burdened with minimal overhead, UI charges 0.25% on the first $750,000 and 0.15% on amounts over $750,000. If you have an adviser, compare that to what you currently pay.

The second important element of overall costs relates to the expense ratios of the securities used. UI uses Vanguard index funds, widely recognized for their leadership in minimizing expenses. Whereas most investors have a total cost profile of 1.0% to 2.0% annually, UI clients reduce total fees to as low as 0.3% on accounts over $2 million. This provides a consistent and powerful tailwind compared to the expense burden borne by most other investors.

Tax minimization is the third important aspect of reducing portfolio carrying costs. For net savers, UI's approach avoids capital gains taxes and minimizes income taxes. Vanguard index funds, UI's preferred securities, are known for their low tax approach. Further, UI's buy-and-hold investment strategy defers the realization of profits, and therefore capital gains taxes. Finally, the thoughtful use of tax-deferred accounts helps minimize the income taxes on dividends.

Intelligent investment strategy offers even greater opportunities for improving returns. Multiple peer-reviewed studies have shown equity index funds offer investors a dominant advantage over actively managed portfolios. This advantage is derived from several factors, including lower costs and the elimination of stock picking mistakes. Another element to this durable advantage is that equity index funds self-adjust, adding and removing companies as they come and go.

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Research on investor decision making within a single asset class (aka market timing), shows that investors, professionals as well as amateurs, make more mistakes than wise decisions, with predictably poor results. With no desire or unique ability to predict the market in the near term, UI takes the disciplined long-term approach and stays consistently invested.

The largest holding in most UI client portfolios is a US equity index. The specific Vanguard index fund UI prefers (VTSAX) returned 18.9% annually over the five years ending December 31, 2013. US stock investors who trailed this performance by only 1%-2% annually still did quite well during this time period. Yet by missing out on 1%-2% in available returns, real damage has also been done to long term performance.

The use of low cost equity index funds and the elimination of market timing mistakes allows investors to extract maximum returns from the market. And the extraction of maximum returns is the proper framework for evaluating an investment strategy, rather than a misguided attempt to 'beat the market.'

UI uses a select few equity index funds to construct client portfolios, each targeting a specific asset class, such as the total US equity market or the total non-US equity market. In addition to the equity index funds, UI also uses the highest quality bonds (US Treasuries) and cash holdings to manage portfolio risk. While the asset classes used are largely similar for all clients, the specific proportions vary for each client, to suit their unique situation and risk tolerance.

UI operates as a non-custodial adviser. UI clients have accounts with and take full advantage of third-party custodians such as Vanguard, Fidelity or Schwab. This separation of responsibility provides a layer of security for clients, and also reinforces UI's low cost strategy by exploiting these companies' significant scale for all custodial and reporting tasks. Furthermore, UI manages client assets via trading-only account access, which clients may easily revoke. This places the client squarely in charge, which is as it should be.

Consider Unconventional Investor as an alternative to the stress of managing your own funds, or the prospect of using one of the more traditional financial firms offering services to consumers. The combination of an effective long term strategy, low costs and transparency really shouldn't be so unconventional, but in reality – it is.

Contact Unconventional Investor to learn more.

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