Wheeler & Mote

Registered Investment Adviser

Philosophy

First, establish risk averse parameters.

Modern Portfolio Theory

Opportunities to control risk

Modern Portfolio Theory (MPT) postulates that expected returns and risk levels can be computed, and contends that over time investors achieve the historic average return for the risk level they choose.

MPT has been overwhelmingly popular with investment managers, advisors, and consultants for over fifty years. However, we see that its implementation presents significant time horizon issues for individual investors. An individual's needs usually are here and now, continuing, and not at some indeterminate future date.

There are many possible future states of the world. In today's uncertain times, we think it prudent to consider possible economic conditions resulting from business cycles and inflation, as well as the vicissitudes of domestic political policies and geopolitical events.

Buy and hold investors may subject themselves to losses that could take years to make up. Data shows hypothetical losses incurred and the return investors would have to earn just to get back to where they started.

% Loss Incurred	% Return Needed to Break Even
10%	11.1%
15	17.7
20	25.0
30	42.9
40	66.7
45	81.8
50	100.0

A crucial and unpredictable factor is when markets may spike down. What would happen to your income and future appreciation opportunities were your portfolio to plunge 20%, 30%, or more? There would be less capital with which to recover. Over time the markets have always come back, but how many years can you wait? What is your inclination to take the risks that might be necessary just to get the amount you lost back?