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Lessons From An Old Mountain Guide (Or Why Your Investment Return Targets Should Be Priority #3)

While I have been in the wealth management business for 30 years, I have been climbing mountains even longer. Madison Avenue has long used mountaineering pictures for investment advertisements, but has failed to make the best analogies. A year like 2008, one that humbled professionals and amateurs alike, is the perfect setting to learn from the wisdom of old mountain guides and their credo.

I have climbed mountains like the Matterhorn and El Capitan that most people have heard of, and many, like the Dru, that most have not. On these long, multi-day adventures, I have always hired a local mountain guide. The old ones are the best. As the saying goes, “there are old guides and bold guides, but no old, bold guides.” The younger ones sometime have the fastest ascents and have climbed the hardest routes, but I am more interested in experience and perspective.

The best guides correctly understand that reaching the summit on this attempt is goal #3. Goal #1 is keeping their client alive and safe. This involves research on route and weather conditions, capabilities of the client, back-up plans, equipment for the unexpected and a conservative “take no unnecessary risks judgment.” Literally, downside protection. Goal #2 is a pleasant holiday. This may seem trivial, but the longer I live, the more I appreciate the “experience.” The guide/client relationship of communication, trust, pace and appropriate level of risk/difficulty all contribute to the satisfaction of the adventure, whether I summit or not. Finally, yes, goal #3 is the peak of the mountain. However, the real goal is to get to the top and back home safely.

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The analogies for investing are pretty clear. While your overall goal may be for financial independence with a particular lifestyle, reaching your return target every year may not be as important. Keeping the majority of your capital intact, regardless of the unexpected, should be goal #1. To continue the climbing metaphor, 2008 would have been a good year to have stayed in the hut (cash) and not even attempted to climb. 20/20 hindsight is perfect, yet the weather looked pretty good in early 2008. You will never reach your investment goals by sitting in a hut, so how do you invest prudently for the long term?

Optivest's stable returns have not come from being smart enough to hop from one investment category to another or going in and out of cash. Rather, we focus on broad diversification - beyond typical stocks and bonds. To a typical portfolio we add sizeable allocations to commercial real estate, trust deeds and unleveraged hedge funds. Secondly, we concentrate on understanding every investment's downside risk. We're certainly not perfect and we too were humbled in 2008. Although this combination did not produce returns to meet any of our client's yearly return goals, it did keep the majority of our accounts' losses to single digits, thus keeping the majority of their investment capital intact.

Like our mountain guides goal #2, the customer experience is also very important. The relationship between you and your advisor is critical. The more your investment advisor knows about your past investing, present resources, risk tolerances, and desired communication expectations, the better. Likewise, the better you understand and are comfortable with your investment advisors overall approach, research, strategies, reporting and availability - the more satisfied you are going to be throughout the journey.

Finally, annual return targets, with corresponding volatility collars, are important. However, the risks to achieve a 10% return in 2008 are a lot different than they will be in 2009. We find that it is more critical to get the appropriate level of risk right and let the returns come correspondingly, rather than aiming for a particular return, regardless of the current risks to achieve it.

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