

Active Investing

vs

Buy and Hold

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What will we cover today

Buy-and-hold, the "What if" strategy

The most popular passive investor: Warren Buffet

How active is your portfolio?

Selecting an active strategy

U.S. Investor Index

Terms: tracking error, alpha decay, target risk, dynamic asset allocation

What if...

If you had bought Apple stock in January 2008, and held it for 10 years, it would have yielded 867% returns^[1].



Source: Yahoo Finance

[1]: Yahoo Finance, Jan 2008 Close Value: 19.33 and May 2018 Close value: 187.38

What if...

If you had bought the same stock four years earlier, returns would have been a whopping 11,539%^[2].



[2]: Yahoo Finance, Jan 2004 Close Value: 1.61 and May 2018 Close value: 187.38

What if...

Consider this. If you had invested in [Transocean Ltd](#) in 2010, and held it until 2018, your returns would have been -89%^[3].



Source: Yahoo Finance

Not so good.

[3]: Yahoo Finance, Jan 2008 Close Value: 122.25 and May 2018 Close value: 12.65

What if...

Let's see what the returns would've been if you bought in 2004.



Source: Yahoo Finance

Your returns would've been -67% ^[4]. Better, but you still lost more than half your money.

[4]: Yahoo Finance, Jan 2004 Close Value: 38.50 and May 2018 Close value: 12.65

Can you really have a buy-and-hold strategy for the long term?

Deeper look at Warren Buffet's portfolio

According to research* that analyzed Buffet-owned Berkshire Hathaway trades for 26 years, only 20% of stocks were held for more than 2 years.

And more than 60% of stocks were sold in less than a year.

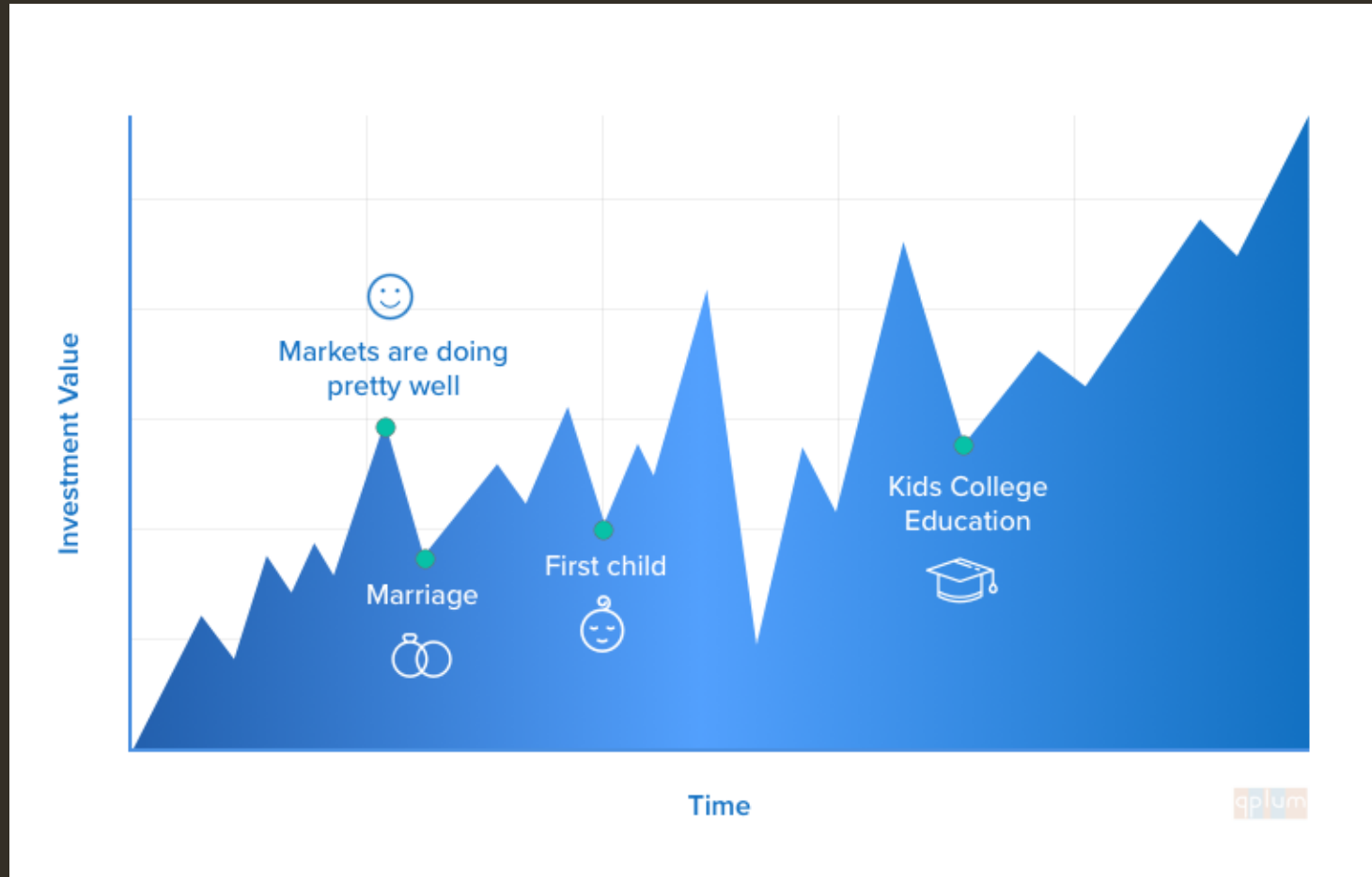
Panel B: Holding period lengths and numbers of stocks held by Berkshire Hathaway

| <i>Holding Quarters</i> | <i>Number of Stocks</i> | <i>Percentage</i> | <i>Cumulative Percentage</i> |
|-------------------------|-------------------------|-------------------|------------------------------|
| 1 | 39 | 16.96 | 16.96 |
| 2 | 29 | 12.61 | 29.57 |
| 3 | 16 | 6.96 | 36.52 |
| 4 | 55 | 23.91 | 60.43 |
| 5-10 | 34 | 14.78 | 75.22 |
| 10-20 | 20 | 8.70 | 83.91 |
| 20-30 | 15 | 6.52 | 90.43 |
| 30-40 | 13 | 5.65 | 96.09 |
| 40-50 | 2 | 0.87 | 96.96 |
| >50 | 7 | 3.04 | 100.00 |
| <i>Total</i> | 230 | 100 | |

| <i>Holding Periods</i> | <i>Max # of stocks</i> | <i>Min # of stocks</i> | <i>Mean</i> |
|------------------------|------------------------|------------------------|-------------|
| 1980 – 1990 | 95 | 8 | 22 |
| 1990 – 2000 | 30 | 5 | 12 |
| 2000 – 2006 | 40 | 27 | 33 |

Holding analysis from the research report

Life does not follow a predictable path.
Markets move up and down.

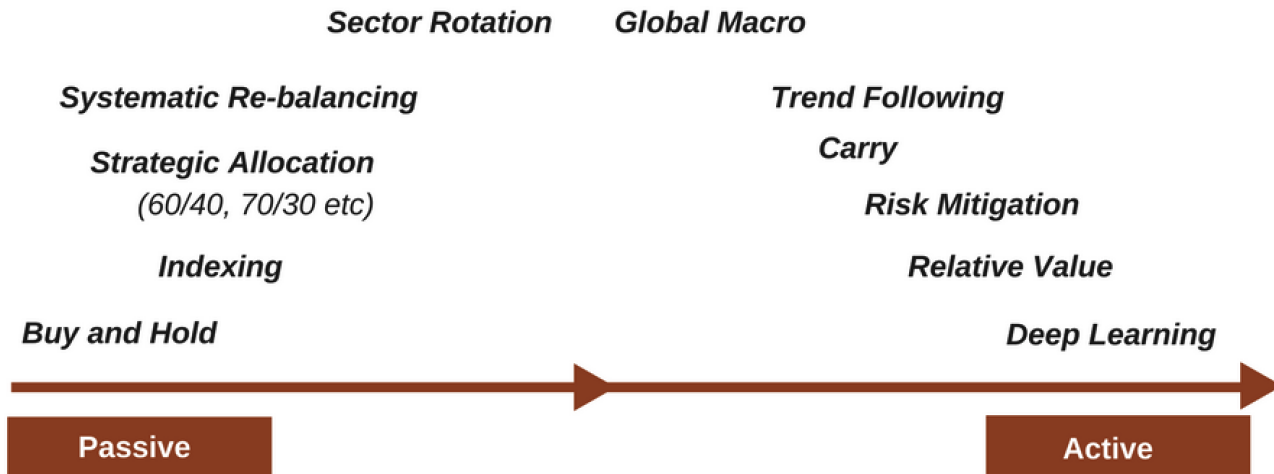


You need an investment strategy that keeps evolving and adapting to your needs.

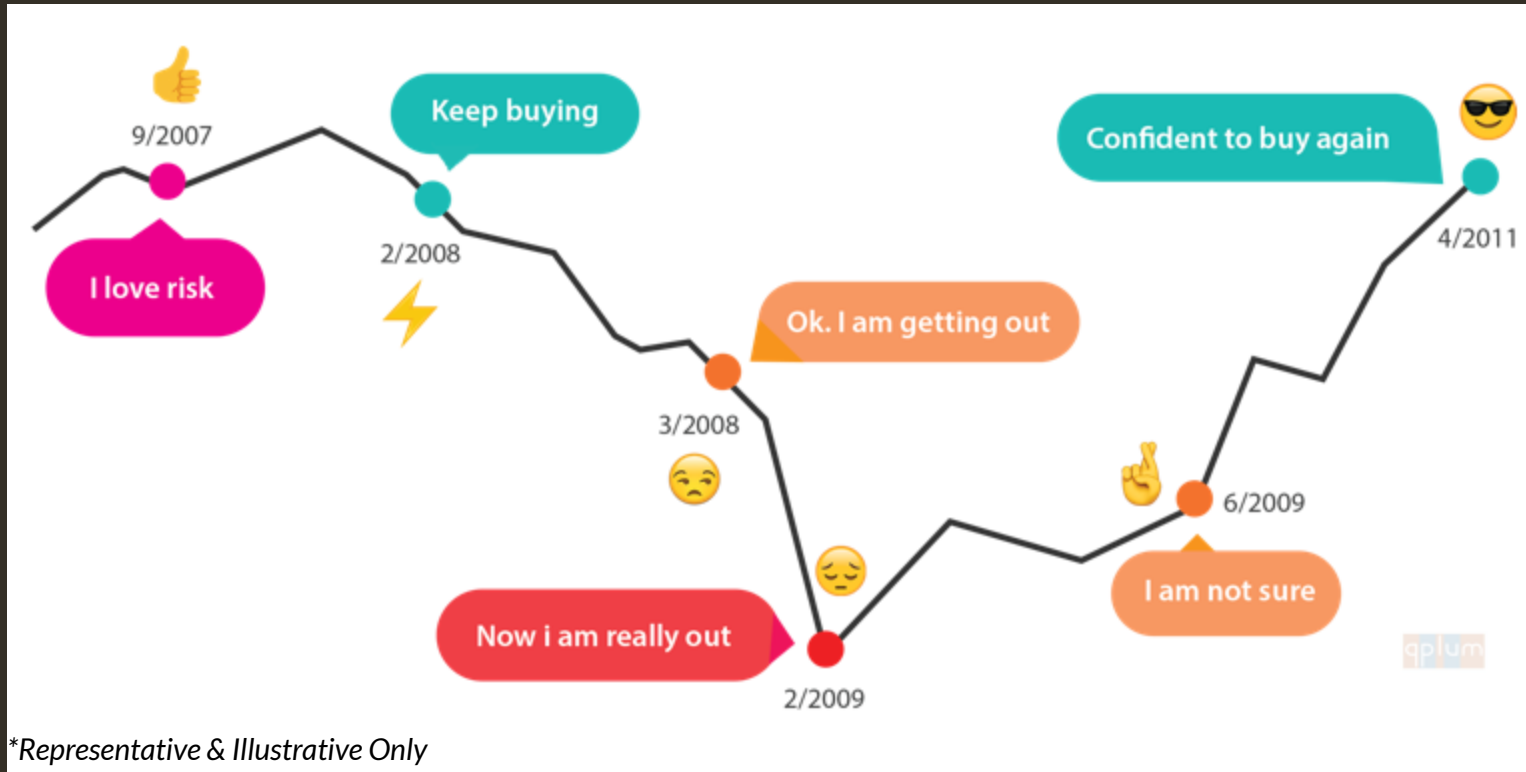
You also need a risk management strategy in place to manage losses.

What kind of investor are you?

From Passive Investing To Active Investing

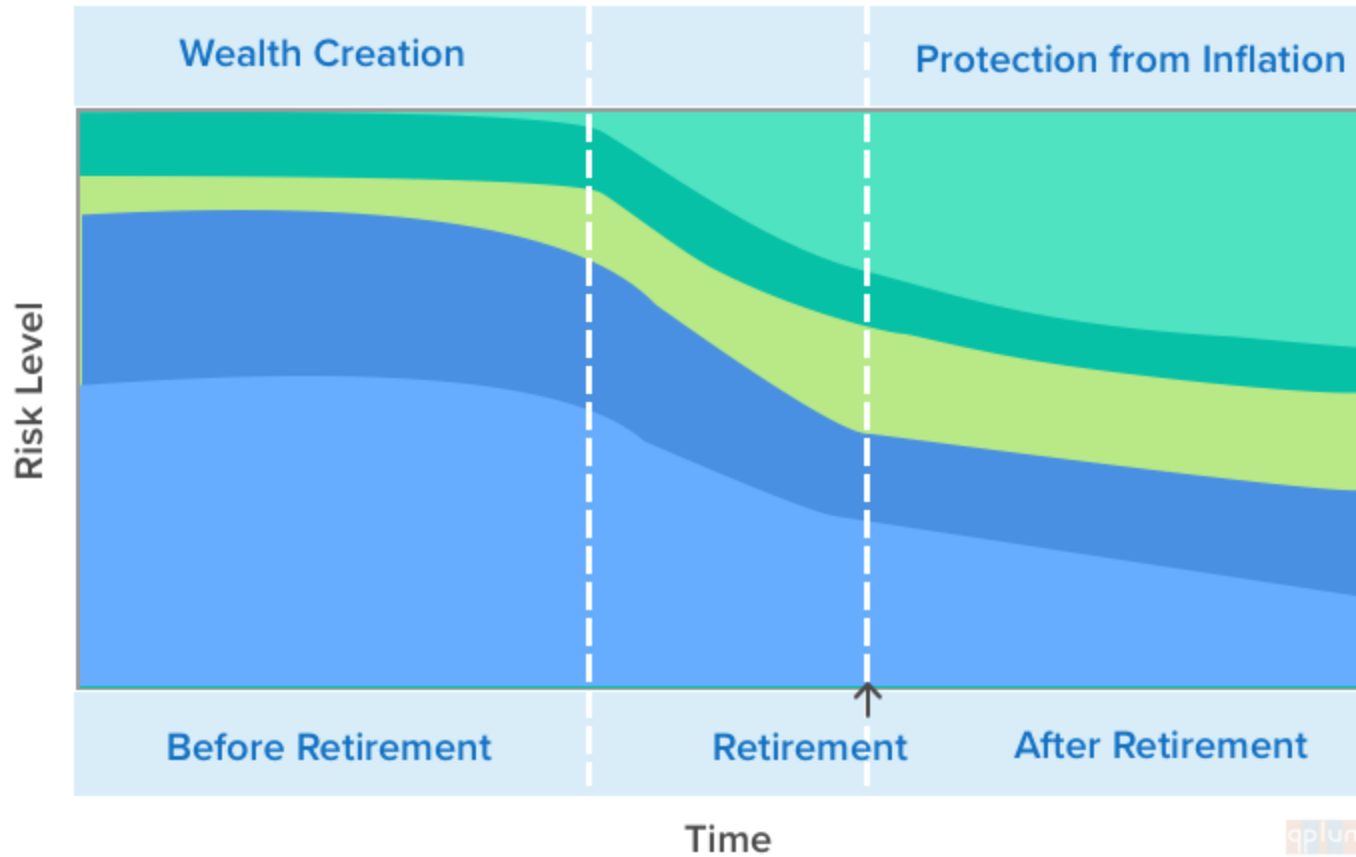


Changing Market Conditions



*A simple, disciplined approach could be cheaper than buying options
and help limit emotional decision making,
while offers a plan for exiting and re-entering the markets.*

Changing Risk Levels



Long road to recovery from a market crash



When the markets crash, your portfolio value declines. At an 8% annual return, it can take up to 9 years to regain its original value.

Reducing costs

Rebalancing

Tax Optimization

Trade Execution

Dynamic Asset Allocation

Changing financial advisors or
switching strategies

Selecting active managers

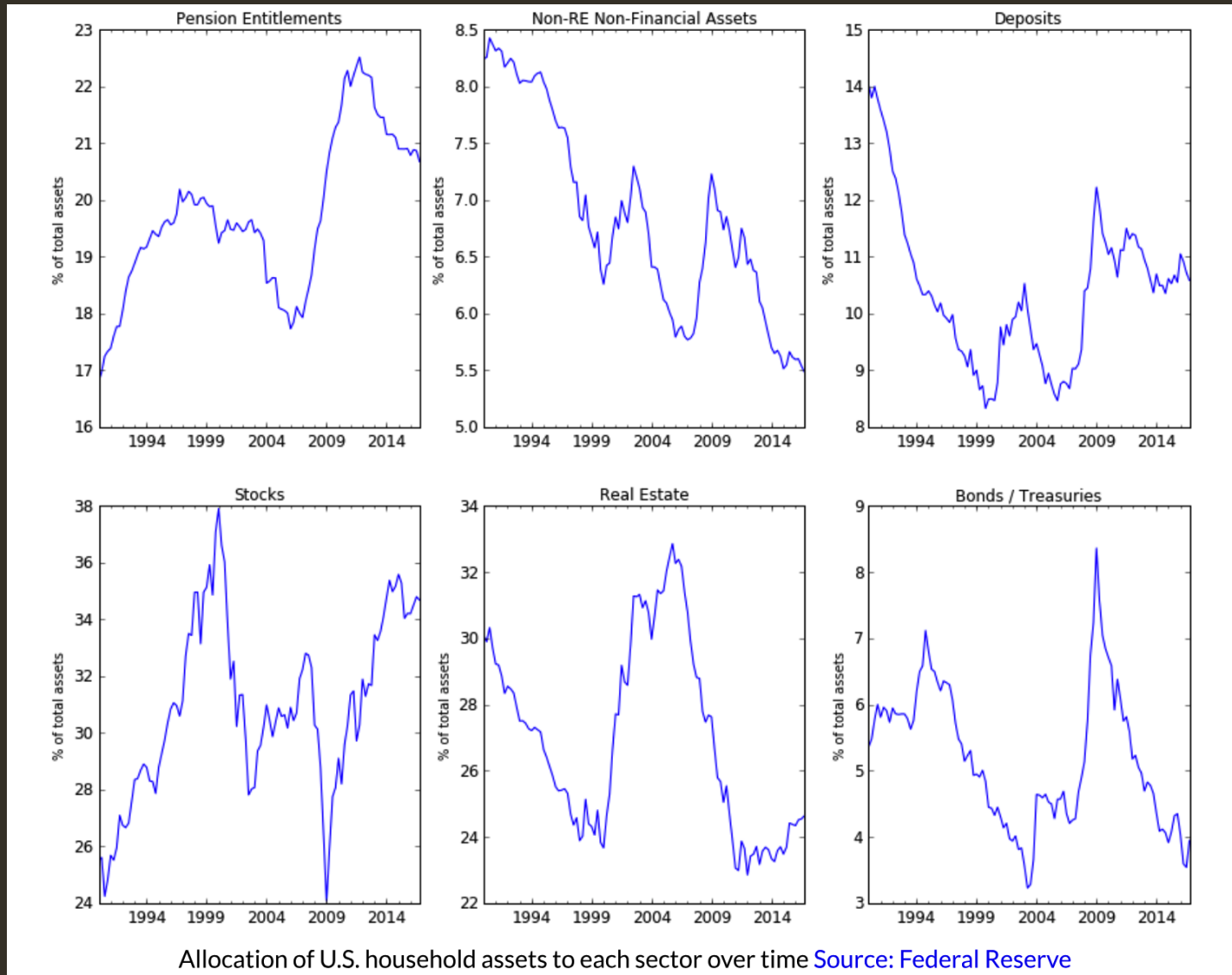
Identify source(s) of alpha

Evaluate different active managers

Fees

Overall asset allocation

How active is an average US investor?



Investing with a trustworthy tool

"security analysis may begin--modestly, but hopefully--to refer to itself as a scientific discipline "

Imagining investing with "*trustworthy tool*" and not experts.

- Benjamin Graham

Towards a science of security analysis
published 1952



A dimly lit office space with several desks, computers, and office chairs. A large table is in the foreground. The ceiling has recessed lighting. Large windows on the right side offer a view of a city building.

Questions?

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