InvestNews

F|I|M group
CELEBRATING **25 YEARS** OF SERVICE

FIM GROUP INVITES YOU TO

InvestNews - Question & Answer

Q: Why does FIM Group own as many positions as it does in client portfolios?

A: As fiduciaries of our clients' life savings, we take risk management very seriously. We control position size in order to limit potential "permanent loss" in any client's portfolio. By "risk of permanent loss" we are not talking about market price fluctuations. We are defending against unknown circumstances, such as a company making a detrimental error, committing fraud, regulations changing, etc. any of which could potentially result in permanent impairment to an investment's true value. Our discipline is to allocate generally no more than 2% of a client's portfolio to any individual company. Exceptions include mutual funds of various types, holding companies and conglomerates, which are diversified holdings whose risks are spread across multiple underlying companies. We typically limit those type of investments to less than 5-7% of an individual's portfolio. By limiting most positions to 1%-2% of a portfolio, it takes 35-75 securities across a client's account to be fully invested and properly diversified.

By limiting our position size, we limit the maximum amount of permanent loss that can be sustained due to any single company. Take a company like AIG. It was the biggest insurance company in the world, was rated AAA, and was considered to be in great financial shape. Same with many of the major global banks. Imagine having had 10% of a portfolio in one of these companies? Worse yet, imagine having 4 or 5 such positions of that size!

Diversification is the most potent cost effective portfolio insurance there is. That said diversification, like any tool, used incorrectly or if relied on too much, can backfire. Instead of investing in blind baskets of securities such as index funds or other passive approaches, we actively and thoughtfully narrow tens of thousands of possible investments down to a universe of about 100-200, then put an appropriate subset of them in each client's portfolio. The goal is to achieve the optimal balance between "concentration" (fewer larger holdings) and "diversification" (more smaller holdings).

Want to submit a topic or question for the next InvestNews or Newsletter?

Contact Us

UNDERSTANDING LIFE INSURANCE

by Alice McDermott

Whether people realize it or not, life insurance is probably the most overlooked or lacking aspect of their estate planning. Many clients claim that financial security for their spouse and/or children is a priority, yet when I broach the subject of life insurance, they'll often look at me like I'm trying to sell them something...

Read more about this article and the entire September newsletter at www.fimg.net

CONGRATULATIONS TO FIM GROUP'S **SUZANNE STEPAN**

Suzanne Stepan, CFA, CFP®, Portfolio Manager at FIM Group in Traverse City, MI has been authorized by the Certified Financial Planner Board of Standards (CFP Board) to use the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and in accordance with CFP Board certification and renewal requirements.