

GOALS

- Outperform the S&P500 over a Full Market Cycle
- Preserve Capital in Difficult Market Environments
- Maximize After Tax Returns

TW ADVISORS INVESTMENT DISCIPLINE

TW Philosophy – Multi-Discipline Approach: Economic • Fundamental • Technical • Behavioral



PHILOSOPHY: There are many successful stock market strategies. However, every strategy has its flaws and none are perfect because most strategies are narrowly focused while the stock market is a complex, adaptive system that is affected by multiple factors. We use a Multi-Discipline approach that focuses on **ECONOMIC** and **FUNDAMENTAL** research, supplemented by other disciplines to assist us in understanding the investment environment. Our Multi-Discipline approach enables us to be flexible to changing dynamics, opportunities and risks, which leads to balanced investment decisions, better stock selection, and consistent performance.

UNIQUE RESEARCH DISCIPLINES

- **Wisdom of Crowds** - Stock market is rational when participants are diverse and independent (the usual condition) but is subject to mispricing when these two characteristics are absent.
- **Behavioral Finance** - Investors are not always rational. Human emotions play a vital role which leads to periodic mispricing of securities.
- **Fractal Finance** - Tools of modern finance (i.e. bell curve) are misleading causing investors to underestimate risk in the stock market.

TW Strategy – We Strive to Identify Market Inefficiencies to Outperform

- ▶ Wait for 'Fat Pitch' Opportunities (**Wisdom of Crowds**)
- ▶ Build the Portfolio around Major Long-Term Themes (**Behavioral Finance**)
- ▶ Diversify the Portfolio (**Fractal Finance**)
- ▶ Adjust Cash at Market Extremes to Preserve Capital (**Fractal Finance**)
- ▶ Avoid Overconfidence and Keep an Open Mind (**Behavioral Finance**)
- ▶ Analyze Market Values in Terms of Probabilities and Ranges (**Behavioral Finance**)

TW Stock Selection - Combines Growth and Value Disciplines – Adds Flexibility in Finding Opportunity

Value – Reversion to the Mean (3 to 5 years)

- Buy Good Businesses at Great Prices
- Be Wary of Secular Decline in Business Prospects

Growth – Momentum (12 to 18 months)

- Buy Great Businesses at Good Prices
- Watch for Excessive Expectations and Valuations

We Separate the Analysis of the Business from the Analysis of the Stock

▶ Preferred Business Characteristics:

- Growth Potential
- High Return on Invested Capital
- Sustainable Competitive Advantage
- Strong Balance Sheet

▶ Stock Analysis:

- Discounted Cash Flow Analysis
- Price to Earnings, Cash Flow, Book Value; Dividend Yield
- Stock Price Supply & Demand Analysis
- Insider activity



Responsibilities and Accountability

- Director of research has final responsibility for implementing the investment strategy
- Investment committee provides input and discussion
- All recommendations are presented in written form

CORE MANAGER • MULTI DISCIPLINE APPROACH • EMPHASIZE RISK MANAGEMENT