



BURNS INSIGHTS

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BURNS INVESTMENT GROUP OF STIFEL

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The Art of Making Bread

Several months ago, I read a book called, "52 Loaves," a non-fiction book about the author's quest to bake the perfect loaf of bread. His perfect loaf included an

incredibly crunchy crust with a middle containing large airy holes and a soft texture (the texture of a loaf is called the crumb). How hard could it be? After all, bread is essentially a combination of water, flour, salt, and yeast. It got me intrigued. I was in complete agreement with the author's description of a good rustic loaf, and heck, I do love bread! I started on my own quest to make the perfect loaf.

I made my own yeast, or "starter" from the apples off my tree in the backyard. I bought all the necessary tools and bread flour. (Yes, there is a difference in types of flour.) I also did a lot of homework by reading many on-line recipes and articles on how to bake bread. I then started to bake. That is when I realized something: Baking bread is HARD! My first few loaves were more brick-like versus bread-like. I quickly found out that bread baking is a combination of skill, art, and science. You have to have the right percentage of hydration (water to flour ratio); you have to develop the gluten (this allows the flour to stretch properly); and you have to cook it at the right temperature in the right humid environment.

The good news is that the more I tried, the better I got. The more knowledge I gained about the science, still better yet. After awhile, my loaves started to improve, and lately, my loaves have been awesome. See the photo below. Nothing is better than fresh-baked bread, slathered with butter, and sprinkled with a dash of kosher salt. MMMM!



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” The Art of Making “Bread”

So what does bread baking have to do with investing? Actually, quite a bit. Track with me a moment. We all know that to be successful in investing, one must “Buy low. Sell high.”; Seemingly easy, but deceptively hard. Good investing requires knowledge, skill, and experience. With the Successful Investor Mindset (the hallmark of my practice), we stress two main tenants: Logic over emotion and structure over prediction. Part of the logic and structure means that we implement strategies such as diversification, balance, professional management, periodic review, and having a full understanding of our client's long-term goals, past experiences, and personal circumstances.

Just as an experienced baker is adept at using the proper combination of ingredients in the right way to get the outcome that's desired, an experienced investor uses the right asset allocation in hopes of getting an expected return with appropriate amount of risk. In baking, it is not just the ingredients, but how they are put together and in what environment. In investing, in seeking to manage risk, we try to use the right blend of different assets, i.e., stocks, bond, money markets, and alternatives, depending on the investor's goals and the investing environment. One of the most effective tools we have to help manage risk is called “asset allocation,” and much of the expected rate of return and risk is predicated on this decision. Two major types of asset allocation that we use are “strategic allocation” and “tactical allocation.” I would like to distinguish between the two right now.





Tactical Asset Allocation versus Strategic Asset Allocation: *Vive le difference!*

From Investopedia, we get the following definitions and explanation.

Tactical Asset Allocation: An active management portfolio strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors. Explanation: This strategy allows portfolio managers to create extra value by taking advantage of certain situations in the marketplace. It is as a moderately active strategy since managers return to the portfolio's original strategic asset mix when desired short-term profits are achieved.

Strategic Asset Allocation: A portfolio strategy that involves setting target allocations for various asset classes, and periodically rebalancing the portfolio back to the original allocations when they deviate significantly from the initial settings due to differing returns from various assets. In strategic asset allocation, the target allocations depend on a number of factors – such as the investor's risk tolerance, time horizon and investment objectives – and may change over time as these parameters change.

I distinguish the two by saying that tactical allocation tends to be more dynamic and has a shorter time horizon, while strategic allocation is more static and longer-term in nature. Both strategies have merit. In fact, many of our clients use both strategies, as they complement one another quite nicely. In our portfolio reviews with our clients, we will distinguish what style our clients are using.

We have huge respect for risk, and we want to use whatever tools are at our disposal to help manage risk. I have found that if we can keep the volatility (read risk) to an acceptable level, an investor is more likely to remain logical and look at market downturns as opportunities versus reacting emotionally and impulsively getting out when prices are lower.

With proper knowledge, discipline, and time, like a loaf of bread, hopefully your portfolio will rise.

Disclaimer: Asset allocation/diversification does not guarantee investment returns and does not eliminate the risk of loss.



Referrals: Yes, please!

With my son, Noah, joining the Burns Investment Group of Stifel, we are looking to take on more clients. We are asking our clients to please keep us in mind in referring us to your family, friends, and business associates that may need help with their investment planning needs. We have an information packet available to introduce our services to any prospective client. Just call us, or have them call us, for a complimentary consultation or to get an information packet.

We are seeking clients with a minimum of \$250,000 investable assets and who are looking for a long-term relationship with a team of professionals based on mutual respect and benefit.

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