

INVESTMENT POLICY

Proper investment management begins with an extensive examination of a family's overall financial picture and life goals. A practical analysis of risk tolerance requires discussion of your past responses to market fluctuations, your expectations for growth, your need for growth, and your personal definition of risks now and later.

We formulate an asset allocation model after evaluating your overall net worth. Appropriate cash reserves are set aside. One or more investment portfolio strategies are created for each of your real life goals. The portfolio structure consists of three main levels.

1. Structure of Asset Classes

This first aspect of your Asset Allocation Model defines the various asset classes in which we will invest. Money market, fixed income, and equity allocations are determined. Our equity portfolio will be divided between differing management styles. These include large versus mid-sized and small companies; international versus domestic; and value versus growth approaches to stock selection.

These and many other sectors are continually considered for inclusion in our portfolio. Stages of the business and market cycles, and the market for investment products influences the structure of our asset classes. As an independent, fee-only firm, these decisions are based on the entire possible universe of investment products available, without advantage given to any investment company or asset group.

2. Individual Investments

We seek investments to complete the purpose defined by our asset categories. Operating in a commission free environment provides three significant advantages. First, selection motivation rests solely with finding superior performance, not bigger commission structures. This applies not only to the individual investment chosen (i.e. one mutual fund versus another) but the also between asset groups (i.e. mutual funds versus stocks). Secondly, we are free to move between investments without consideration of costs. Finally, Hector Financial can strip away bond markups, insurance agency fees, and mutual fund loads. We choose investments because they are the best, not because they are no-load.

Expertise and extensive research uncovers the strongest performing money managers in the industry. Independence allows us to select managers from any corporate environment and use them for the asset class they are best suited to manage.

3. Percentage Allocation

We allocate your portfolio among the various asset categories and individual investments. Initial percentage allocations reconcile considerations of your level of aggressiveness with intelligent portfolio diversification. Hector Financial employs a modified strategic asset allocation approach. Superior performance demands adjustments in our allocation to benefit from trends in the market. We will also rebalance the portfolio back to initial allocations. This ensures profit taking in our outperforming investments, and buying out of cycle investments at their lows.

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Quarterly Management

Access to the best research and great investment choices add up to very little without regular portfolio upkeep. You will receive quarterly analysis of your asset allocation, regularly and without exception. Even if changes are not recommended at that time, we will discuss the state of the portfolio. No decision will be a decision.

This quarterly report questions all three levels of our Asset Allocation Model: our allocation percentages, the investments being used, and the asset classes themselves. In a typical year we will rebalance the portfolio twice and alter the asset classes once. Over a period of two years, nearly half of the portfolio's investments are replaced by those better suited for our goals moving forward.

On Risk and Return

Your individual needs are the single greatest determinant of your portfolio's performance. Hector Financial develops a sophisticated, customized, and thorough method for every client's portfolio. You will complete a Portfolio Behavior Analysis™ to determine how you expect your portfolio to perform.

On a general spectrum from conservative to aggressive, Hector Financial Group's investment policy is moderate. We prioritize narrowing the range of quarterly returns. Risk, in the investment world, is defined as volatility. By narrowing this range of returns, we reduce portfolio risk. This is accomplished by statistical analysis of individual investments (i.e. standard deviation and alpha) and proper diversification across the portfolio (i.e. sector and style breakdowns).

We balance the benefits of a buy and hold approach with the need for strategic allocations to outperforming sectors. When rebalancing a portfolio, the individual holdings are automatically bought at lows and sold at highs. This effect is disrupted by changes to the overall model. However, the market and business cycles, as well as shifts in investment performance demand strategic alterations to the asset allocation model. Hector Financial constantly nuances its investment policy with these tensions in mind.

Your Method™ – Annually Reviewed

As we begin our relationship, these issues will be spelled out in a personalized statement. Your Method™ will be reviewed every year to track performance, and to discuss any changes in your personal and financial situation. We will compare actual results with projections, and adjustments will be made. Our professional satisfaction comes with helping a client, year after year, educate their children, meet their retirement goals, and create the life they dreamed.