



# Investment Insights

Kevin Kennedy

## Invest Like A Big Guy

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Individual investors have had a tough time the last few years with incredible volatility in the stock market, and a lot of the uncertainty in the world in general. It's easy to feel overwhelmed with the task of managing your portfolio, and the meager returns that you've probably seen for all your efforts certainly don't make the job very rewarding. At the same time, we hear about large institutions like California Public Employees Retirement System (CalPERS), and their consistent, solid returns. The total CalPERS fund generated an annualized return of 9.7% over the past 10 years for the period ending June 30, 2004. Although not all of us have \$180 billion to invest like CalPERS does, maybe we can learn from the strategies and methods they use, and apply this to our own situations to make us better investors.

There are three main differences between an institution like CalPERS and most individual investors: the use of a written investment process, the use of professional managers, and a long-term perspective on investing. Let's see how all three of these characteristics can be applied to your own investing strategies.

Having a written game plan, also called an investment policy statement, is something that makes sense not only for large institutions like CalPERS, but also for every investor. CalPERS's investment policy statement has many sections and goes into great detail on many different topics. The typical investment policy statement for an individual might only be three to five pages long, but it forms the basis for all the investment related decisions that individual will ever make. Your investment policy statement should outline things like your investment time frame, the amount of risk you're willing to take, the returns you expect to generate, and the methods you will use to achieve this. And, most importantly, your investment policy statement should include an asset allocation policy, which gives specific parameters for what types of investments you will make, and how much of your portfolio will go towards each asset class. The discipline and guidelines your investment policy statement can provide can keep you out of a lot of trouble. For example, without an investment policy statement, it was easy for investors to get caught up in the tech stock bubble, and have far too much of their money invested in one narrow, and risky, segment of the stock market.

Using professional managers is something most individuals already do. For most individuals, this is accomplished by investing in mutual funds, where a professional manager makes the daily buy and sell decisions in your portfolio. CalPERS employs over a hundred money managers in their portfolio. Each of your managers should be selected for their specific skill in managing a portion of your portfolio. By building a team of seasoned investment professionals, you not only reduce your risk by diversifying, but you also increase your chances of earning a competitive return by putting the best financial minds to work for you.

The third area in which we can try to emulate CalPERS is in keeping a long-term perspective on our investment strategies. This is by far the biggest pratfall most individuals must overcome. Often, individuals make investment decisions based on emotions, chasing return in hot investments, or selling investments when the short-term results are not what they expected. Institutions, on the other hand, tend to ignore emotions, instead sticking to their long-term investment strategies. Studies have shown that institutions typically generate more consistent and better returns than individuals, and much of that result is due to their investing discipline. The next time you think about "selling all my stocks because the market is lousy", re-read your investment policy statement, and think about that decision without the emotions involved.

Sometimes investors tell me that they feel the odds are stacked against them, and it's only the "big guys" that consistently make money in investments. If that is the case, then learning from the success of the big guys makes a lot of sense. By following the three key characteristics outlined above, we can all be better investors, and have more financial success.

*Kevin Kennedy is president of Kevin Kennedy, LLC, a registered investment advisor firm in Alameda. Reach him at 510-748-1898 or [Kevin@KevinKennedyLLC.com](mailto:Kevin@KevinKennedyLLC.com). Stocks, bonds, and mutual funds involve risk, including loss of principal. Past performance is no guarantee of future results.*