Horizon Ridge Wealth Management, LLC
Investment Philosophy Statement

Investing in today's world seems to be a game for robots as the use of artificial intelligence and Robo Advisors are on the rise. Yet the value these technologies purport to offer is predominately rooted in systematic rebalancing and broad diversification; concepts that are central to many investment manager's methodologies. So what "uniqueness" do Robo Advisors actually offer the average investor who is trying to build an investment strategy for the future? In our opinion, none.

At Horizon Ridge Wealth Management (HRWM) we believe investing for the future is a process - one that takes skill, will, and time. This is why we incorporate the principles of financial planning and analysis into how we construct investment portfolios. It is our belief that without a clearly defined plan, building a sound investment strategy is akin to throwing darts at the business section of the newspaper. Sure a couple might find their way to a few diamonds in the rough, but it is not a strategy you want to plan your future around.

Our investment philosophy was constructed based on three core principles:

1. Asset Allocation and Diversification with Non-Correlated Asset Classes
2. Active Research leads to Active Return
3. Personal Rate Of Return

Asset Allocation and Diversification with Non-Correlated Asset Classes

When Harry Markowitz hypothesized the Modern Portfolio Theory he did so with the belief that asset allocation and diversification were two of the central tenants that explain how a portfolio of traditional asset classes will perform. At HRWM, we decided to build on this concept by including different alternative investment strategies with traditional asset classes to help manage portfolio volatility. These alternative strategies can include, but are not limited to, managed futures funds, master limited partnerships funds, real estate investment funds, long short funds, global macro funds, commodity funds, hedged strategy funds, and market neutral income funds. Each of the alternative strategies we use meet the strict requirements laid out under the Investment Company Act of 1940 and are marketed to the public as a liquid alternative strategy.

Active Research leads to Active Return

At the onset of every client engagement, we explain that our investment methodology is rooted in constructing a well-diversified portfolio that seeks to maximize return on a risk-adjusted basis, based on our client's future goals. Therefore, to build an appropriate investment strategy, we complete a thorough analysis of a client's current financial situation and compile the results into a customized comprehensive financial plan. This research allows us to calculate the required risk and return level needed to appropriately execute a client's financial plan. Then we select one of our model investment strategies that we feel will align with a client's financial plan. Depending on each client's pre-existing investments and type of investment account, we may choose to quickly rebalance into our new portfolio or tactically migrate their pre-existing portfolio into our target portfolio over a twelve to month duration. In some cases, we may elect to migrate over twenty-four months if there is a large portion of unrealized taxable capital gains.

At HRWM all of the research we conduct on asset classes, fund companies, and their investment managers is both fundamental and technical, and quantitative and qualitative. We compile our research in-house and through third party providers. Some of our third party providers include LPL Financial, investment fund companies, Morningstar, and independent equity analysts when appropriate.

With nearly 50% of all investment managers underperforming their corresponding benchmarks over a twelve month period, and over 80% over a three year period, we regularly compare our portfolio investments to their peer groups throughout a calendar year[1]. This active monitoring allows our investment team to stay on top of industry trends, fiscal and monetary policy changes, and macro and micro economic headwinds. We believe our approach to active management allows our team to validate their investment research, or when necessary, find alternate investment managers producing better risk-adjusted active return.

At HRWM we do not subscribe to the "buy and hold" methodology due to the historical proof that an investment's purpose and characteristics can change over time. These changes can lead to an underperformance amongst the peer groups.

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[1] Aye M. Soe and Ryan Poirier, "SPIVA U.S. Scorecard," 2017, http://www.spindices.com/documents/spiva/spiva-us-mid-year-2017.pdf

Personal Rate of Return

When evaluating the performance of a client's portfolio, we make it a point to review a client's financial plan and the required rate of return outlined in the plan. It is our belief that chasing the returns of "the stock market" is futile. For an investor to believe they should gauge their portfolio performance on how an index performs would be similar to gauging one's progress in the gym to everyone else's perceived progress. Since each person is different, it stands to reason that their goals, motivations, resources, and biology are also different. This same thought process applies to building an appropriate target return. A target return should be tied to an investor's personal goals instead of to the performance of a broader group.

At HRWM we construct a client's personal rate of return by evaluating a client's resources and future goals, understanding how much portfolio volatility their plan can accept, and most importantly, how much time is needed to attain their desired goal. Taking this approach helps our clients understand what their required rate of return needs to be, and how much portfolio risk they need to accept. If their required return is higher than historical averages which in turn requires them to accept more risk than they are comfortable with accepting, then this allows our team to set appropriate expectations for pursuing their goals. Approaching investment management this way ensures both the client and our team understand what is needed to execute a client's financial plan AND how to gauge success across a client's aggregate portfolio.

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