



# THE TREMBLE FACTOR™

**Building an Investment Portfolio  
For an Uncertain Future**



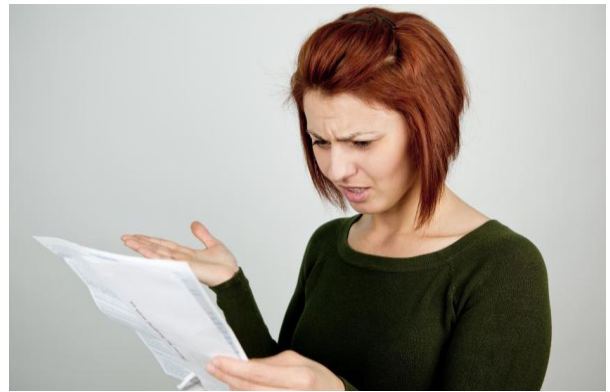
## THE TREMBLE FACTOR

The arch is one of the strongest man-made structures. In ancient Europe, the two columns of an arch were typically built by stacking stones up along the sides of a curved scaffolding, typically made of wood. The scaffolding supported the weight of the columns until the keystone was set in place at the top, joining the two columns together. Thus joined, the compressive forces between the stones created the support that kept the arch from collapsing.

Rome had an unconventional practice to improve the likelihood that each new arch was safe. After the keystone was set, the construction engineer was placed beneath the arch as the scaffolding was removed. If the arch tumbled down when the support was removed, the engineer would be the sole casualty. This “tremble factor” ensured that the engineer took all precautions in the building process. A well-built arch was not just a matter of pride; it was a matter of life and death.

## WILL YOUR INVESTMENT PORTFOLIO HOLD UP ?

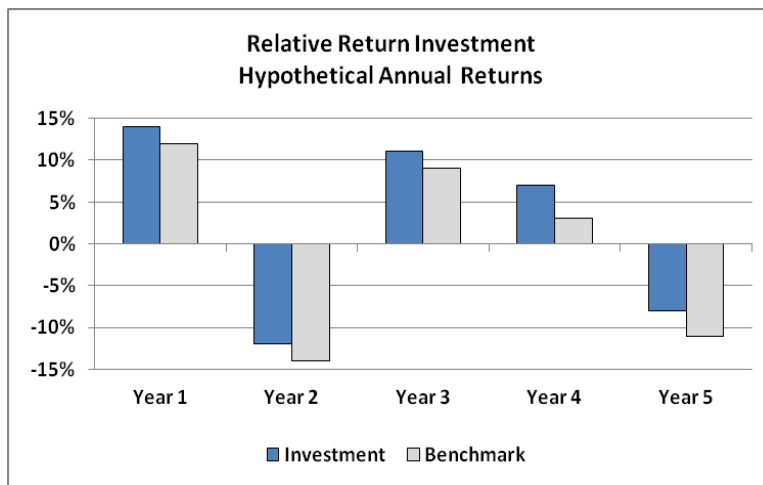
The creation of your investment portfolio is analogous to the arch construction process. A growing economy serves as the support that keeps your investment assets up. Underlying problems may exist that threaten the long-term strength of the economy, but they can remain hidden and untested. Only when a crisis hits and the support is removed do you find out whether your investment portfolio was designed to handle the stresses of an unhealthy economy. Just as the arch’s engineer put his life on the line, your quality of life is at risk if your financial house was built on the assumption that the economic supports would never be removed.



## TO GROW YOUR WEALTH, YOU MUST FIRST PROTECT WHAT YOU HAVE

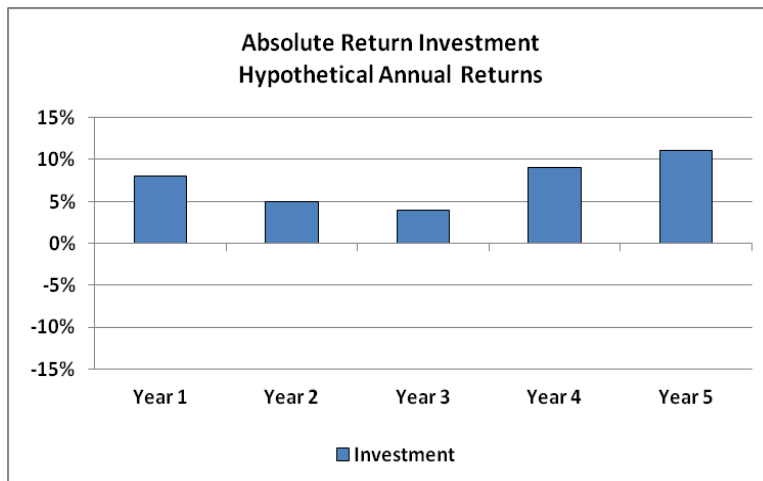
At Modus Advisors, we believe in an *absolute return* approach to investing. This means that the foremost goal is to avoid losses and seek a positive return in any economic environment. The focus is on the absolute change in the portfolio; how much did it go up or down?

This compares to *relative return* investing, which is practiced by the majority of individual and professional investors. The focus here is on the performance of your portfolio relative to a market benchmark. For example, an investor in U.S. stocks might compare his returns to that of the Dow Jones Industrial Average. If he beats the performance of the Dow, he considers it a success, regardless of whether the Dow gained 30% or lost 30%.



**A relative return approach is a success if it outperforms its benchmark, even if it lost money.**

An absolute return approach seeks to reduce the dramatic moves up and down that occur in many relative return strategies, but it does not give up the potential for good long-term growth. By reducing the likelihood of steep losses, the absolute return approach may make it easier for a portfolio to recover from any losses that occur during a financial crisis.

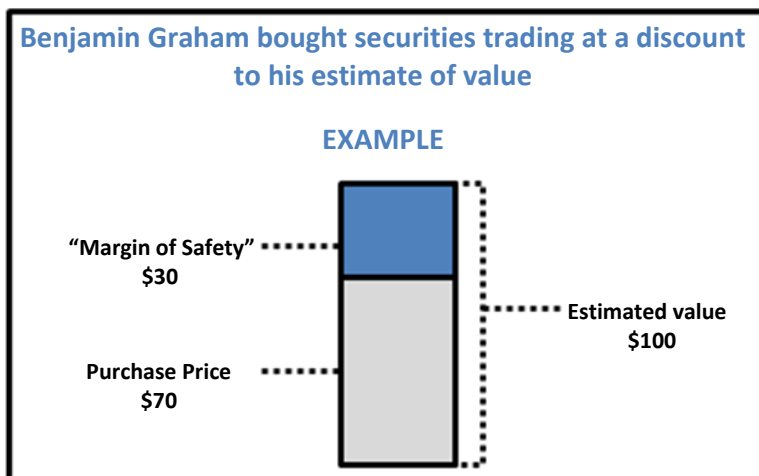


**An absolute return approach is a success only if it produces positive returns.**

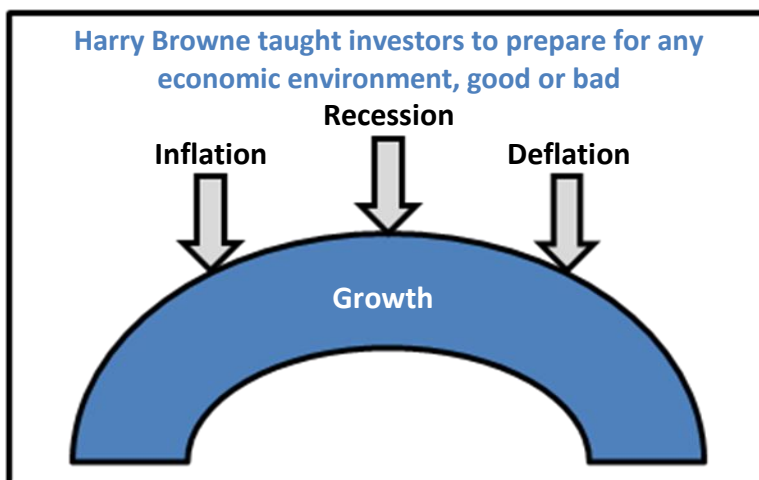
## HOW CAN YOU INVEST FOR ABSOLUTE RETURNS ?

Modus Advisors uses the ideas of two great investors from the past as the building blocks for absolute return investing. The first, Benjamin Graham, is known as the Father of Value Investing. One of the most successful investors of the 20<sup>th</sup> century, Graham was the co-author of *Security Analysis*, first published in 1934 and still widely read today. He emphasized the concept of investing with a “margin of safety”. Securities were to be purchased only when prices are low enough that, even if events turn against you, a permanent loss is unlikely. Just as an arch is designed to withstand greater stresses than is

likely to occur, an investor must have confidence that his investment will be successful if unexpected stresses arise.



Starting in the early 1980's, Harry Browne promoted an investment strategy that linked the choice of investments in a portfolio directly to the different economic environments we may face. Browne believed that the future was unpredictable, so the best course to take in protecting your wealth was to be prepared for any outcome. As the engineer faces the challenge of using limited resources to build a structure to handle a variety of stresses (compression, tension, torsion, shear), an investor must allocate a portion of his portfolio in preparation for each possible economic outcome (growth, recession, inflation, deflation). The investor who believes he can predict the future may overprotect for a specific scenario, leaving the portfolio vulnerable to collapse if his outlook is wrong.



We can bring the insights of these two investors into the 21<sup>st</sup> century to design investment portfolios that emphasize protection of capital, but retain the potential to grow your capital over time. A successful investing strategy is based on managing risk at all times and working towards your long-term personal goals, not tracking the returns of arbitrary benchmarks.

## IS IT TIME FOR A CHANGE IN DESIGN ?

The Roman arches were built to last and, indeed, many of them are still standing thousands of years later. How confident are you that your investment portfolio will withstand the uncertain risks of the decades to come? When the supports are removed, will you take comfort knowing that a well-designed plan is in place or will you tremble at the thought of what could go wrong?

Call Modus Advisors today to learn more about how we can help you protect and grow your investments.

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There is no assurance that an absolute return investment approach will meet its objective of producing positive returns. An absolute return investment approach may lose money and it does not guarantee a return of principal or a profit over any time period.

Investments in securities with a “margin of safety” may lose money and does not guarantee a profit over any time period.

Investments in securities in preparation for a particular economic outcome may lose money and does not guarantee a profit over any time period.

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