

# The Lam Group

## Investment Management

### Frequently Asked Questions II:

**Q: *Why did you start The Lam Group?***

A: I started The Lam Group for one reason: I couldn't find an investment manager who met my personal needs with regard to my own portfolio.

My goal was to hire an investment manager who had a realistic understanding of risk and return, and who was sufficiently knowledgeable about the investment business to be able to separate the marketing issues from the investment issues. Additionally, I wanted a manager who was independent and fee-only, so I could be confident that the investment recommendations and the investments themselves were being made for my benefit alone and that the manager was not receiving any other compensation to include specific investments in my portfolio.

After an extensive search, I discovered there was no investment firm, mutual fund company, or broker that could adequately meet my portfolio management needs, especially given my own professional experience in the investment industry. I had spent most of my professional career (over 12 years) on Wall Street working with institutional investors and had acquired an extensive knowledge of all investment products and portfolio management styles. I was disappointed that most of the professionals and investment firms that claimed to specialize in private clients were less knowledgeable and/or had less investment experience than I did. In my search, I found there was too much marketing and not enough substance from an investment standpoint. It became clear that if I could not find a manager acceptable for myself, other individuals and families might feel similarly frustrated. The Lam Group was born.

The Lam Group provides its clients with: an educated and realistic understanding of risk/return, an in-depth knowledge of how the investment business works, an independent firm that provides *objective advice* and that makes *impartial investment decisions*, and offers affordable services in a fee-only format.

Our growth and the interest in our young firm indicate our approach fills a need in the investment management services market for private clients with both taxable and tax-deferred portfolios.

**Q: *Who is the typical client of The Lam Group?***

A: Our typical clients are successful individuals and families with both taxable and tax-deferred investment portfolios in need of the sort of objective, thoughtful investment advice and management services we provide.

Generally, our clients include hard-working professionals, retired individuals, families and family offices who do not have the time, the inclination, the interest and/or in-depth investment knowledge to manage their own portfolios. What our clients have in common is an understanding that proper portfolio management is an important, time-intensive endeavor that requires a disciplined investment strategy to make suitable asset class

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allocations from a risk tolerance standpoint, and ongoing asset class research to separate the marketing, hype, and emotion from the investment decision process.

While some people prefer to handle their own investment portfolios, for busy people with personal, family and professional time commitments, hiring a fee-only professional investment manager can be beneficial in the same way a licensed physician can be useful with health/medical problems, an experienced attorney can be with legal issues, or a trained pilot can be when it comes to air transportation.

*Investing without a solid understanding of risk and its relationship to return, or without an awareness of the importance of diversification using asset classes with low correlation can be detrimental to long-term investment performance*

The ramifications of investing without proper training, education and impartial advice can be great. Newspapers and business periodicals are full of stories of investors who have had bad experiences either managing their own portfolios, or entrusting their portfolios to investment managers or brokers who were commission-based. *Generally, the investors we accept as clients are intelligent people who know they need help managing their investments.*

**Q: How is The Lam Group different from other investment managers, advisors and/or brokers?**

A: The Lam Group is different in several important ways:

### **Focus on Asset Allocation**

We focus on asset allocation as we believe (and academic studies have shown) it is the most important determinant of long-term portfolio performance. Properly diversified portfolios behave very differently from the individual assets classes in them, in much the same way that a cake tastes different from the individual ingredients of flour, butter, and sugar. This means the portfolios we design utilize multiple asset classes that can include exposures to domestic and/or international *equities* (across all capitalization classes), US dollar and/or non-dollar denominated investment-grade *bonds* (across all product classes and maturities), as well as other asset classes such as Real Estate Investment Trusts (*REITs*) and Treasury Inflation Protected Securities (*TIPS*) to achieve a diversified portfolio with return and risk characteristics consistent with a client's investment policy.

We also concentrate on optimally allocating asset classes across a client's taxable vs. tax-deferred (401K and IRA) accounts within an aggregate investment portfolio.

### **Investment Approach**

Our approach to constructing investment portfolios includes educating our clients on the relationship between risk and return, developing a basic understanding of the importance of diversification with asset classes that have low relative correlation, managing portfolio tax issues, and dispelling many of the heavily-marketed and self-serving notions presented by the investment management industry today. Extensive investment manager research and performance measurement experience give The Lam Group a unique ability to "peel away" the marketing and the hype from the investment decision-making process.

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Since we focus primarily on portfolio asset allocation, The Lam Group does not pick individual stocks (with the exception of ETFs) or try to time the market. Unlike most investment managers, we do not manage investments within only one asset class (i.e. just stocks or just bonds). All our investment portfolios are designed to include an optimal mix of equities, bonds (including TIPS), REITs, and cash, with the relative proportions and specific asset class sub-categories dependent upon the client's risk profile and investment horizon.

For our clients, fund expenses and taxes are not theoretical issues; they are significant detriments to long-term investment performance. We have access to the lowest cost, most tax-efficient mutual fund investments to give our clients the purest exposures within the specific asset classes that fit their investment policies. To minimize fund expenses and maximize tax-efficiency, we often use passive-managed asset class investments such as those offered by Dimensional Fund Advisors ([www.dfaus.com](http://www.dfaus.com)).

Additionally, our investment management services include disciplined rebalancing of our client's portfolios to achieve and/or maintain their investment policy weightings, as well as strategically harvesting portfolio gains and losses on an ongoing basis to maximize tax-efficiency.

### **Compensation Structure:**

*Objectivity and independence* are two of the most important considerations when choosing an investment manager. The Lam Group is an independent advisor and, as a consequence, accepts no fees or commissions from any brokers or mutual fund companies. Our sole compensation is paid annually by our clients and is fee-only in nature. This compensation arrangement ensures we give *objective advice* and *make impartial investment decisions*.

When working with firms that are not independent or whose compensation is transaction-based, it is often shocking to compare the commission-laden investment products being "sold" by these "professionals" to the investment products that have no imbedded fees, commissions or prizes that are available to be purchased within the same asset class. *Our clients know whom they pay, what they are paying for, and how much they are paying.*

### **Q: What is your relationship with Dimensional Fund Advisors?**

A: Dimensional Fund Advisors (DFA) is a mutual fund company located in Santa Monica, CA and is the leader in passively managed investment strategies for a broad range of asset classes. The firm was founded in 1981 and has over \$80 billion under management, primarily with institutional investors. For individual investors unaffiliated with a registered investment advisor (RIA), the minimum investment for any of DFA's mutual funds is \$2 million.

DFA works with a select group of RIAs whose investment philosophies are consistent with the *diversification via asset allocation approach* and the *belief in the benefits of passively managed investments*. To work with DFA, an RIA must undergo a rigorous approval process that requires an in-depth interview, an extensive application and a

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multi-day presentation at their headquarters in Santa Monica. For approved RIAs, there is no minimum investment for any of the DFA mutual funds.

The Lam Group is a DFA-approved registered investment advisor and has access to all the DFA mutual funds. While part of our value is our access to the DFA platform, *it is important to note that The Lam Group receives absolutely no compensation from DFA to use its mutual funds and that the relationship between our firms is entirely independent.*

DFA primarily manages money for large institutions as the costs of dealing with the retail investing public are too high. They do not have the overhead of highly staffed phone call centers or multi-media marketing campaigns. The money they save on not having these cost centers is passed to their investors. As a result, DFA's fund expenses are some of the lowest in the mutual fund industry.

DFA's strengths in the equity asset class (both domestically and internationally) are in their cost-effective, passively managed strategies with particular focus in the small cap and value investment styles. DFA also has passive approaches to the fixed income and REIT asset classes. The Firm's passive investment approach is based on extensive research by leading academics, economists, and Nobel Prize Laureates.

**Q: *What else should a potential client know about The Lam Group?***

A: The Lam Group was founded to manage the investment portfolios of private clients and to focus on the specific needs of the taxable high net worth investor. We are a small firm with an exclusive number of clients who share our belief in a disciplined asset allocation approach and appreciate the personal and highly-customized nature of our services.

Our asset class and investment manager research and performance measurement analysis are performed with extreme care as we use this research not only for our client's investments, but for our own personal portfolios as well. Our Chief Investment Officer performs all of our investment research and analysis, so there is no part of the investment evaluation process that is "passed off" to a junior staffer or analyst as is common at larger firms. The specific asset class investments we make for our clients are generally the same we actually buy for our own personal portfolios.

Our marketing efforts are limited to word-of-mouth recommendations, our quarterly newsletter and our website ([www.thelamgroup.com](http://www.thelamgroup.com)). We have no ambition to be a large firm, and our asset allocation approach is not for everyone. Our goal is to be a great investment advisory and management firm that specializes in the unique needs of taxable high-net worth investors, and to have a limited number of clients who share our investment philosophy.

Nelson J. Lam  
The Lam Group, Inc.  
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