Twitter Thread by Silence Dogood 2.0

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@ShortTreasuries

One little push-pull I'm running into is that I'm selecting quality securities that appreciate; the "Active Satellite", but I'm sizing positions smaller for risk mgmt. Desire to increase size is there, but it has to be balanced into the overall picture & the portfolio as a WHOLE.

Generally, a normal #ActII #Center investing portfolio is tailored to the individual, but there are some broad principles that I've applied across portfolios. "Passive Plus" generally has a Passive Core & Active Satellite construction with a broad diversified asset allocation.

The Passive Core is usually around 75-80% of the portfolio consisting of low-cost tax efficient index ETF's covering most equity asset classes (Large Core, Large Value, Mid Core, Mid Value, Small Core, Small Value, EM, Int'l LG/SM) w/exposure to ALL at ALL TIMES.

One caveat to the "Passive Core" is that I use (held passively) a very small number of actively managed mutual funds within that 80% of the portfolio. These are GROWTH funds that worth the small extra expense & I have one manager for US Large and Small US Growth & Int'l Large

This part of the portfolio is truly "Core". It doesn't move. It doesn't get sold aside from rebalancing. It didn't get sold in the depths of March. There is a possibility these positions will be in place for decades. The asset quilt changes every year, so we are exposed to ALL

The most important part about this "Passive Core" of the portfolio is the low-cost exposure to the entire world in thousands of securities, which is an important piece of risk mgmt. It's ok when one asset class is underperforming because the chances are several others overperform

The "Active Satellite" is generally about 20% of the portfolio. This is where there is flexibility to be very specific with the combination of single security selection, dividend stocks, and sector/thematic/concentrated funds based on specific needs. This is where alpha lives.

I would also include REITs in the "single security selection" and "Active Satellite". There is a very small number of either thematic ETFs (gaming, E-sports), sector (healthcare, industrials), opportunistic "Growth at Value" price dislocations on only the HIGHEST QUALITY Co's.

Due to the small number of securities involved in terms of single name holdings (yes I understand risk & that the true "PASSIVE ONLY" could be having strokes reading this) generally these are placed across portfolios and held for a long time. My "Active Satellite" is pretty slow!

So, what I have found is that the "Passive Plus" strategy accomplishes many things: Passive & Active complement each other, risk mgmt through diversification FIRST does NOT kill performance, and flexibility in the "Active Satellite" allows for performance enhancement over "Core"

I understand the Quants, traders, the "Value is dead" crowd, and many others would take issue with all or part of my investment philosophy, but there is nothing that can alter the basics I've outlined because I have seen them effectively implemented across millions of dollars.

I've seen the mechanics of real money in real time through the worst crash in our lifetimes aside from the GFC. I've seen how assets can be positioned in very specific ways for very specific needs or a combination of all; preservation, growth, income, etc. "Passive Plus" works.