GEMMER ASSET MANAGEMENT LLC
LOCAL PARTNER GLOBAL INVESTING

INVESTOR EDUCATION SERIES

Introduction

Many investors today struggle to understand both the financial markets as a whole and the mechanics of their personal investments. The problem stems partly from the fact that outside of a university, there aren't many resources devoted to giving the average investor a high-level, easy to understand, walkthrough of basic investing principles.

Our Investor Education Series is an attempt to educate investors on topics we feel play a central role in understanding the global financial markets. Being more informed about how various market mechanisms interact to affect personal assets will hopefully drive better decision making and may ultimately lead to more peace of mind.

The series will be divided into several readings, each covering a broad financial topic. If you find a term you don't understand or is not fully explained, turn to the Glossary of Terms at the end for a more detailed definition. Words in bold can be found in the glossary.

Topics:

- The Power of Compounding – Why We Invest
- Types of Investments – Stocks, Bonds, Mutual Funds, and ETFs
- Modern Portfolio Theory
- Asset Allocation
- The Gemmer Investment Process
- Where Investors Go Wrong
- Glossary of Terms

The Power of Compounding – Why We Invest

Compounding is an extremely powerful concept. So powerful in fact that Einstein famously quipped "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it." In this section, we attempt to illustrate the power of compounding and its role in saving for retirement.

Types of Investments – Stocks, Bonds, ETFs, Mutual Funds

This section of our series attempts to describe four major types of investment vehicles available to the average investor. We will delve into specific advantages and disadvantages of each asset type and compare characteristics such as liquidity, volatility, fees and transparency.

Modern Portfolio Theory

Modern Portfolio Theory (MPT) was first detailed by Harry Markowitz in a hypothesis published in 1952. It is arguably one of the most important and influential financial theories ever composed. MPT suggests that it is possible to construct a set of "optimal" portfolios given a certain level of risk tolerance. This section summarizes the theory and its practical use to the everyday investor.

Asset Allocation

In this section, we attempt to take the conclusions from Modern Portfolio Theory and put them into practice. Asset allocation is defined as an investment strategy that aims to balance risk and reward by dividing a portfolio's assets according to an investor's goals, risk tolerance and time horizon. Central to a discussion of asset allocation is the topic of diversification, which we illustrate using a few examples.

The Gemmer Investment Process

Our process at Gemmer use Modern Portfolio Theory as the foundation. However, we note some of the flaws in the theory and how we have structured our process over many years to address these issues. This section describes our process in detail and articulates how we turn our views on the markets into actionable ideas.

Where Investors Go Wrong

Whether it is because of a lack of strategy, trying to time the market, or letting emotions take over, the investing public often fails to match the returns of nearly every asset class in existence over long periods of time. This section details some of the ways in which the average investor gets it wrong and how a few simple fixes can go a long way towards getting it right.