EPIC
INVESTMENT MANAGEMENT

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Reflections

The arrival of the New Year marked a milestone of sorts, the third anniversary of Epic's managing money for outside clients. Three years, it flies by, and bull markets certainly help. And three years seems about right for a bit of reflection, and perhaps some self-promotion.

Epic started with four core principles: Respect, Integrity, Dedication, and Flexibility. The first three pertain to our relationships with clients and others, and our commitment to running money for outsiders. The fourth relates more to our investment process and decision-making, a belief that an open-minded investor is more likely to succeed than a dogmatic one.

We also promised that Epic would maintain a client-centric focus: to run client accounts as separate portfolios, with no pooling of assets; to charge reasonable fees; to build the business slowly, based on word-of-mouth referrals; and to maintain close working relationships with all our clients.

We vowed to communicate as best we can with our clients -- including newsletters such as this, and most especially picking up the phone when someone calls. A small commitment goes a long way; it's not rocket science.

So far, so good, and we hope our clients agree.

What we did not, nor will not promise, is investment performance. There are far too many variables in the investment world for an equity-focused manager to assure future results. Fortunately the news here is also good.

But first, we digress with a disclaimer: We are not benchmark driven.

Over the past three decades the investment community has developed a horrible and highly contagious affliction. That affliction is the benchmarking of investment results. In its common form, benchmarking entails a money manager choosing an index by which to be judged, the most common being the S&P 500. Annual, quarterly and monthly results are measured against the chosen index. Sometimes daily or real-time, minute by minute tallies are maintained. Lest you think this is a comic interlude, we kid you not, this really happens. We have lived, breathed and at times been suffocated in this world, and see no value to the investment manager, nor to clients.

But we do see peculiar behavior: managers taking outsized risks in hopes of catching up by year-end; placing buy orders to mark up quarter-end stock prices; creating a stealth index fund, never straying far from the benchmark; and mutual fund families marrying underperforming funds with stronger ones, retaining the investment results only of the latter.

After all this, parties engage in statistical contortions, tossing around alphas and betas, R-squareds and Sharpe ratios, all to shine a brighter light on the results.

We have two thoughts:
First, why bother? Second, how do you benchmark Epic's investment style, with a focus on US-equities, yet complemented by an investment universe including some half dozen asset classes? Is it possible? If so, see the prior thought.

Really, it should not be so complicated. If a client and manager cannot agree on whether a three year investment return is acceptable, then someone is in the wrong relationship.

That's our digression. Or was it a rant? Just to be clear, we are not benchmark driven.

Back to performance: For Epic's growth composite, we generated positive returns in all three years. In the midst of a bull market that sounds easy, but 2011 was no picnic, and many investors lost money for the year. Our cumulative results are slightly higher than the most commonly-cited index, while our risk profile is lower.

In a nutshell and without contortions: higher returns, lower risk, no down years.

Three years in, it's a decent start.

Reprinted from the Wall Street Journal
Economist Donald Boudreaux in the Pittsburgh Tribune-Review, Dec. 25:

Suppose that Jones chooses a career as a poet. Jones treasures the time he spends walking in the woods and strolling city streets in leisurely reflection; his reflections lead him to write poetry critical of capitalist materialism. Working as a poet, Jones earns $20,000 annually.

Smith chooses a career as an emergency-room physician. She works an average of 60 hours weekly and seldom takes a vacation. Her annual salary is $400,000. Is this "distribution" of income unfair? Is Smith responsible for Jones' relatively low salary? Does Smith owe Jones money? If so, how much? And what is the formula you use to determine Smith's debt to Jones?

While Dr. Smith earns more money than does poet Jones, poet Jones earns more leisure than does Dr. Smith. Do you believe leisure has value to those who possess it? If so, are you disturbed by the inequality of leisure that separates leisure-rich Jones from leisure-poor Smith? Do you advocate policies to "redistribute" leisure from Jones to Smith—say, by forcing Jones to wash Smith's dinner dishes or to chauffeur Smith to and from work? If not, why not?

Contender for Whopper of the Year:

Secretary of State John Kerry:
“Climate change can now be considered another weapon of mass destruction, perhaps even the world’s most fearsome weapon of mass destruction.”

In search of intelligent life:

Senator Ron Wyden of Oregon said he will push to establish universal savings accounts for all newborns in the U.S. as a way to “really put a dent in the poverty rate.”

The Oregon Democrat cited, as a potential model, legislation that New York Senator Charles Schumer proposed in 2009 to provide all children born in the U.S. with a $500 savings account that could be put toward the cost of college, buying a home or retirement.

Source:
Bloomberg
Wall Street Journal

Tidbits..

Italy's Fiat to gain full control of Chrysler.
France's Peugeot falls into hands of China's Dongfeng Motor Group.

Janet Yellen takes helm at Federal Reserve, first woman Chair at US central bank.
Fed tapering -- reduction of asset purchases –- continues.

US annual healthcare spending rises to 2.8 trillion dollars in 2012, four percent annual gain.
A huge, wasteful system, with no easy fix.

Cyber-attacks steal client data, personal information at Barclays Bank, Target, Neiman Marcus, and University of Maryland in past few months.
Life was simpler 20 years ago.

Global Personal Computer unit sales drop 10 percent in 2013, back to 2009 levels, as tablets and smartphones gain prominence.
End of the PC revolution?

IMF and World Bank raise global GDP growth forecasts, first increase in three years.

Mary Barra takes over as CEO of General Motors, breaking the auto industry glass ceiling.
Microsoft names company veteran Satya Nadella as new CEO; Bill Gates relinquishes role of Board Chairman.

Economic Mobility -- moving from one economic class to another -- is unchanged over past decades, study shows.
Even as the wage gap -- the difference in earnings between classes -- widens.

Justice Department expresses skepticism over possible merger of Sprint and T-Mobile.
Are two weak wireless competitors better than one strong competitor?

Obamacare mandate on small businesses delayed for another year.
Congressional Budget Office studies say..
Minimum wage hike will raise incomes, and joblessness;
Obamacare incentives will push people out of workforce, opting for subsidies.
Building the welfare state, one bad idea at a time.

Puerto Rico credit rating is cut to junk status.

Comcast to acquire Time Warner Cable for 45 billion dollars, creating cable-TV giant.
And inviting extensive regulatory scrutiny.

Congress passes extension of debt ceiling, postpones drama until 2015, declares recess.
Run along, children.