



HOW WE INVEST

OCTOBER 2019

At Hemington, we have an unwavering conviction in how we invest. Our approach is based on financial science and starts with the understanding that capital markets work and current securities prices are the best estimate of their current value. Our disciplined investment strategy focuses on optimizing expected returns based on the amount of risk you are willing to take while avoiding “uncompensated” risks and costs. The evidence tells us that it is impossible to forecast market movements, so instead we focus on what is within our control: building low-cost, tax-efficient portfolios, and rebalancing regularly.

We add value by constructing globally diversified equity portfolios with “factor tilts” that overweight asset classes that have outperformed other asset classes over broad time periods. We use fixed income primarily to reduce the portfolio’s volatility. Secondary purposes of fixed income in a portfolio are capital preservation and liquidity management.

While you may have heard us express this investment philosophy countless times already, we know these statements may still leave you with questions about how we are investing your money. Therefore, Hemington’s Investment Committee is launching a newsletter devoted specifically to answering your questions. Today, we hope to shed light on a few questions investors often ask us. And we’d love to hear from you! What questions do you have for our investment team? Chances are that a lot of other people are wondering the same thing, so please reach out to your wealth advisor with any questions.

**Hemington is on a mission.
We’re here to change lives.
And we’re here to help you have
a better investment experience.**

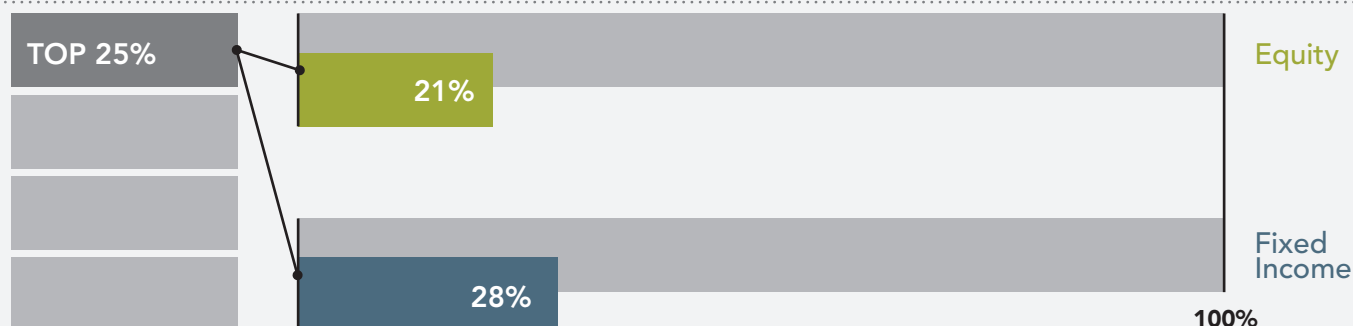


HOW DO YOU CHOOSE THE SPECIFIC FUNDS IN MY PORTFOLIO?

As an independent Registered Investment Adviser, we are not confined to any particular fund family or investment vehicle. We objectively choose the best options from the entire universe of investment products for each of the asset classes we use in your portfolio. Furthermore, while we believe in a long-term perspective and disciplined approach, the Investment Committee is always scanning the investment horizon and evaluating new opportunities that might be appropriate.

While many investors and advisors select mutual funds based on past returns, research shows that most funds in the top quartile (25%) of the previous five-year returns did not maintain a top-quartile ranking in the following five years (see illustration below). Since past performance offers little insight into a fund's future returns, at Hemington we implement our strategy with funds that follow an investment approach based on financial science, target higher expected returns in a systematic way, and minimize costs. To assess costs, we perform due diligence on issues such as expense ratios, trading costs, and turnover (which also helps reduce trading and tax costs).

PERCENTAGE OF TOP-RANKED FUNDS THAT STAYED ON TOP



Previous
5 Years

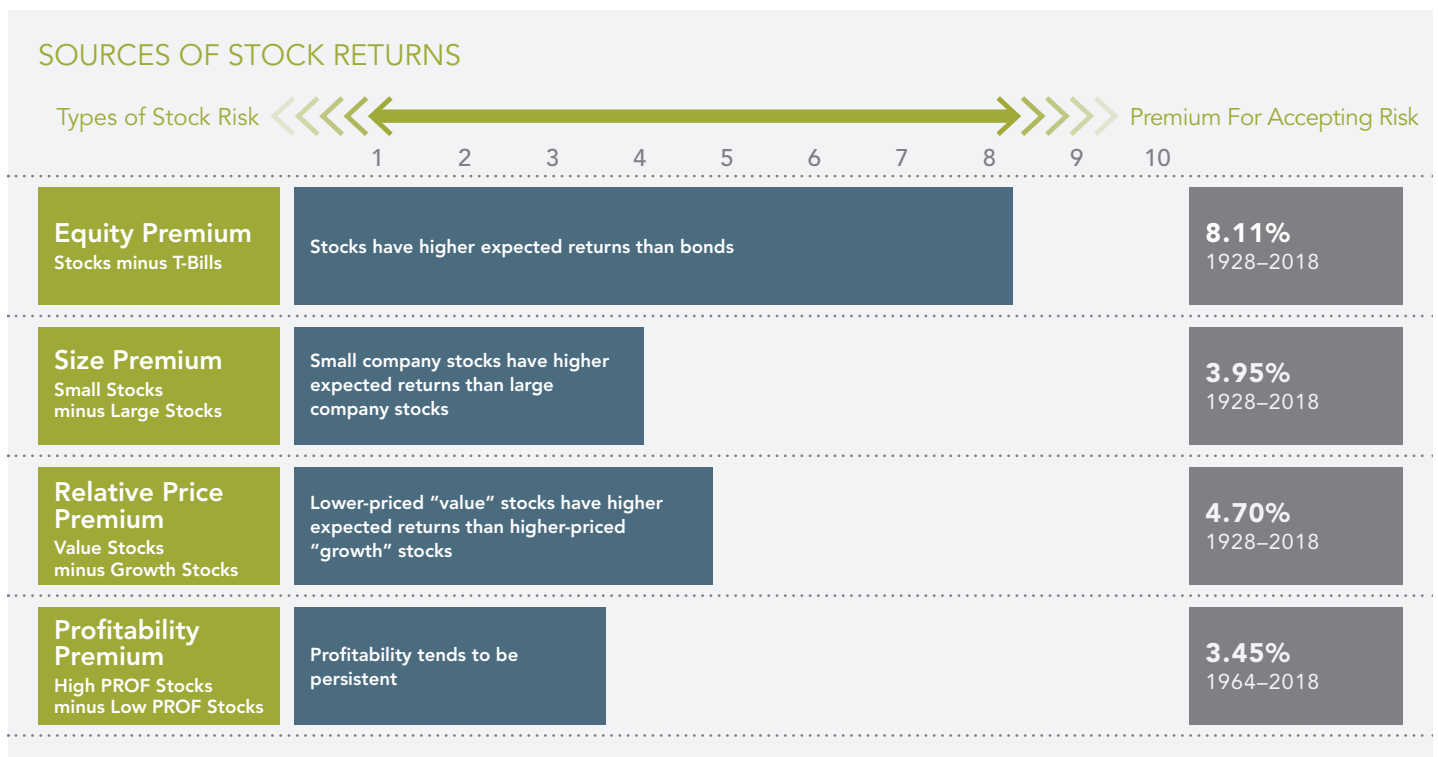
Funds Remaining in Top Quartile of Returns
in the Following 5-Year Period (2008–2018 average)

Source: Mutual Fund Landscape 2019, Dimensional Fund Advisors. See Appendix for important details on the study. Past performance is no guarantee of future results.



IS THERE ANYTHING HEMINGTON DOES TO TRY AND OUTPERFORM THE MARKET?

Rather than trying to find mispriced securities, we seek to add value through our focus on low-cost, tax efficient investing, factor tilts, and regular rebalancing. What do we mean by “factor tilts”? To improve expected returns beyond a market-weighted portfolio, academic research has identified several “factors” which point to differences in expected returns among securities. The market is a great starting point, but we can do better by overweighting companies with smaller market capitalization (size factor), higher profitability (profitability factor), and priced below their peers (value factor). Instead of attempting to outguess market prices, investors can instead pursue higher expected returns by owning the entire market and slightly overweighting their portfolio to these factors.



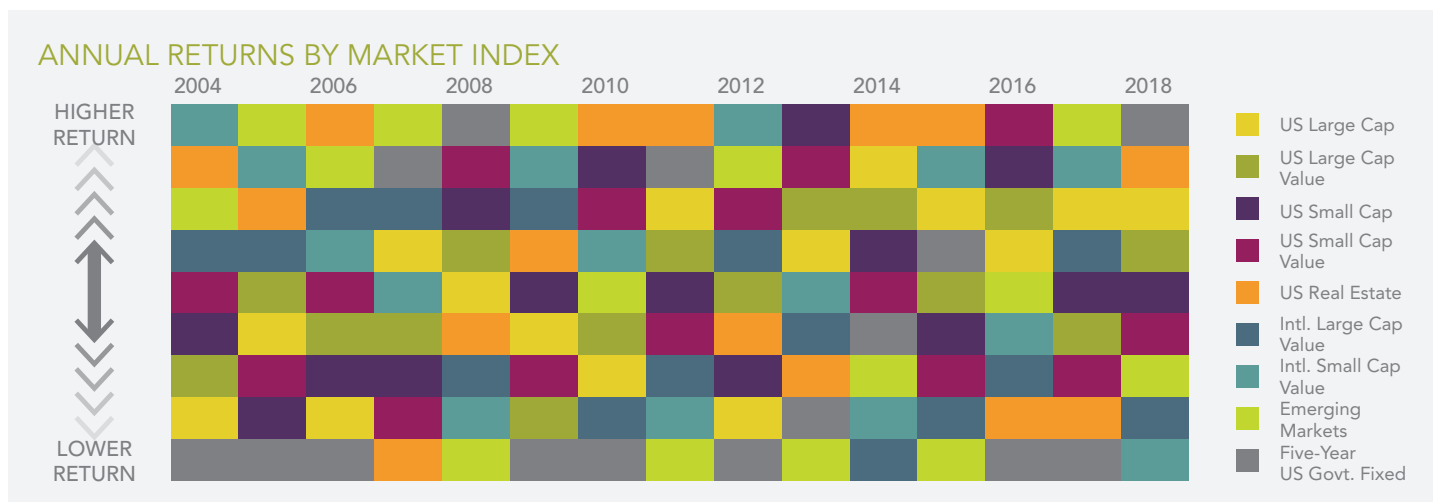
Relative price is measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book.



CAN YOU MAKE TWEAKS TO THE PORTFOLIO PERIODICALLY TO AVOID THE WORST PERFORMING ASSET CLASSES?

Research tells us it's impossible to consistently forecast which market segments will outperform from period to period. In both US and non-US markets, there is little predictability in asset class performance from one year to the next. Studying the annual data (see chart below) reveals no obvious pattern in returns that can be exploited for excess profits, strengthening the case for broad diversification across many asset classes. A globally diversified strategy will always perform somewhere in the middle of its component asset classes. It will never be the at the top of the performance chart. But it will also never be at the bottom! This approach enables you to avoid the risk of being heavily invested in an underperforming asset group in any given year. Diversifying across securities, sectors, and countries can also enhance the stability of returns.

Accordingly, it's better to avoid market timing maneuvers and other unnecessary changes that can be costly. Allowing emotions or opinions about short-term market conditions to impact long-term investment decisions can lead to disappointing results. Investors who follow a structured, diversified approach are well positioned to seek returns whenever and wherever they occur.



In USD. US Large Cap is the S&P 500 Index. US Large Cap Value is the Russell 1000 Value Index. US Small Cap is the Russell 2000 Index. US Small Cap Value is the Russell 2000 Value Index. US Real Estate is the Dow Jones US Select REIT Index. International Large Cap Value is the MSCI World ex USA Value Index (gross dividends). International Small Cap Value is the MSCI World ex USA Small Cap Value Index (gross dividends). Emerging Markets is the MSCI Emerging Markets Index (gross dividends). Five-Year US Government Fixed is the Bloomberg Barclays US TIPS Index 1-5 Years. S&P and Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Chart is for illustrative purposes only.

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

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