

Issue 137



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## A Peek into the PRIME QUADRANT®

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**Save the Date for the  
2018 Prime Quadrant Conference  
November 1, 2018**

New Speaker Announced: Anthony Scaramucci

### **Upcoming Investor IQ Workshops**

**April 25, 2018**

A Primer on Investing  
in Hedged &  
Uncorrelated  
Strategies

**May 31, 2018**

A Primer on Investing  
in Credit

**June 27, 2018**

A Primer on Cash as  
an Asset Class

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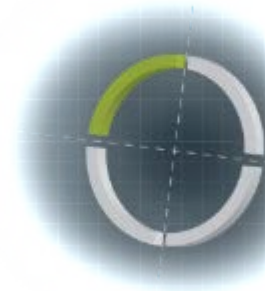


**ANTHONY SCARAMUCCI**

Anthony Scaramucci is the Founder of SkyBridge Capital and best-selling author of three books: *The Little Book of Hedge Funds*, *Goodbye Gordon Gekko*, and *Hopping Over the Rabbit Hole*. Prior to founding SkyBridge in 2005, Scaramucci co-founded investment partnership Oscar Capital Management, which was sold to Neuberger Berman in 2001. His other positions included serving as the vice president at Goldman Sachs & Co, the Chief Strategy Officer of the EXIM Bank and the White House Communications Director.

## What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which you achieve the highest return per unit of risk.



Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

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## Stories of Interest

### The Curse of Intelligence

Blind-spot bias explains why some of the brightest people (outside the world of finance) can be such terrible investors.

### Intuition, Causality and Loss Aversion

In the video below, two of the greatest behavioral minds - Michael

**Prime Quadrant is an investment research and consulting firm that helps high-net-worth Canadians make better**

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Mauboussin and, Nobel Prize Winner, Daniel Kahneman - discuss decision making in finance.



### **Ironies of Luck**

In investing, a huge amount of effort goes into identifying, assessing and managing risk. But remarkably little effort goes into doing the same for luck.

### **What's so Hard About Investing?**

Looking at the rise of stocks like Amazon (AMZN) or the fall of companies like Valeant (VRZ), we see that choosing the right stocks is hard no matter how savvy or close to the action you are.

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## **The Way We See It**

*Below is an excerpt from Lidsky's latest book, Partners in Preservation.*

The simplest way to understand the progression from monitoring the portfolio (ensuring investment managers are doing what they said they were going to do and addressing issues as they surface) to re-balancing is analogous to the annual checkup with your doctor. There is hardly anything more basic than the need for an annual

**investment  
decisions.**

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Mo Lidsky's most recent book Partners in Preservation: How to Know your Advisor is Truly Protecting your Wealth is now available on Amazon!



**PARTNERS IN  
PRESERVATION**

HOW TO KNOW YOUR ADVISOR  
IS TRULY PROTECTING YOUR WEALTH

**MO LIDSKY**

In Search of the Prime Quadrant: The Quest for Better Investment Decisions is available at Amazon, Barnes & Noble and Indigo.

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checkup where one could see if everything is status quo or if there has been an unexpected deviation (e.g., blood sugar levels too low, cholesterol too high, unusual weight gain or loss). These checkups provide the patient with the opportunity to spot or monitor any problem or deviation from the norm and correct – i.e. rebalance - it.

Those who skip a year or two are often urged (or perhaps dragged) by their loved ones to make that checkup. Yet, notwithstanding these good habits with our physical health, most investors have not adopted them in their financial health. It is astonishing that investors can go such long periods of time, possibly even a lifetime, without ever considering a checkup for their portfolio.



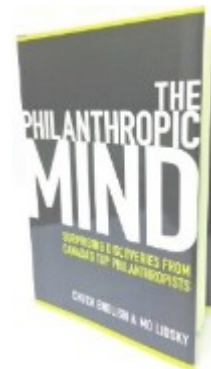
In 1986, there was a study conducted on the investment habits of the 850,000 individuals employed in higher education. The remarkable thing is that over their entire investment lifetime, more than 72 percent of these individuals never made a single change to their asset allocation mix, and fewer than 2.5 percent made a change in any given year. Most simply held on to the same funds they bought on day one without making any changes whatsoever. This is consistent with another study demonstrating that nearly 80 percent of the 1.2 million 401(k) investors with retirement accounts in the USA didn't move one penny from one fund to another fund in a two-year period where markets rallied over 40 percent.

Investors can be very pleased or dissatisfied with their investments, and they may even be aware of problems, but most rarely go through the efforts of a portfolio checkup or employ the

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*The Philanthropic Mind* is also available on Amazon, Indigo and Barnes & Noble.



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crucial discipline of portfolio re-balancing, which should be done once a year. Portfolio re-balancing shifts the portfolio to adhere to the asset allocation bands outlined in their Investment Policy Statement. For example, when equities take a tumble and fixed income becomes a larger portion of the portfolio, re-balancing may include selling off some of the more expensive fixed income investments and purchase cheaper equities.

Benjamin Graham, the father of value investing, said, "The essence of investment management is the management of risks, not the management of returns." Unfortunately, investors seldom spend sufficient time determining where heightened risk lies, what can go wrong, where the portfolio is over-concentrated, and what they can do about it. At the heart of this neglect to manage risk is investors' complacency, the very condition re-balancing aims to cure.

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**""The four most dangerous words in investing are:  
'This time it's different.'"**

**- Sir John Templeton**



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