

FROM THE APRIL 2017 ISSUE OF RESEARCH MAGAZINE

APRIL 5, 2017

How to Put Evidence-Based Investing Into Practice

EBI offers a way to answer investment questions in a systematic, analytical, and scientific manner in the four straight-forward steps



EBI aims to maximize after-tax returns while minimizing risk.

Science has produced many tremendous advances, from lifesaving medical treatments to instantaneous communication. Historically, though, science has had little influence on investing.

Instead of keeping pace with advancements in modern portfolio theory along with historical and statistical evidence, investors and money managers often rely on conventional wisdom and flawed assumptions.

According to Savant Capital Management, the goal of EBI (evidence-based investing) is to maximize after-tax returns for the individual investor while minimizing risk and protecting portfolios from market downturns.

Approaching a problem or a set of questions from an evidence-based point of view has profoundly affected the field of medicine, and now investing. EBI offers a way to answer investment questions in a systematic, analytical, and scientific manner as described in the four steps below.

Eliminate Meaningless Questions:

- What is the best way to capture market returns?
- Do professional money managers perform better than market indexes?
- Can you beat the market by identifying great money managers?
- Can market timing improve returns?
- Can investors overcome the fees charged and taxes generated by money managers?

Ask Meaningful Questions:

- What is the role of bonds and what types of bonds are most appropriate?
- Is it advantageous to diversify overseas?
- Can small stocks be safely included in diversified portfolios?
- Are value stocks preferable to growth stocks?
- Should diversified portfolios invest in assets other than stocks and bonds?

Apply the Evidence:

- For investment selection, both passive (indexed) and broad-based market funds have the essential characteristics of being low cost, tax-efficient, and transparent.
- Rebalancing ensures a commitment to long-term risk control and can enhance return. Simply put, rebalancing allows you to systematically purchase investments that have declined in price and sell investments that have increased in price.
- As legendary investor Sir John Templeton said, “For all long-term investors, there is only one objective: maximum total return after taxes.”

Monitor for Effectiveness:

- The last step, monitoring for effectiveness, is a very important part of the process. We refer to it as “robust investment oversight” which we believe significantly enhances investment results by eliminating needless risk.

Savant Capital Management, a fee-only wealth management firm with some \$5 billion in assets and a financial advisory team of about 40 individuals, based in Rockford, Illinois.