Scarsdale Investment Group, Ltd.

All Bond Portfolios

Bond Investing and the Principle of "Ockham's Razor"

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"Most investors go about their job trying to identify 'winners'. But more often than not, investing is about avoiding losers." **Louis-Vincent Gave**

The media encourages us to identify the winners because that plays into our hope for the future. The January-February cover of the magazine Money for 2015 focuses first on how to "Live a Happy Retirement Life." The follow up article is "Your Best Moves Now, 5 Smart Ways to Double Your Yield." Wouldn't you like to know how to double your yield? What follows in the article are risky choices that may yield more, but might also result in losing part or all of your principal. How do we not become overwhelmed by the noise and the choices?

One way to guide our search for a sound investment path would be to consider the ancient wisdom of Ockham's Razor. William of Ockham was a 14th century Franciscan monk who was born in the small village of Ockham in Surrey, England. Ockham's Razor states: "Pluralitas non est ponenda sine necessitate".

This might be translated as: "Entities should not be multiplied unnecessarily." So why should this be of interest to you?

John P. Hussman, Ph.D. clarifies the guiding principal of Ockham's Razor as follows:

"The hypothesis – consistent with the evidence - that relies on the smallest number of assumptions is generally preferred. Essentially, the razor shaves away what is unnecessary and retains the most compact explanation that is consistent with the data."

The investment strategy that we employ and choices that we have made at Scarsdale Investment Group, Ltd. is consistent with the profound teaching of Ockham's Razor and is outside the general paradigm of current investment principals. Consider whether our principals speak to you in the current investment environment.

- Protect your principal: We are in accord with Warren Buffet's two rules of investing: Rule 1: Don't lose money. Rule 2: see Rule 1. When you invest in high quality individual bonds your risk of loss is quite small. When you invest in risk assets (stocks and any assets other than high quality bonds) you rely on the "greater fool theory" which holds that for some reason another investor will come along in the future to buy your risk asset at a higher price.
- Secure your lifeline: Focus on cash flow as your guiding principal rather than the strategy of hope. Ask the following question: How much cash flow will your portfolio produce on a reliable basis? A portfolio of individual bonds will answer this question. Total return and computer generated assumptions of the return on risk assets based upon past results are unreliable.
- Decrease your investment risk: Whenever you allocate your investment assets to asset classes other than high quality individual bonds payable in U.S. dollars, you have increased your risk, not reduced your risk. How good is your timing of getting out of risk assets before a crash? Did you do it in 1987, 2000 or 2008?
- Understand the context of your investments:
    - Evaluate your returns on an after-tax basis.
    - Evaluate your returns after all fees and expenses. Why take high risks with your principal and pay an annuity of fees and expenses to your money manager?

Conclusion

Substantial investments in high quality tax-free individual bonds comply with the wisdom of Ockham's Razor in today's high risk investment environment. High quality individual bonds provide consistent and easy to understand tax-free returns that will protect your principal. If you buy them yourself you will have no further fees, hidden or disclosed. If you can hold them until they come due, you will generally have no loss of principal and no need to time the market.

Another way to translate the principal of Ockham's Razor is the KISS principal: keep it simple stupid. Buying and holding tax-free municipal bonds in today's environment is a simple and powerful way to preserve your principal and create growth through compounding by reinvesting the interest income in more bonds.