Answering the “Big” Questions

**Why Invest – What’s the Point ?**

We at JEI Investment Management believe that the purpose of investing for any individual is to realize superior long-term returns on your hard-earned money, so that your relative wealth increases over time to the maximum extent. Such superior long-term returns will increase your savings, which can be vital to your long-term financial needs and goals.

**Where to Invest – Why Equities ?**

We at JEI Investment Management believe that equities offer the highest likelihood of producing superior long-term returns of all asset classes, due to their historical track record of having produced the highest sustainable returns of all asset classes in the past. Based on data from the past 150 years, equities have produced roughly 10% returns gross of inflation per year on average, whereas real estate has produced roughly 5% returns, bonds have produced roughly 3-5% returns, commodities have produced roughly 0-5% returns, and cash has produced exactly 0% returns (St. Louis Fed; Ibboston SBBI).

We believe that the reason equities have produced such superior returns in the past, and seem likely to continue to do so in the future, is that equities represent ownership in companies. Such ownership grants the investor full rights to participation in the underlying companies’ return generation.

**Where to Invest – Why Smaller-Caps ?**

We at JEI Investment Management believe that the stocks of smaller-cap companies are more likely than the stocks of larger-cap companies to produce superior long-term returns, again due to their historical track record of having done so in the past. Based on data from the past 60 and 90 years, respectively, smaller-cap stocks have produced roughly 2-3% more return per year on average than larger-cap stocks (Wells Capital Management; Ibbotson SBBI).

We believe that the reasons smaller-cap stocks have produced such superior returns in the past, and seem likely to continue to do so in the future, are the following: smaller-cap stocks are more likely to be purchased as new investments over time as they are discovered, smaller companies typically have more room to grow their operations, and smaller companies tend to be riskier due to their uncertain futures.

**How to Invest – Actively or Passively ?**

We at JEI Investment Management believe that an active management strategy is more likely to produce superior long-term returns than a passive management strategy (all else equal), due to the ability of an active manager to invest without being tied to an individual index. This flexibility allows an active manager to carefully derive the most attractive investments from different indexes, and thus produce a portfolio comprised of the “best-of-the-best” smaller-cap stocks.

**How to Invest – Why Fundamentals ?**

We at JEI Investment Management believe that the best way for an active manager to go about identifying “best-of-the-best” stocks from various indexes is to focus on identifying what we call fundamentally undervalued companies. We define fundamentally undervalued companies as those that are highly likely to produce healthier business levels in the future than the stock market is giving the company credit for today. Such business levels form the basis of a company’s ability to produce superior long-term returns for their investors directly in the form of dividends and repurchases, and indirectly in the form of reinvestments in their business.

**How to Invest – Why Free Cash Flow Growth at a Reasonable Price (“FCF GARP”) ?**

We at JEI Investment Management believe in focusing on free cash flow when searching for fundamentally undervalued companies, because we believe that free cash flow provides the most accurate picture of a company’s future business level production, as it considers cash transactions only and is thus relatively difficult to manipulate.

Therefore, we seek companies poised to produce healthier free cash flow in the future than the stock market is giving the company credit for today, as evidenced by the price of its stock. This healthier-than-expected free cash flow will result from superior growth vs. market expectations in one or more of a number of fundamental categories such as revenue growth, margin growth, share buyback growth, etc.

In summary, we believe that stocks of companies that are poised to produce healthier-than-expected free cash flow, due to superior growth vs. market expectations, offer the highest likelihood of producing superior long-term returns, and therefore represent the “best-of-the-best” stocks for active managers. We refer to such companies as producers of attractive free cash flow growth at a reasonable price.

**How to Invest – Why Selectivity ?**

We at JEI Investment Management believe than an ideal investment portfolio should be constructed to provide its investors the highest possible likelihood of achieving superior long-term returns. To do so, we believe that a portfolio must combine maximum exposure to fundamentally undervalued stocks, to maximize the returns of the portfolio, with maximum diversification, to maximize the sustainability of the portfolio. We define such a portfolio as “selective”.

Since research has shown that a portfolio of 12-18 differentiated stocks can provide up to 90% of the diversification benefits that a larger portfolio would provide (*Investment Analysis and Portfolio Management,* Frank Reilly and Keith Brown), and since a portfolio of 12-18 differentiated stocks also offers concentrated exposure to investments most likely to produce superior long-term returns, we believe that a portfolio comprised of 12-18 differentiated stocks represents a selective portfolio.

**Who to Invest With – Why JEI Investment Management ?**

We at JEI Investment Management believe that we are most qualified to effectively manage our selective portfolios of smaller-cap stocks that look attractive according to our free cash flow growth at a reasonable price methodology, because we developed our unique approach and because we have several years of experience investing according to it.

We also believe ourselves to be proven trustworthy financial stewards. We have taken several steps to build our trustworthiness, including adhering to the CFA Asset Manager Code of Conduct and the Better Business Bureau Standards of Accreditation to make sure that we follow industry best practices. We have also developed an extensive compliance manual to make sure we continue to avoid legal or regulatory mishaps, and that our risk management systems are on point. Finally, we make sure that our interests as portfolio managers are aligned with the interests of our investors.

Our Founder and CEO, Mr. Ireland, enhances our trustworthiness by providing a solid education and investment industry background along with an excellent track record of exhibiting important qualities to all financial stewards: trustworthiness, discipline, patience, composure and a strong focus on ethical conduct. Such qualities augment the sustainability of the portfolios that we manage.