

Patton's Principles

Patton Fund Management, Inc.

www.PattonFunds.com

- ✓ **Be Passionate** – Be passionate about your beliefs and have the conviction to stick to them even through the challenging times. We believe this is the biggest challenge for investors and is the leading cause of inferior, long-term, investment returns.
- ✓ **Markets are Inefficient in the Short-Term** – The markets are inefficient during shorter periods of time (sometimes up to 5 years) and become more efficient as time progresses. We maintain a constant focus on successful long-term strategies and ignore the short-term noise. We believe this will produce superior performance for our investors.
- ✓ **Investor Psychology Impacts Stock Prices** – Investor psychology has far more impact on a company's stock price than the company's fundamentals. Stock prices, certainly during shorter time periods of up to a few years, are influenced more by investor psychology than the underlying value of a company. Investors' willingness to buy and sell stocks is often the result of things other than the value of the underlying company.
- ✓ **Investor Psychology is Consistent and Predictable** – Investor psychology is both consistent and predictable. A disciplined investment strategy, based on research, that recognizes some basic human behavior can systematically produce investment profits.
- ✓ **Super-Diversification is the Future** – Traditional asset allocation of stocks, bonds, and cash is "old school" and super-diversification is the future for investors. Super-diversification includes an allocation to hedge funds, private equity, real estate, commodities, and other such alternatives with the goal of producing both improved returns and reduced portfolio risk.
- ✓ **Short-Term Performance is Meaningless** – There is no value in watching the market hour-by-hour and day-by-day. Investors focusing on such activity have lost focus of the long-term goals and more likely view the markets like a casino and not the symbol of capitalism that it is.
- ✓ **Predicting the Market is Impossible** – It is impossible to predict the market but certain long-term trends, based on known facts, can be identified. Predicting the market's direction during the next month, quarter, and often year has proven nearly impossible. On the other hand, long-term trends, based on facts such as known demographic cycles that will occur, can be of value to investors.
- ✓ **Have Realistic Expectation** – Be realistic in your expectations. There is no investment strategy that works in every market environment. Furthermore, there is no manager who can predict every market environment. Unrealistic expectations, more often than not, result in poor investment decisions and inferior returns.
- ✓ **Outsized Returns do NOT Come Easily** - Returns of 20% or more certainly cannot be achieved without doing something different than the average investor getting average returns. Sometimes the most difficult choice for an investor is to do something that is different than what everybody else is doing.
- ✓ **A "Wait and See" Approach is NOT Productive** – Taking a "wait and see" approach is not a productive way to evaluate a manager or investment strategy. Investment strategies rotate into and out of favor often over periods of years. Investors who wait for a positive outcome often invest at the end of a positive cycle (or performance rotation) and end up with short-term, inferior returns. Instead an investor should evaluate the quality of the manager and the design of the investment strategy and invest with a long-term approach to reap the value the manager and strategy have to offer.
- ✓ **The Market's Performance CANNOT be Controlled** – Managers and investors cannot control the market's performance. Furthermore, investors utilizing a strict investment approach will have little or no impact on the performance of their strategy but instead be subject to its performance cycles (requiring belief in disciplines ability to produce long-term successful results during the periods of short-term disappointments).