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Applying Science to the Art of Investing

In chaotic financial times, reacting to market volatility with emotion is more likely to lead you astray than to your goals. A rational approach to money management is the cornerstone of Red Hook Management (RHM). The company is an independent Registered Investment Advisor with over \$100 million in assets under management and provides investment expertise to high-net-worth individuals and foundations.

Academic Research Validates the Investment Process

Red Hook is inspired by the academic research of Professors Eugene Fama, widely known as the "father of modern finance," and Ken French, who are also consultants to Dimensional Fund Advisors (DFA). Both are proponents of the efficient-market hypothesis and believe investors are rewarded in proportion to the risks they take, that diversification is essential, and that asset structure determines performance.

Red Hook constructs fee-only, personalized portfolios after learning a client's risk tolerance and investment objectives. "Our goal is to capture the returns of the capital markets," says Bill Conger, one of the portfolio managers. "We add value without relying on forecasts or intuition. We tilt our clients' portfolios toward small-cap and value stocks because historically they offer better risk-adjusted returns."

Building Diversified and Efficient Portfolios

RHM diversifies investments among many fixed-income and equity asset classes, primarily using low-cost index funds and Exchange Traded Funds (ETFs). Customized municipal bond portfolios may be used for appropriate clients to balance their equity exposure. The company also uses a small proportion of liquid alternative investments that have a low correlation to equities.



The result is a process that relies on hands-on investing, with a less emotional and more logical approach to markets. "Data shows that passive management — owning baskets of a large number of different stocks in their proportion to the market — is more efficient and cost-effective than active management, which requires an investment manager to correctly pick the best performing stocks and perform many costly transactions," says Conger. "We rebalance portfolios at appropriate intervals to maintain effective diversification and manage risk."

Conger relates a story that highlights the benefits of diversification. It involves a client who came to Red Hook in April 2008. "He had very few holdings, and they were all domestic large-cap stocks such as Lehman Brothers, AIG, Ford and General Electric. We liquidated his account and put him into a



Seated: President Nancy Conger CFP®; Principal Ezra Jennings, Ph.D.
Standing: Founder and Principal Bill Conger, and VP Client Relations Lori Trapasso

well diversified portfolio. In late September 2008 during the market crash, he called to say that he was a very happy client. The losses would have devastated his portfolio. Instead, he endured the market crash, remained invested, and reaped the benefits of the 2009 recovery."

Analytical and Experienced Professionals

Red Hook, the successor to Ezray Investment Advisors founded in 1986, is independent and family owned and holds accounts with custodian Charles Schwab Institutional. Most significantly, RHM has passed the approval process allowing it to use mutual funds from DFA, which, Conger says, gives Red Hook clients access "to the best index funds in the market." Conger himself has a 37-year investment background, with a special skill set as a former stock analyst, municipal and mortgage bond trader, and portfolio manager. Nancy Conger, a Certified Financial Planner, has 40 years' experience in the securities industry. Also on the Red Hook team are Ezra Jennings, Ph.D., a portfolio manager with a specialty in computer-driven data analysis and modeling, and Lori Trapasso, who has extensive experience in client services and operations.

Red Hook uses the client's complete picture to invest and advise appropriately. Jennings says it's a scientific approach that lets Red Hook practice the art of the attainable and a personal approach that allows clients to reach their investment goals.

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