



## The Art of Portfolio Management

### *"Weeding the Garden"*

- Alumni of *David L. Babson & Company* may remember Mr. Babson expounding on the importance of "weeding the garden" in managing portfolios. Investment ideas may not work out or changing circumstances may mean better opportunities exist elsewhere. Rather than letting decay set in, it usually is best to cull the underperforming holdings and move on.
- With many stocks today appraised well below their all-time high prices, there are still opportunities to improve a portfolio's investment characteristics.
- Many high-quality growth stocks currently have decent dividend yields -- an unusual occurrence in growth stock investing.
- The Federal capital gains tax rate is still at 15%, thus this may be an opportune time to redeploy historical, low tax cost holdings to newer investment ideas.
- Failing to "weed the garden" may lead to:
  - ❖ "Style Drift"
  - ❖ Too many holdings in a portfolio:
    - Second Tier Names
    - Holdings incorrectly sized
  - ❖ Over-emphasizing an industry or segment
- The keys to successful investing over the long haul include:
  - ❖ Keeping a long-term point of view
  - ❖ Trusting your common sense
  - ❖ Focusing your attention on high-quality investments
- When making portfolio changes, ask the following:
  - ❖ Does it improve a portfolio's growth prospects?
  - ❖ Does it improve its dividend income?
  - ❖ Does it improve its overall investment quality?
  - ❖ Does it reduce uncertainty?