



# Purcell Investor Report

Third Quarter 2009

## Introducing Dan Yeung, MBA, CFA, CAIA candidate and Purcell's Investment Strategist

As you can probably tell from the above, Dan Yeung is quite accomplished in the financial industry. He received an MBA in Analytic Finance and Accounting from the University of Chicago's Booth School of Business and a BA with Honors in Economics from the University of Michigan. Dan has been a CFA Charterholder since 2000 and is currently a candidate for the Chartered Alternative Investment Analyst (CAIA) designation. Before moving to the Pacific Northwest to work for a mutual fund company, he lived in Chicago and worked 10 years for Morningstar. Dan joined Purcell in June 2009, focusing on manager research and building and monitoring tactical investment programs. Dan has had more than 13 years of investment experience conducting manager research and working with both institutions and ultra-high-net-worth family offices. He helped build asset allocation tools and managed billions of dollars in funds of funds. Dan and his family live on the east side of Seattle and in his spare time (yes, he has spare time), he enjoys going to Seahawks' and Mariners' games. Dan's resume is a perfect fit for Purcell's investment programs and the tactical approach utilized.

We recently took time to interview him so our clients can come to know him better, too.

Q: When we look over your resume, Dan, it seems that your career has guided you along a path from traditional investment strategies at Morningstar to much more non-traditional investment strategies at Purcell. Do you see that progression, too?

A: Yes, and it seems to be quite a natural progression, going from strategic asset allocation and long only traditional strategies to long/short tactical approaches with absolute return objectives. It's been exciting for me to join Purcell because my recent experience has been in the alternative investment arena and that's the mission here.

Q: You must have used quite a few investment tools over the years. Which investment tools did you learn to use in the beginning of your career?

A: Well, of course, Modern Portfolio Theory (MPT)<sup>1</sup> and Efficient Market Hypothesis (EMH)<sup>2</sup> were the big hitters. I relied heavily on these concepts when I worked at Morningstar, and even later when I was a Senior Investment Officer for a mutual fund company. Neither of these tools seem sustainable today, however. The investment world has changed. We are in a "new" normal which forecasts a low single-digit return in the equity markets going forward.

Q: That's interesting, so which investment tools do you use for Purcell in this "new" normal?

<sup>1</sup> Modern Portfolio Theory as developed by Harry Markowitz is based on the mean-variance framework and assumes that return distribution is normal over time, market participants are rational and upside volatility is weighted equally as with downside.

<sup>2</sup> EMH was developed and pioneered primarily by Professor Eugene Fama at the University of Chicago Booth School of Business and is built on the notion that the broad markets are efficiently priced and that no individual market participants are able to profit unfairly since information is disseminated quickly and immediately reflected in the current market prices.

A: It's important to look at asset allocation and portfolio construction in a tactical way; not a strategic buy and hold way. Some of the country's top investment strategists are calling it Post Modern Portfolio Theory (PMPT). PMPT is based on three main ideas: 1. investors often are not rational in their behavior, 2. downside market volatility (i.e. semi-standard deviation) should carry a heavier weighting than its upside counterpart and 3. historical return distributions can be abnormal or skewed to the downside as we saw in 2008. PMPT uses a more tactical or actively managed approach in asset allocation and refutes the traditional buy-and-hold or strategic allocation framework. So PMPT is the overarching theme for our programs and we use several specific metrics to screen the signal providers in our various investment programs.

Q: Elaborate a bit, if you would.

A: Sure, we take both qualitative and quantitative approaches in choosing the signal providers. Our investment team at Purcell has a universe of signal providers whom we follow and then we narrow that list by several methods.

First, we are looking for favorable risk adjusted performance with at least a three year track record. Additionally, we look for candidates with unique processes and models. We then have the potential signal provider send over signal documentation, fill out an extensive questionnaire and we follow it up with phone interviews. Our unique process allows Purcell to have in-depth knowledge of the signal provider's model and trading methodology which are very important components of our due diligence.

Q: When you say trading methodology, what do you mean?

A: The trading for all Purcell investment programs is done in our offices. We have six traders dedicated to the respective signal providers and their trades. As you may know, some signal providers wish to trade in the last few minutes of the market, while others wish to trade only 50% of the portfolio, or wish to trade once in the morning and once at the close. (Rydex Mutual Funds allow twice a day trading in its two beta indices). All of these variables must be coordinated because there can be up to five different signals in each of our Olympic Series and our traders are working quite diligently to get trades in on time.

Q: You're saying that a potential signal provider's method of trading has to fit into Purcell traders' timeline?

A: Yes.

Q: O.K. So now you have screened and vetted a new signal pro-



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vider. What's the next step in the process?

A: The next is a site visit. In many cases, we visit the signal provider's office, but we have also had signal providers visit our office in Tacoma. Since their laptop holds their model, this can be quite productive, too. Of course, our compliance officer and business manager also do their due diligence work on the signal providers.

Q: With how many signal providers does Purcell currently contract?

A: We have expanded our signal provider line-up to 20 since I joined the firm five months ago and we track each one daily regardless of whether they are "on the bench" or "actually playing". That way we can quantify their trades and track their performance over time.

Q: That seems like a pretty complex job to track 20 signal providers and also trade their signals when appropriate.

A: Yes, it is a big job and of primary importance to us. We have added staff to our research team and investment committee so we are fully prepared for the task.

Q: Tell us about the current signal providers and the portfolios they manage.

A: Going forward, Purcell is well positioned with a combination of signal providers' models which use relative strength or are trend following or sector rotating. These will give our investment programs the stability to have success in various market environments. For instance, our Olympic Series has five different signal providers/models participating in both equity and non-equity asset classes.

Q: How does Purcell add value?

A: Our whole approach is value added. In the past 13 years, I have researched many long only, traditional products or single hedge fund strategies that have restrictions on liquidity and transparency. Purcell programs combine benefits of the traditional mutual fund

and the more exclusive hedge funds.

Q: On top of those restrictions, hedge funds have very high minimums and are expensive, correct?

A: That's right, our low minimums of \$25,000 for annuities and \$50,000 for non-annuities allow average investors to take advantage of the programs we offer. And, we have full transparency to our investment process and methodology.

Q: Thanks Dan. I think we've run out of space for this issue, but hope to catch up with you again after the first of the year.

A: You're welcome. We are looking forward to a very productive fourth quarter in all Purcell programs.

## News at Purcell Advisory Services

As you know, Purcell is growing both in assets under management and staff. Our most recent staff addition is Sue Summers, in the role of Chief Operating Officer. Sue brings more than 20 years of operations and management experience in the financial services industry where she worked for a retail brokerage firm, a mutual fund company and a registered investment advisor.

A Pacific Northwest native, Sue graduated from the University of Washington with a BA in Political Science and Economics. In her free time, she enjoys birding, gardening and volunteering and currently serves on several non-profit boards. Sue and her husband, Al, enjoy traveling and ballroom dancing.

"Over the course of my career, I've been fortunate to have had a variety of challenging opportunities. Financial services is a great business to be in because there is always something new to learn and experience and we can have such a positive effect on people's lives. I'm looking forward to contributing to the continuing success of Purcell Advisory Services."

### PURCELL BOOK OF THE QUARTER

## *The Healing of America: A Global Quest for Better, Cheaper and Fairer Health Care*

No subject has grabbed the national media and the hearts and minds of Americans harder than the topic of health care. We believe it is THE issue, not only of this year, but of many previous years and even decades. Why write about health care in an investment newsletter? Well, health care is obviously tied to individual finances, especially when many Americans could be just one diagnosis away from financial ruin. This is a serious subject in a serious time.

Best selling author, T.R. Reid, guides us through a whirlwind tour of successful healthcare systems worldwide, revealing possible paths toward U.S. reform. His book, *The Healing of America: A Global Quest for Better, Cheaper and Fairer Health Care* was diligently researched for 5 years and uncannily published in August of this year.

This book is informative, non-partisan and even funny in places. The complexity of our health system is laid out with some surprising results. For instance, are you aware that as many as 80 million Americans are already covered by systems nearly identical to the British system? i.e. medicaid, medicare, military, veteran, etc., but 45 million other Americans are not covered at all. It is interesting that health care is by far the United States' largest industry, and no wonder the debate is so fierce. It's fascinating that in other countries one can get insurance just like here except that, 1. you cannot be denied insurance, 2. your insurance cannot be cancelled, 3. everyone is covered and 4. your premiums are regulated by the government. For some Americans, therein lies the rub.

It seems to us that the first question is: Is health care a human right? Most countries have answered this with a resolute yes. Notwithstanding the fact that every health care system has its troubles, all of them cover every citizen, produce better health results and spend far less than the United States. The design of any nation's health care system involves political, medical and economic decisions, but the primary issue is a moral one: Should we guarantee medical treatment to everyone who needs it?

Perhaps you have already formed strong opinions about our health care. Perhaps you are turned off by the "noise" surrounding the discussion. Regardless, we invite you to read Mr. Reid's well researched book to help add to your knowledge of this vital topic. Because the United States spends more money on health care than any other country in the world, insures fewer citizens (by percentage) and spends more than 15% of our GDP doing it, we know that reform desperately needs to happen. To receive your complimentary copy of this timely book, just call 800-730-6867 or send an email to [PAS1@purcellas.com](mailto:PAS1@purcellas.com). Knowledge is power and "power is the ability to take one's place in whatever discourse is essential to action." Join us in this continuing discussion.