



# Philosophy and Process

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Securities offered through LPL Financial, member FINRA/SIPC.



James Elios, MBA  
Wealth Advisor

## Vital Questions

**W**hen choosing an investment advisor firm, we believe that you should ask some important questions about the firm's investment philosophy and process. The answers to these questions will help you decide if your views and the firm's views are in harmony.

### Vital Questions to Ask the Advisor:

- ❖ What are your credentials and how long have you been a financial advisor?
- ❖ What is your investment philosophy and your process of managing money?
- ❖ When financial markets are bearish, what is your sell strategy?
- ❖ What is your expertise in handling large IRA and 401(k) accounts and what is your knowledge on the tax implications?

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# Elios Financial Group Investment Philosophy

When investors go to an investment advisor, they begin with the thought that most advisors do everything the same way. For many, that is a true statement. What sets one investment advisor apart from another? Why would I choose one investment advisor over another?

If you ask an investment advisor, “What is your investment philosophy?” you will find that their guiding philosophy falls into one of three philosophies:

- ❖ **Buy and Hold Asset Allocation Strategy**
- ❖ **Strategic Asset Allocation Strategy**
- ❖ **Dynamic or Tactical Asset Allocation Strategy**

Understanding these different philosophies of how money will be handled and allocated is critical to the investment advisor decision.

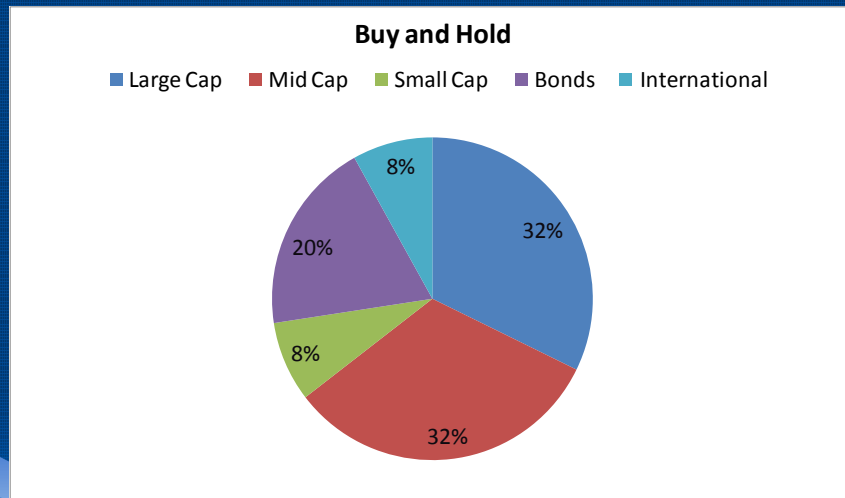
## Buy and Hold Asset Allocation

The **Buy and Hold Asset Allocation Strategy** selects a certain number of stocks, mutual funds, bonds and cash and arranges them in a collection and then provides little supervision or management of the portfolio. The approach is often “set it and forget it”. **Buy and Hold Asset Allocation** is a long-term investment strategy based on the view that in the long run, financial markets give a good rate of return despite periods of volatility or decline. This viewpoint also contends that short-term market timing, i.e. the concept that one can enter the market on the lows and sell on the highs, does not work for small, or unsophisticated, investors so it is better to simply *buy and hold*.

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## *Buy and Hold*



The catalyst for change with **Buy and Hold Asset Allocation** is either the displeased client calling the advisor and saying something is wrong and needs to be changed or the advisor that calls making a recommendation for change and the client does not always know why.

At Elios Financial Group, we have the understanding that "Asset Allocation by itself does not always work." We believe that diversification takes more active management to avoid and minimize loss. We also believe that many money managers and advisors **do not** have a sell strategy to move cash for defensive purposes.

The Buy and Hold Asset Allocation Strategy is considered dead today by many advisors and investors. And if not dead, at least in a coma.

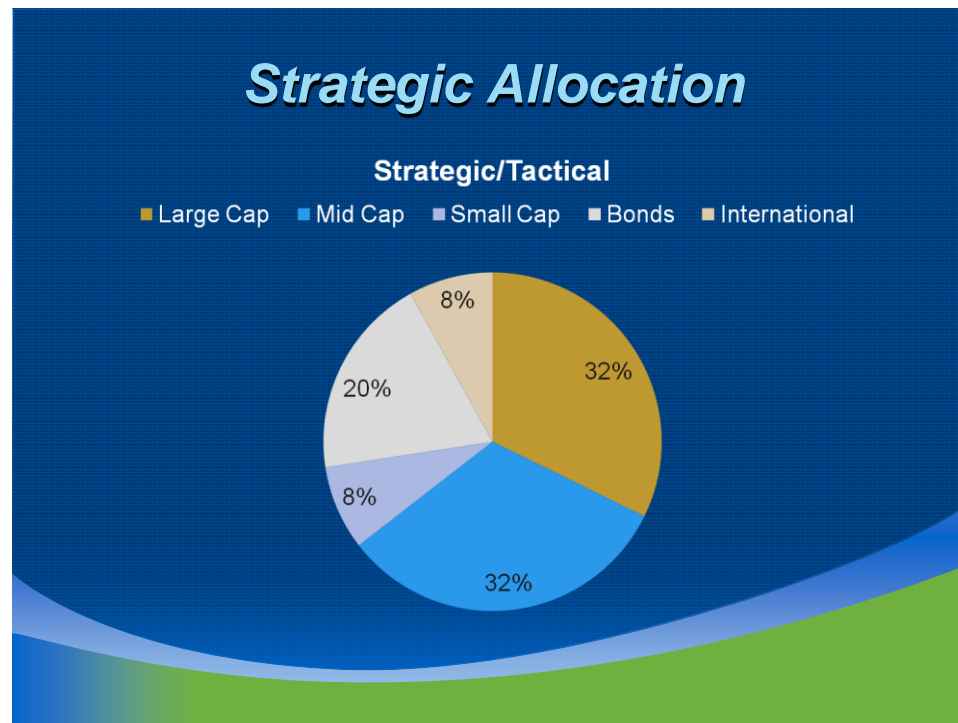
# Strategic Asset Allocation

The **Strategic Asset Allocation Strategy** adds a slightly more active approach to the management of money than the Buy and Hold Asset Allocation Strategy.

In this strategy, the client is placed in various asset classes such as stocks, bonds, and cash with each of these categories in more specific positions. The portfolio may have large, mid, and small cap stocks or mutual funds.

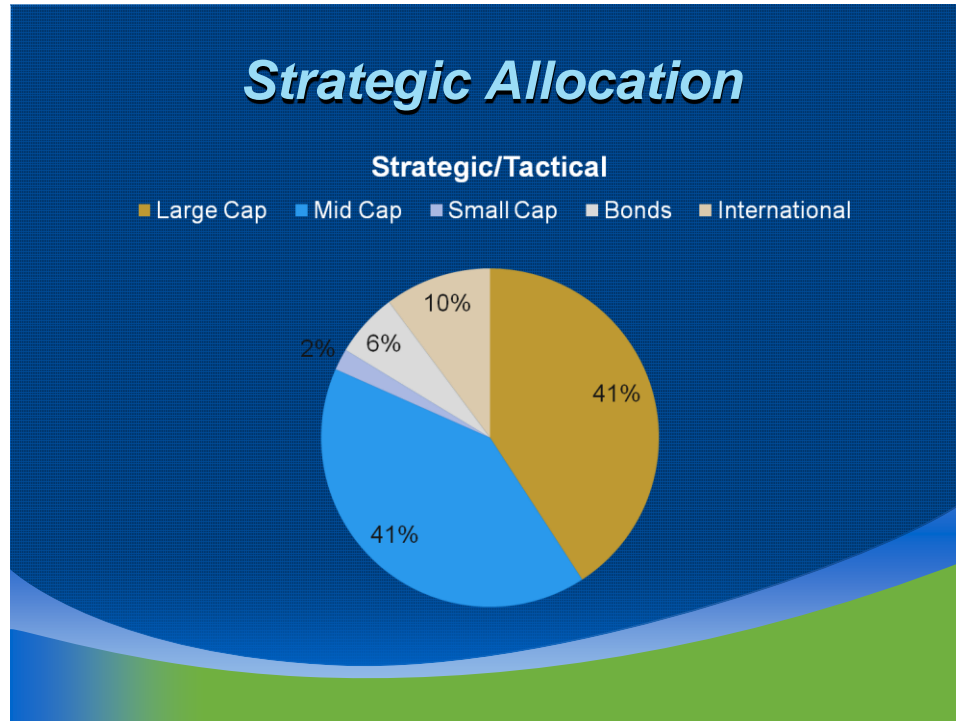
The portfolio may have international positions. The advisor might also have value and growth style asset classes as a part of the mix. In the bond asset, they may be divided into long, mid, and short durations. **Strategic Asset Allocation** involves periodically rebalancing the portfolio in order to maintain a long-term goal for asset allocation.

With **Strategic Asset Allocation**, the model may look like this:



On a periodic basis, the manager or advisor may change the percentages of money that are in the various asset classes based on the belief of what asset class may perform better in the future.

A change in allocation may move the portfolio from the above to this:



While the method of managing money is an improvement, the strategy lacks a sell strategy and keeps the investor almost fully invested in a down market. With no sell strategy, this strategy leaves investors to ride the market up and then ride the market down.

# Dynamic/Tactical Asset Allocation

At Elios Financial Management, we use the **Dynamic/ Tactical Asset Allocation Strategy**. It is the most active of the money management strategies. At the root of this strategy is the belief that there are times to participate in the market and there are times to be out of the market. This strategy believes that at times some asset classes will perform better than other assets classes and that those should be owned in a higher percentage of the portfolio.

**Dynamic/Tactical Asset Allocation** is a moderately active portfolio management strategy, which includes adjustments of investments with respect to short-term goals. Although the basic idea is to diversify investments and limit risks, investment preferences are given to different asset classes with respect to short-term yield predictions.

The **Dynamic/Tactical Asset Allocation Strategy** starts just like a Strategic Asset Allocation Strategy with diversification of portfolio with respect to long-term goals in mind. The investor/portfolio manager then readjusts the investments with different asset classes. If equities are predicted to perform well in the near future, he/she allocates more capital for it; and if bonds are predicted to perform well, then more investments in bonds, and so on. Once the preferred result is obtained, the investor returns to the original allocation ratio desired for long-term goals.

Success with **Dynamic/Tactical Asset Allocation** requires good money management, and ability to interpret and predict short-term trends. Investors consider P/E and P/B ratio of equities, fundamental indicators, various momentum and sentiment signals, and economic predictions in making decisions. The investor/portfolio manager must be keen enough to go back to original ratio, once the short-term profit opportunity is diminished. **Dynamic/Tactical Asset Allocation Strategy**, in theory, can offer better results than Strategic Asset Allocation Strategy; but it also has more risks associated with it.

The basis of the **Dynamic/Tactical Asset Allocation** was not discovered or invented my Discipline Financial Management. This strategy is rooted in what is called "The Elliot Wave" ([www.elliottwave.com](http://www.elliottwave.com)).

The **Elliott Wave Principle** is a detailed description of how financial markets behave. The description reveals that mass psychology swings from pessimism to optimism and back in a natural sequence, creating specific wave patterns in price movements. Each pattern has implications regarding the position of the market within its overall progression, past, present and future.

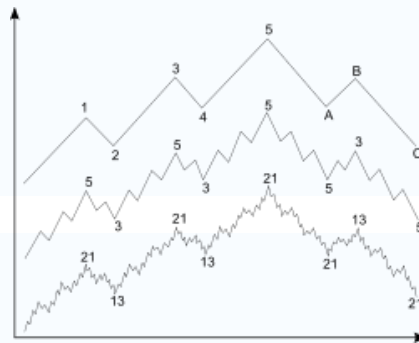
Elliott Wave Analysis is a form of technical analysis and of behavioral economics that attempts to forecast trends by identifying extremes in investor psychology, tops and bottoms in markets, and other collective activities. It is named after Ralph Nelson Elliott (1871–1948), an accountant who developed the concept in the 1930s. He proposed

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that market prices unfold in specific patterns, which practitioners today call Elliott waves. Elliott published his views of market behavior in the book *The Wave Principle* (1938), in a series of articles in *Financial World* magazine in 1939, and most fully in his final major work, *Nature's Laws – The Secret of the Universe* (1946). Elliott argued that because humans are themselves rhythmical, their activities and decisions could be predicted in rhythms, too.

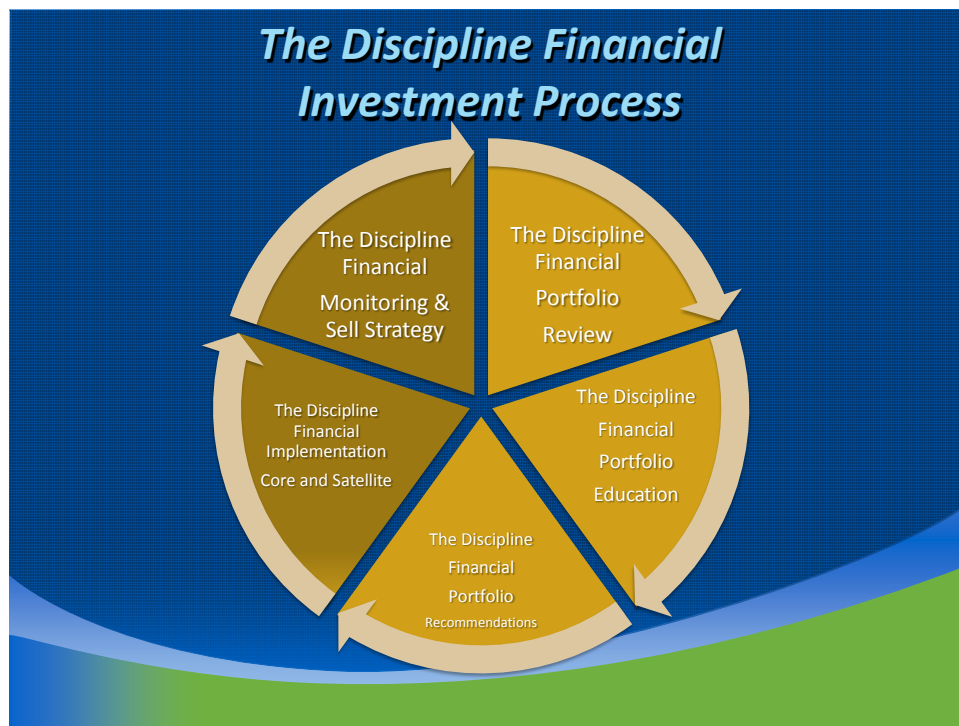
The wave principle posits that collective investor psychology (or crowd psychology) moves from optimism to pessimism and back in a natural sequence creating specific Elliott wave patterns in price movements. These swings create patterns, as evidenced in the price movements of a market at every degree of trend.



From R.N. Elliott's essay, "The Basis of the Wave Principle," October 1940.

Practically all developments which result from (human) socio-economic processes follow a law that causes them to repeat themselves in similar and constantly recurring series of waves of definite number and pattern. R. N. Elliott's model, in *Nature's Law: The Secret of the Universe* says that market prices alternate between five waves and three waves at all degrees within a trend, as the illustration shows. As these waves develop, the larger price patterns unfold in a self-similar fractal geometry. Within the dominant trend, waves 1, 3, and 5 are "motive" waves, and each motive wave itself subdivides in five waves. Waves 2 and 4 are "corrective" waves, and subdivide in three waves. In a bear market the dominant trend is downward, so the pattern is reversed—five waves down and three up. Motive waves always move with the trend, while corrective waves move opposite it.

# The Elios Financial Group Investment Process



At Elios Financial Group, we have developed a unique five step process we call **The Elios Financial Group Investment Process**. We believe that this process can help an investor grow and protect their investment portfolio.

- 1. Portfolio Review**
- 2. Portfolio Education**
- 3. Portfolio Recommendations**
- 4. Implementation: Core and Satellite**
- 5. Monitoring and Selling**

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# The Elios Financial Group Portfolio Review

**The Elios Financial Group Investment Process** begins by a thorough analysis and review of the investor's present investment portfolio. This step explores the current allocation mix, investment philosophy and strategy being used and the strengths and weakness of the current allocation. This step would also analyze any tax or charges that would be incurred if a change was considered.

The investor's investment positions are analyzed using several computer programs that give us and the investor a clear picture of their current investment portfolio.

# The Elios Financial Group Portfolio Education

At Elios Financial Group, we believe the quote said by Will Rogers, "We are all ignorant....just in different subjects." We take the time to educate the investor so that they have an understanding of the investments they are in and the investments we may recommend.

We educate the investor in areas such as:

- Investment Basics
- Investment Fundamentals
- Understanding Exchange Traded Funds
- Understanding Stocks and Bonds
- What is a REIT?
- What are Annuities?
- What are Structured Notes?
- What is an ETF?
- Using Oil and Gas Investments to lower taxes?
- Should Managed Future be in Your Portfolio?

We like to say that we take our clients down the investment cafeteria line and show them the many possible choices we have that may be considered by our clients. Our clients are often surprised by the number of investment tools we offer that their current advisor has never discussed with them.

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# The Elios Financial Group Portfolio Recommendations

Once we are clear on the investor's objectives, time horizon, and risk tolerance, we make recommendations.

We take the time to explain the details, expenses, risk, and opportunities of the investments we recommend. We make sure the client has a good understanding of our philosophy, process, and recommendations.

## The Elios Financial Group Implementation: Core and Satellite

At Elios Financial Group, we have designed several unique investment strategies that are tailored to the client's time horizon, risk tolerance, tax bracket, and preference for mutual funds, exchange traded funds, stocks, bonds, and alternative investments.

Each of these strategies participate in the markets when the trends are moving higher and have a discipline sells strategy when the markets are moving lower.

We look forward to explaining these strategies to you in detail.

***Discipline Financial Investment Strategies***

 **The Discipline Financial ETF/Enhanced Strategy**

- This strategy uses selected Exchange Traded Funds in a diversified portfolio with a discipline sell strategy.

 **The Discipline Financial IBD 100 Stock Strategy**

This strategy uses a portfolio of screened individual stocks with a discipline sell strategy.

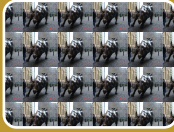
 **The Discipline Financial Multi-Cap Stock Strategy**

- This strategy uses a portfolio of screened individual stocks with a discipline sell strategy.

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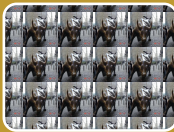
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## *Discipline Financial Investment Strategies*



### The Discipline Financial Bond and Muni Bond Strategy

- This strategy uses selected bond ETF and mutual funds in a diversified portfolio with a discipline sell strategy.



### The Discipline Financial 401(K) Monitoring Strategy

- This strategy assist pre-retirees in managing their 401(k) investment allocations with a discipline sell strategy.



### The Discipline Financial Satellite Investment Strategy

- This strategy uses alternative investments such as REITs, Structured Notes, Variable Annuities, Covered Call Funds, Long-Short Funds, Managed Futures Funds that provide diversified and management of downside risk.

# The Elios Financial Group Monitoring and Selling Strategy

Investors who are looking for a more active money manager ask the questions:

How often do you look at my portfolio?

How are changes made to my portfolio?

How am I notified of these changes?

**The Elios Financial Group Investment Process** looks at your portfolio on a weekly basis. Each Sunday evening our proprietary computer program issues a buy, sell, or hold on all stocks, bonds, mutual funds, and exchanged traded funds help in client accounts.

The trades for the accounts are then executed at the open of the market on Mondays. Investors will not have trades every week, but can be assured that this active approach to portfolio management is monitoring their investment portfolio. When changes are made, the investor will receive a trade confirmation (by email or mail) or they can look at their accounts daily online.

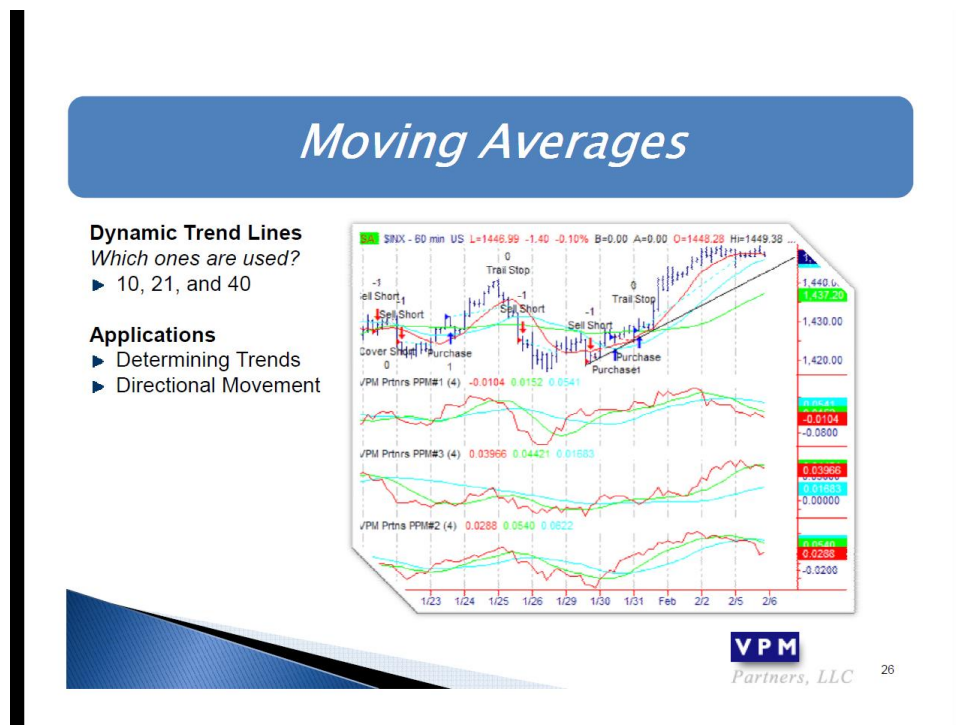
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At Elios Financial Group, we use a unique financial software developed by technical analysis Bob Kendell. Bob has over 30 years experience in the investment world. He worked for Bloomberg research for many years. Bob has developed the software that applies the Elliot Wave theories to computer analytics. It is this software that guides the buys and sells in our managed portfolios.

### How the program works:

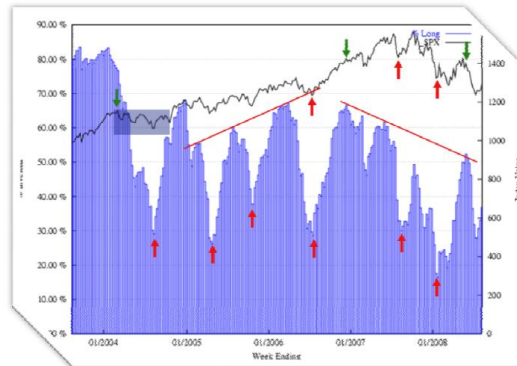
The program analyzes the trends of stocks, bonds, and ETF's. When the position is trending up, the portfolio will hold the positions. When the position peaks and begins to trend down, the position is sold.



At times of up trends the portfolio will be fully invested. At times of bearish market sentiment, the portfolio will increase the cash or defensive positions.

## Bullish Percent

Illustrates VPM's Defensive/Offensive Strategy



VPM

Partners, LLC

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Bob Kendell's software is used by over 600 of the nation's top advisors; with \$35 billion under management using his software.

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# Our Strategy at Elios Financial Group

## **Step #1: Fundamental Research—find good investment ideas**

We start with a review of available asset classes to invest in – this will include stocks, bonds, as well as alternative asset classes including commodities. Within each asset class we search for the investments which represent ‘best in class’ opportunities based on many factors including risk and reward.

We also have a stock model where we search for fundamentally strong companies based on the following criteria: sales growth, operating margin growth, earnings growth, balance sheet strength, free cash flow, return on equity, earning surprises, etc. We screen the entire universe of stocks and develop a list of approximately 30. This way we are sure we have some of the most fundamentally strong companies available.

This step is the same as a typical asset allocation approach. It is the addition of step #2 which sets our strategy apart from most.

## **Step #2: Technical Analysis**

Using investments identified in step #1, we use our technical analysis program to ask a simple question—Is this investment in an uptrend? If the trend is up, the system may issue a buy order—**ADVANCE**. If the trend is down, we are not interested.

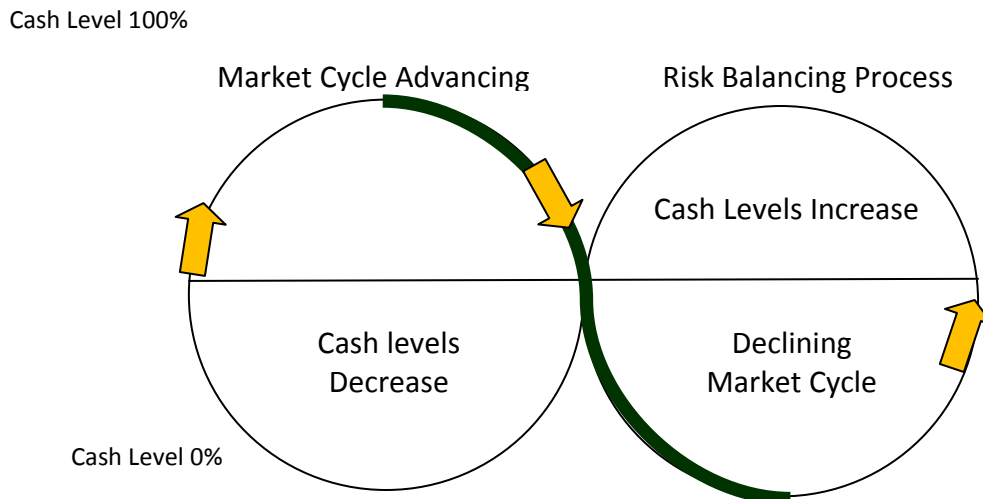
In an up market, it is likely that many of the investments we have selected will be in a confirmed uptrend and we may be heavily invested. In a down market, even the strongest fundamental investments may be in a downtrend and therefore we may own little or nothing. We would likely be mostly in cash, or in preservation mode—**PROTECT**.

In the second half of 2008 and early 2009, wouldn't it have been nice to have a large cash allocation to insulate your money from this bear market?

Imagine if your strategy guided you to avoid much of the tech bubble meltdown of 2000-2002 AND much of the subprime financial crisis of 2008-2009?

## Conclusion:

Buy and Hold generally is a good strategy when markets are going up, but it can be painful to “hold” when the markets are going down. Where are the markets headed next? While nobody knows for sure, it makes sense to employ a strategy that may be able to take advantage of any market environment. A more active approach which begins with investing in fundamentally strong investments only in an uptrend may be an approach for any market condition. Of course, in environments like last year, if there are no uptrends to be seen, a prudent action may be to “get off the tracks,” hold cash, and wait patiently for the next uptrend to begin.



## Call to Action:

Through a diversified portfolio and a discipline sell strategy, we believe that we can help clients reach their financial goals. At Elios Financial Group, we look forward to meeting you and showing how we can become your financial advisor of choice.

If you are questioning the strategy that you or your existing advisor are implementing, please contact Elios Financial Group at 440-617-9100 or go to [www.eliosfinancial.com](http://www.eliosfinancial.com).

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly. There is no guarantee that the strategies discussed in this article will yield positive results.

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## Steps to Check FINRA Registration

One of the most frequent questions advisors get asked today surrounds the integrity of the advisor handling their money.

Your financial advisor is very important. The typical approach is to ask the advisor for references. The reality is not many advisors would put a name on their list who would say something bad about them. The integrity of advisors must be checked beyond the references.

One of the key points to remember with your investments accounts is to never let the advisor be both the custodian of the money and the investment advisor. The custodian for the money at Elios Financial Group is LPL Financial.

The advisors at Elios Financial Group serve in the role of investment advisor and do not have client money in their positions. The separation of the role of advisor and custodian assure that a scheme like Bernie Madoff cannot happen.

The way to check to see if an advisor is a registered representative with the Financial Industry Regulatory Authority (FINRA) is to go online and do research on the advisor. This will allow you to see if the advisor has had complaints or mishandled situations with investment clients in the past. You will need to know the advisor's full name and/or their CRD number.

The steps are these:

1. Go to: <http://brokercheck.finra.org/Search/Search.aspx>
2. Type in the name of the advisor and select "Broker"
3. Click "Start Search"
4. From this page you can view information
5. To get a detailed report, click "Detailed Report" on the right hand side of the page