

Insight

Transparency and Your Portfolio

Keeping up with the investments
you own and why you own them

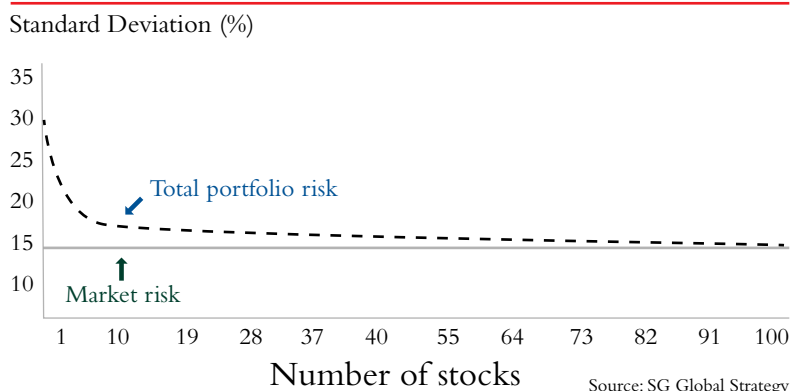
“To suppose that safety-first consists in having a small gamble in a large number of different companies where I have no information to reach a good judgment, as compared to a substantial stake in a company where one’s information is adequate, strikes me as a travesty of investment policy.”

– John Maynard Keynes

If there has ever been a time to know what investments you own and why you own them, it’s now. The recent quarters of market volatility make a compelling argument to maximize the transparency, and therefore understanding, of your investment portfolio. Certain investment vehicles that outsource the portfolio management beyond a dedicated Portfolio Manager have the potential to create distance between investors and the individual ultimately responsible for the execution of your investment strategy. The anxiety that many investors feel from significant losses in their portfolios is only compounded by confusion about what to do about it or what *is* being done about it by the manager. This begs the question: How well do you know the strategy behind portfolio holdings and security selection? In other words, what investments do you own and why do you own them?

The answer to this question is a key element in improving the transparency of your investment portfolio. Diversification is a critical tenet of investing, but there are differences between effective diversification and overdiversification. Boston Private Bank

Diversification: total portfolio risk as a function of number of stocks held



allocates client assets across a range of asset classes and industry sectors using individual securities. Typical accounts maintain a range of approximately 35 to 45 holdings of securities that have been identified by the Portfolio Manager, discussed with the Investment Policy Committee members and then considered for client portfolios. The chart above demonstrates the correlation between the number of stocks in a portfolio and the standard deviation of the portfolio. Total portfolio risk begins to flatten out after about 30 holdings. Thus, a case can be made that diversification becomes incrementally less valuable above 30 to 40 holdings.

Take, for example, a security that has changed in value one way or the other. Your manager evaluates the reason for the change, discerns whether there has been a fundamental change in the underlying security and takes action if necessary. Maybe no action is needed if the rationale behind the original purchase still stands. At a minimum, at the end of the analysis, an investor will have a clear action plan for his or her holdings that should offer a degree of comfort in an otherwise uncomfortable market environment.

It requires constant diligence to monitor a portfolio of a few dozen securities, let alone certain complex investment structures, which can hold as many as hundreds of securities in *each* portfolio. In today’s environment, investors may want to consider a portfolio constructed with a manageable number of holdings that can be examined in detail, security by security, while avoiding the dilutive effects of overdiversification.

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UNDERSTANDING THE EMOTION OF Money

In his superb “The Ascent of Money,” Niall Ferguson speaks of the vacillation between greed and fear, which have created bubbles and panics over the past few centuries. Everyone wants to get on board with a winner and not be left out, and no one wants to ride with a loser. Ferguson admittedly has the benefit of hindsight analysis, something we are not able to apply in today’s volatile climate. However, we do know that emotion is a major factor – perhaps the single most important factor – in human beings’ decision processes. It would be disingenuous to deny the potential of emotion in making investment decisions that, ultimately, are made by human beings one way or another.

Academia has recognized the emotional component of investment decision making by developing a new area of study called behavioral finance, roughly the child of psychology and economics. At Boston Private Bank, we are more than conversant in that field. We find that being aware of the subtle ways emotions can affect investment decisions reminds us when we may be prone to stray. We know to stay close to the analytic methodology that has served our clients well over the long term.

Making better investment decisions requires recognizing emotional biases that exist naturally. With that understanding, and buoyed by client confidence and trust, we use emotions advantageously when balancing short-term metrics and long-term trends to create appropriate strategies.



Robert Quinn, CFP®, CFA, Senior Vice President, Boston Private Bank & Trust (right), and Arnold Wood, President and CEO, Martingale Asset Management, gave a presentation at the Bank on “The Emotion of Money” to many of our dedicated clients and referral sources. This was just one of various Speakers Series events conducted by the Bank.

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David Glen Designated Certified Financial Planner

We are pleased to announce that David Glen, CFA, a Senior Vice President and Portfolio Manager at Boston Private Bank, recently passed the CFP® certification examination. This exam, administered by the Certified Financial Planner Board of Standards Inc., focuses on over 100 topics relating to the financial planning field, such as income tax, retirement, and estate and investment planning. “I think of myself as a financial advisor to our clients, not just an asset manager,” says Dave with a smile. “Passing the rigorous 12-hour exam allows me to use the CFP® designation in my daily work. The CFP® is another way of communicating my commitment to providing comprehensive investment services and planning techniques to our clients.”

David has been in the investment business since 1982, managing individual and institutional accounts and conducting investment research and economic analysis. He works with his clients to gather a comprehensive understanding of their long-term requirements and is dedicated to assisting individuals and their families with expert advice to build and protect their wealth.



David discussing market trends with fellow Investment Policy Committee members.

At Boston Private Bank, we have 14 portfolio managers, many of whom have earned advanced degrees in business, law and finance as well as the CFA and CFP® designations. The average tenure of our portfolio managers at Boston Private Bank is greater than 10 years.

MATT REMIS
NAMED CO-CHAIR OF

Children's Hospital Boston Benefit

Matt Remis was appointed the 2009 Co-Chair for the Fore the Kids Golf Tournament, benefiting Children's Hospital Boston since 2003. All funds raised through the Tournament go to the Children's Fund, which supports the greatest areas of need within the hospital. At Children's Hospital Boston, children receive care they cannot get anywhere else, doctors create lifesaving technologies, at-risk kids get the help they need to thrive, and the staff finds new ways to improve the lives of children.

Matt has been involved with this Tournament for the past four years, since his oldest daughter was a patient of the cardiac group. The tournament has netted more than \$100,000 each of the last two years.

Matt is Vice President of Investment Management and Trust at the Bank and is responsible for creating investment strategies and wealth-generating opportunities for clients.



Emma and Abigail – Abigail (right) was a patient at Boston Children's Hospital in the cardiac group.

Dr. Steven Gardner Photo Exhibit

Boston Private Bank & Trust Company was pleased to display the renowned work and photography of Dr. Steven Gardner in the Bank's Ten Post Office Square Gallery Alcove. Dr. Gardner, a physician at Massachusetts General Hospital, is an award-winning photographer. He has created a photographic essay on the compassion and resilience of individuals, ranging from the medical staff and patients at Massachusetts General Hospital to others outside the physical walls of a hospital. "The photos are to remind people that what they are doing is a calling – not just a job," says Dr. Gardner. "Showing these images reminds caregivers that their work is really quite special and powerful to the patients they are serving."



An example of award-winning photographer Dr. Steven Gardner's work.

Dr. Gardner's artistic inspiration came from his son, Graham, who has cerebral palsy, and from the friends and counselors at Camp Jabberwocky on Martha's Vineyard, where Graham has spent the past 12 summers. Dr. Gardner volunteers at the camp and has found it to be a rich source of material for his photographic essay. It was there that the idea of the photographic essay project took shape.

So inspiring are the photographs that in 2006, Massachusetts General Hospital awarded Dr. Gardner the MGH Kendall Fellowship for Primary Care to pursue the project at the hospital. Over a 12-week period, Dr. Gardner gathered images from all corners of the hospital that helped to capture the compassion and resilience that is the core of any patient-caregiver relationship. The Bank was fortunate to have Dr. Gardner present his work to our clients and friends of the Bank. More than 30 of his photographs were displayed in the Boston Private Bank & Trust Gallery Alcove.

Our clients depend

on our ability to create and implement
exemplary financial strategies.

At Boston Private
Bank & Trust

Company, our goal
is to help our clients
plan for their future

and to deliver services that result in complete
client satisfaction via high touch personal service.



We believe that our team of investment professionals possesses the expertise and capabilities to execute our mission. If you would like to learn more about our customized approach to securing your financial future, please contact Jay Henderson at **617.912.1928** or at jhenderson@bostonprivatebank.com.

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