

## **=DJ TIP SHEET: Good Harbor Managers Make The Case For Defense**

By Ann Keeton of DOW JONES NEWSWIRES

CHICAGO (Dow Jones)--Good Harbor Financial, which invests for privately managed accounts, reported returns up 40.8% at the end of August, compared with a 14.97% gain for the S&P 500 stock index, according to the company.

But what's really catching the eye of investors is Good Harbor's ability, since it started in 2003, to keep losses to a minimum when the stock market turns sour.

Last year, Good Harbor investors earned 2.1%, compared with a 37% drop for the S&P 500.

Money managers Neil Peplinski and Paul Ingersoll, also partners in Good Harbor's parent company, Cedar Capital Advisors, Chicago, work with a number of private accounts and some hedge fund partners.

Both managers are MBA graduates of the University of Chicago business school. They base their investing strategy on a data-driven plan initially crafted by Peplinski to manage his own retirement account. An electromagnetic engineer, Peplinski invests using complex mathematical formulas, gleaned from studying a century of market information.

The Good Harbor investment theory rules out some common investment ideas. First, it says, don't buy and hold stocks. Over the long term, equity holdings just tread water, Peplinski said. "Portfolio managers can sell a few losing stocks and then say 'my fund beat the market. I was only down 35% when the market fell 37%.'" But, over the long haul, investors can't recover from big losses, according to Good Harbor.

As well, Good Harbor doesn't believe in stock-picking. "It's too hard to get right," Ingersoll said. "A competitor can come along with a better invention, or the CFO can run away with the company's money."

What's key for the fund is to gauge market momentum by tracking bond yield curves and stock prices. When the stock market is healthy, Good Harbor buys equity products that capture that momentum. But, if stock prices start falling, the money managers move quickly into bonds to minimize losses. The managers watch for early market signals and make decisive moves to stay in tune with momentum, Peplinski said. "Our moves tend to be chunky." The fund is rebalanced each month, often shifting between stocks and bonds by 25% or more.

Making changes every month is paramount, Peplinski said. Funds that adjust their holdings on a quarterly basis, or even annually, can't move fast enough to protect themselves from market swings.

Good Harbor does not invest in individual stocks and bonds, but in indexed mutual funds, and increasingly, exchange-traded funds, or ETFs. "A lot of fund managers wanted to get out of stocks in October, but they couldn't sell fast enough" when holding individual stocks, Peplinski said. Rather than choosing sectors, the fund invests in large-cap and small-cap stock indexes. They cover the market using the Russell 2000, S&P Midcap 400 and S&P 500 indexes. Bond investments include mutual funds or ETFs with maturities of five years or 10 years.

Currently, "we remain cautiously bullish. We've been 100% equities since April and we remain so today. If stocks weaken in the next two weeks, we won't hesitate to move to bonds at the end of the month," Peplinski said. That's a sharp contrast to a year ago. "In October of last year, we moved out of equities for the rest of the year."

Good Harbor has no investments in international stocks. But the managers are working on an investment model for South Korea that would mirror its U.S. plan. Down the road, Peplinski believes, "We have a strategy that can work in Korea, and Asia and Europe."

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