



The Present and Future of Investing - Part 2:

Illusory Superiority

In the field of social psychology, there is a phenomenon known as Illusory superiority. The premise is – people inaccurately measure their own abilities against their peer group and usually in an artificially inflated way. An example is the classic 1977 study which reported that 94% of college professors surveyed think they are above-average at their profession. Or, an easier survey to conduct yourself, 85% of men think they are above-average looking.

In the investment business, Illusory superiority is common. To break this cycle and truly understand your place in the pecking order you must (i) be able to mathematically define your returns and (ii) be able to compare those returns to other managers and benchmarks.

The investment business has a gold standard for measuring performance – it is called GIPS (Global Investment Performance Standards) compliance. This measure was pioneered by The CFA institute in an effort to create a stringent set of accounting methods for calculating investment performance. The GIPS process is costly and exhaustive, but results in quantifying a Company's performance beyond reproach. We are proud to have undertaken the task of being a GIPS-compliant firm.

Serious investors should be suspect of any non-GIPS audited returns as they can vary widely from actual performance. While GIPS compliance is not a prerequisite of firms focused on private clients, we believe it is a vital piece of information to accurately weigh the quality of an investment manager.

At Lear Investment Management ("LIM"), we have endeavored to report our returns in their entirety (cash, fixed income and stocks). In an environment where the majority of managers cannot or will not report their returns, it is rare to see a firm account for total performance of all assets invested. Rarer still is the firm that aggregates the returns of all clients (of similar risk) of the firm in a composite and publishes them monthly like LIM.

Having established that we can mathematically report our performance, we then have a basis to determine our effectiveness in delivering returns for a controlled amount of risk.



We look to Morningstar¹, an independent third-party mutual fund tracking company, for averages of performance data to serve as a barometer of our performance. Although we are NOT a mutual fund and our strategy is expressed in separately managed accounts, our best comparison is to the largest composite of GIPS-compliant managers through the Morningstar Mutual Fund tracking data.

The Morningstar fund category most similar to our philosophy is the tactical asset allocation fund category. The average return for the +200 funds in this category for 2017 (ending May 15, 2017) was 4.5%. This compares to our 9.0% return after fees. The average return for the category for the past 12 months is 10%, while LIM posted 16%.

Furthermore, our returns rank in the top 10 of the +200 managers over both time periods.

Is Lear Investment Management a Hedge Fund or a Wealth Manager?

We get this question often and understand why. LIM is a new brand of investor that takes best qualities from various investing models of the past. We are an innovator in the industry and are not a hedge fund or just a wealth manager.

We do NOT hold assets in a separate legal entity like a hedge fund, thus assets are not invested in a Limited Partnership and there are no lock-up periods or large taxable annual distributions. All of our portfolios are fully transparent, customized, liquid and held in your name in a separate account. Also, we do NOT charge a 2% management fee and 20% of the profit incentive fee like hedge funds.

We ARE like a hedge fund in that we focus on research, returns and risk. We are research-focused, unlike wealth managers who often focus on financial planning, bill paying, doing your taxes and selling insurance.

Given the similarities to the positive aspects of the hedge funds, we also look at the hedge fund universe for comparison. We looked to the Barclays Hedge Fund Index first². The return of the index was 3.7% for the first 4 months of the year and 6.1% for 2016. Our return comfortably surpassed this index for both time periods.

¹morningstar.com

²barclayhedge.com/research/indices/ghs/Hedge_Fund_Index.html



As we have established in our previous note, we believe that returns matter and through this piece we hope you can appreciate our dedication to providing mathematical transparency of our performance and how your returns rank in the grand scheme of things. We strive to transform Illusory superiority to actual investment superiority through this process

IN OUR NEXT NOTE WE WILL ADDRESS HOW WE HAVE GAINED AN INVESTMENT EDGE WITH THE FOUR FOUNDING PRINCIPLES OF THE FIRM. WE WILL ALSO DEMONSTRATE WITH OUR HISTORICAL RESEARCH CALLS HOW PERFORMANCE IS GENERATED BY RESEARCH AND THEME IDENTIFICATION.

LIM claims compliance with the Global Investment Performance Standards (GIPS®). LIM has not been independently verified.

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Composite Name	Year	Firm Assets Under Mgmt [^]	Composite Assets	% of Firm Assets	# of Accounts	Gross of Fees	Net of Fees	Benchmark	Dispersion
LIM Composite	2017*	\$90,454,861	\$82,232,314	90.9%	80	9.6%	9.0%	5.5%	
LIM Composite	2016	\$80,902,422	\$60,233,652	74.5%	32	8.4%	7.3%	4.5%	2.3%
LIM Composite	2015**	\$77,587,731	\$76,415,938	98.5%	52	-2.7%	-3.6%	-1.8%	1.4% ***

* Composite and benchmark performance are for the period 1/1/2017 through 5/15/2017

** Composite and benchmark performance are for the period 2/2/2015 through 12/31/2015

*** Dispersion was calculated using partial year data

[^] Total does not include assets under sub-advisory

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Firm Information: LIM is a Registered Investment Advisor based in Dallas, Texas and registered with the State of Texas. Registration does not imply a certain level of skills or training. LIM is a company with purpose, dedicated to creative and unique thinking. We focus on portfolio valuation and research, along with a superior client experience. We seek to identify investment opportunities by looking at economic factors, security valuation and human behavior. We start with the fundamentals of portfolio management and valuation. Then we build on these fundamentals with unique thinking and creative intelligence-gathering to form a viable investment thesis. We believe this approach leads to dynamic global portfolios with increased return and managed risk. LIM utilizes Charles Schwab & Co. Inc ("Schwab"), a FINRA-registered broker-dealer, member SIPC, as its custodian of assets. LIM is independently owned and operated and not affiliated with Schwab.

Composite Characteristics: The LIM Global Vigilance Composite is a collection of separate accounts managed by LIM. Currently the composite holds approximately 60% equities, 35% fixed income and 5% money market. The composite is tracked by Black Diamond (an Advent company). The composite is \$82 million of total assets and made up of 80 accounts. These are actual clients of the firm and are all managed by the Lear Investment Management portfolio management team. The strategy is global (US and abroad) equities, fixed income, and cash - depending on market conditions. The composite reinvests dividends. Individual account performance will differ. Past performance is not indicative of future results. The composite was created on February 2, 2015. The composite includes accounts over \$100,000, one to three months after inception (depending on how the assets were received). The firm's list of composite descriptions is available upon request.

Calculation Methodology: Composite returns are calculated by asset-weighting the individual portfolio returns using beginning-of-period values. Composite returns are calculated on a daily basis and geometrically linked to calculate the monthly return. Cash flow timing method, contributions are recorded at the beginning of the day (AM) and distributions are recorded at the end of the day (PM). LIM may use leverage up to 150% of the portfolio net assets as part of investment strategy. Derivatives are not used. Depending on the conditions in the financial markets, the firm may utilize options to hedge entire portfolios or a specific security within a portfolio. LIM calculates the asset weighted standard deviation of the annual gross returns for composites that have six or more portfolios in the composite for the entire year using Black Diamond. LIM's policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2015 through 2017 due to less than 36 months of composite and benchmark data.

Benchmark: The customized Composite Benchmark is currently 50% Bloomberg Barclays Aggregate Bond Index & 50% FTSE Global Equity All-World, calculated monthly.

Net-of-fee Performance: Net-of-fee performance shown is calculated by Black Diamond (an Advent Company) and reflects the deduction of actual management fees charged by LIM and any applicable trade fees charged by Charles Schwab. Valuations and performance are computed in US dollars, and individual portfolios are revalued daily.

Fee Schedule: For Private Client: 1.00% on the first \$10 million of assets under management. 0.90% on assets from \$10 million to \$30 million and 0.80% on assets of \$30,000,001 or more. Institutional Clients' fee schedule may vary.