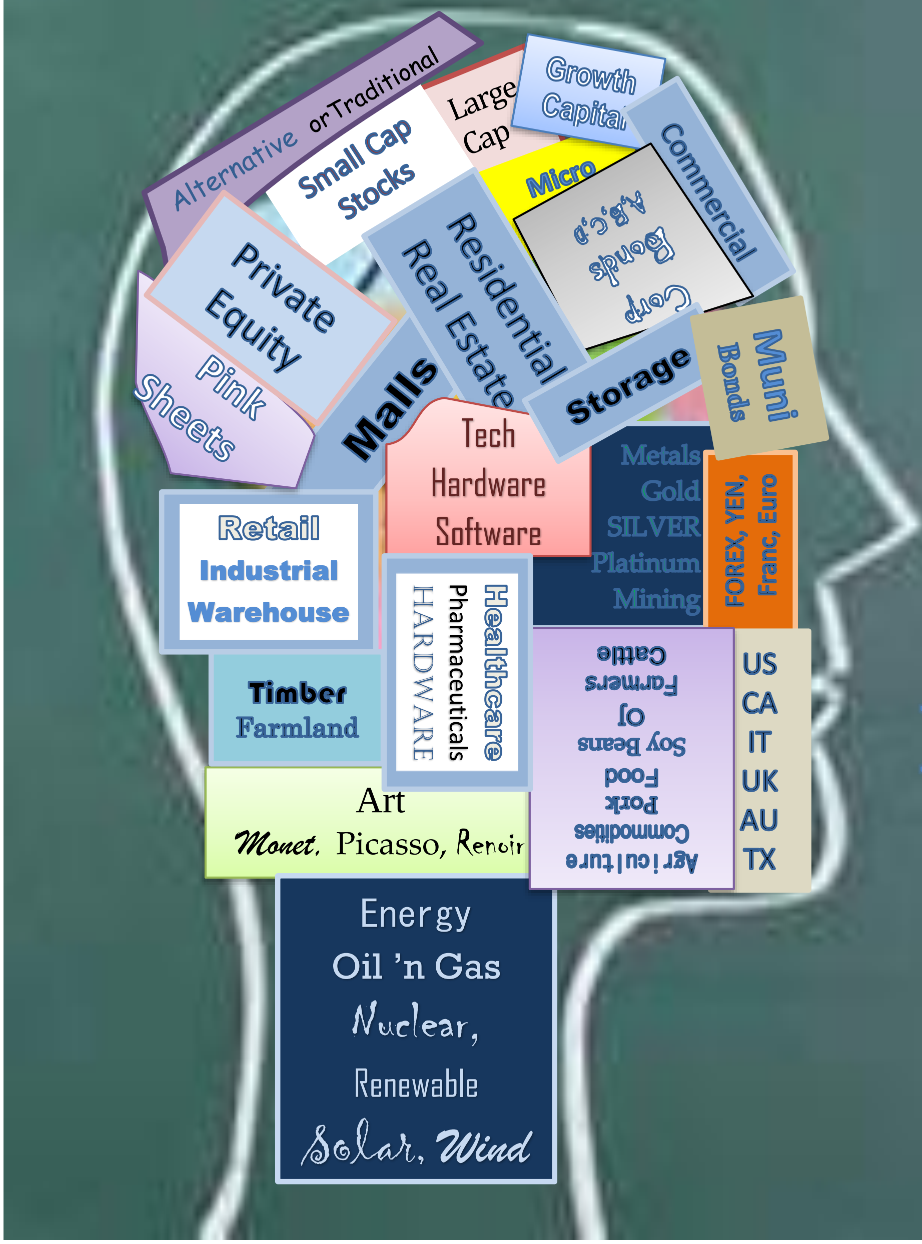

What Is Your Personal Investment Philosophy ??

Custom Private Equity Manages Assets Highlighted in BLUE On The Above Diagram.

Custom Private Equity

Custom Private Equity 558 Amble Avenue Abilene, Texas 79601 325-665-7818

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Personal Investment Philosophy
Your PIP

Nothing, and I mean NOTHING, is more disappointing than to be an investor or know an investor who made a long term (or short term) financial commitment that had no meaning to him/her. It is just as bad to hear an investor talk about an investment s/he should have never entered in the first place.

We call this the "What Was I Thinking" syndrome. It is the time when you ask yourself, *what in the world was I thinking when I made that decision*?

Sometimes a money losing investment can be an educational experience that sets you up for grand success. For example, drilling a dry hole that leads to the discovery of the East Texas Field or Fred Smith failing several times to start Federal Express, then finally getting it right. His decisions were not wrong and he does not look back on them with regret. They were the right decisions at the time…well, maybe not for Fred's first, second or third round investors, but overall, they were the right decisions for the time.

What is your Personal Investment Philosophy? Your PIP? A personal investment philosophy is YOUR PERONAL WISHES, DREAMS and PERSONALITY TRAITS that guide what types of investments you seek out and join. Institutional investors call this an "Investment Criteria" or "Investment Mandate" and put it in writing. Although they probably should, individual investors rarely do write it down, because it is individual to each person and it frequently changes, sometimes daily.

Examples of a Personal Investment Philosophy:

I have known hundreds of investors in my life that would never invest a dime outside Manhattan. They know it, they like it and every time they step out of Manhattan, they lose money.

I know many people that would never place a dime in the drilling of an oil well. On the other hand, I know an equal number of people who would not invest in anything else but the drilling and production of oil and natural gas. People have widely varying PIP's.

Personal Investment Philosophy's are what make the world of investing work. The second owner of a hotel often pays to much for a property, frequently fails and deems the property a dog after foreclosure. The third owner, usually buys the hotel for a good price and makes significant profits owning the property, believing it is one of the best investments s/he has ever made. Two different views of the same asset. One believes it to be a dog, the other the best.

It is imperative for your happiness and well-being that you understand what type of investor you are, what your likes and dislikes are and what is your true tolerance for risk.

Investments are all different. It is rare that you will find an investor who likes every type of investment. Investors need to be well suited to the investments they make.

It is our personal philosophy that the public markets in the US have become so corrupt, management has become entirely too greedy and reporting is so lax that we only use public stocks and bonds as a tool to exit or hedge our hard asset, cashflow investments.

If you make an investment that is outside your Personal Investment Philosophy, several things will happen over time.

- *First:* If the investment does not suit your personality, you will lose interest, regardless of how much money it makes.
- *Second:* If the investment does not suit your PIP and begins to have trouble, you will become very unhappy, very soon, resenting the extra time required to "work out" the investment.
- *Third:* If you invest outside your PIP and the investment fails, you will generate a personal negative bias towards that investment style very quickly.

I once new a wealthy investor who made his money selling vacuum cleaners through mail order. In fact, this 70 year old gentleman made millions shipping vacuum cleaners around the globe, one at a time. One day he asked me, why do you drill oil wells? My answer, *"generally, because they make my partners money, which in turn makes me money*". He then stated that he had lost $10,000 in an oil deal once when he was 25 years old and he would never invest another dime in the oil and gas business. At the age of 70, with a fortune in his pocket, this nice man had totally closed his mind to a significant sector of the investment marketplace over a $10,000 investment made 50 years earlier.

On the other hand, there are bad investment outside your PIP and there are bad investments that fall within your PIP.

Let me explain.

If an investor makes an investment that does not work out, either losing money or making marginal returns, but it fit within their investment universe of understanding (their PIP) and they understand why it failed, then the investment was not a "failure" so much as it was a learning experience.

Thomas Edison failed many times before he created the light bulb, but he did not view the attempts as failures, he viewed them as the way not to make a light bulb. This is the way you should approach an investment that does not make money as first planned.

On the other hand, if an investor puts capital in a program that does not work, the program was outside the investors sphere of understanding and all the investor was after were the promised returns, when the investment fails, that investor is going to be truly unhappy.

In the late 1960's, my father and I wrote many times about the different philosophies of investing.

To succeed in investing, you need to establish your do's and don'ts regarding how you will manage your money, what investment stance you will assume, what you will invest in, what makes you happy and what you do not wish to support with your capital. This personal "Philosophy" will take a while to develop and will change many times throughout your life.

In the late 1960's, my father and I wrote many times about the different philosophies of investing including: stocks -vs- bonds -vs- real asset investing, cash-flow investing, value investing, technical analysis, public -vs- private investing and many others.

Different types of investment stances include:

Value Investing: Researching the market for undervalued assets in the form of stocks, bonds or private assets. Of course, value is a relative term as value is viewed differently for each individual person. One investor viewed Secretariat as a lazy, small, good for nothing horse, but the owners who took him through the Triple Crown saw greatness.

Fundamental Investing: Researching the fundamental value of an idea or company including gray areas like: market sector, market position, good-will, management philosophy and other items of speculative value. The Fundamental analyst looks at the investment related to the market.

Growth Investing: Researching and investing in companies or ideas that have potential to grow into the future. Once the President of IBM made a public statement that he saw the global demand for the Personal Computer to be ONE. Boy was he ever wrong.

Socially-Responsible Investing: Also known as Moral Investing. This is a very tricky area of discussion. On the one hand, you have a highly religious Christian who would never invest in an immoral company (say, a casino owner), then you have another Christian investor who owns nothing but casino's. Being socially responsible is a difficult path for most investors.

Technical Investing: This form of investment uses market trends and past market data to make investing decisions. Technical analysis attempts to find signals as to when a market is going to change direction from up to down, or vice-versa. Technical analysis uses past data to attempt to forecast the future direction of asset values including hard assets.

Contrarian Investing: In general, a contrarian investor is someone who believes that the herd of investors is always wrong and will invest their capital in the opposite direction of the majority of investors.

There are many helpful guides to assist you to uncover your true PIP. To begin, you need to look at your wants, needs and requirements as an investor. You need to thoughtfully consider questions like:

- Do I need cash in your pocket today, or do you have a longer range vision for your investments?
- Does losing money cause me a hardship or to lose sleep?
- What type of risk would I be comfortable with?
- Do I understand the difference types of risk?
- Do I have the skill and knowledge to understand what the risks mean?
- Do I know what I don't know? Investment professional help greatly here!
- Do I like to visit my assets and ask questions of the manager or do I like to receive monthly statements showing how much I have invested in each company?
- How much money do I need to earn?
- Do I like to invest in multi-billion dollar corporations where I am nobody, or do I like to drive down the street and say, "I own a share of that building"?
- Do I understand all the risks that surround investing in US Treasury Bills or Corporate Bonds or the Stock Market vs an apartment building?
- Do I like lending money in the form of Bonds or private loans?
- Would I ever borrow money to make an investment?
- Do I have time to manage my portfolio or do I need professional help?
- How do I feel about paying taxes? Do I want to focus on tax advantaged investments or ordinary income?
- What types of assets do I like? Real Estate? Stocks? Bonds? Energy? Oil & Gas? Commodities? Art? Food? Cattle? Technology? Medical Devices?
- What does an adequate Asset Allocation look like for someone with my type of capital to invest?
- Am I a value investor who like to purchase assets with intrinsic value?
- Do I want to invest close to home, or in emerging markets around the world?
- Do I want to manage my assets, or hire a manager to report to me?
- Do I need daily access to my money or are long term investments OK?

A knowledgeable investment manager will ask you these and many other questions while you are getting acquainted. It is imperative that you answer honestly and discuss the answers thoroughly so the investment manager can understand your

Personal Investment Philosophy!

Your answers to these and many other questions will be an eye opening experience for you. Frequently we interview partners as we work on their asset allocation, wants and needs and we find that they are public stock investors and treasury bill investors because they have to have their money available tomorrow.

Facts like this will be uncovered as your investment manager learns more about your wants and needs.

Your PIP will change over time. Many times, it will change daily or weekly. It will change as markets change.

The best asset managers are people who have analyzed thousands of options, they keep abreast of the various markets, continually analyze opportunities, routinely participate in investments, keep abreast of market sentiment, asset allocations of their partners and keep a wary eye out for potential problems that might be coming in the near and distant future.

MORAL

Visit your PIP often,

Re-adjust your attitudes as needed,

Seek professional help.

Paul Anthony Thomas is the owner of Custom Private Equity with portfolio companies managing private capital in:

- oil and gas production,
- Texas commercial real estate,
- Hard assets that cash-flow,
- Venture capital and
- Growth Capital.

PO Box 2677, Abilene, Texas 79604 Cell: 325-665-7818