



Cultivating  
relationships  
for over

**30**  
Years

Since 1984

**VALICENTI ADVISORY  
SERVICES, INC.**

400 East Water Street  
Elmira, NY 14901  
**607-734-2665**  
Fax: 607-734-6845

447 East Water Street  
Elmira, NY 14901  
**607-733-9022**  
Fax: 607-734-6157

24 West Market Street  
Corning, NY 14830  
**607-936-1203**  
Fax: 607-936-0213

[www.valicenti.com](http://www.valicenti.com)

Asset management  
as individual as you

*An on-line publication by  
The Investment Committee*

## Due Diligence, Even When You Own Everything

Choices can always be challenging: Do I want chocolate or vanilla? What's for supper? What do I want to do in retirement? As the options increase for each decision, the difficulty of making that decision increases. In your investment portfolio, there are millions of allocations, companies, and strategies to choose from. With only a limited amount of capital, you must deploy your assets to make the best risk-adjusted return for your situation. A crux in Modern Portfolio Theory is that diversifying your investments greatly increases your risk-adjusted return. Those investments that perform poorly are held up by the assets that perform well. In netting the two, your assumption is that the wins will outweigh the losses and your portfolio will grow, and risks are minimized if your strategy is wrong. This is contrasted with a highly concentrated portfolio that could receive devastating losses if any idiosyncratic shocks occur. Paired with due diligence and thorough research, achieving diversity with a lot of capital is possible, but for smaller accounts, the ability to effectively diversify a portfolio is difficult. Originally, mutual funds could accomplish this task (and still do), but increasingly popular products, known as exchange-traded funds (ETFs), are now widely available to help investors reach diversification goals. Like any choice though, there are pros and cons to deploying ETFs in your portfolio.

ETFs trade on an exchange like any common stock. Rather than being a company though, an ETF holds various investments that you can gain exposure to with less cost. Take, for example, the ETF "SCHX" (Schwab US Large Cap) that currently costs just over \$57 per share. The SCHX has the following investments: 3.4% in Apple, 2.3% in Microsoft, 2.3% in Alphabet (Google), 1.6% in Amazon and many more. Just one share of each of these companies would cost more than \$2,000, which may be more than your portfolio can handle in these names. Additionally, ETFs can be designed to fit specific strategies, such as the Sector ETF "XLE", which invests only in energy stocks. Therefore, part of a portfolio could easily be invested in a macroeconomic theme versus individual companies.

However, like any other choice, there are risks when investing in ETFs. When screening for an ETF, the allocations must meet the fund prospectus, which outlines the ETF's strategy, and the ETF must be liquid. When an ETF strays from its investment objectives, known as style drift, it can negatively impact a portfolio in a way the investor didn't expect. With the proliferation of ETFs, many are released and are only held by a small share of investors, thus reducing liquidity. An ETF should be actively traded so one has the ability to buy and sell the position as they need. Additionally, the assets held by an ETF should be actively traded or the Net Asset Value (NAV) and value of the ETF can become skewed, causing dramatic swings in price for no fundamental reason. Finally, there is some concern that as passive investments become more predominately held, share prices could move from their fundamentals and become more heavily priced by demand for various themes.

These investment tools must be researched before investing like any other asset. By increasing diversification with an ETF managed by another company, one may additionally take risks like drift and having allocations in undesirable companies. However, this newly blossoming industry of ETF products is competing against a multi-trillion dollar mutual fund model and the Bull and Bear will fight to see which is more desirable to future investors.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc., VASI), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from VASI. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. VASI is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the VASI's current written disclosure statement discussing our advisory services and fees is available for review upon request. Please Note: Fee-Based services. VASI provides investment advisory services on a fee basis. VASI does not receive any transaction/commission-based compensation for its investment advisory services. Rather, its only compensation is derived from fees paid to it by its clients as discussed on Part 2A of its written disclosure statement. However, because VASI is now affiliated with Valicenti Insurance, a NY insurance agency that is licensed to offer insurance products on a commission compensation basis, then VASI cannot hold itself out as a "fee-only" advisory firm.