

# GURUN*Report*

*A timely message from GURUN INVESTMENT ADVISORS, INC. for its valued clients*

## How Our Firm Manages Risk

Risk is an important decision-making component and must be intelligently managed. Investing in the stock market introduces two broadly defined sets of risk: systematic and unsystematic risk.

Systematic Risk refers to how a security's total return is directly affected by overall movements in the stock market. If the system (stock market) declines most stocks will lose value. Owning investments in other asset classes such as Certificates of Deposit and quality bonds can protect the portfolio against systematic risk. Unsystematic risk pertains to risks unique to a particular investment. This risk can be reduced by owning a properly diversified common stock portfolio (20 to 25 companies in different industries).

Our firm manages risk by defining the amount of systematic risk that would be suitable for each client relationship. This involves quantifying the amount of the consolidated portfolio that should be invested in common stocks. The decision is predicated on the investor's time horizon, current income requirements and risk tolerance level.

The client's risk tolerance level is a highly subjective measure of an individual's unique ability to handle market volatility.



**John Gurun recently spoke at the Addison Rotary, in Addison, Texas.**

By incorporating personal risk tendencies into the asset allocation decision, investors stand a better chance of adhering to their investment programs.

It's important to remember the allocation to common stocks is dynamic and changes as circumstances evolve with the client. Retirement, inheritance, a child's college plans, and risk tolerance levels

are a few examples that may require changing a portfolio's exposure to common stock.

If you own common stocks and the market declines, in most cases the value of your common stock portfolio will also decline. To help insulate your financial wealth from systematic risk, we strive to

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This issue of the

# GURUNReport

has been prepared by

**Gurun Investment Advisors**

to help you understand and achieve your long-term financial objectives via conservative investment management.

## GURUNSPEAK

An Investment Glossary

### Behavioral Finance

A psychological element in financial decisions that challenges traditional assumptions that investors act without bias and will always weigh risk / return factors rationally. The premise of behavioral finance is that accounting for psychological factors can enhance the effectiveness of investment strategies.

### Asset Allocation

An investment practice that divides funds among different asset classes based on a client's risk and return requirements. The three main asset classes are 1) Cash & Equivalents, 2) Fixed Income Obligations such as Certificates of Deposit and Bonds and 3) Common Stock.

### Credit Crunch

A sudden reduction in the availability of loans and other types of credit from banks and the capital markets. The existing credit crunch has evolved from subprime mortgage writedowns to encompass overnight and term loans across all credit spectrums.

### Recession

A period of general economic decline quantified as two consecutive quarters of negative Gross Domestic Product (GDP). Characteristics of a recession generally include higher unemployment, lower industrial output, and declining wholesale and retail sales.

### Gurun Investment Rule #5

*The best long-term tax shelter is holding great company stocks.*

## Executive Profile

### Jim Ruffing

Jim Ruffing joined Gurun Investment Advisors, Inc. in 1999 as Vice President Director of Sales. He is responsible for business development and client relations. Mr. Ruffing has over 40 years of institutional fixed income sales experience including Manager of Institutional Sales for Merrill Lynch in Dallas, Office Manager for Bankers Trust in Dallas, and nine years in institutional sales at Dean Witter. Mr. Ruffing was instrumental in the establishment of the Montessori Society where he served on the Board of Directors, and as President and Chairman. He received his BS from John Carroll University and his MBA from Case Western Reserve University.



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ensure the portfolio has a suitable asset allocation (Cash and equivalents, fixed income and common stock) and is diversified across different industries and

issuers. The ultimate objective is to ensure your standard of living does not change as a result of an extended decline in the stock market.

**GURUN INVESTMENT ADVISORS, INC.**

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**GURUN** Conservative Investment Management  
INVESTMENT ADVISORS