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ADVISORS

PILOTING YOUR PORTFOLIO

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In the late 1950s, Air Force Colonel and military strategist John Boyd created the O.O.D.A. loop to optimize wartime decision making. However, the O.O.D.A. pilot loop has applications far beyond mission critical military operations. In fact, the constant decision making loop applies to making investment decisions as well.

Observe

The first letter in the O.O.D.A. loop stands for OBSERVE. In flight terms, pilots must constantly observe their environment for signs of change, no different from an investor. Astute investors are constantly observing the prevailing environment for signs of economic or behavioral investor changes.

Orient

The second letter in the O.O.D.A. loop stands for ORIENT. Once the pilot observes the environment, they must process or orient the information to what it might mean for future events. If they observe another aircraft in their space, they would orient or “filter” this information that it could lead to a collision based on the observed rate of speed, altitude and direction of the other plane. In investing, if you observe certain economic conditions and run them through your orientation filter, it may lead you to believe it is a good (or bad) time to own equities.

Decide

The third letter in the O.O.D.A. loops stands for DECIDE. Once a pilot has observed another plane in the airspace and oriented the observations of speed, altitude and direction, they must decide if any adjustments need to be made in their own flight path to avoid a collision. After observing and then orienting economic data, investors must decide if a change in their asset allocation is warranted.

Act

The final letter in the O.O.D.A. loop stands for ACT, which may be the most important of all. If the pilot decides a collision is unavoidable based on the observed and oriented information, they had better follow through on the decision and act to change their flight path. However, it is equally important to note that “no formal action required” in and of itself is an act and can also complete the loop and start the O.O.D.A. decision making process over again.

In closing, investors and portfolio managers do a lot of research work that at the end of the day does not always lead to immediate action in the portfolio. Nevertheless, following the O.O.D.A. loop can lead to a disciplined, consistent and repeatable investment process that goes a long way toward addressing portfolio risk and reward opportunities in the context of ever changing global economic conditions.

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