# Our Approach to Investment Management

Authored by Mark Anderson, CFA®
Partner & Chief Investment Officer

Many investment solutions in the advisory industry have become increasingly standardized and generic. At Fathom Advisors, we have made a conscientious decision to build a robust in-house investment department because we believe portfolio management deserves focused attention and should reflect the individual client, not a standardized model.

Our investment professionals sit across the table from you, not across the country. We also separate the disciplines of financial advice and portfolio management because our experience has shown that the best advisors are not necessarily the best portfolio managers, and the best portfolio managers are not necessarily the best advisors. We've designed our structure to deliver deeper investment expertise while keeping the broader relationship focused on comprehensive financial advice.

## WHY WE USE DISCRETIONARY MANAGEMENT

We believe strongly in discretionary management. You and your advisor establish an appropriate level of risk based on your ability, willingness, and need to take risk. From there, we manage the underlying positions according to the investment committee's best thinking. We do not change an account's risk profile or move money in or out without direction, but we do trade within the portfolio as needed.

We use that structure to reduce conflicts of interest because clients receive the same trades, at the same execution price, at the same time. Requiring an advisor to call every client before every trade raises an immediate question about who gets called first: the largest client, a neighbor, or a friend? We believe a consistent process is the better approach.

Discretionary management also keeps meetings focused on comprehensive financial advice rather than dwelling on individual trades. It allows us to act when an opportunity is fleeting or a risk is evolving. We are not day traders, but markets change, geopolitics are unpredictable, and some decisions are more time-sensitive than others. Most importantly, this structure allows a professional team to monitor and act on your behalf so you can focus on what matters more in your life.

## AN INVESTMENT COMMITTEE DESIGNED FOR RIGOROUS INVESTMENT ANALYSIS

Our Chief Investment Officer, Mark Anderson, brings more than a decade of experience managing investments for private wealth clients. Before that, he worked as an institutional investment consultant, primarily with university endowments and public and private foundations. He holds an MBA from the University of St. Thomas with areas of focus in finance and investment management and is a Chartered Financial Analyst®.

We designed our investment committee and processes to bring an institutional level of rigor to our clients' portfolios. Mark chairs the committee, but he has only one vote by design. Our eight advisors are also voting members, and their backgrounds include behavioral finance, tax, legal, protection planning, estate planning, and other areas of expertise. We intentionally bring together that range of perspectives to foster debate, challenge assumptions, and help the group thoroughly examine our approach more effectively than any one individual could alone.

We intentionally designed our process to avoid groupthink. We use mechanisms such as blind voting and a detailed investment committee charter, but we do not rely on internal debate alone. We purchase independent third-party research and software tools, attend numerous conferences, meet extensively with investment solution providers, and hire independent consultants when we want another set of professional eyes.

The committee typically meets each month formally, with additional meetings when conditions warrant. The Russian invasion of Ukraine, the Silicon Valley banking crisis, and COVID are examples of periods when we met much more frequently. Technology and our portfolio-monitoring software keep the team in near-constant communication.

## OUR THREE CORE INVESTMENT TENETS

### 1. DIVERSIFICATION THROUGH MODERN PORTFOLIO THEORY

Our first tenet is modern portfolio theory: diversification can improve risk-adjusted returns. As Herb Brooks said, "Individuals win trophies, teams win championships." We are trying to build a championship team. We select each portfolio component for what it contributes to the whole, not simply for its characteristics in isolation. Owning five stock funds that hold the same stocks is not diversification.

Our approach is pragmatic rather than dogmatic. We believe there is a time and place for low-cost, index-based solutions and for active management. We first identify the market opportunity we want to capture and then determine the best way to access it. A beta-oriented exposure may call for a low-cost, liquid ETF, while a more nuanced opportunity may justify a more active solution. In every case, we select an investment only when we believe it can add value after fees and expenses.

### 2. TAX EFFICIENCY ACROSS THE INVESTMENT PROCESS

Our second tenet is tax efficiency because what you keep is more important than what you make. We apply a tax lens throughout the investment process, including tax location: deciding which investments are better suited to taxable accounts, tax-deferred accounts such as traditional IRAs, or Roth IRAs. We also evaluate the tax efficiency of the ETFs and mutual funds themselves.

For example, we may use tax-exempt municipal bonds in taxable accounts. Then we can customize municipal bond accounts to be state-specific. If we want exposure to taxable corporate bonds, we typically look first to tax-deferred accounts. Different investment types can be better suited to different account structures, and we account for those relationships when building a portfolio.

We've designed our trading and rebalancing process to help reduce realized gains while keeping portfolio risk aligned with its intended level. Rebalancing too often can create tax consequences, but waiting too long can allow a portfolio to drift. Our software monitors each account and alerts us when that happens. The trading team then evaluates whether action is needed and, when appropriate, works with the advisor and client to review the tax implications.

### 3. COSTS MATTER

Our third tenet is straightforward: costs matter because they come directly out of returns. Reducing costs should therefore have a direct positive effect on returns. Our research suggests that most actively managed funds underperform after fees. At the same time, there are situations where we believe active strategies can justify the additional expense, including inefficient index designs, varied opportunity sets, or less efficient areas of the market.

## A PORTFOLIO THAT CONSIDERS THE BIGGER PICTURE

Our portfolio design considers the full balance sheet, not only the assets we directly manage. Concentrated business or stock ownership, real estate holdings, and anything else that materially influences your financial picture should help shape your investment portfolio. As a result, not every client owns the same investments, and no two portfolios look identical.

## A WIDE SELECTION, CHOSEN WISELY

Our independence gives us an open-architecture system with access to a wide range of third-party investment solutions. No single provider is best in class across every asset class, so we evaluate individual investments on their own merits and choose among providers accordingly.

We've also designed detailed policies to avoid both real and perceived conflicts of interest. For example, our interaction policy with wholesalers prohibits us from receiving gifts or other things of value from investment providers. Our goal is simple: evaluate an investment based on the merits of the investment vehicle itself.

## TIME IN THE MARKET, NOT TIMING THE MARKET

We believe time in the market beats timing the market. One of the worst mistakes an investor can make is selling an asset while it is under stress. Doing so crystallizes the loss. If the plan is then to sit in cash until there is more clarity, the investor has to time the market correctly twice: once when selling and again when buying back in.

Instead, we use a bucket approach based on the time horizons of when you expect to need cash from the portfolio. For example, shorter-term needs are held in cash or other low-risk investments. Medium-term buckets are utilized for needs between three and seven years, and long-term buckets can take more risk in pursuit of growth.

Overall, the intent is to provide a reasonable place to access money regardless of what markets are doing.

We don't recommend a strategy to our clients that we wouldn't invest in ourselves. We "eat our own cooking". Every voting member of our investment committee who meets the criteria invests in the same strategies we recommend to clients. They receive the same trades at the same time and with the same execution.

## FREQUENTLY ASKED QUESTIONS

*How Does Fathom Advisors Build an Investment Portfolio?*

We start with the appropriate level of risk based on your ability, willingness, and need to take risk, then consider your full balance sheet rather than only the assets we manage. Portfolio construction may include liquid investments such as stocks, bonds, ETFs, and mutual funds, with more complex solutions considered case by case.

### *Why Does Fathom Advisors Use an Investment Committee?*

We designed our committee to bring multiple areas of expertise and perspectives to investment decisions rather than relying on one individual. We utilize formal voting, mechanisms that challenge assumptions, outside research and tools, and additional independent expertise when needed.

### *What Does Discretionary Investment Management Mean at Fathom Advisors?*

You and your advisor set the account's risk level, while our investment team manages the underlying positions as needed. This supports timely decisions and keeps planning conversations focused on broader financial advice.

### *How Do Taxes and Costs Influence Investment Decisions?*

We apply a tax lens to account location, investment selection, trading, and rebalancing, and we consider realized gains when deciding whether to act. We also weigh expenses carefully because costs reduce returns, using active strategies selectively when we believe they have the potential to add value after accounting for their additional costs.

### *A Note on Alternative Investments*

Daily liquid investments such as stocks, bonds, ETFs, and mutual funds will likely form the core of a portfolio. On a case-by-case basis, we also incorporate more complex solutions such as private equity or other alternatives. We believe these vehicles have merit, but we do not rely on promises in sales presentations from investment providers. We believe the greater the complexity, risk, cost, and illiquidity of an investment, the more due diligence it requires. We say no to ideas much more often than we say yes because the decision not to make an investment can be just as important as deciding to move forward.