

# KCM'S Twelve-String Portfolio

**Master guitarists do not just play loudly, they play in tune, in time, and with purpose. The same is true of a master portfolio manager.**

## The Instrument

A twelve-string guitar is, at its core, a six-string guitar doubled. Each string is paired with a companion, contributing a richness, resonance, and depth that a single string simply cannot produce alone. In the hands of a skilled musician, the result isn't noise. It's harmony.

Now imagine your portfolio as that twelve-string guitar.

**Eleven strings represent the eleven sectors of the S&P 500:**

### String Sectors

- 1st Information Technology
- 2nd Consumer Discretionary
- 3rd Consumer Staples
- 4th Communication Services
- 5th Financials
- 6th Industrials
- 7th Energy
- 8th Health Care
- 9th Real Estate
- 10th Materials
- 11th Utilities
- 12th Fixed Income

## The Twelfth String: The Bass String

On a twelve-string guitar, the lowest string, the bass string, is the one that anchors the entire instrument. It doesn't compete with the melody, it grounds it.

## **Fixed income is your twelfth string.**

Bonds don't try to outshine equities. They don't chase the high notes of a technology or consumer discretionary surge. Instead, they provide the low-end stability that keeps the entire composition from flying apart during volatility. When equity strings snap under market tension, the fixed income string holds the tune.

## **Choosing Your Strings: ETFs or Individual Stocks**

The Twelve-String Portfolio can be constructed in two equally powerful ways.

**Sector ETFs** are broadly diversified and cost-efficient. Every sector plays out in proportion, with no single company dominating the chord.

**Individual stocks** are the hand-crafted option, chosen by a manager with conviction and expertise. Rather than accepting the full weight of every company in a sector, a skilled stock-picker can emphasize the strongest players: the companies with superior earnings growth, durable competitive advantages, and compelling valuations. Here, the portfolio does not just replicate the sector, it expresses a point of view about it.

For both strategies, we always use individual corporate bonds, Treasuries, or municipal securities as a customized twelfth string, tailored precisely to a client's income needs, tax situation, and duration preferences. Bond funds are a risk asset and do not fill the role of the twelfth string.

**And the most sophisticated portfolios often combine both approaches**, using ETFs for broad, efficient exposure in sectors where stock selection adds less value, while deploying individual securities in areas where deep research and active conviction can generate meaningful differentiation. Think of it as a guitarist who uses standard strings for rhythm and a custom-wound string for the lead melody. The instrument is still one cohesive whole, but each component is optimized for its role.

The construction method is a choice. The discipline of tuning all twelve strings together is not.

## **Playing in Tune: Sector Allocation as Chord Voicing**

A guitarist doesn't strum all twelve strings equally on every chord. A C major calls for certain strings to ring out while others are muted. A minor key passage shifts the weight to different positions entirely. The art is knowing which strings to emphasize and when.

Master portfolio management is similar.

- In a **growth environment**, you bring up the volume on Technology, Consumer Discretionary, and Communication Services, the bright, high-frequency strings that carry the melody of economic expansion.

- In a **defensive posture**, you lean into Consumer Staples, Utilities, Health Care, and Real Estate, the warm mid-range tones that hold steady when the tempo slows.
- In **uncertainty or rising rates**, you adjust your fixed income allocation and duration — adjusting the tension on that twelfth string.

Overweighting any single string produces dissonance. A portfolio excessively overweight in Energy, after war breaks out, is the musical equivalent of playing a blues riff in the middle of a symphony. Technically impressive but the wrong note at the wrong time.

## **The Role of the Portfolio Manager: Conductor and Musician**

A master guitarist and a master portfolio manager don't just know the notes, they listen. They adjust their touch in real time. They feel the room. They know when to let a string ring and when to mute it into silence.

This is active management.

- **Rebalancing** is tuning the instrument and changing the tune. Markets drift, sectors outperform and underperform. Without regular tuning, even the finest portfolio goes out of harmony.
- **Duration management in fixed income** is adjusting the 12<sup>th</sup> string's tension, too loose and you lose definition, too tight and the string breaks under pressure.
- **Factor tilts**, toward value, quality, or momentum, are the portfolio managers equivalent of stylistic techniques a guitarist develops over years: the vibrato, the fingerpicking pattern, the dynamic range that separates a professional from an amateur.

## **The Sound of a Well-Managed Portfolio**

When a master plays a twelve-string guitar, you don't hear twelve individual strings. You hear one unified, resonant voice, richer than any single-string instrument could produce, yet perfectly coherent.

**When a skilled portfolio manager orchestrates all twelve asset strings with discipline, research, and strategic intent, the result isn't a cacophony of competing positions. It's a portfolio that sings — generating returns in the good times, preserving capital in the difficult passages, and always, always staying in tune with the client's long-term objectives.**

***In music, as in investing, anyone can make noise. KCM's goal is to make music.***

Jay Kellett

Founder & CEO

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