

Objectives and Risk Management

My aim is to build portfolios that will maximise the chance that clients will meet their long term cash flow objectives. In other words I aim to minimise the risks that my clients need to take to achieve their objectives

I manage the asset allocation of a portfolio in order to control volatility to a level that the investor can tolerate.

The first steps to risk management is to determine the level of risk that is appropriate for any particular investor. After that level of risk is adopted it is important to make sure that the portfolio is appropriately diversified at all times. Finally, by monitoring market valuations I expect to be able to avoid some, but not all, major market downturns by reducing portfolio exposure to risky assets when they appear overpriced.

Asset Allocation

I believe that broad swings in markets can be anticipated and I use Dynamic Asset Allocation to add value and reduce the risk of portfolios.

I use straightforward valuation methodologies to identify very expensive or very cheap markets. The challenge to implement successful asset allocation strategies using these techniques is to be able to take a long term view (5-10 years), something most institutional investors find impossible to do as valuations often remain stretched for years at a time.

Asset Classes & Currency Management

I believe markets are not efficient and it is possible to beat index returns after fees.

I believe superior active managers that will beat the index can be identified.

I believe that currency should be fully unhedged because it is difficult if not impossible to predict currency movements and because being unhedged provides the optimal level of diversification. However I acknowledge that hedging is useful in some circumstances for specific clients and will use it then. A small exposure to illiquid assets is fine if the investment opportunity is attractive enough. In a long term portfolio it is unnecessary for all assets to be liquid at all times.

I will only invest in alternatives if I really understand the opportunity including: the risks, what is likely to drive sustainable returns, the fees and potential for illiquidity. Few products pass these tests.

The role of secure debt in a portfolio is to provide stability in a downturn and a guaranteed source of income. I do not take risks with this part of the portfolio.

I use securities with credit risk in portfolios to take advantage of the high premiums above secure debt that are available from time to time. When the premiums are insufficient I will ignore this asset class.

Taxes and Fees

I believe tax should not play a part in investment decisions. If we make sound investment decisions the tax will look after itself.

We consider after fee outcomes. Fees should not drive decisions so long as they are more than offset by the value created by active management.