

The Benefits of Diversification

One of the fundamental principles of the investment management philosophy we apply is the reduction of investment risks, which plays a critical role in the achievement of consistent long-term results.

Most of the investors are aware of the advantages of having a diversification of investments and realize the potential dangers that may arise from being over committed to any one asset or currency. By spreading your risk through several holdings, you will not be totally wrong or totally right in all of them. Therefore the range of possible outcomes narrows.

An important lesson of the modern portfolio theory is that diversification has more to do with seeking assets whose prices move in different kinds of rhythms than it has to do with multiplying the number of holdings.

A few holdings with significantly different types of market behavior will do more to smooth the pattern of a portfolio's return than a large number of holdings having the same pattern of price changes. An efficient diversification will, for a given level of risk, lead to a greater reward or, in other words, for a given level of expected return, one can reduce one's risk through diversification.

The investment theory on this subject is presented in terms of risk and reward. Theorists view volatility as the «risk» of a portfolio and measure it through an analysis of its standard deviation. This takes into account the probability and the magnitude of a range of outcomes and the amount the return is likely to diverge from the expected return.

However, we believe that many investors prefer to look at a portfolio compared to the opportunity cost of a near risk-less investment. Thus the portfolio return might be compared to fiduciary deposit returns. Another benchmark might be whether the return of a portfolio is positive in any given year, i.e. the risk of losing money.

On an annual basis, historically, the percentage chance of various assets beating a cash return illustrates the clear advantage of being diversified.

We suggest that the safest most conservative, but also rewarding investment approach is to have a balanced, multi currency portfolio.

Investment Philosophy

The initial step of the investment process is to determine the investment profile of the client in order to define the investor guidelines. The combination of these guidelines and our investment policy will result in an optimal portfolio.

The client's investment profile is determined by the reference currency, the risk tolerance, the investment horizon and other constraints like the rating of some investments, the geographical exposure, the size of the portfolio, etc. The portfolio structure will vary according to these parameters.

Our investment policy refers to an investment strategy, an asset allocation, a selection of markets and sectors and finally a list of selected companies or funds.

The investment strategy is a result of the classical top-down approach which starts with the review and analysis of the global macro-economic trends and their impacts on the rates, currencies and micro-economic sectors.

For each market, forecasts are made in order to build an asset allocation with an adequate weight based on these forecasts. On a monthly basis we decide what is the best asset allocation (bonds, equities, alternative funds, cash, others) and what are the best markets to be in.

The individual securities selection is based on fundamental and technical analysis. The selection of individual stocks and bonds is governed by the criteria of quality, liquidity and diversification. Stocks and bonds must be listed and liquid. All bonds must be AA rated or better.

From time to time a currency or market hedge is necessary to preserve the performance of the portfolio or to avoid unnecessary risk. Our futures systems are also used for hedging purpose (Track 235)

Derivatives products will be used to enhance portfolio performance, without leverage for example the sale of puts to acquire stocks at a defined level or the covered calls writing to reduce equity costs and improve returns.

Model Portfolio

We have limited our presentation to a Euro-based Balanced portfolio. This model is only meant to help you understand better the type of investments you would find into your personal portfolio. Further constraints from this model are possible and we will make any accommodations to your investment requirements..

However, should any or all of the specific securities mentioned in the model be unavailable, or no longer optimally valued in the market, we shall act in your best interests by substituting for them securities deemed to be of comparable credit quality, and having similar maturity and income characteristics.

It is also worth mentioning that any other base currency can be used for the valuation of your assets.

Current Strategy

Objective:

To provide a higher return with lower risk over a five year horizon than an investment in a fixed-income portfolio. The account is intended to protect purchasing power on a global basis.

Risk profile:

Growth. A more aggressive approach can be constructed by placing a greater emphasis on equities and alternative funds.

Composition of the account:

- Corporate and Sovereign bonds or bond funds;
- US, European and Asian equities (through direct investment or equity funds);
- Alternative Funds;
- Base currency and foreign cash equivalents;
- Precious metals may be included when appropriate.