trident
FINANCIAL PLANNING
A Connectus Partner

Investment Philosophy

Our investment philosophy is summarised below. This helps define our investment advice, decisions, and processes.

Capitalism Creates Wealth:

Capitalism underpins the world's economy and is the most successful economic model ever devised. The free market is a simple mechanism that brings together ideas for products and services, and the finance required to get them off the ground.

People who invest in an enterprise are taking a risk with their capital and are therefore entitled to share any financial rewards - just as they should accept any losses. The rules of this process are codified by formal capital markets and most investors participate through tightly regulated exchanges of shares and bonds.

Markets Price Assets Fairly:

A large number of people participate in capital markets around the world, making them highly competitive, efficient and effective at assessing large quantities of information.

Behind every security transaction are assessments of the relative trade-offs associated with investing such as the balance of risk and reward and of costs and returns. In most cases, a participant will only transact when they assess the benefits outweigh the costs or risks.

Since the market price of a security is the aggregate of all these decisions, the market price contains valuable information about people's expectations for that security and that changing security prices reflect peoples changing expectations.

We do not attempt to predict which individual stocks or countries or regions will perform best. Instead, we accept that the market, powered by the wealth-generating capability of capitalism, provides an adequate rate of return, and we pay very careful attention to portfolio construction and the management of assets to make the most of that market return.

Portfolio Construction and Management:

Decades of academic research into the performance of shares have pinpointed certain information in market prices that explains why one stock performs differently to another. In practical terms, this means we can say that, on average:

- Smaller stocks perform better than larger stocks;
- Low-priced stocks perform better than high-priced stocks;
- Profitable companies perform better than unprofitable companies.

Similar research into bond markets suggests that the length of time to a bond's maturity and the credit quality of the bond's issuer, when analysed relative to the bond's market price, tell us much about future returns.

We use investment funds that exploit these characteristics, as well as those that capture general market exposure, to build clients' portfolios. Our aim is to achieve a higher return than the market average, without resorting to uncertain market predictions.

These portfolios form an important part of a financial plan and act as the engine that powers the return required to achieve financial goals.

Diversification is Essential:

Diversification is the principle of spreading investment risk around. This reduces the risk that any individual manager, security, sector, or country can have on an individual portfolio. A well- diversified portfolio helps reduce uncertainty; helps to manage risk and can increase the reliability of investment outcomes. It also gives portfolio managers a high level of flexibility, which can prove beneficial when they trade in the market.

Some people approach achieving a diversified portfolio by buying the funds of many asset managers in each asset class. This approach helps reduce the manager-specific risk in the portfolio but does not guarantee the diversification of securities in the portfolio because many of the stocks held by 'manager A' will also be held by 'manager B', just in different proportions.

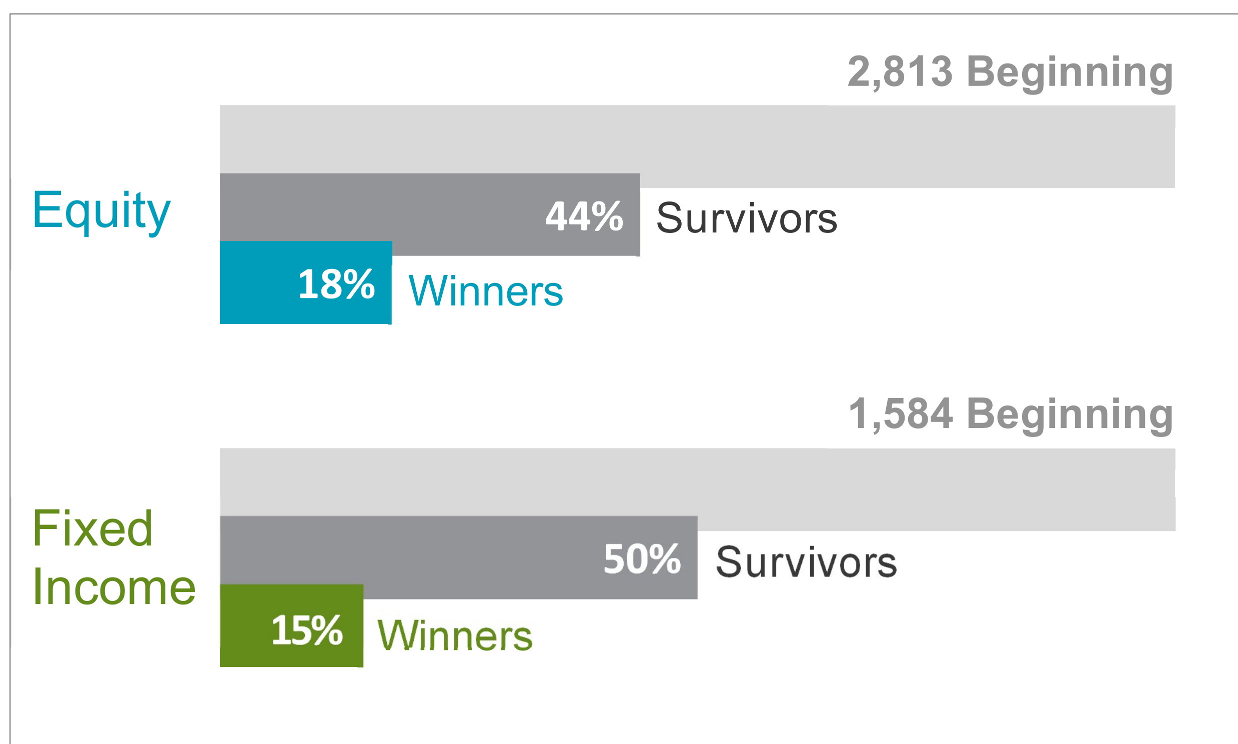
We seek to achieve genuine diversification across capital markets and target the specific risks investors face.

Investing, not Speculating:

An active investor is sometimes thought of as one who attempts to beat the market average by making decisions about holding one investment over another.

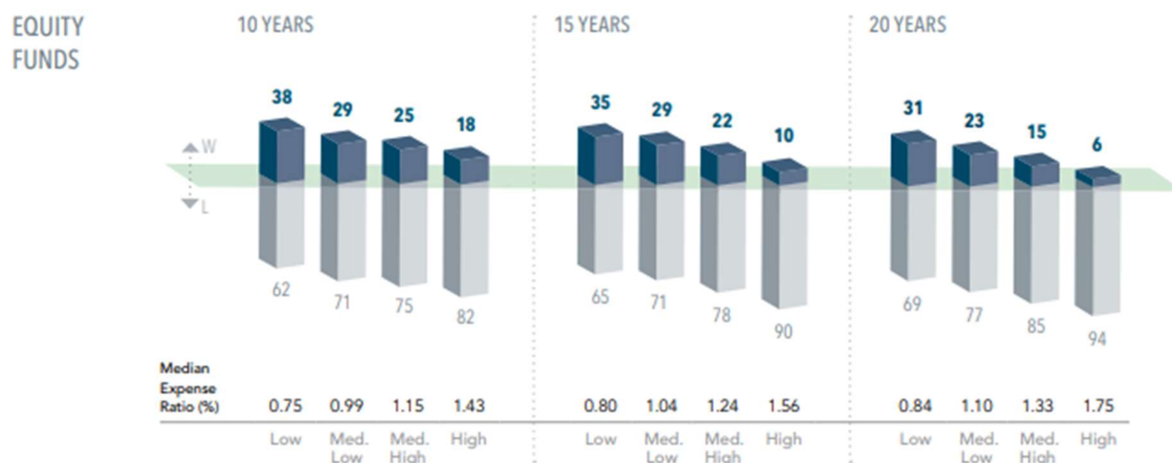
There is considerable evidence that active managers, on average, fail to outperform their benchmarks. The exhibit below illustrates the findings of a study on the US fund market. It shows that only 18% of equity funds and 15% of fixed income funds survive and outperform the market over a 20-year period.

US-Domiciled Fund Performance, 2002–2021



The question is not whether investors must bear some costs, but whether the costs are reasonable and indicative of the value added by a fund manager's decisions. We carefully monitor costs and only expose clients to those we deem worthwhile.

As you can see in the table below, investment is not an enterprise where consumers' experience improves in line with the cost. The opposite is true and the more an investor pays, the greater the effect of cost-drag, and the worse the long-term return.



Passive Approach:

Investment styles are often categorised as active or passive. An active investor is one who makes decisions about holding one investment over another whereas a passive investor is willing to accept the market rate of return and usually enjoy paying smaller fees than active investors.

Our investment philosophy prefers the 'passive' style to the extent that we are not making judgements on the relative merits of one investment over another.

We seek to capture the market rate of return (less fees) for our clients, and target market-beating performance through exposure to some dimensions of higher expected return, which use methods of portfolio construction and implementation that seek to enhance performance relative to the average investor.

We believe:

- the average active investor will do worse than the market because they are paying the highest fees;
- the average index investor will perform better because their fees are lower than the active investor; and
- by seeking exposure to dimensions of higher expected return, in addition to straightforward market exposure via index tracking funds, higher returns can be achieved.

What some others have said:

"Most investors, both institutional and individual, will find the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) delivered by the great majority of investment professionals."

Warren Buffett

"Don't search for the needle, buy the haystack."

John Bogle

"The laws of arithmetic have been suspended for the convenience of those who pursue their careers as active managers."

William Sharpe, Nobel Prize winning economist