



Insights, Tacit Thought | Weekly Investment Insights

Growth Always Comes with a Risk

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We write a lot about risk. Risk means different things to different people: for example, to an architect the risk may be that a building is not pleasing to the eye once built, to a President the risk could be not getting re-elected, whilst for an investor risk could be missing out on market rises or participating in market falls. Everyone's risk is different.

At Tacit, we feel the need to differentiate risk into two distinct camps: market risk and true investment risk. Our Stabiliser component of portfolios is designed to manage market risk, to provide a ballast when equity markets fall from time to time. Our growth component however carries the true investment risk, the risk of missing out on equity market returns which achieve our clients' longer-term objectives.

Over the recent past we have focused very much on the former of these risks but it is important to remember that it is true investment risk that drives returns over the longer-term. Most companies that we know as household names today were set up to take advantage of new industries that we did not know existed when they were launched. This is a bedrock of the capitalist system. An example of one such company today could be Tesla, or Amazon, or Zoom. All of these businesses are now cash generative but were, for many years, loss making and viewed with a sceptical eye by investors in the UK as they did not pay a dividend. It is not a coincidence that the majority of these businesses are based in the US, as investors in the US are more likely to invest earlier in start-up businesses.

In these current difficult times, it is important to continue to believe that true investment risk is rewarded over the medium to long term.

For us, this is actually an exciting time to be looking for future growth, as most investors have become very focused on the here and now. In reality, the world needs an authentic economic growth agenda to grow out of accumulated historic debt, grasp the opportunity provided by technological change, tackle the existential risks of climate change and environmental degradation, and lay the foundations for future sustainable prosperity.

History has shown that companies are best placed to drive this growth, but they do require a stable economic backdrop to fulfil their potential. In Europe for example, the recently announced rescue package explicitly includes funds targeted at reducing carbon emissions. Other countries will no doubt follow suit, but the investment required will be Trillions rather than Billions. This investment will result in new companies being born that are difficult to conceptualise today.

We believe the world has changed in this regard and the coming decade will provide significant opportunity for investors who can focus on the longer-term trends rather than getting drawn into short term market noise. Investing in equities rather than property funds or corporate bond funds will drive returns as the majority of the returns generated by these types of investments are driven by low interest rates. When interest rates rise, these assets will not help with either of the two risks we focus on.

This is where we believe our unique Growth/Stabiliser approach provides a structure that will add value over the coming investment cycle.

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