



Insights, Tacit Thought | Weekly Investment Insights

## Managed Expectations

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Whilst the focus for most of our clients has been the long-awaited budget this week, our primary focus remains on generating strong longer-term returns, because if you don't generate returns, you won't actually need to pay any tax.

As investment managers, we report the performance of all our strategies relative to a composite benchmark every month. This information is available on our website for anyone to see. A client looking at this performance month by month may experience one of two emotions. A measure of happiness if we outperform the benchmark, or a measure of disappointment if we don't.

A client who has been at Tacit since its inception and has tracked our monthly performance over the last 180 months has therefore had the pleasure, or displeasure, of experiencing a bout of happiness or disappointment every month based on our performance against the benchmark.

If we look at the Real Return strategy, for example, it has beaten its benchmark 68% of the time since inception. Over the last five years, it has beaten its benchmark 52% of the time. These odds are not too dissimilar from that of a coin flip. Therefore, anyone paying close attention to our performance relative to the benchmark every month has almost equal odds of experiencing some measure of either happiness or disappointment.

The number of times we outperform the benchmark, however, is not that important, what matters more is the magnitude. It's mathematically possible for the benchmark to do better than us 60% of the time. In other words, in a 100-month period, the benchmark might outperform us for 60 of the reported months. It's equally possible that in such a scenario we can still outperform the benchmark overall, because whilst we may outperform less frequently, when we do the magnitude will be larger. 2025 has been one of these periods.

Our focus at Tacit remains to provide good long-term real returns to our clients. In any given month, our performance against the benchmark isn't particularly useful information because the odds of outperformance are similar to the odds of getting heads in a coin flip. In the long term, our performance is likely to be better than the benchmark, just as it has been in the past. This isn't because we're doing anything particularly clever. Rather, it's because our focus on avoiding catastrophic risk steers us away from making poor decisions that may look good in the short term but will inevitably be a drag on our long-term returns.

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