Insights, Tacit Thought | Weekly Investment Insights

Managed Expectations

Published on: 28 November, 2019 | Author: Investment Team

Every month, we report the performance of all our strategies relative to a composite benchmark. This information is available on our website for anyone to see. An IFA or 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 109 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 59% of the time since inception. Over the last 5 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 do better than the benchmark is however not that important; what matters more is the magnitude. It is mathematically possible for the benchmark to do better than us 60% of the time i.e. in a 100 month period, the benchmark outperforms us for 60 of the reported months. It is equally possible that in such a scenario, we can still outperform the benchmark because while we may outperform the benchmark less frequently, when we do the magnitude will be larger.

Our focus at Tacit remains to provide good long term real returns to our clients. In any given month, our performance against the benchmark is not particularly useful information because the odds of outperformance is 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 is not because we are doing anything particularly clever. Rather, it is 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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