

## Objectives based investing

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The four Tacit investment strategies have been specifically designed to meet investors' objectives over a time horizon based on long term market return assumptions and historical evidence. The three key elements that are vital to remember are 'an investor's objective', 'historical evidence' and 'over a time horizon'.

Historic evidence shows that the more equity exposure you have in your portfolio the higher the 'real' returns you can expect to achieve. Therefore, our Total Return strategy, which allocates up to 100% to equities has a higher 'real' return potential than our Real Return strategy which allocates 50% to equities.

This simple fact can get distorted in our minds at times and it is important to remember in our view.

Next we must consider an investor's time horizon. This can be relatively short, in which case you should not invest at all, or lengthens out depending on an individual's personal needs and requirements. This time horizon is very important as it specifically impacts your ability to tolerate investment losses in the short term. For example, if an investor is unsure of their time horizon, but is aware that they could need to draw income from their assets at a point in the future, being invested 100% in equities could result in a timing risk which leads to this income requirement coinciding with a fall in markets. This can put their long term planning in jeopardy.

Finally, an investor's personal objective is exactly that, personal. Careful planning will help increase the chances of achieving an objective however, circumstances can change and therefore having some room for manoeuvre is also vital. Your longer term objective is actually more important than day to day market returns. It does not feel like this at the time to investors as asset values falling leads to nervousness and ultimately can lead to bad decisions being taken. Academic evidence of investor behaviour consistently shows that investors tend to buy high and sell low, resulting in very poor outcomes.

It is for all of these reasons that Tacit bases its investment strategies on long term historic evidence and does not allow our investment team to get carried away by short term performance, whether good or bad. This does create a dilemma for our clients in the short term as current performance is the only tangible illustration you have of our ability to generate the returns you require to meet your objectives in the longer term. This tension is actually vital to ensuring our processes are continually reviewed and tested but can only dissipate after a period of strong returns: when these will come we cannot forecast, but all historic evidence suggests that our strategies will continue to provide solid 'real' returns over the medium term.

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