

Uncommon Common Sense

Published on: 5 October, 2018 | Author: Investment Team

Around the 6th century, Slavic people from modern day Czech, Slovakia, Poland, Russia and elsewhere in central Europe began to appear in great numbers all over the continent. The origin of the Slavic people puzzled historians for centuries. Anthropologists and linguists were also left scratching their heads for clues.

It wasn't until the 1800s when a Polish botanist discovered that the Slavic languages used borrowed words for certain trees like yew and beech. This led to the belief that the Slavs came from an area that didn't have these types of trees, hence the need to borrow from other languages.

Trying to establish the origin of the Slavic people by studying what they understood to be their language and culture baffled experts for years. But by inverting the problem and focusing on what was not Slavic, a botanist was able to discover that in fact they were from the wetlands in modern Ukraine. A region that, indeed, didn't have a yew or beech tree to speak of.

Inverting a problem is a good way of finding solutions and making better decisions. In investing, a lot of time is spent focusing on how to make money. It's equally fair to say that not enough time is given to avoiding losses and this is equally important in maximising long-term returns.

Charlie Munger famously said, *"All I want to know is where I am going to die so I'll never go there"*. Applying this to how we make decisions at Tacit Investment Management has improved our risk adjusted returns. In all of our strategies, we try to maximise growth and minimise drawdowns. Using this metric, we're proud to say that our risk adjusted returns has been better than that of our peers.

All this though is easier said than done. We don't hold any short positions, that is where we make money if prices fall, and we don't use derivatives or any type of portfolio insurance. This was popular in the 1980s and the sellers of this type of insurance claimed that losses could be reduced in exchange for slightly lower returns. Unfortunately, this type of insurance worked well only in theory.

Imagine if you bought insurance on a holiday home in Hawaii from a company that only covered properties on the island. If there was a volcanic eruption, your insurance would be worthless because the insurer would surely go bankrupt.

This is similar to portfolio insurance, if many people use it and an unlikely event occurs, the protection offered by the insurance disappears. At Tacit we've learned from the botanist who discovered those Slavic origins. We don't try to outsmart the market and buy complex financial products to reduce losses. Instead, we invert the problem just like the botanist and try to minimise any losses by avoiding expensive and low-quality assets.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14

Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.