FIMARGE
your independent wealth managers

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ALPHA AND BETA

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Good management of financial assets portfolios requires prioritizing the needs and interests of the investor foremost. The financial sector tends to build investor's portfolios from the level of risk they are willing to accept, a level that ends up specified as the portfolio's percentage invested in each asset class. The exercise begins by setting the maximum exposure to equity, then to the other assets. Normally, this second segment tends to be invested mostly in bonds (sovereign or corporate) and deposits. Some managers, more sophisticated, incorporate alternative assets in their proposal, such as real estate, commodities, or the now-reviled hedge funds, among others.

It is not standard practice to accompany the investors in their tour of the financial markets. Let me explain. Their risk profile, once agreed with the advisor, remains more often than not unchanged over time and their manager exploits it in full. Their portfolio remains fully invested, or almost fully invested, in each asset class according to the percentage in their profile.

Most managers concentrate their contribution in stock picking and set themselves apart according to their investment process and methodology. Some use financial analysis, others use charting or even macroeconomic insight to overweight assets from a given sector. Some even combine several methodologies. This effort allows them to select the assets that have good upside potential relative to the rest of the market. In financial jargon, the manager is managing the portfolio's Alpha.

Few managers manage market risk for their clients. They consider it is very difficult, as indeed it is, or even very risky, to tell when the market will correct. It is at this time when the manager's interest collides with their client's. This is because managers do not want to take the risk of deviating from market behaviour and come off badly.

In Fimarge, when we make a decision we always put the client's interest before the company's, the team's, or even our personal interest. We owe it to our clients to be able to accompany them in the financial markets with the right risk according to circumstances and not only to their profile. We manage their market risk by increasing or decreasing the portfolio's Beta by way of higher or lower exposure to equities, fixed income, or currencies along the range determined by their profile.

At times like the present, active risk management can make a difference.