

# Quarterly Investment Outlook

3<sup>rd</sup> Quarter 2017

June 2017

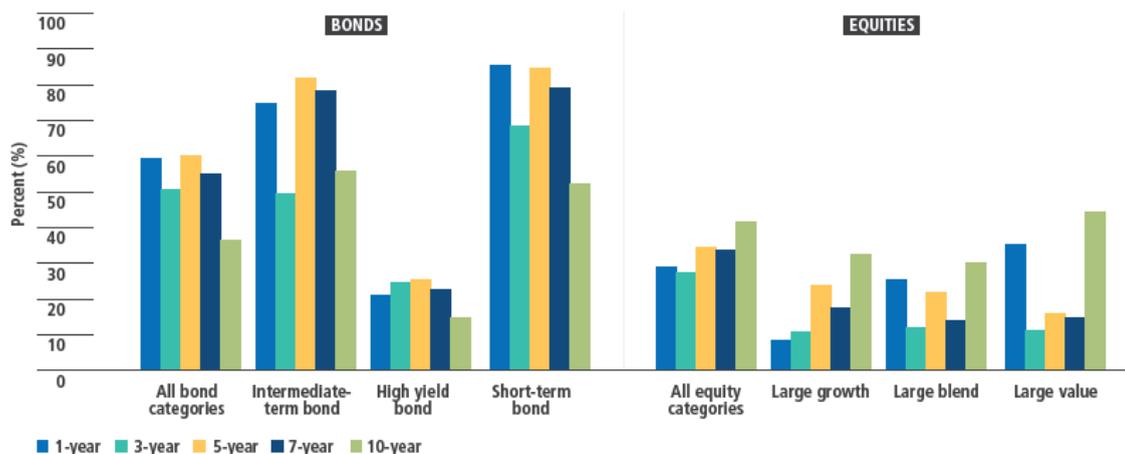
## Advisor's Commentary

The active vs. passive investment debate attracts enormous amounts of publicity from the financial press, academia, and financial product providers. Central in the debate are claims that active investment management is losing both its merit and value proposition because, measured over arbitrary periods, active managers underperform "the market". In addition, the same discussion goes further to highlight "smart" beta's superiority to "traditional" beta. There is certainly plethoric amounts of data emphasizing all of this, but rather than drumming up even more empirical data on the subject, we thought it would be worthwhile to assess the debate from different angles.

Firstly, and to paraphrase Jeffery Gundlach of DoubleLine Capital, passive investing is a myth! Ignored in the discussion is the fact that recognized index providers, such as Morgan Stanley Capital International (MSCI) and S&P Dow Jones Indices (S&P), all have committees that meet frequently to actively decide on the respective index composition and its constituents. According to MSCI's Equity Index Policies and its Equity Index Oversight Committee, the provider frequently, but also at ad hoc, reviews and implements index methodology changes, market reclassifications, index terminations, and regular index rebalancing to all of their global indices. Even the chairman of the S&P 500 Index has publically said that the index is not rules based and that it is the committee that has discretion over the stock selection in the index. This hardly seems passive! It implies that those financial products tracking some of the major indices are relying on the decisions made by the providers "investment" committees, who effectively utilize an "active" management approach.

Secondly, the notion that active management has lost its relevance as investment managers struggle to beat the market is fairly one-sided. For once, there is cyclicity in investment strategies and the measurable universes have a high degree of survivorship bias (some funds fall out and new funds are added). The discussion also mainly centers on equity funds and related exchange traded funds. Less focus is on comparable developments in other asset classes such as bonds. It is also worth mentioning that not every investment strategy is structured to beat the market. Most sound investment plans are formulated on the basis of an individuals or entities return expectations, risk tolerance, and the prevailing market risk premia.

**Figure 2: Percentage of active mutual funds and ETFs that outperformed their primary prospectus benchmarks after fees**

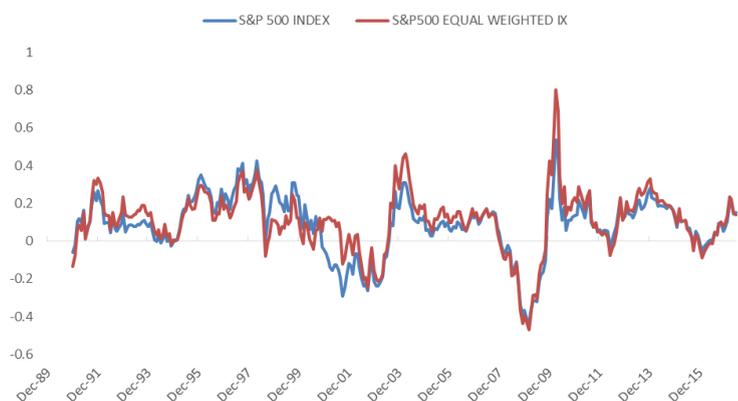


Sources: PIMCO.

Finally, with the proliferation of smart beta products there is now thought to be an even better way of capturing market beating returns. Although the idea of using multiple factors to screen for certain characteristics rather than relying on market capitalization methodologies seems intuitive and clever, the results are not as mind boggling as believed. Similar to the active vs passive debate, factor-based investing has a high degree of cyclicity that sometimes outperforms, yet also witnesses periods of underperformance to traditional market beta.

We have shifted the risk profile of our balanced and growth oriented strategies by diversifying the cash currency exposure and extending the duration of government fixed income securities. Our investment strategy allocations are shown below:

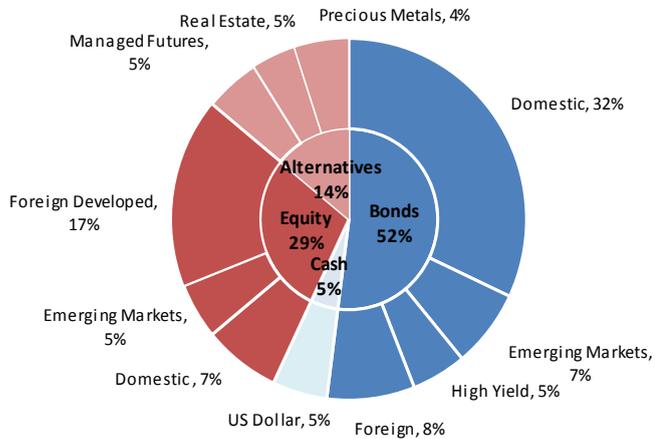
**Strong Correlation Between "Traditional" and "Smart" Beta**  
Rolling 12-Month Annualized Return\*



Sources: Bloomberg, Ameliora Wealth mgmt. \*The price indices are used for calculation purposes

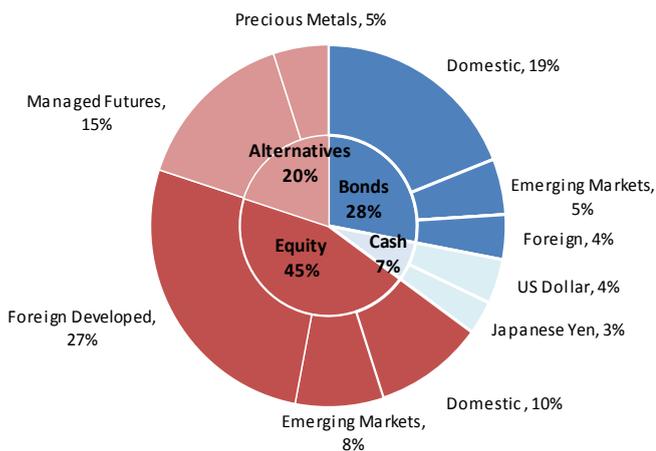
# Asset Allocations

## Income



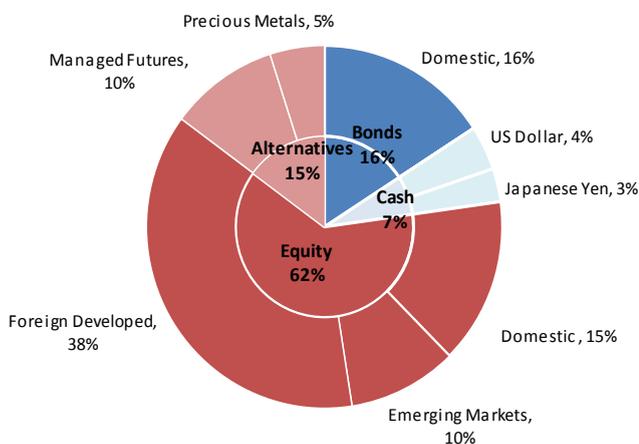
| Tactical Positioning |        | Relative to Strategic Weights % |                   |
|----------------------|--------|---------------------------------|-------------------|
|                      | Income | Asset Class                     |                   |
|                      |        | Cash                            |                   |
| Bonds                |        | -16                             | Domestic          |
|                      |        | 7                               | Emerging Markets  |
|                      |        | 5                               | High Yield        |
|                      |        | -2                              | Foreign           |
| Equity               |        | -13                             | Domestic          |
|                      |        | 5                               | Emerging Markets  |
|                      |        | 7                               | Foreign Developed |
| Altern.              |        | 2                               | Managed Futures   |
|                      |        | 4                               | Precious Metals   |
|                      |        | 1                               | Real Estate       |
|                      |        |                                 |                   |

## Balanced



| Tactical Positioning |          | Relative to Strategic Weights % |                   |
|----------------------|----------|---------------------------------|-------------------|
|                      | Balanced | Asset Class                     |                   |
|                      |          | -2                              | Cash              |
| Bonds                |          | -11                             | Domestic          |
|                      |          | 5                               | Emerging Markets  |
|                      |          |                                 | High Yield        |
|                      |          | -6                              | Foreign           |
| Equity               |          | -15                             | Domestic          |
|                      |          | 8                               | Emerging Markets  |
|                      |          | 17                              | Foreign Developed |
| Altern.              |          |                                 | Managed Futures   |
|                      |          |                                 | 1 Precious Metals |
|                      |          |                                 | Real Estate       |

## Growth



| Tactical Positioning |        | Relative to Strategic Weights % |                   |
|----------------------|--------|---------------------------------|-------------------|
|                      | Growth | Asset Class                     |                   |
|                      |        | 1                               | Cash              |
| Bonds                |        | -4                              | Domestic          |
|                      |        |                                 | Emerging Markets  |
|                      |        |                                 | High Yield        |
|                      |        | -5                              | Foreign           |
| Equity               |        | -23                             | Domestic          |
|                      |        | 10                              | Emerging Markets  |
|                      |        | 18                              | Foreign Developed |
| Altern.              |        | 1                               | Managed Futures   |
|                      |        |                                 | Precious Metals   |
|                      |        |                                 | Real Estate       |

Source: Ameliora Wealth Management as of 1<sup>st</sup> June, 2017

Note: Tactical asset allocations are subject to change without notice and represents investment strategies in USD. Tactical positions (over-/underweight) are deviations from strategic benchmark weights

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