Quarterly Investment Outlook

4th Quarter 2019 September 2019

ameliora
WEALTH-MANAGEMENT

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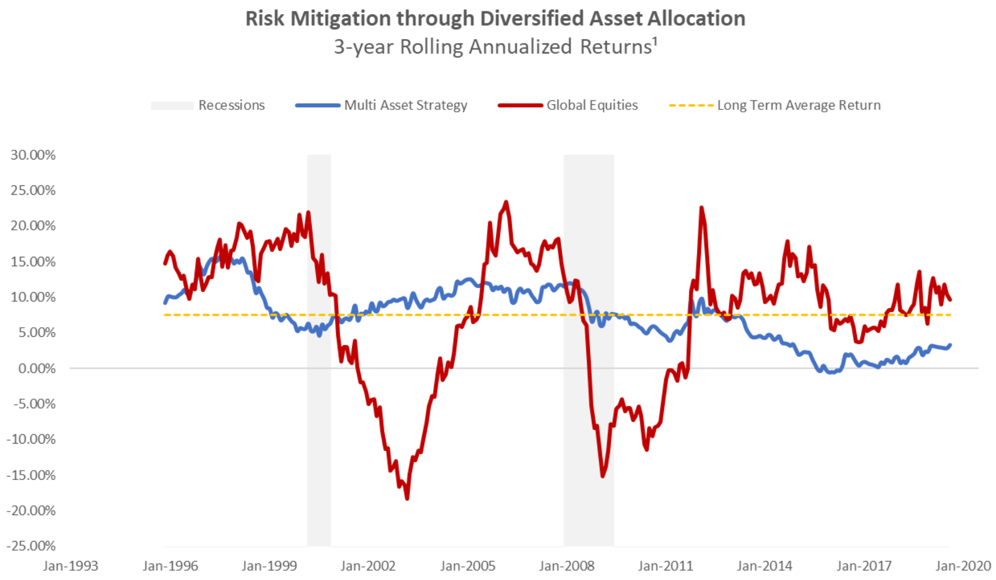
Advisor's Commentary

September 26th, 2019

At Ameliora, we have always been, and still are, advocates of multi-asset class investing. The principle of asset diversification forms the basis for our investment approach. Equally important is risk management, as one needs to undertake a certain amount of risk in order to achieve a desired level of return. By allocating capital between various asset classes, one can potentially mitigate systemic risk, and subsequent drawdowns, exposed to in assets such as equites, which asset class is normally used as a proxy for systemic risk. Yet over the long run, the global stock market has performed superiorly relative to other financial assets, so why diversify? Since this performance number is typically derived using arbitrary time periods, it obfuscates the rate of return during large and prolonged drawdowns. The long term compounded growth rate is not a constant, it varies over time and has often deviated negatively from its average. During global economic contractions the stock market remained underwater for many years delivering deeply negative returns to investors.



[1] We use 3 year rolling returns to illustrate a hypothetical holding period for an investor. Although long term is typically defined as 5-7 years and generally recommended, erratic human behavior tends to shorten the intended timeframe

Such large downdrafts destroy the most rewarding principle of long term investing - compound interest. The math is such that increasingly negative returns penalize the compounding effect disproportionally. Simple arithmetic shows how severe various levels of losses have on the required return to just break even and the subsequent recovery time:

How The Magnitude of Drawdowns Affect the Required Return and Recovery Time

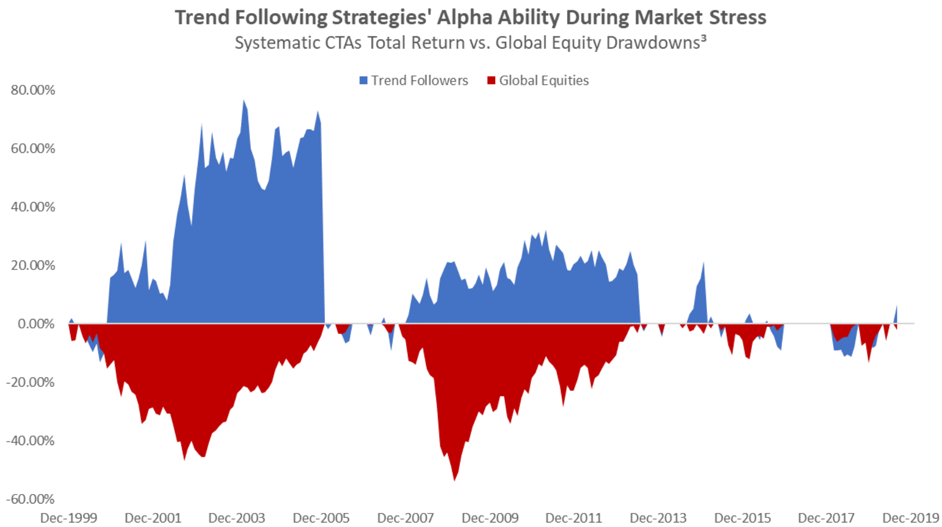
Drawdowns	Gain to Recover Principal Loss	Estimated Recovery Time Earning Long Term Average[2]
-5%	+5.3%	0.7 yrs
-10%	+11.1%	1.5 yrs
-15%	+17.6%	2.3 yrs
-20%	+25.0%	3.1 yrs
-30%	+42.9%	4.9 yrs
-50%	+100.0%	9.6 yrs
-60%	+150.0%	12.7 yrs

[2] Assuming that the long term average of 7.49% p.a. is earned

Multi-asset class investment solutions can potentially mitigate drawdown risks and reduce the time being underwater. In our March 2019 Investment Outlook, we highlighted how such an investing method has historically generated comparable returns to that of the global stock market but with a fraction of the risk. However, the current economic landscape is radically different. Accommodative monetary policies among leading Western nations have pushed risk free rates to levels where they hardly offer sufficient risk mitigating properties. In fact, safe haven government bonds have yields so depressed and valuations so high that their inherent risk is now the highest in post war history. It is not unthinkable that the correlation coefficient between equities and bonds could be closer to 1 should we endure a new global economic contraction.

We will demonstrate how we approach systemic risk mitigation by looking at a specific sub-strategy that we employ in our asset allocation framework. Systematic trend following programs, or managed futures/CTAs, (essentially statistical and quantitative driven computer models making investment decisions across multiple asset classes), have historically provided strong uncorrelated returns during systemic risk events. The essence of these strategies has been their ability to exploit equity market drawdowns profitably by simultaneously capturing both positive and negative price trends in numerous global markets. By doing so, their offsetting risk properties have generated alpha, or "excess return", to the overall asset allocation and reduced the overall drawdown of a diversified portfolio.

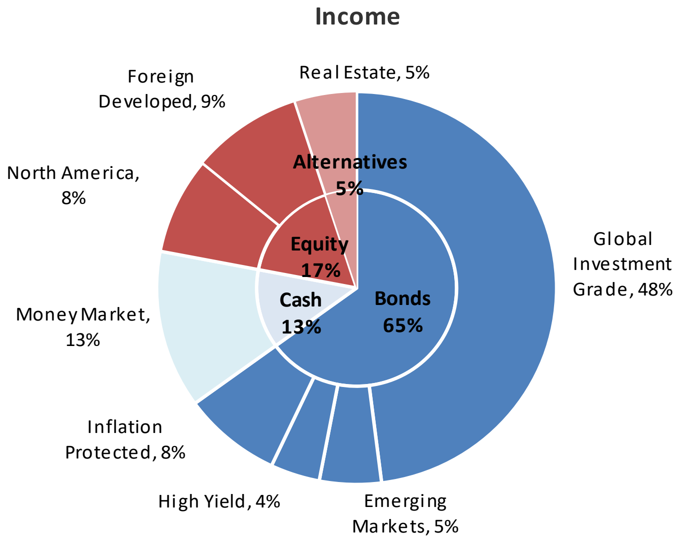
Sources: Ameliora Wealth Management AG, Bloomberg, LP. Indexes: Multi Asset Strategy = BofA Merril Lynch Multi Asset Index, Global Equities = MSCI World Net Total Return USD Index, Trend Followers = SG Trend Index

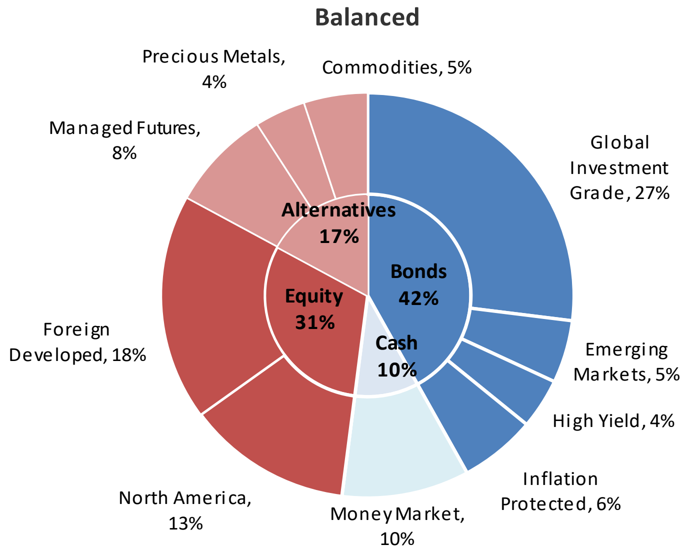


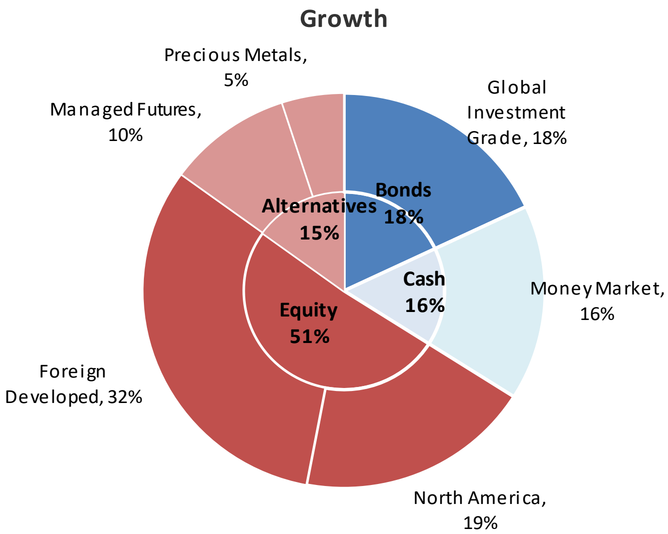
[3] Some commentators claim that systematic trend following strategies' ability to generate outsized returns have diminished, pointing to dismal performance since the last financial crisis. However, we have yet to see a sizable drawdown, let alone a systemic event since then, and thus the notion holds little merit.

Asset Allocations

September 26th, 2019







***Source**: Ameliora Wealth Management as of 1st September, 2019. Asset allocation weights are subject to change without notice and represents investment strategies in USD*

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