Prescient
INVESTMENT MANAGEMENT

What you can – and can't – control in an uncontrollable investment world

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A tit-for-tat escalation in hostilities between Israel and Iran adds to an already unpredictable geopolitical landscape, and with little certainty regarding the central banks' next move on the interest rate front, the economic outlook remains highly uncertain.

Challenging market conditions like these understandably make advisers' jobs more difficult. Clients want to know that their investment nest eggs are safe and that they are not at risk of being unable to meet their financial goals. However, advisers can only control a few things when the outlook is subject to so many moving parts.

The only control advisers do have is who they entrust the clients' money with and how much they pay for it to be managed. Both decisions will ultimately determine whether their wealth grows consistently over time, regardless of the external circumstances, or whether it will fluctuate along with changing market conditions.

Systematic investing, as opposed to fundamental, active management, is well worth considering because it enables investment managers to generate consistent performance over time, adding alpha incrementally rather than betting on a specific investment style, like growth or value, sectors, like technology or consumer goods, or stocks, like Nvidia or Naspers.

Prescient offers investors something different to the traditional fundamental bottom-up active managers. Its investment approach is style-agnostic; thus, the investment team is dispassionate about whether a value and growth style will outperform. Instead, it focuses on getting the asset allocation right because history has shown that this determines 95% of the returns a balanced fund generates.

Every due diligence conducted by sophisticated investors seeks confirmation that a fund manager's investment process is repeatable and robust, asking whether they can expect the same past outcomes to continue. That's precisely what a systematic investment process does.

Prescient has been investing systematically for 25 years, drawing on its constantly evolving investment process, which combines quantitative investing and data science insights with human oversight to perform consistently on its investors' behalf. The investment and data-science teams at Prescient have access to 120 million data points a day, which enables them to build a comprehensive view of the world economy and financial markets in real-time and then invest based on the rules and the evidence.

Achieving investment success is primarily about getting strategic asset allocation right and navigating the investment landscape carefully using a well-structured and robust investment process. It's also about having the tools to be dispassionate and using the data at hand to make unemotional decisions that enable decision-making free of the human bias usually experienced when making investment decisions in challenging times.

History has shown that investors often base their decisions on fear and greed, often at significant cost, potentially derailing their investment strategies. Systematic investing avoids that by basing investment decisions on rational data-driven insights that are unemotional, repeatable, and fully cognisant of the future.

The other benefit of a systematic investment approach is that it is more streamlined and efficient and relies on a smaller investment team than the traditionally more costly large active asset management investment businesses. By using and processing data using leading-edge technologies, like machine learning and data science, Prescient can also create efficiencies in its investment process, which contribute to investment performance and can be passed to investors as lower fees.

Cost is a big contributor to investment outcomes, and clients have become much more cost-conscious due to the rise in inflation over the last few years. Lower fees mean that even if returns are muted, the clients are not being overcharged, and then, when returns are higher, the clients are also not overcharged because they don't have to pay a performance fee.

Why is that important? Investing with a manager who charges lower fees and generates consistent performance enables advisers to deliver on their clients' plans, which are typically longer-term in nature. Ultimately, the client benefits more from consistent performance than investing in a portfolio that sometimes shoots the lights out from a return perspective but then experiences big drawdowns.

We know from empirical evidence that active fund management often underperforms at times and then outperforms – and many active managers fail to outperform their benchmarks over time.

Investors thus can either wait for this elusive alpha to outperform or experience a smoother ride by investing with a systematic investor that consistently performs at a lower cost, giving them a better chance of meeting their medium- and long-term investment goals.