Prescient
INVESTMENT MANAGEMENT

Why patience, diligence, and diversification matter in systematic investing

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In the world of investing, it is our view at Prescient Investment Management (PIM), that striving for the perfect balance is crucial for long-term success. We understand that this success hinges on meticulously calibrating strategies to be neither too aggressive nor overly cautious - striking this balance is essential to not expose investors to unnecessary risks; or result in missed opportunities for growth. Being alert to where one is in the market cycle and having the ability to adjust strategies accordingly is key to navigating market complexities and delivering on client promises.

It is our view that this "balance" can be achieved through (i) **patience**, (ii) **diligence in analysis**, and (iii) **diversification**—a trifecta that can guide investors to long-term success.

Patience is a cornerstone of successful investing. Particularly evident during volatile markets, where prices fluctuate based on numerous factors, impulsive decisions can lead to significant setbacks. Warren Buffett's adage, ***"The stock market is designed to transfer money from the Active to the Patient,"*** fully encapsulates the value of patience.

It is a known fact that investors who practice patience are better equipped to withstand short-term market fluctuations and also capitalize on long-term growth opportunities. Research and financial literature abounds on this topic, from key contributors such Jeremy Siegel (Wharton School of Business) to the seminal work by Fama and French almost 30 years ago, talking to the notion that short-term investments can be highly volatile, yet long-term investments in diversified portfolios generally yield higher returns.

Key to our process is robust research, and **diligence in analysis**. For us, this involves deep research into macroeconomic variables, thorough evaluation of financial data, understanding market trends, and importantly, assessing the competitive landscape.

Successful investing hinges on thorough analysis, rigorous testing, and careful consideration of risk. Informed decisions should be based on comprehensive analysis rather than fleeting trends or speculative tips. This is not a novel idea by any stretch of the imagination, yet when placed at the heart of an investment process, continues to allow investors to achieve long-term success. Importantly, this disciplined approach ensures that investment choices are aligned with long-term objectives and are resilient against market pressures.

Diversification, often referred to as the only free lunch in investing, is the practice of spreading investments across various asset classes, sectors, and geographic regions to minimize risk. This approach is essential for constructing robust portfolios that can endure challenging economic conditions and volatile markets. While losses are an inevitable part of investing, appropriate diversification—neither over-diversifying nor under-diversifying—enables portfolios to absorb losses more effectively while remaining invested.

By carefully diversifying, investors can protect against significant losses in any single investment, ensuring greater stability and the potential for enhanced overall returns. Adjusting allocations to reflect changing market dynamics further supports resilience and adaptability, reinforcing the strength of a well-balanced portfolio. Harry Markowitz's pioneering work on modern portfolio theory highlights how diversification helps optimize *risk and return*, establishing it as a core strategy in effective portfolio management.

Applying the 'rule of three':

Our systematic investment process is deeply rooted in rationality, driven by rules and evidence, with a strong emphasis on data-driven analysis to minimize human biases and enhance decision-making. Combining patience, diligence, and diversification are thus key components of this robust systematic strategy. This approach allows us to navigate complex market dynamics effectively, ensuring consistency in long-term outperformance for our clients.

By adhering to a disciplined, evidence-based framework, we maintain stability and resilience, positioning our portfolios to achieve sustained success. This approach, applied practically, entails:

- **Patience**: Committing to a long-term investment horizon and avoiding reactionary decisions based on short-term market fluctuations.
- **Diligence**: Conducting thorough research before making investment decisions and continuously monitoring portfolios to align with evolving financial goals and market conditions.
- **Diversification**: Constructing a well-balanced portfolio that spans various asset classes and sectors, periodically rebalancing to maintain optimal risk exposure.

This "balanced approach" at PIM underscores patience, diligence, and diversification as pillars of sustainable investment strategies.

By patiently waiting for opportune moments, rigorously analyzing opportunities, and strategically diversifying portfolios, investors can navigate market complexities effectively. This approach aims not only to maximize returns but also to minimize risks, ensuring portfolios are finely tuned for long-term success. Ultimately, this methodical approach fosters resilience and stability, ensuring that investment strategies remain finely tuned for sustainable growth.

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