GreenHills Ventures Wealth Management – Advisors Pitch Based on Style but Not Necessarily on Clients Needs

MICHELLE KNIGHT

As financial advisors seek to distinguish their investment approach, a trend has emerged of distinguishing wealth managers by style. It is now very common for clients to hear advisors speak about a thematic, thesis or opportunistic approach to investing and why their method is superior to the rest. But these are not single-strategy, large-cap-value managers or hedge fund honchos. A financial advisor is a wealth manager, responsible for a holistic and prudent stewardship of client assets. However, in an increasingly competitive RIA marketplace, there is growing pressure to create a secret sauce that keeps clients engaged in your story.

To understand whether this is just a slick marketing gimmick or something more substantive, first we will consider what those three approaches—thematic, thesis and opportunistic—mean in the context of actual client portfolio management.

Dreaming Up Themes

Thematic investing is all about anticipating and capitalizing on secular change. As the story goes, major demographic, societal, technological and political developments around the world create abundant investment opportunities. The key is to position a portfolio to take advantage of the changing landscape before many of the changes actually happen. This requires substantial research and preparation to separate shorter-term fads from true paradigmatic shifts that have visibility of at least five to seven years. In other words, these are not the up-to-the-minute investment ideas discussed on CNBC and in *The Wall Street Journa*l.

Instead, thematic investors study a range of foreign affairs, scientific, historical and social theory books and journals, and they interact regularly with field experts, thought leaders and policymakers to access and select the global and truly secular themes that have merit. Then, thematic managers apply their investment discipline to choose companies and investment vehicles that are best suited to take advantage of those themes. Often, an economic overlay may be applied to identify the cyclical forces that may affect those themes in the short term.

Many hot themes today include: social networking, social media, online video, climate change, buying local, the emerging middle class, genomic medicine, etc. However, bear in mind that some wonderful themes have difficult underlying market dynamics. For example, a theme like solar energy may sound great on paper, but the underlying economics might make it a poor investment choice. A thematic manager might instead choose to focus on nuclear power, plug-in hybrids and clean coal technologies in recognition of the theme of alternative energy created by the search for renewable energy sources.

CONFIDENTIAL INFORMATION – *INFORMATION CONTAINED HEREIN IS CONFIDENTIAL. ALL INQUIRIES OR REQUIRES PRIOR WRITTEN CONSENT AND APPROVAL BY BOTH GREENHILLS VENTURES AND THE COMPANY. GREENHILLS VENTURES HAS THE SOLE RIGHT AND DISCRETION TO PROVIDE CERTAIN CONFIDENTIAL INFORMATION ONLY UPON WRITTEN REQUEST. FOR INFORMATION REGARDING THIS ARTICLE CONTACT GREENHILLS VENTURES AT (212) 907-6483.*

Certainly, ways to invest thematically can and should change over time. The Internet is a great example of an investment theme that may have started with investments in manufacturers of high-speed Internet technology and has since moved on to investments in companies that can capitalize on the trend of people watching streaming video, playing games and interacting online in new ways.

Of course, some themes are better left uninvested. For example, some 10 years after analysts at Goldman Sachs coined the acronym "BRICs," tying Brazil, Russia, India and China into a single investment theme, investors are still waiting for their payday. While their economic forecasts were right (that China would overtake Japan as the second-biggest economy, which it did in 2010, and that China would eclipse the U.S. by 2030, something that is actually likely in 2020), returns from the BRICs have been awful after their initial run-up between 2002 and 2007. Indeed, over the last five years, while the U.S. markets have delivered an 8.0% positive return, China and Brazil have lost 20.0%, India has lost 30.0% and Russia has lost 43.0%.

Even so, thematic managers will argue that their style is superior given a natural bias toward investing for the intermediate to long term: When investments are part of a larger construct, it is easier to stay focused on the big picture. Therefore, during tough periods in the market, their themes serve as a compass, guiding the investments by providing a focus for portfolio management decisions.

Find Me A Thesis

Thesis-based investing is often considered as the next step beyond thematic investing. It takes enduring themes that may have been identified in "thematic investing'"and crafts a vision for how the world will look in five or 10 years due to and because of those themes. Once this vision of the future has been established, the road map of how to get there becomes the investment thesis, and every investment made is tested through the thesis to make sure it fits into context.

Proponents of thesis investing argue their superiority over thematic investors as they avoid a lot of the "me too" hot and trendy themes for more long-lasting theories. Thesis investors become domain experts on their ideas, which is critical to building a sustainable investment advantage and often leads to a higher probability of success. Jim Rogers, co-founder of the Quantum Fund with George Soros, is a notable example of a successful thesis investor. He famously moved with his family to Singapore in 2007 due to his view that it was a groundbreaking time for investment potential in Asian markets.

Of course, when a thesis is wrong, the results can be disastrous. Consider the rise and fall of so-called "New Economy" stocks, when the dot-com bubble burst in 2001.

CONFIDENTIAL INFORMATION – *INFORMATION CONTAINED HEREIN IS CONFIDENTIAL. ALL INQUIRIES OR REQUIRES PRIOR WRITTEN CONSENT AND APPROVAL BY BOTH GREENHILLS VENTURES AND THE COMPANY. GREENHILLS VENTURES HAS THE SOLE RIGHT AND DISCRETION TO PROVIDE CERTAIN CONFIDENTIAL INFORMATION ONLY UPON WRITTEN REQUEST. FOR INFORMATION REGARDING THIS ARTICLE CONTACT GREENHILLS VENTURES AT (212) 907-6483.*

When Opportunity Knocks

An opportunistic investment strategy is one that seeks to produce the greatest possible returns from all available opportunities for investment at any given time, irrespective of any self-imposed limitations, exclusions or concerns about pursuing a conventional or balanced approach. Opportunistic investing represents a truly independent approach to directing capital to the highest potential risk-adjusted returns available at the time of the investment decision. The strategy can be triggered by events or situations that create short-term opportunities to capitalize on price fluctuations or imbalances.

Sometimes called “absolute return,” an opportunistic investment approach will typically use cash (and lots of it) as a defensive tool. Often, opportunistic practitioners believe that excess returns can be generated by exploiting investment anomalies or disruptive events characterized by investor overreaction, forced turnover of the shareholder base, structural occurrence and a lack of available information. To achieve these results, the opportunistic investor will conduct internal, statistical studies as well as fundamental research that provide a rationale for anomalies witnessed and judge whether they will persist in the future. Warren Buffett, the Oracle of Omaha, may be the consummate example of an opportunistic investor, making notable investments in Salomon Brothers in 1987 and Goldman Sachs in 2008 when both organizations teetered on the verge of collapse.

In today’s world, some firms have built comprehensive asset allocation strategies around the idea of opportunistic investing that are driven by rigorous quantitative analysis. These strategies often have the benefit of downside protection in a declining market, but may miss some of the long-term performance upside inherent in investment opportunities that only a thematic or thesis style could uncover.

Why Not Have It All?

So what approach is ultimately best for clients? All have merits and have delivered periods of superior or subpar performance at one time or another. It goes without saying that all investments regardless of investment style should have a measurable objective and a quantifiable risk profile. Risk considerations aside, as those will vary with the underlying investment strategies, the decision to embrace one approach over another may be more of an issue of time horizon, as opportunistic investing often involves a short term, thematic a medium term and thesis a long-term investment horizon.

Thus, it seems ironic that a financial advisor would seek to define his or her practice by only one of these approaches, when the obvious and most prudent course for client interests would be the inclusion of all the types. After all, a truly diversified portfolio is one that would deliver thematic, thesis and opportunistic investments together so that clients could benefit from the best ideas across the risk spectrum and over varied time horizons. A thesis, themed and opportunistic approach just adds another layer of dimension to modern portfolio theory that is desirable in these turbulent times.

CONFIDENTIAL INFORMATION – ***INFORMATION CONTAINED HEREIN IS CONFIDENTIAL. ALL INQUIRIES OR REQUIRES PRIOR WRITTEN CONSENT AND APPROVAL BY BOTH GREENHILLS VENTURES AND THE COMPANY. GREENHILLS VENTURES HAS THE SOLE RIGHT AND DISCRETION TO PROVIDE CERTAIN CONFIDENTIAL INFORMATION ONLY UPON WRITTEN REQUEST. FOR INFORMATION REGARDING THIS ARTICLE CONTACT GREENHILLS VENTURES AT (212) 907-6483.***

Importantly, it is not necessary for these approaches to be in conflict. When they are, it speaks volumes about the market and risks therein that are important to ongoing client dialogue and the renewal of investment goals and objectives. Never should a financial advisor's self-proclaimed investment style be used to dismiss long-term underperformance or deviation from a client's goals and objectives. It might be acceptable at a manager or single-strategy level, but not when it comes to holistic wealth management.

Financial advisors do not need a style to define them. They do not need to box themselves in with a label for their investment approach that precludes all others. Instead, financial advisors need a client-centric investment philosophy that empowers them to provide the best advice and strategy possible under any and all circumstances and throughout time.

About GreenHills Ventures
GreenHills Ventures, LLC., established in 2001 as a private investment holding company and General Partners for GHV Fund I and GHV Fund II, (GHV Fund), an early stage venture fund and GHV Wealth Management Holding, LLC. (GHVWMH), a wealth management firm focused on alternative investments for its single and multi-family offices and institutions. For more information visit www.greenhillsventures.com

CONFIDENTIAL INFORMATION – ***INFORMATION CONTAINED HEREIN IS CONFIDENTIAL. ALL INQUIRIES OR REQUIRES PRIOR WRITTEN CONSENT AND APPROVAL BY BOTH GREENHILLS VENTURES AND THE COMPANY. GREENHILLS VENTURES HAS THE SOLE RIGHT AND DISCRETION TO PROVIDE CERTAIN CONFIDENTIAL INFORMATION ONLY UPON WRITTEN REQUEST. FOR INFORMATION REGARDING THIS ARTICLE CONTACT GREENHILLS VENTURES AT (212) 907-6483.***