

INVESTING IS LIKE OFFROAD RACING—DOES YOUR PORTFOLIO HAVE AN EDGE? (OUR AVANT-GARDE PLAYBOOK)

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Investors face a daunting task, as surveys¹ consistently show that, over the long term, most funds underperform their benchmarks, and individual portfolios often capture only a fraction of market returns.

Investors can greatly benefit by realizing that their portfolios function as vehicles for wealth cultivation, traversing the unpredictable market—an endeavor reminiscent of The Dakar. Similarly to participating in that grueling offroad race, the success of investor portfolios hinges on two crucial advantages: structural superiority and effective navigation.



In investing, guarantees are impossible due to the uncertain future. However, enterprising investors seek an edge—positive expectations tipping the odds in their favor. At GNH Capital Group, our research-based practice has sought to address this challenge for over two decades by focusing on building and managing strategies with a distinctive dual edge—structural and navigational.

Structurally, we construct portfolios by balancing exposures to investment factors (Market status, Momentum/Mean Reversion, Size, Volatility, Quality, and Value/Growth), rather than relying on traditional asset class matrices. Evidence supports the enduring outperformance of these factors, in contrast to asset classes². While blanket exposure to all factors may not provide an edge (as factors can have contrastive performance over shorter horizons—e.g., Momentum may do well while Value underperforms), our research indicates that a well-calibrated factor mix can give investors an edge.

Beyond gaining a structural edge based on factors, our strategies also aim to secure a navigational advantage. They use proprietary indicators to continuously survey the market and economic landscape, scanning for a potential sustained bearish market regime shift. The goal is to downshift exposure and retune portfolios to defensive factor exposures, detouring around sustained unfavorable market conditions. In contrast to market timing, which chases the elusive dream of predicting the future, in our strategies' we practice 'macro-tracking'—the vigilant tracking of market regime shifts between bullish and bearish states—which only aims to adjust to *unfolding* trends, a realistic exercise. The CoViD crash highlighted the difference—portfolio activity surged with market timing while macro-tracking refrained from repositioning portfolios upon recognizing that the market regime had not turned bearish despite the record volatility.

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¹ <https://www.evidenceinvestor.com/why-indexing-works-and-continues-to-grow/>

² Ilmanen, Antti S. and Kizer, Jared, The Death of Diversification Has Been Greatly Exaggerated (2012). The Journal of Portfolio Management, 38(3), 123-145 (Abstract available at SSRN: <https://ssrn.com/abstract=2998754>).

Based on the above and additional sources and research, the authors conclude that a factor-diversified portfolio has a significantly higher risk-adjusted performance than an asset class-diversified portfolio.

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