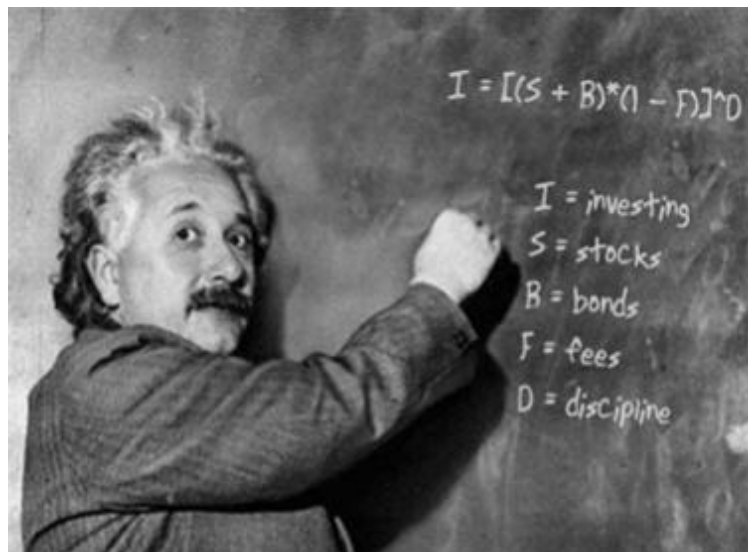


First Principles First

"I learned to scunt out what was able to lead to fundamentals and to turn aside from everything else, from the multitude of things that clutter up the mind."

- Albert Einstein



I take the role of Chief Investment Officer for Biograph very seriously. Between the UK and Ireland, we invest over £500m of client money.

Although there's a [very small] chance I might knock the lights out with some inspired fund or stock picks that make our clients fortunes, if you were to build up the role of the CIO of a financial advisory practice from first principles, the result becomes inevitable...

1.

We could of course put all our client money in state-guaranteed savings accounts and bonds, but we'd be *guaranteeing* them a lower purchasing power of that money when they go to spend it.

Our clients' investments need to generate returns to fund retirements, educations, businesses, weddings, injury recoveries, sabbaticals,...their lives. This means we need to ensure there is growth in our clients' capital.

Another guarantee – humans as a whole will always be creative, ambitious, and competitive. This is reflected in businesses; built to bring their creations to life (e.g. Apple), make them money (e.g. Berkshire Hathaway), or be better than the competition (e.g. Amazon).

The most reliable way we know to consistently grow your assets over time is tap into this reflection; to own a piece of capitalism.

Therefore, there needs to be money in the stock markets.

2.

Every client has different cash needs, different attitudes to volatility and drawdowns, and different timeframes.

We know stock markets will have downturns.

Therefore, we need to have a certain amount of money (from 0% up) in cash and fixed income.

3.

Earning positive returns by definition brings some element of risk, so these investments also need to *not* crash to catastrophic numbers.

The best route to catastrophe is concentrated investments.

Therefore, the allocations need to be diversified.

4.

Every client comes to us with a different situation, different family structures, different careers, different tax considerations, and different objectives.

Therefore, the investments need to part of a bespoke financial structure, built for each client's particular conditions.

5.

Funds are one of those rare purchases where paying a premium price tends to result in a worse product.

It's a twisted version of the false economy principle.

You buy a Patagonia jacket, which costs perhaps three times more than a similar one, but it should be high quality and last forever. And if it doesn't, you can get it fixed for free. While the cheap jacket needs to be replaced.

Unlike Patagonia jackets, the more you pay for a fund, in general, the lower your expected returns¹.

Why? Aside from the obvious (the fees eating into your returns), you pay a premium for stock pickers who have a reputation. But past performance does not indicate future performance.

This disclaimer/adage is something I had read and heard a million times, but I *learned* it when I worked at a hedge fund. Thousands of regressions don't lie.

When it comes to funds: pay less, get more!

Therefore, the investments need to be low-cost.

6.

Finally, every client needs to be able to sleep at night and not anxious about their portfolio.

As do I! And I wouldn't be able to do so if I knew there was an additional layer of risk applied to our clients' investment; unnecessary and added by me.

Fidelity's research showed that their dead clients outperformed their live ones. No chopping and changing, no panicking².

Do less, get more!

Therefore, the investments need to be disciplined; held for the long-term and rebalanced intelligently.

Conclusion

The role of the CIOFFP (Chief Investment Officer From First Principles) becomes pretty straightforward.

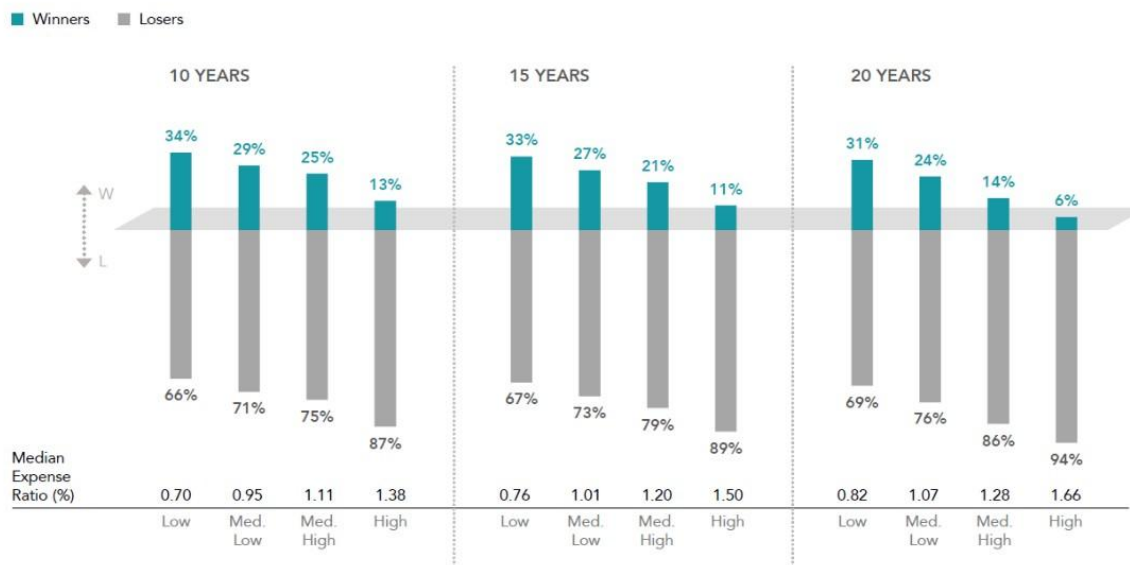
Invest in broadly diversified, low-cost portfolios according to each client's financial structure, and stick to the plan.

Boring? I don't think so.

Perhaps not as exciting as finding the next Nvidia, but the most reliable way for our clients to live the lives they want. And get some decent sleep along the way.

References

¹ <https://my.dimensional.com/the-fund-landscape>



Past performance is no guarantee of future results.

The sample includes funds at the beginning of the 10-, 15-, and 20-year periods ending December 31, 2023. Funds are sorted into quartiles within their category based on average expense ratio during the sample period. The chart shows the percentage of winner and loser funds by expense ratio quartile for each period. Winners are funds that survived and outperformed their benchmark over the period. Losers are funds that either did not survive or did not outperform their respective benchmark. US-domiciled, USD-denominated, non-Dimensional open-end and exchange-traded fund data is from Morningstar. See *The Fund Landscape Appendix* for more information. US-domiciled mutual funds and US-domiciled ETFs are not generally available for distribution outside the US.

² This is an interesting rabbit hole. The original source seems to be impossible to find but the study is referenced many times, e.g. <https://www.businessinsider.com/forgetful-investors-performed-best-2014-9>. The general idea is sound and is backed by the annual Dalbar *Quantitative Analysis of Investor Behavior Study* (<https://www.qaib.com/>)

Risk Warning

Your capital may be at risk.

The value of units can fall as well as rise, and you may not get back all of your original investment.