Colin Symons Interviewed by Bill Hortz, Founder & Dean, Institute for Innovation Development

Building Durable Wealth: Risk Management is a Differentiator

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[In the ongoing debate around active vs. passive investment management, one can argue that cost and relative return may not be the only, or even the most important, factors at the heart of the debate. While those two factors are understandably key drivers of the conversation, equal time should also be given to the element of risk, and risk management, as possibly the predominant cornerstone of the debate. In fact, ***Cerulli Associates*** *, a global research and consulting firm, has been reporting for years that the majority of investors have weighed-in overwhelmingly - by a 3-to-1 margin - on the side of portfolio protection and protection-focused portfolios over outperformance and growth-oriented portfolios – even knowing that decision can negatively impact their long term financial plan or goals. With this unflinching client perspective, the industry debate should clearly steer to a better understanding and exploration of the nature of protection-focused portfolios and risk management.*

To explore this further, the Institute for Innovation Development searched for an active manager with a strong emphasis on risk management and recently talked with ***Colin Symons*** *, Chief Investment Officer and Portfolio Manager, of Symons Capital Management . The firm manages two value strategies and a mutual fund but characterizes itself as an intellectually independent investment management firm focused on one activity for one purpose - "Investment risk management with a singular focus on generating above-benchmark returns with below-benchmark risks over full market cycles". Armed with a plethora of risk metrics (Zephyr Pain Index, Omega ratios, active share, and many others), they have historically achieved what The Mutual Fund Observer calls "a pleasantly asymmetrical risk-return ratio".]*

Hortz: ***Based on your stated investment philosophy, your core focus in your money management offering is risk management and a holistic risk/reward research process with the goal of building durable wealth. You characterize yourself more as a risk manager than as a value manager. Why the predominant positioning of risk management in your firm messaging?***

Symons: In our over 30 years of investment experience**,** we have seen a consistent cycle of greed and fear in the stock market. It is driven by human nature which doesn't really change. Since fear and greed don't change, this overriding market dynamic doesn't change. Knowing this, we try to short-circuit that mentality and build our investment process around that risk of investor behavior. We principally try to model the range of potential outcomes, avoid areas where investors are pricing in high expectations, and embrace areas where investors are pricing in low expectations. We avoid what looks like return-free risk in the popular stocks and seek out good risk-return situations in the unpopular stocks.

That said, information, analysis, and focus do change, and I'm always looking for ways to improve our investment work. For instance, in 2013 amidst great government intervention in the market we found our macro work didn't really have good answers for direction. Instead, we found that modeling the economy much like a stock was much more effective. The basics don't really change, but we are always looking for ways to evolve and improve our investment process.

Hortz: ***How do you differentiate your risk management processes from other money managers and how does it provide a distinctive profile for your firm? Have you developed any proprietary risk measures or risk management processes?***

Symons: What primarily differentiates us is our blending of macroeconomic and market analysis. Not many people in our business can look at macro data and make it useful. Our macro work helps us to point the ship in the right direction. From there we can look in high-percentage reward vs. risk places. It allows us to see risk and opportunity quickly - finance risk in 2007 and retail opportunity in 2017.

Hortz: ***You make a lot of references to history in your blog. What have you learned and use from stock market history? How does that give guidance to your investment process?***

Symons: History reinforces how human nature doesn't change and the markets react accordingly. In 1907, people got excited by innovation, drove those companies up to great heights, then watched them crash. It helps to have perspective - tech stocks today aren't some new era, they're more the intersection of low rates and investor behavior. Debt has limits, and investor sentiment changes.

Hortz: ***Your website outlines your investment process of: Continuous macroeconomic and market analysis, along with fundamental equity research through that macro lens. Can you***

tell us what adds the most value to your success in achieving top-tier, low risk metrics for your management style and mutual fund?

Symons: In general, I think we're unusually focused on risk-reward in building durable wealth for our clients. We want to be involved in situations where we get the biggest reward for the lowest risk. That's why we spend so much time on macro work - it lets us know what's likely to work. That should allow us to provide better downside protection. That's what some newer risk metrics try to measure - things like active share, Zephyr pain index, and the omega ratio.

First, it's idiomatic, but if you want results different from the market, you can't be the market, which is what active share addresses. All active share asks is how different from the index your manager is. That's particularly important when the market is going down. The Zephyr Pain Index is about investor stress - how much of a drawdown have investors been faced with and how long does it take to regain that drawdown? Again, our risk-focused method has led to less pain. The omega ratio is basically a version of the Sharpe Ratio that considers gains relative to losses - it's more sensitive to the risk-reward of a strategy. By having risk-reward foremost in our process, we can provide a relatively smooth ride in a relatively volatile asset class.

Hortz: ***With an accelerating rate of business innovation and disruption hitting all industries, how do you assess corporate managements in your fundamental analysis of a company?***

Symons: Sometimes it's tough, because there are a lot of voices involved. Does management have the faith of shareholders? If yes, that lets them do a lot more, or gives them more rope to hang themselves. ROE and debt levels versus their industry can generally tell us a lot about what kind of job management is doing. ROE can help us see management quality while debt lets us see how much risk they're taking.

Hortz: ***How do you recommend advisors best position your funds in their client's portfolios?***

Symons: With our consistent risk protection focus, we're a nice counterbalance to most active and passive funds. What we do tilting portfolios toward unpopular stocks that to us have good risk/reward profiles is psychologically unpleasant and thus not done very much. And based on that Cerulli study you mentioned, you need to add focused risk managers to your client portfolios as markets struggle.

Hortz: ***Any last recommendations you can make to advisors on how to look at the active versus passive investment debate?***

Symons: Passive is a reasonable choice, but it also takes a stronger stomach than most people realize. The problem is that the fear-greed cycle makes people want to make the wrong decisions both ways. Active can potentially help to counterbalance that by creating some true

diversification. That's particularly true right now, when unusually few stocks have such a large impact on so many indexes and ETFs.

Written by Bill Hortz, Founder & Dean, Institute for Innovation Development

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