HIGHEST PERFORMING ABSOLUTE FUNDS

Friday 12 April, 2019

Today E Financial Newsletter (EFN) explore 'Absolute Funds'. Our team have provided an overview of this type of strategy, a brief interview with a market veteran who designs Absolute Strategies, live access to an Absolute Fund strategy to allow investors to understand exactly how a structure like this evolves with an ever changing market climate, and 5 reasons why you might consider absolute funds.

So, What Is An ABSOLUTE FUND?

In simple terms, it's a strategy that aims to perform for the investor regardless of the market climate.

Traditional investment funds seek returns by investing in equities (shares), fixed income (bonds) or property. While these asset classes have generally produced positive returns over the long term (often regarded as 5 to 10 years or longer), short-term performance can be volatile, giving investors a bumpy and uncertain investment journey.

By contrast, absolute return funds seek to achieve positive performance over the shorter term (often regarded as one year) irrespective of the market conditions. To make this possible, absolute return portfolios typically invest across a wide range of asset classes and geographies in order to spread portfolio risk.

They also use advanced investment strategies. An example would be a relative value strategy, which can make money irrespective of whether markets are rising or falling. Absolute return fund managers also have the facility to use derivatives (such as futures, options). For instance they could anticipate that a particular currency would rise in value and if they turn out to be right make money as a result.

As an investment vehicle, an absolute return fund seeks to make positive returns by employing investment management techniques that differ from traditional funds. Absolute return investment techniques include using short short selling, futures, options, derivatives, arbitrage, leverage and unconventional assets.

Targeted absolute return funds are proving a popular choice among investors who are seeking to reduce volatility during periods of economic uncertainty.

These funds were the best-selling sector last year, according to the Investment Association. Absolute return funds aim to deliver positive returns in all conditions, and with less volatility than the wider market, making it easy to understand their appeal as a way to weather any potential stock market storms.

A Brief Interview With An Absolute Strategy Expert:

Today we welcome Lane Clark, a market veteran of two decades to provide valuable insight on Absolute Strategies. Lane has operated in many markets, and is a 'technical trader' by nature. As well as multiple market experience, Lane has acted in many capacities in the financial sector including running his own Asset Manager for an 8 year period. These days Lane operates a Consultancy (www.msi-consultancy.co.uk) where his team contract directly with Asset Managers, DFM's, and IFA's to assist their overall strategy, and incorporate ABSOLUTE STRATEGIES into their methodology.

Team EFN (EFN)- *'Lane, Absolute Strategy or Market Tracker?'*
Lane Clark (LC)- *'Over the longer term, tracking the markets is a prudent approach. History informs us that this approach will profit for an investor and the income from the dividends is a staple part of many a portfolio. However, in the current market climate, I am of the opinion that having some level of exposure to an ABSOLUTE STRATEGY is imperative for an investor.'*

EFN- *'You reference the current market climate, can you provide your views in regards to this?'*
LC- *'Our strategies projected an equity market sell off last year, shortly before the large retracement. The sell off in question became larger than we expected. Therefore, a reversal at the back end of 2018, and early 2019 seemed inevitable- and we witnessed exactly that. However, once again- investors seem to have been caught in the moment and yet again- the upward trajectory seems larger and faster than one would expect. Therefore, we find ourselves in a position very similar to the back end of last year where a 'sell off' may well be imminent. The fundamentals are similar, and from a technical perspective- the*

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markets seem like they could reverse. Investors beware.

EFN- *'A sell off may be imminent. Care to elaborate?'*
LC- *'For a few weeks now, equity markets have been looking over bought. However, the trend is strong so momentum continues as buyers plough in. Therefore, although they seem over bought, momentum needs to dwindle and a stimulus for the sell off needs to be activated. Will that be Brexit related, Trump related, China related, or Banking sector related? I'm not completely sure, but I am quite certain that the markets won't continue in their current trend for too much longer, and once the sell off begins, it could really gain traction.'*

EFN- *'So how does an ABSOLUTE strategy take advantage?'*
LC- *'The Key with an ABSOLUTE strategy is it aims to perform regardless of the climate. If Equities sell off, an absolute strategy should be selling them. If GBP depreciates, likewise. If Gold rallies- it should be on trend with it etc etc etc. In short, a solid absolute strategy will create 3-4 market biases at all times and aim to evolve these biases with an ever changing market climate. Obviously, like any strategy it can't be right every day, week, month or quarter, but year on year- a solid absolute strategy should deliver.'*

EFN- *'So is your Consultancy able to deal with Direct investors and build ABSOLUTE strategies for them?'*
LC- *'No. We contract with Asset Managers and similar entities. The Asset Managers in question deal with the direct clients. If any of your readers want to discuss absolute strategies, or the Asset Managers I've designed them for, I'd be delighted too.*

EFN- *'Thanks Lane. So what would an investor expect from an Absolute Strategy?'*
LC- *'In short- Performance regardless of the climate. It can't be guaranteed (what can), but the concept behind it is incredibly logical, and as a portion of an overall portfolio it is imperative in my very humble opinion.'*

Live Access To An Absolute Strategy:

Lane Clark has provided Team EFN with live access to an ABSOLUTE STRATEGY portfolio his team have designed, which they allow Asset Manager's, DFM's and IFA's access to before contracting with their team.

As an investor, if you're looking towards an ABSOLUTE strategy, it would probably make sense to follow the portfolio to increase your understanding of how an absolute portfolio operates before searching for your fund of choice.

Please click on the link below to access the details:
https://mailchi.mp/9644d797c081/portfolio-details

To Contact Lane Clark, you can e mail him on lc@msi-consultancy.co.uk

To Contact Team EFN to find out about other Absolute Strategies our team have researched e mail us on info@efinancialnewsletter.com

5 Reasons To Consider Absolute Strategies:

1. ABSOLUTE RETURNS LET YOU GO GLOBAL
In a low-yielding environment, it makes sense for investors to range as widely as possible in their hunt for the best return and diversification opportunities. That means going global (for example, taking advantage of the fact that different countries will be at different stages in their interest rate cycles) and also exploiting the widest possible range of sectors and security types.

2. ABSOLUTE RETURNS LOOK BEYOND THE NORMAL BENCHMARKS
Why let a fund manager inform you he or she has out performed the market place by 3 percent, when the market might be negative 20 percent. Extract yourself away from tracking a market, as if the market

underperforms, the likelihood is- so will your investment portfolio. Not having a benchmark allows investors to explore basically any market to pick up extra income and performance where attractive opportunities arise.

3. ABSOLUTE RETURNS HELP TO HEDGE RISK

It's always important to find the right balance of risk and protect investors against adverse outcomes. The ability to take short as well as long exposures with absolute return funds puts more tools at the manager's disposal. In stable markets, defensive short positions behave like an insurance policy: their only impact is the cost of the contract, and investors can choose to hunt out the best value protection. In turbulent markets, defensive positions can significantly boost performance and smooth out returns.

4. ABSOLUTE RETURNS LET YOU INVEST INTO A VARIETY OF MARKETS

A key advantage of an absolute return strategy is having the freedom to invest into a multitude of different markets. By building exposure to commodities, FX and Equity Indices to support your more traditional holds- your portfolio will be better diversified and able to weather any storm that may lie ahead.

5. ABSOLUTE RETURNS ALLOW MORE SPECIFIC, LESS MARKET-WIDE RISK

It's always sensible to manage or avoid systematic risks. Systematic risks can be hard to predict and always have the potential to trigger 'risk off' sentiment and volatility in the market. Potential examples include the unpredictable political environment in the US, the possibility of a slowdown in China and the end to the long period of ultra-accommodative monetary policy. By hedging against market-wide risks, managers can focus more on idiosyncratic risk: selective exposure to specific markets selected by intensive research.

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