Cunich Advisory Investment Philosophy

The Cunich Advisory Investment Philosophy defines investment principles and beliefs that inform our approach to the allocation and management of capital. The principles underpinning our philosophy are based on the proven theories defining and explaining the characteristics of financial markets, asset valuation, behavioural finance and risk that have been tested and validated many times.

The Cunich Advisory Investment Philosophy is predicated on the preservation of capital and its purchasing power, and then taking investment risk only where the assessed returns are adequate to compensate for the risk being taken over an appropriate timeframe.

"Take risk only when the forecast returns are adequate to compensate for the risk being taken"

1. Risk Premia Persist

Over the long term and the history of capital markets, there is an established relationship between investment risk and return. The additional return above the risk-free rate achieved from exposure to the risks of a particular asset or asset class is referred to as the risk premia. Typically, the longer the timeframe the more stable and persistent is the risk premia. Hence, investment is for the longer term in order to reliably access respective risk premia.

"Long term, risk and return are related"

"Taking risk can be rewarded - but not all risk is rewarded, and no risk is rewarded all the time"

2. Assets and Asset Classes Mean Revert to 'Fair Value'

The price of assets and asset classes will, over the long term, revert to their Fair Value. The Fair Value is a long-term average of the multiple of earnings produced by an asset or asset class relative to its price. This Fair Value multiple can take decades to establish, and assets can trade at a premium or discount to this level for extended periods but reversion to the Fair Value will occur.

"Asset prices mean revert to Fair Value but this does not mean that the expensive will not get more expensive or the cheap will get cheaper before mean reversion occurs. Markets and prices are not always rational, but Fair Value is always our point of reference"

3. Diversification

Diversification of assets, asset classes and proven investment approaches has the effect of reducing the risk of a given portfolio. Because the future is uncertain, appropriate diversification of assets typically produces a superior risk-adjusted outcome than being exposed to a single or very small number of assets. Diversification is essentially the benefit derived from 'not putting all your eggs in one basket'.

"Diversification, a cost-effective way to insure against the risks of an uncertain future"

4. Asset Allocation

Asset Allocation is the first and most critical step in portfolio construction. Its role, based on the long-term historical risk and return relationships of different assets and asset classes, is to inform the optimal portfolio construction for a given investment objective.

Dynamic Asset Allocation combines the concepts of Fair Value, asset class return correlations and diversification, along with capital market forecasts, to guide optimal portfolio construction. If all asset classes were priced at their long-term Fair Value with correlations at long term averages, then optimal portfolios would be positioned at their Strategic Asset Allocation (SAA). This situation is often not the case and where it is not, dynamically varying the relative exposures to asset classes and strategy types based on relative value assessment can produce a superior risk adjusted return for a given portfolio or investment objective over the longer term.

"Asset Allocation can be a major risk mitigant but is the key driver of the volatility of portfolio returns"

5. Markets

Markets are the mechanism of price discovery for assets and asset classes. Markets are plentiful and range from having high to low integrity and efficiency. Preferred markets have high levels of efficiency where information is transparent, regulation is strong, buyers and sellers are numerous, and transaction costs are low. Such markets, while providing efficient price discovery, can be subject to the vagaries of investor sentiment and momentum which can lead to asset prices diverging significantly from their Fair Value.

"Markets are a very efficient pricing mechanism, but not always an efficient valuing mechanism"

Financial Strategies & Investment Advice

6. Liquidity

The ability to buy or sell an asset in a timely and cost-effective manner is an asset in itself and a fundamental characteristic of an efficient market. Liquidity is less abundant than it appears and should never be taken for granted.

"Liquidity is an insurance policy to aid the management of an uncertain future"

7. Active Management

While markets for the major asset classes are generally efficient, they are not perfectly efficient. The greater the level of inefficiency in a particular asset market, the greater the opportunity for skilled management to profitably exploit the respective inefficiency.

8. Fees and Taxes

These costs matter and have a real impact on investment return. Their consideration is integral to the investment process.

The Cunich Advisory Investment Philosophy articulated herein provides a fundamental investment framework within which we develop and deliver best practice investment solutions. These solutions help drive new levels of efficiency, effectiveness and risk management - ultimately assisting clients to achieve the goals and objectives they seek.