



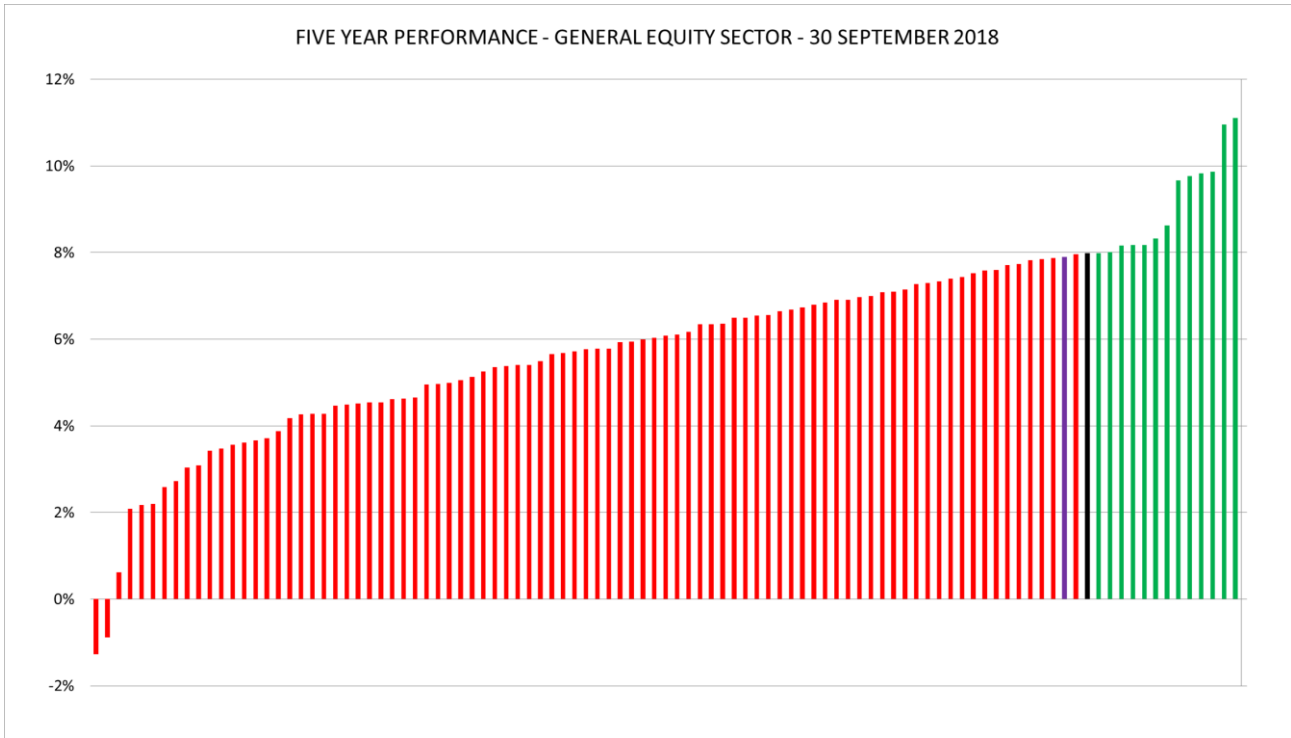
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Asset allocation is in and stocks selection is out

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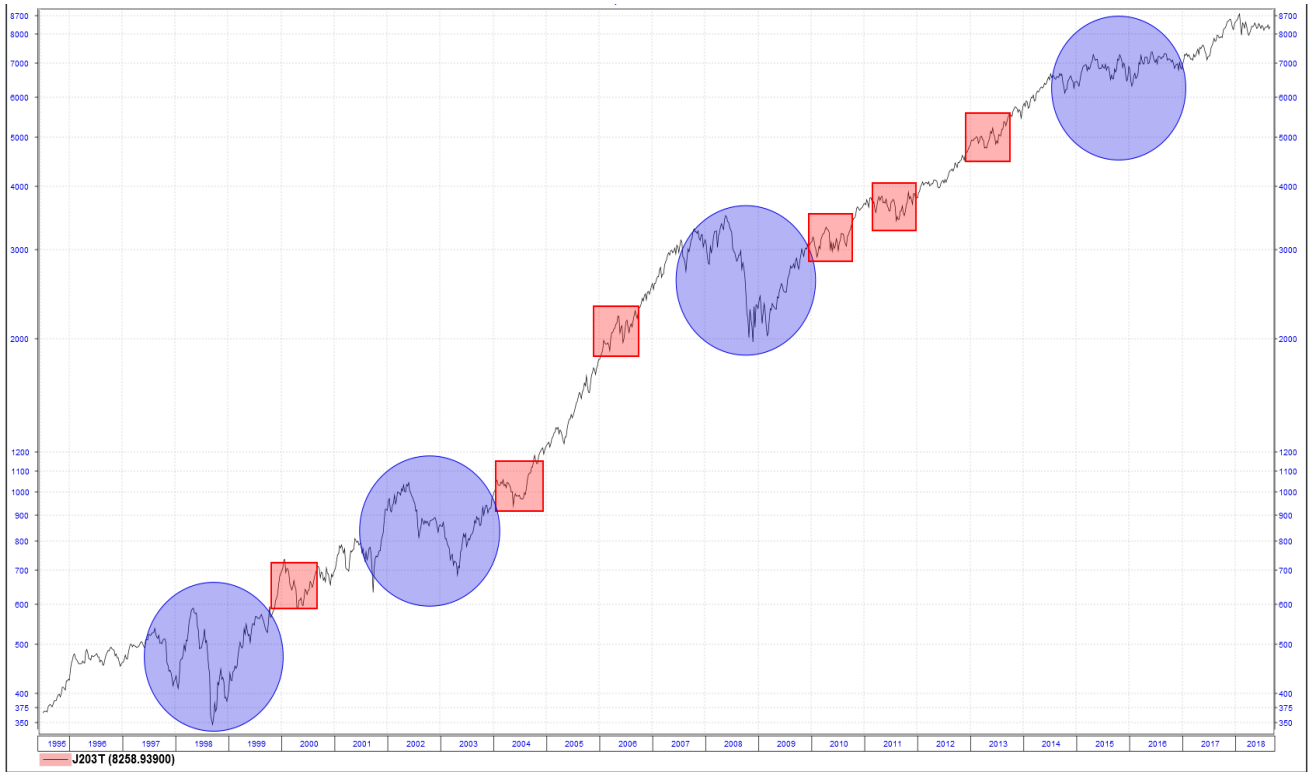
According to research studies and related publications circulated globally, we are seeing the rise of indexation, and its advantages are beyond dispute. This “passive” approach to securing asset exposure is, in effect, a tacit admission by the asset management industry that markets are efficient and that only a small percentage of asset managers are able to beat asset class benchmarks. We’ve written extensively on how hard it is to successfully choose the next outperforming fund in a certain asset class, and we conclude that a successful selection is based on luck.

For the 5-year period ending 30 September 2018, performance in the General Equity Sector of RSA indicates that indexation was the most logical choice to make when seeking equity market exposure. This is due to lower fees and not pursuing stock selection which can be destructive.



Source: Profile Data (30 Sept 2018)
 Black bar: FTSE / JSE All Share Index Total Return
 Red bars: Funds that underperformed
 Green bars: Outperforming funds
 Purple bar: Index fund – Gryphon All Share Tracker

Gryphon is of the opinion that markets are efficient, and spending resources on stock selection is not the most effective allocation of time and money. We believe that asset allocation should enjoy much higher priority than stock selection even though the equity market is the best performing asset class over the longer term. By spending more resources on asset allocation, substantial value can be added by avoiding the primary cycle drawdowns. We tend to ignore the secondary cycles as these can be difficult to forecast. In the graph below we indicate the primary & secondary cycles:



Source: Profile Data

- Primary cycle drawdowns
- Secondary drawdowns

Few of our competitors make use of low-cost indexation-based exposure to asset classes and yet, for the reasons mentioned above, it makes sense to do so. Our process is unique and, by not paying excessive fees to active managers that rarely consistently and predictably get their underlying picks right in an asset class sector, we expect to continue to set the pace in this sector.

Glacier Research would like to thank Casparus Treurnicht for his contribution to this week's Funds on Friday.



Casparus Treurnicht – CFA, B.Com Hons (Financial Analysis)

Cassie is a Chartered Financial Analyst holder and fulfils the role of Portfolio Manager and Research Analyst. Cassie joined Gryphon in 2011, bringing a strong quantitative background which made him a natural fit for maintaining and developing our proprietary valuation models and conducting equity research.