# GLOBAL ALPHA– EMBRACING THE ASYMMETRY OF RETURNS

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The art of glassblowing, inflating a molten glowing blob into fine blown glass with the aid of a blowpipe, has been around for millennia. Sand, heat and skill get converted into objects of great beauty and value, but it's fiendishly hard to master. At any point in the process, things can go wrong and the glass bubble, or parison, can shatter.

Although on the face of it an entirely different activity, equity market investing mirrors glassblowing in offering an asymmetry of benefits - or returns, in the parlance of stock markets. Embracing this asymmetry is one of the four golden threads that weaves together to form the Global Alpha strategy.

Its starts with the idea that whilst your downside is limited, your upside in an individual stock is entirely uncapped. You can buy a share for £1. Now, that company can go bust and you lose everything - 100 per cent of your original investment. Or, over time, the share price might increase to £2. Or £10. Or even £100. It is possible to make multiple returns on your initial stake.

Our team have invested in stock that have delivered both the positive, and the extreme negative of those returns. Investing one, for the possibility of making many sounds irresistible, doesn't it? So why don't all fund managers embrace the asymmetry of equity market returns? Well, there are two hurdles that investors find hard to overcome.

The first is that profiting from asymmetry requires a very long-term mindset. Truly exceptional returns are delivered over many years and decades. In a world that values trading and instant reactions and 24 hour news, ahead of patience, it's becoming harder than ever to stick to the long term.

The second, related hurdle is that it requires a degree of intellectual courage to hold fast when others are selling. In some our ideas that have made us the most money for our clients, they have often dropped 40 per cent, and everyone starts asking why you continue to hold it. The fear of being singled out is very real. The easy action, of course, is to follow the herd and sell and stop all the hard questions. But the right course of action demands more. If the fundamentals of an investment case have not changed, then we must hold firm, in the belief that the long-term upside outweighs what we stand to lose from the inevitable short-term bouts of stock market doubt.

John Maynard Keynes wrote that 'worldly wisdom teaches it is better for reputation to fail conventionally than to succeed unconventionally'. This neatly sums up why it's hard to embrace the asymmetry of equity market returns.

Be bold, be intellectually courageous, stick to your guns and the profit *should* substantially outweigh the losses.

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