

HOW TO REDUCE YOUR RISK AND RAISE YOUR RETURN

 by Tim Jenkins

When it comes to investments, everyone wants to have low risk and a high return.

We have all been told this is not possible “To get a higher return you have to take more risk”. For many investments, this is the case but there are exceptions. If you own a business, you will know some of your best margins do not always require the greatest risk. The same is true for investments, if your investment team understands these opportunities exist and is prepared to do the heavy lifting (actually, deep digging) to find them.

The following ideas will help you to reduce your risk and raise your returns:

1. For starters, you need an investment team that believes discrepancies exist in the marketplace which allows returns to be generated in excess of the comparable risk being taken. If they do not believe this is possible, they cannot find the opportunities and will never have the diligence to persist searching until they are successful. The points which follow are effective but not nearly as effective as when your team knows the opportunities exist and can find them.
2. Find a team that works exclusively with high net worth (HNW) clients. There are opportunities available in the HNW space which are not as easily replicated for the average retail investor. For example, many opportunities have multi-million-dollar minimums or three to five year hold periods. Larger accounts can make it easier for portfolio managers to incorporate such investments into their offering. The manager can also run the portfolio more efficiently, for example with a low “cash” position (retail funds require higher cash amounts to cover unknown, more frequent redemption requests). For the same risk, the manager can increase the return because they can invest more of the assets.
3. A smaller boutique firm can be nimble. They



aren't required to fill a billion-dollar fund, so they can look at smaller, niche opportunities where greater returns can be found and their impact more meaningful to the portfolio.

4. A diligent investment team can uncover non-traditional investment opportunities. These opportunities do not follow the movement of the stock and bond markets. The goal is to have no relationship between what happens in the market and what happens with these investments. Having a portion of non-traditional investments in your portfolio can significantly reduce the volatility (one measure of risk) and increase the performance. Examples are construction mortgages, factoring and certain real estate opportunities.

Reducing your risk and raising your return is a good thing. However, it is very important to recognize financial freedom is different than financial independence.

Financial independence suggests there is an asset level that once passed, will provide the security we are looking for and give us peace of mind. Our industry is built on this fallacy. The reality is the potential challenges that can arise globally, nationally, regionally and/or within our own family are greater than whatever “pile” we can ever accumulate.

If happiness was based on an asset level, then happiness would increase as our financial assets increase. We all know people who prove this is not the case. Even in our own lives, we likely have experiences that indicate there is no correlation.

Trinity's wealth management process helps clients pursue financial freedom. Financial freedom is not based on an amount, it is based on contentment. It leads to peace of mind and is attainable. Perspective is very important!

So, seek to reduce your risk, raise your return, and remember “Perspective is as important as Performance”.