Dear clients and friends,

Bored at home amid another wave of Covid lockdown, I watched the Winter Olympics and got introduced for the first time to an array of winter sports. Most of them I might never get a chance to play living in this part of the planet, but there was one of these games I found weirdly fascinating — Biathlon.

I used the word "weirdly" because it was so different from most other games that were conventionally exciting. **Most other sports are founded on a single instant of greatness** — to be faster, bolder, or better. The hard work athletes put in were all directed towards the single instant when they jumped off the platform and performed that spin, or the moment when they passed a finished line. But for Biathlon, it was about the process in between.

This is how it works: essentially it is a combination of cross-country skiing and rifle shooting, replicating how the Nordic peoples used to ski and hunt in the old days. In a 20km-skiing race, there are multiple stations where the contestants need to stop and shoot. Any missed shot will be translated into extra-time penalties — say, one minute added to that contestant's total. At the end, whoever finishes the race with the least time wins.

Unlike a typical race where speed is everything, **Biathlon is about maintaining consistency and avoiding mistakes.** For professional athletes, the time differences between their skiing performance are usually marginal, with the gold medalist and the 10th finisher typically no more than one minute apart. This means the extra-time penalty would be significant! The key, therefore, is to avoid abrupt acceleration and deceleration in skiing, so their heartbeat and breath would not force a shooting error — maintaining consistency and avoiding mistakes.

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While I was watching, I thought about the cliché to characterize life as some kind of race. That some tycoon's child was "winning at the starting line"; that some entrepreneur closing a $100 million funding was a "life winner"; and that some fashion model marrying that entrepreneur had "reached the shore". It was as if our lives were all condensed into some single instants, and that milli-second would have a profound representation on the rest of our lives: we would live happily ever after if it went well, or miserable rest of their lives if it did not.

It could be one way to see it. But for most of us, our lives are not defined by a single instant, but an accumulation of small things in between. Do I take this job or that job? In London or Hong Kong? Do I join this circle of friends or that? Should I hit the gym or visit my parents over the weekend? Does one make time for kids now? Or later?

In that sense, life may be less like a race than it is a Biathlon. It is not about the pursuit of single period greatness, but the process — the accumulation of joy, sorrow, and love — in between.

And if our lives are not some pursuits of single instant greatness, why should our investments?

ACHIEVE SINGLE INSTANT GREATNESS

In a relative sense, the first quarter of 2022 turned out alright for us. Being defensive and diversified, the strategy seemed to have demonstrated relative stability. But it was also during periods like this I got asked the question — "how do we outperform when the bull market returns?"

It might be too early to discuss a bull market at the moment of this writing, but, anyway, our answer to that is "we don't".

It is our impression that, at any given point in time, i.e. at any given investment environment, the most profitable strategies are always the most aggressive ones. When liquidity is ample, those who invest in the liquidity-sensitive baskets (think emerging tech stocks) with leverage would outperform; when there is a geopolitical conflict, those who load up on commodities, with leverage, would outperform; when everyone is risk-off, those with the most negative beta would outperform...you get the idea. Going aggressive at the right environment would easily make one among the top 5% performer, at that single instant.

But achieving that greatness is built on one fundamental assumption: the manager is certain about the future investment environment. Is three half-point hikes enough to tame inflation? Is the war going to end soon? Is BOJ going to unwind its easing policy?

This is the time when a bell curve and Nassim Nicholas Taleb's *Fooled by Randomness* come to mind — instead of simple binary judgements like the above, our future is a distribution of events. And randomness plays a far more important role in it than we care to admit.

The future being unknowable is the most defining thesis in how we construct our portfolio, and perhaps the most repeated theme in our investor letters: *most forecasts are already priced in, and thus not profitable; while the profitable forecasts must be different from consensus, and hence difficult to achieve repeatable success.*

The pursuit of single instant greatness in investment requires us knowing how the future will unfold. Being aggressive at the right environment would make one among the top 5% performers; but being aggressive at the wrong kind of environment, one could very well end up at the bottom 5% instead.

It would be like preparing ourselves for a race, but ended up being put into a shooting game — going full speed would be disastrous.

Exhibit 1

Aggressive strategies outperform when the environment is favorable...

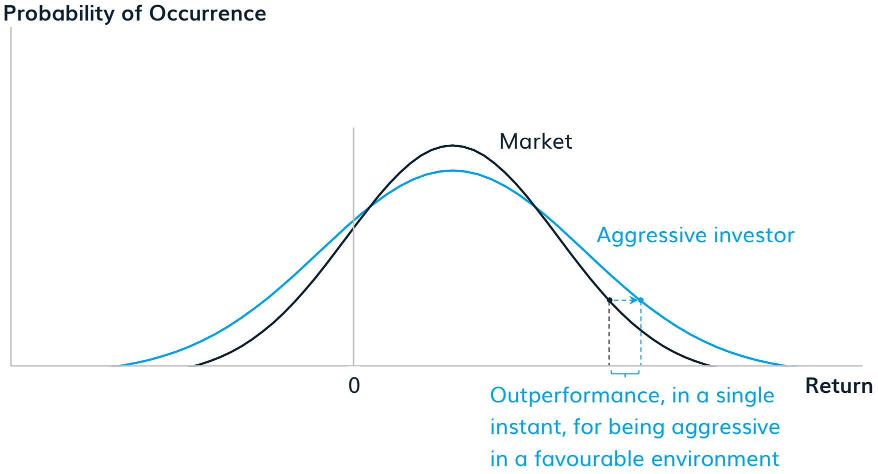


Exhibit 2

...while defensive strategies avoid mistakes when it is not...

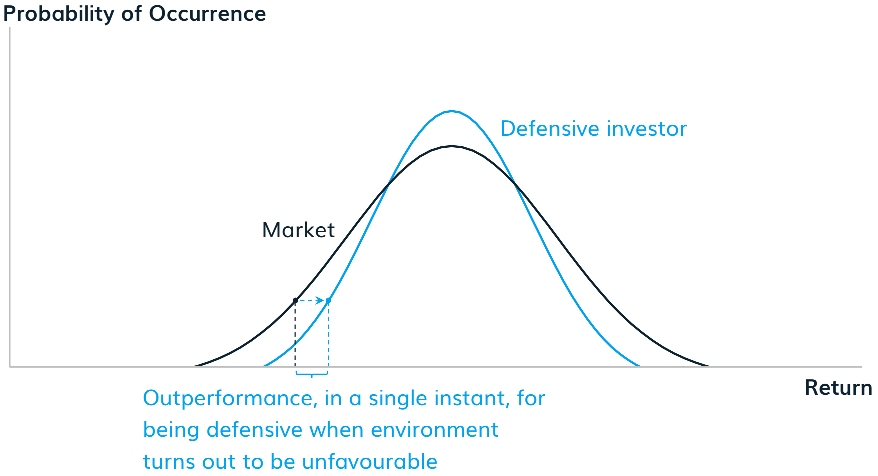
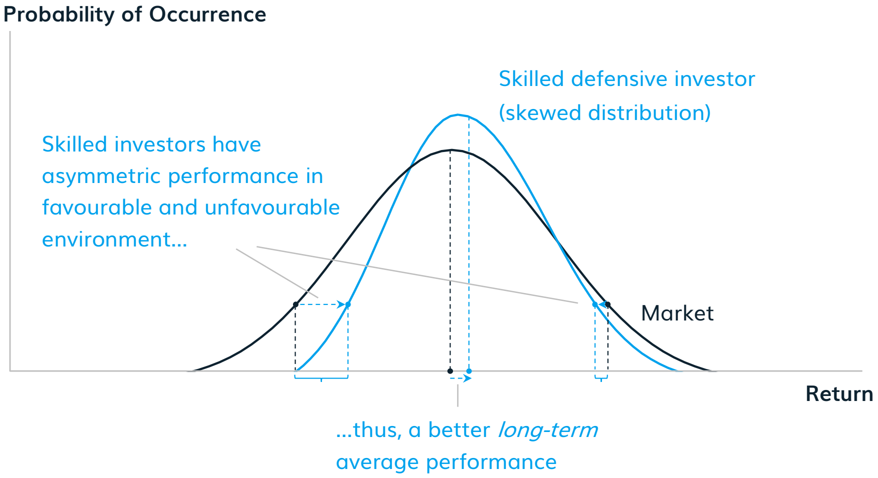


Exhibit 3

...but it is the long-term accumulation that truly matters



Note: Illustrative only; historical data suggests fat-tail risk in market performance, thus further suggests caution in adopting an aggressive strategy for long-term growth in wealth

Source: Fooled by Randomness — Nassim Nicholas Taleb; Mathiasen & Cheng

AVOID MISTAKES AND MAINTAIN CONSISTENCY

Given we can never be sure about the future, the better strategy appears to be, like Biathlon, to avoid mistakes and maintain consistency.

This is especially true when **making a loss or suffering a drawdown is not uncommon in investment.** It is an essential ingredient in a profession that deals with uncertainties and cycles. Part of the job for a manager is to make sure its portfolio, after participating in the drawdown, also fully participates on its way back up.

However, having an aggressive strategy means it suffers more significant drawdowns during bad times, and the operation during such periods of time can be painful. There could be immense pressure from investors, forced selling either from capital withdrawal or margin calls, and, worst, self-doubt. Despite how natural and human they are, these are forces that cause managers to buy-high-sell-low, turning unpleasant volatility into permanent losses. And to us, that is the worst mistake one can commit in investment.

Operating in a defensive manner inherently avoids being put into that painful situation (Exhibit 2). By ensuring there is enough liquidity and proportions of defensive assets, it avoids the forced selling situation and even allows the manager to perform rebalancing, taking advantage of an unfavorable situation to buy-low-sell-high.

If we can avoid mistakes like this, all we need to do is to maintain consistency. And arguably, avoiding fatal mistakes on a consistent basis has a better chance of success than consistently achieving greatness. With discipline and patience, this translates into long-term outperformance (Exhibit 3).

Henceforth, we feel strongly we operate better in a defensive manner. It is:

- less likely to result in painful volatility and permanent losses
- more likely to enjoy the miracle of long-term compounding
- at least equally likely to achieve good long-term performance
- arguably more likely to get skilled and achieve consistency overtime
- certainly more aligned with our purpose of providing stability to clients

Also, perhaps selfishly, boldness and bravery might not be the qualities we particularly want to identify ourselves with. We are not there yet, but **we believe discipline, modesty and patience are more indicative of the organization we want to become.**

Stay invested, but diversify.

Ryan

28 April 2022