BY A.M.LEHNER

Our Investment Philosophy

We believe in Tactical Asset Management where our platform of Private Wealth Managers can go "Risk-Off" to cash, take advantage of the stock market if it goes up or down and can potentially earn money for our clients if interest rates increase or decrease.

For retirees, pre-retirees and conservative investors, we do not believe that "Buy-and-Hold" and Asset Allocation Models are appropriate, considering investor drawdowns/losses could be 50% in the S&P 500 as we experienced during the Great Recession.

The Upside of Managing the Downside

Mitigating Risk and Creating Alpha with Tactical Asset Management

Drew K. Horter
Founder,
Chief Investment Strategist

Modern portfolio theorists have long believed in asset allocation models and buy-and-hold investment strategies, or as Drew Horter calls them, "hope and pray" strategies. Horter, founder and president of Horter Investment Management, LLC, admitted that prior to 2007, he also subscribed to this modern portfolio theory. "Now," he said, "we believe there's a much better and safer way to manage investments – and that's to manage the downside."

Horter first began looking for buy-and-hold alternatives after the bubble of 2001-02. He scoured a database of over 4,000 managers, looking for those who didn't lose money during that downturn. By 2007 he was conducting interviews and began to put together a new risk-adverse model for his clients. Not knowing what was lurking just around the corner in 2008, he felt the pain of the recession along with everyone else, but it convinced him that his ideas to move away from buy-and-hold were sound.

"We needed to go more risk-adverse," Horter said, "with a low risk and low volatility, tactical portfolio, rather than just a modern portfolio theory type of management."

Horter – whose clients are primarily pre-retirees and retirees looking to create income plans that will sustain them into their 90s – said that managing for longevity is imperative. "You have to manage assets so you don't suffer like the S&P 500, losing 50 percent of its value from October 2007 to March 2009, while you're taking 4 percent distributions and abating inflation."

The main question Horter asks is, "How do you manage your money so you don't have these maximum drawdowns of 50 percent?" He targets much smaller maximum drawdowns of

8 to 12 percent while managing cash flow and abating inflation.

Noting that creating alpha is possible with a risk management focus, but the approach is different, Horter posed the question, "How much downside risk can you take in order to get the alpha you want?"

The answer isn't in just seeking alpha. It requires managing downside risk through non-correlated managers, combining strategies and finding the right balance. "You can actually get excellent rates of return, because when one is 'zigging' the other is 'zagging' - but over time they all do well. It's all about mitigating and minimizing risk along the way, and managing drawdowns while paying higher than normal rates of return, to create that alpha you're desiring," Horter said.

Horter considers his portfolio management style as one of tactical asset management, which can result in sustained growth and flexibility without the high risk loss factors. "We can go risk-off to cash. We can potentially make money whether the stock market goes up or the stock market goes down. We can potentially make money when interest rates go up or down. We combine those with fixed index annuities for most of our advisors where they can participate in the upside of the stock market but not participate in the downside."

As he began seeing more and more success with a tactical asset management approach, advisors began coming to him to learn his systems and processes. What started as just a handful of advisors across the country has grown into a team of 350 associate or affiliate advisors connected with Horter RIA. This has resulted in asset management growth from $100 million to over $1 billion in just five years.

All Horter RIA advisors are fiduciaries and follow the fiduciary philosophy of doing what is in the best interest of the client. "Oftentimes," he added, "that begins with education."

Horter said that one of his concerns when he begins working with new clients is to make sure they truly understand how their portfolios align with their perceptions and self-defined risk tolerance levels. "It's very disappointing to see the knowledge level of people who have been investing for 20, 30 or even 40 years. They

don't truly understand risk," he said, adding that their portfolios coming in are usually diametrically opposed to their answers in Horter's introductory risk tolerance assessment.

"You don't know what you don't know, so we teach them about what they don't know in their portfolios," Horter said. "Sometimes they find out they have exorbitantly more risk in their portfolios than they actually desire."

The benefit of educating his clients facing retirement not only helps ready them financially, it also trickles down to change the way future generations approach asset management and planning.

"As we educate investors about what risk tolerance they really want in their portfolios, they can start to convey those messages to their kids and grandchildren about the true nuances of risk – minimizing risk and still getting a reasonable rate of return over time. That's not always taught today, and it needs to be taught," Horter said.

He added that a major misconception for long-term planning is only projecting costs like healthcare, basic living expenses and anticipated inflation. "If they are still living at home," he said, "you have roof repairs, new water heaters or furnaces, and what we call 'planned obsolescence' costs that are not included in the normal inflation rate."

Those expenses can have damaging consequences on cash flow, and when multiple factors align at the wrong time, valuable assets can become jeopardized. "Life planning and longevity risk planning are critical when you are looking at somebody's income needs and assets to try to get them through the duration of both spouses' lives."

By using tactical asset management, Horter's management style helps protect assets and lessens the chances of the market becoming a devastating loss.

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