

A Historical View of the World of Return & the Private Banker's Mission

Paul Stefansson is Managing Director and Global Head of Investment Funds at UBS Wealth Management. An avid reader of history, when viewed through the prism of the past nearly 100 years, capitalism creates social dangers and enormous return opportunities. He met with Hubbis to expound his views on how UBS works to encourage high-net-worth clientele to take a historical view on investment risks and returns to improve their outcomes, and how their choices, by making more impactful investments, can make a real difference to the world we live in.



STEFANSSON BEGAN BY OBSERVING that the personal relationship in private banking is paramount. “We want to deliver the best of UBS to our clients,” he remarked and concluded. “I think of long-term clients almost like friends”. “Given we are all busy and have time constraints, the non-financial interests that most normal people enjoy like family and friends and the possibility of making behavioural finance mistakes, the more we can nudge investors towards making better decisions, the better the risk-adjusted return the clients will earn. In Asia, these nudges tend to conflict with people’s need for control.”

However, he noted that some people want to delegate completely, and they are the easiest clients to move to UBS’ discretionary solutions customised with latest technologies. “For this type of delegator, we can fully customise and personalise the portfolios nowadays, so that each investor can have their own discrete, tailored version. They can control asset allocation but delegate the task of securities selection.”

For those that prefer more control of the stock or bond selection process, Stefansson says UBS points these clients towards UBS Advice. This, he says, guides them more towards proper asset allocation and to avoid concentration in single high yield bonds or stocks.

Location: switch to on

“This is especially important, for example in high yield,” he notes, “where investors must pay attention to the credit cycle. For instance, nearly half of the investment grade bonds are now BBB, one notch above junk, so people need our nudges to help them be careful and avoid bankruptcies. In

past credit cycles, when a recession hits many BBB bonds have been downgraded which creates forced sellers and mark to market losses. Many investors may not understand the risk in BBB and junk bonds. UBS Advice with its health checks nudges clients to be risk aware before it’s too late. This might not help our business directly in the short-term, but it does neatly align our interests to the client. Given we are only charging one fee and no commission; our interests and the clients are perfectly aligned. We want their assets to grow and our nudges and solutions will help grow assets in the long-term.”

“People work with a private bank,” he observes, “because they do not have time to do everything themselves. While our client advi-

commission, zero retrocessions and where there will be, in the not-too-distant future, only one transparent fee charged.

“A one transparent fee future,” he comments, “is a dramatically different world and as we move towards that model, good advice is vital, and technology will help. Advice, we believe, helps guide people towards what they want and better outcomes.”

Clients, Stefansson adds, generally seek out what he calls the ‘3Ls’, namely liquidity, longevity and legacy. “I have worked in this business for around 30 years now and most people’s goals fall in those three broad categories,” he observes. “We do not want our clients to lose money, and the clients must, therefore, understand the game that is being played out,

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sors and investment specialists can reduce clients time commitment to investing, all investors need to understand their asset allocation and the risks they are taking. At UBS we are making investments in technology and services to make everything more efficient and to nudge clients into better portfolios.”

A brave new world awaits

Stefansson says that the world of private banking appears to be moving to a world of zero

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Assessing the challenges

He jokes that if you have been playing poker for 30 minutes and you haven’t figured out who the sucker is, then it’s likely you. “The investment business is a tough game,” he says, “and the average investor is playing against leading investors like



PAUL STEFANSSON
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Warren Buffett, or up against the most sophisticated algorithms available. The client needs advice that helps them win, and advice to stay away from games they will lose.”

Stefansson’s erudite and historical approach leads him to cite some findings from Yale Academic Roger Ibbotson (Does Asset Allocation Policy Explain 40, 90, 100 Percent of Performance? 2001 by Roger G. Ibbotson). “He observed that 40% of the variation of returns among funds is explained by asset allocation. Everybody knows, for example, that in the long-term equity returns trump Treasury bills, but if viewed in the ultra-long-term, from 1926 to 2017, actually individual company equity returns can be disastrous.”

A double-edged sword

Why? Because, he observes, a historical perspective on the course of capitalism ironically demonstrates that it facilitates the destruction of many, probably most, companies, largely due to the relentless onslaught of competition. “A mere 4% of the companies listed in that time-frame generated all the re-

Getting Personal

Born in what he describes as the "Siberia" of Canada, namely Winnipeg, Manitoba, Stefansson’s warm personality seems to belie the minus 40-degree winter temperatures he grew up in. "When my grandparents moved here to escape volcanic eruptions in Iceland," he reports, "they became farmers and their nearest neighbours were some 20 miles away."

But fast forward the generations and Stefansson’s father, Baldur, became a Professor of plant genetics and is considered the Father of Canola, one of the largest crops in Canada and Stefansson himself studied actuarial science at the University of Manitoba before embarking on a career in finance.

"I love an intellectual challenge," he reports, "and also dealing with people and investing as both have technical and psychological aspects, hence he loves behavioural finance. This business offers the chance to meet a lot of fascinating people; it offers a lot of variety and the chance to face many challenges."

The Stefansson family has two children, one of them adopted from Indonesia, and the other arriving through the grace of science via in-vitro fertilisation. One is still at school, while the first is studying engineering at the University of British Columbia in Vancouver.

"Reading," he says, "is my greatest obsession and hobby. History and historical fiction, especially Roman history, is my favourite. The new book entitled "Mortal Republic" is about the fall of the Roman Empire and how the collapse of social norms precipitated the collapse of the Empire. Perhaps, we should look across at modern-day Britain with Brexit and the USA in the Trump era to see a similar decline in social norms. The four most important words in history are, 'this too shall pass'. Every empire has come and gone."

turns, so if you missed those 4% of the companies you would have far underperformed Treasury bills (Do stocks Outperform treasury bills? By Hendrik Bessembinder 2017).”

He says clients must realise that three out of five stocks underperform the index each year, and one of them falls 75% or more

in any one year (The Capitalism Distribution by Longboard 2007). “So, we need to increase the client’s odds. After all, even Buffett says he only gets it right 60% of the time.”

Stefansson extrapolates that the odds of this game are therefore not so encouraging. “To

improve the odds we recommend professional fund managers and hedge fund managers,” he surmises. “And if you don’t quite believe active managers can generate alpha, then UBS will direct you towards passive ETFs of index funds, where you can also get lower fees. In short, the client must understand the game they are playing, and capitalism is a very tough game indeed.” But get it right, and the rewards can be stupendous. For example, Amazon, he notes, has compounded at 37% per year since listing.

Quality of service

Stefansson believes high net worth individuals (HNWI) clients tend towards UBS for the levels

“It’s possible to do good and do well! Take World Bank Bonds. World Bank Bonds fund poverty eradication programs such as education and healthcare and carry a AAA crediting, have never defaulted and yet have a higher return than US treasury bonds. When you buy a World Bank Bond, you are helping pull people living on less than \$2 per day out of poverty and still doing well by earning market based yields. Do good and do well!”

of service and the advice. “You can buy most of the products anywhere else,” he notes, “and we will not be the cheapest, so it is the quality of our service that appeals. At UBS, we believe we have the right strategies and offerings for most investors. Understanding not only the goals but how each investor actually makes decisions and whether we can help the investor make a better decision process is central to the process.”

Stefansson also invokes a historical perspective to extrapolate the need for sustainability in investments in the world as we find it today. He notes that yields on World Bank bonds are slightly higher than Treasuries, but the World Bank is backed by the leading governments of the world, whether the US, UK, Germany, Japan, China or others. Stefansson said, “It’s possible to do good and do well! Take World Bank Bonds. World Bank Bonds fund poverty eradication programs such as education and healthcare and carry a AAA crediting, have never defaulted and yet have a higher return than US treasury bonds. When you buy a World Bank Bond, you are helping pull people living

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Put your money where it works

“And by investing in the World Bank paper,” he remarks, “you are effectively supporting them in their goals, so for example to lift those in the world living on two dollars a day out of abject poverty, to bring clean water and sanitation to the 60% of

Key Priorities

Stefansson closes the discussion with brief comments on his key priorities. The first, he says, is helping clients utilise the best of UBS, including discretionary and what the firms call UBS Advice, focused on nudges towards better asset allocation. “It is not just about offering the products or the structure or platform,” he explains, “it is all about improving their decisions and their processes.”

The second priority is to find the funds that offer alpha, as well as the best passive opportunities. “Clients,” he explains, “must have a full product spectrum to choose from. And thirdly, technology can help nudge the advisers and the clients to achieve better outcomes.”

the world that does not have that, to eliminate the horrible pollution from more than 91% of the cities that suffer from deadly air, or to fund new schools for those with little or no access to education.”

This, Stefansson contends, means there is also a tremendous opportunity for such investments, for green bonds, impact investing of all types to make some real difference to the world around us.

Stefansson then observed that it is not the older generations who will suffer the consequences of the chaos that, for example, catastrophic climate change will have on the planet.

“The younger generations understand this better because by simple math it will affect them and their children in their lifetimes. It is all probably happening faster than people even think; the science is actually pretty terrifying. As Al Gore said, when your kids and grandkids find out you could have done something and you didn’t, what will you say? We need to communicate this problem and the dangers far better than we do today.”

Action stations

“These are all initiatives we must take action on now,” he maintains, “and business can help, as business

understands cost and scale. Impact investing can, I believe, help nudge things along in the right way. The poet Ralph Waldo Emerson once said that success is helping other people’s lives improve. Well, we take so many things for granted and I see that even very small changes in our investment behaviour can have a huge impact on the world and other people.”

His discourse on this matter - what Stefansson calls his ‘sermon’ for the day - closes with him concluding that wealthy people who have the choice can invest sustainably and these initiatives, for example solar power, wind power

and so forth could be the biggest opportunities we will see in all our lifetimes. “I do not believe this is the end of the world, technologies will help change all this, and we can help in our way by targeted investment.” In fact, since many investors don’t believe in climate change, there are still tremendous opportunities in semi-conductors and converters we need to move into a sustainable world for our children and grandchildren. While we all love our children and grandchildren we need to ensure our investments reflect our love but can still earn market returns. Do Good and Do Well! ■

