Dr Harold Kim of Neo Risk on Balancing Risks in a Portfolio and Staying the Course

Dr Harold Kim, Founder and Chief Executive Officer of Hong Kong-based Neo Risk Investment Advisors, spoke with Hubbis recently about how his firm's use of global ETFs combined with managed account technology have enabled private clients in the region to have global, diversified, low-cost tailored portfolios managed professionally by Neo Risk with full transparency in their personal accounts.

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All MAPped out

The Neo Risk ETF Managed Account Portfolio (MAP) programme's goal is to deliver higher returns versus a benchmark given an optimal risk level tailored for each individual investor. The programme diversifies across equity, fixed income and alternative global ETFs, creating investment portfolios that are diversified, low-cost, liquid, efficient and transparent. These ETFs are held in the investor's own account and risk-managed directly by Neo Risk utilising online managed account technology via execution broker Interactive Brokers.

Conservative Portfolio returned 20% versus a global bond benchmark of 14%; the Moderate Risk Portfolio returned 38% versus 33% for a global 60% equity/40% bond portfolio with similar risk levels; and the Equity Risk Portfolio returned 57% versus a global equity benchmark of 45%.

"We are consistent in our approach and messaging that it is essential to create diversified portfolios that offer both return potential and also risk mitigation," Kim states. "Investors using our strategies slept better than investors who were less diversified, especially during the extreme market conditions of 2020."

"Every once in a while, we do find an active manager that we think deserves allocation and we won't hesitate to use those funds as part of the portfolio, but our preference by and large is to use ETFs, because the performance is difficult to beat, costs are low, and they are completely transparent."

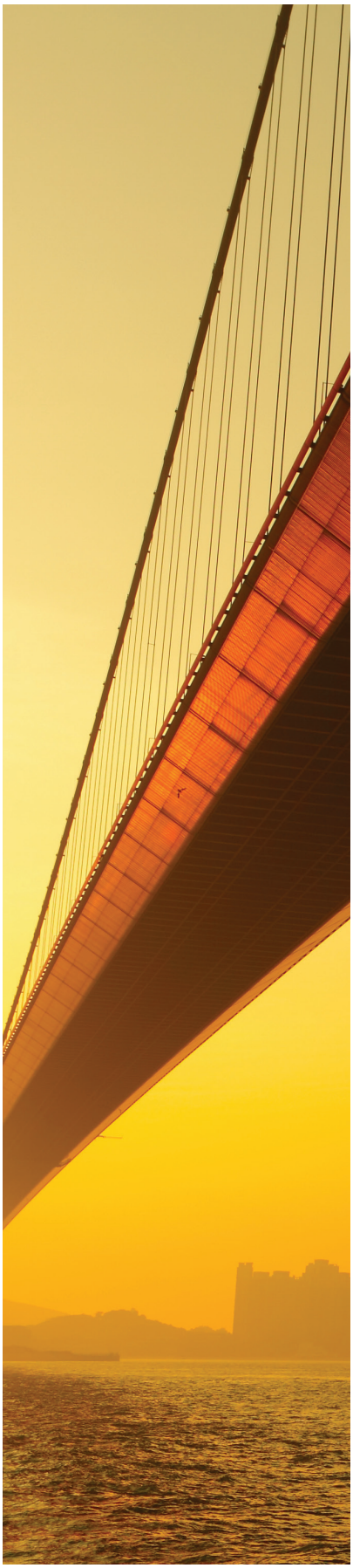
"The programme combines the efficiency, cost and performance advantages of ETFs with the managed account technology of Interactive Brokers, which makes for a powerful combination" Kim reports. "In both the bull market of 2019 and the volatile market of 2020, the balanced portfolio strategy performed well, providing better returns for any given amount of risk. Whether you are a bond-oriented investor, a 60/40 investor or an equity-oriented investor, the balanced portfolios used by the ETF MAP Programme would have provided you with a higher return versus benchmark portfolios with comparable risk levels."

For example, across 2019 and 2020, the bond risk-like

What investors need

Kim then steps back to comment more broadly on what investors need. "Investors need simple, low cost, diversified, liquid portfolio investments. They also want transparency, tailored exposures, and on-going risk management," but he observes that these rather desirable features are generally not available through current distribution channels.

"For example, private banks generally have portfolio allocation services, but they tend to focus on high margin, illiquid products due to their need to generate revenue; consequently, private banks provide very little advice with regard to low-cost



DR HAROLD KIM
Neo Risk Investment Advisors

investment exposures such as ETFs, which pay nothing in trailer fees back to the private banks," Kim says. "Mass affluent and retail investors are similarly underserved with regard to advice on how to effectively use products such as ETFs in portfolio allocation."

Kim feels that this shortcoming on the part of current distribution channels to deliver what investors require is "a real shame given how the game-changing advancements in both ETF development and managed account technology now enable all investors to access robust, diversified, low cost, efficient portfolios."

The ETF revolution

He continues the conversation by remarking that the evolution of ETFs in the past two decades has been nothing short of a revolution for investing. "With so many ETFs available, it is now very straightforward for an individual to invest in a diversified way across a range of different exposures, efficiently and at low cost," he says, something that was not possible just a few short years ago.

As to the active-passive debate, Kim states unequivocally that extensive research has established that most active managers do not beat the relevant passive index. The higher value-added, he believes, is through allocation across asset classes, and not choosing securities to beat a given index. "Most of the time, we use ETFs to get exposure to a given asset class or index," he reports. "Every once in a while, we do find an active manager that we think deserves allocation and we won't hesitate to use those funds as part of the portfolio, but our preference by and large is to use ETFs, because the performance is difficult to beat, costs are low, and they are completely transparent."

"By utilising the Interactive Brokers platform, our investors pay 1 basis point for US equity execution, which is far below the typical equity commissions charged by private banks of 30, 40 or even 50 basis points or more. When clients realise that they're not getting the service they need, and they're also paying high fees and commissions, the decision to migrate to our platform becomes pretty straightforward."

Going online with the MAP

The other major technological development has been the growth of online trading technology and platforms, which make it easy to assemble global portfolios that are traded using institutional quality execution capability in managed account formats.

"Twenty years ago, or even less," he clarifies, "if you wanted to assemble a global, diversified portfolio, you had to find a private bank or some other manager that could make the necessary investment allocations, and that was a very expensive proposition. Today, with online trading capabilities and ETFs, it is very straightforward to build a diversified allocation. The challenge, therefore, is for traditional intermediaries, like private banks, to justify the fees that they're charging."

"Importantly, using today's managed account technology, we can customise the portfolios for each investor, taking a core portfolio and then adapting to specific investor preferences. We can offer highly tailored solutions to clients." Kim elucidates: "For example, typical investor preferences have included adding gold, or perhaps REITs or other higher-income products, sometimes adding more China and other emerging market exposure, or technology sector tilts, all optimised to be within the investor's specific risk tolerance."

Target clients

Kim reports that the firm's clients are typically HNWIs and small family offices that have anywhere from USD5 million to USD100 million to invest. He adds that most of the accounts are held by investors that realised their private bankers weren't minding the portfolios, in addition to charging high fees. For example, he does not often see

the private bankers monitoring or rebalancing their client portfolios on an ongoing basis, which is at the heart of portfolio management.

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As to business priorities, Kim says that his primary mission is to maintain focus on delivering good advice and good performance for investors. "If we keep doing that, then the AUMs will continue to build."

Being realistic

When asked about the markets and possible key evolving trends, he prefaces his 'big picture' view by commenting that markets are generally unpredictable. "In terms of the markets," he says, "the old adage of the more you learn, the less you know remains entirely appropriate. Our strategy is always to diversify risks to generate robust returns without having to predict market movements."

Kim characterises the current global markets environment as a tug of war between the deluge of liquidity provided by central banks versus the difficult underlying economic situation caused by the pandemic. "The markets began their recovery in April on the back of the flood of central bank liquidity, which has overwhelmed the negatives of current economic reality," he comments.

Maintaining balance

His forecast for 2021 is that equity markets will be up but only moderately as most of the gains from a return to normalcy are already factored in. He also anticipates that rates will be higher at year end as the recovery takes hold and liquidity is pared back. But the forecast is a fragile one and could be upended in any number of ways. "Given multiple scenarios, a balanced portfolio approach remains the right strategy," he concludes.

The personal approach

His final word is that Neo Risk maintains a personal approach with its clients. "Through the volatile markets of early 2020, we spent time counselling our clients to remain invested," he recalls. "Understandably some investors wanted to run for the hills, but it was clear that the March selloff was a panicked overreaction. Our clients are happy that we kept them focused on the longer-term, and all of them ended 2020 with positive results." ■

Getting Personal

Kim was born in Australia, where his father did his graduate degree. "Yup, Aussie by birth," he quips. His family moved to the United States when he was young, where he grew up in the state of Utah "skiing in the winter and golfing in the summer—an ideal place to grow up for a kid."

Kim went to Harvard University for his undergraduate studies in Economics and then attended Princeton University for his PhD in Economics and Finance. His goal was to be a professor, like his parents, but Wall Street intervened.

Across his roughly 30-year finance career to date, he has been a leader in quantitative finance and derivatives in Asia, with an impressive range of experience in both New York and Hong Kong, where he has been based since 1995. He founded Neo Risk Investment Advisors Ltd. as an independent investment advisory firm in Hong Kong after some 20 years with Citigroup Global Markets, where he ran the investor derivatives group in Asia. His first job was as a corporate finance analyst with Kidder Peabody & Co in New York in 1986, working the proverbial 100-hour weeks right after college.

Kim and his wife Julia have a large family of six children aged from 12 to 22. "Our oldest has finished school and is working in New York," he explains, "number two is at college in the US, three and four are in high school and five and six are still in middle school."

Kim has also been active in education throughout his career, starting as a lecturer while at Princeton University and also serving as Adjunct Professor of Finance at Hong Kong University of Science and Technology for a number of years. He reports that education is his biggest commitment outside of family and finance, referring to his current role as Board Chair of the prestigious Hong Kong International School as his "other day job."

"Though the pandemic environment has been a challenge for businesses and schools, Hong Kong has generally done pretty well," he says, "but with one son in New York, one son in Boston and two boarding school kids who are planning to go back to the US in the spring, it is worrying to think about your children all over the place when the world is still upside down."

He noted that the lockdown did have some positives, particularly the opportunity to slow things down a bit, to spend more time with family, and to catch up on reading and movies, "but we all hope that we can return to something like normal sometime soon."

Kim ended by sharing a story about advice he used to give to new hires when he ran recruiting for markets at Citi. He told the young employees that it was good to have a plan for the future, but always be open to where life takes you. "Thirty years in finance, 25 years in Hong Kong, six children—I couldn't have predicted any of it when I left college, yet I wouldn't change anything for the world!"