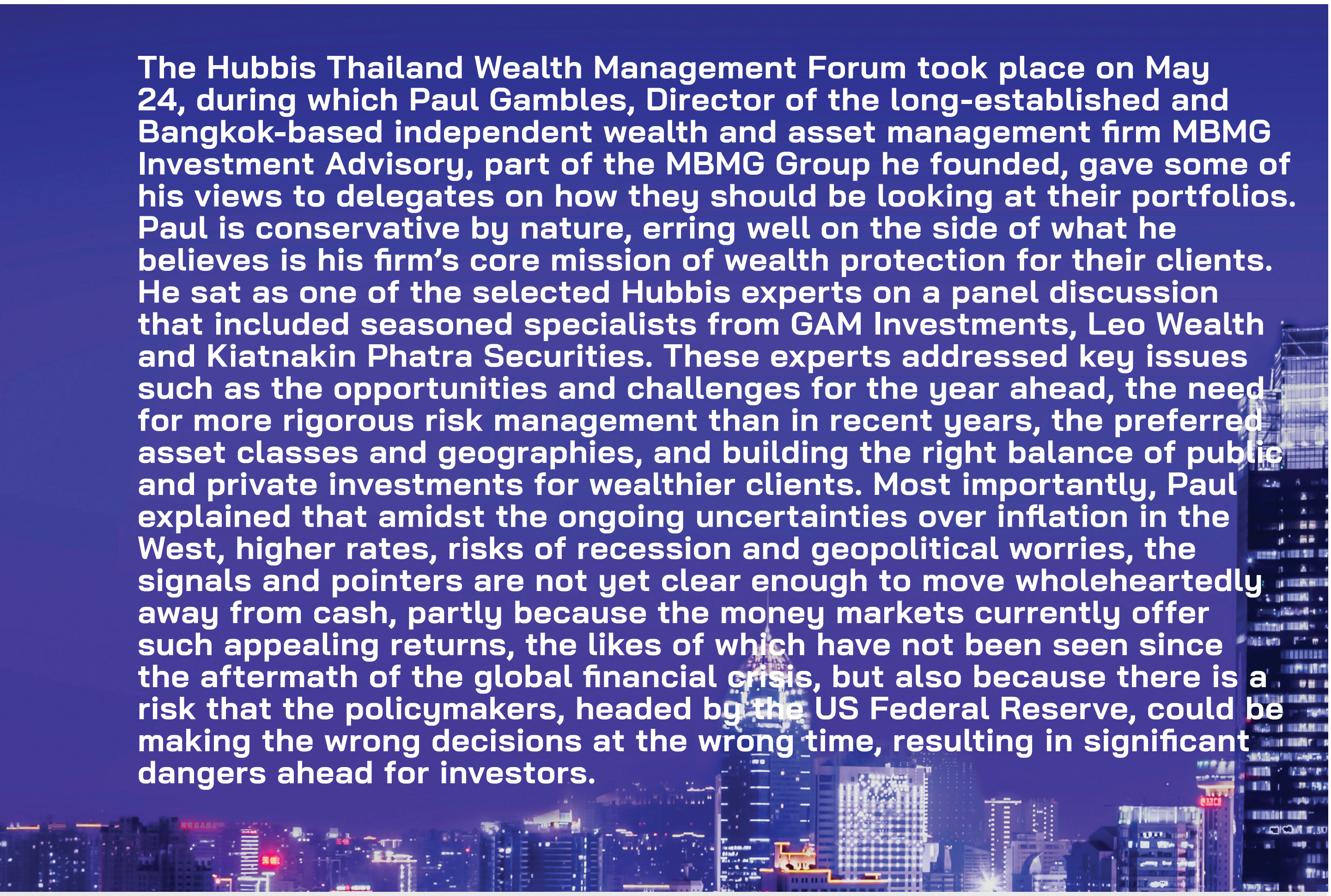
Paul Gambles on Curating Winning Portfolios and Improving Allocation for Thai Private Clients

The Hubbis Thailand Wealth Management Forum took place on May 24, during which Paul Gambles, Director of the long-established and Bangkok-based independent wealth and asset management firm MBMG Investment Advisory, part of the MBMG Group he founded, gave some of his views to delegates on how they should be looking at their portfolios. Paul is conservative by nature, erring well on the side of what he believes is his firm's core mission of wealth protection for their clients. He sat as one of the selected Hubbis experts on a panel discussion that included seasoned specialists from GAM Investments, Leo Wealth and Kiatnakin Phatra Securities. These experts addressed key issues such as the opportunities and challenges for the year ahead, the need for more rigorous risk management than in recent years, the preferred asset classes and geographies, and building the right balance of public and private investments for wealthier clients. Most importantly, Paul explained that amidst the ongoing uncertainties over inflation in the West, higher rates, risks of recession and geopolitical worries, the signals and pointers are not yet clear enough to move wholeheartedly away from cash, partly because the money markets currently offer such appealing returns, the likes of which have not been seen since the aftermath of the global financial crisis, but also because there is a risk that the policymakers, headed by the US Federal Reserve, could be making the wrong decisions at the wrong time, resulting in significant dangers ahead for investors.



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Paul Gambles (right)
MBMG Group

Gambles reported that

MBMG Investment Advisory is a fee-based Thailand SEC-licensed advisor, working for several decades largely with HNW private clients, smaller institutions, and family offices on wealth and estate management.

As to portfolio management, cash is certainly right now more attractive in absolute and relative terms than most other holdings, he said. "Since the markets fell in early 2022, there has not been a lot of time for a clear direction to emerge, so be wary of getting distracted by the ups and downs or sucked in too early," Gambles advised.

He said that, for example, tech stocks [in the US] have been up robustly and then down and then up again quickly, so it is better from a risk management perspective to seek investments that are less volatile and offered a more consistent performance during the last 12 months.

As well as cash, MBMG likes fixed income, but with some caution and preferably at the long end of the US Treasuries curve, where investors can make money over a reasonable horizon, Gambles commented.

But he said that there are many investors who do not have that type of longer view or do not have the 'stomach' for that type of commitment, there are opportunities in alternative funds in the fixed income space.

In general, he noted that there is now so much correlation between equities and fixed income in terms of volatility that investors feel like they are on somewhat of a 'rollercoaster' even with the 60-40 portfolio model. He said the real correlation between equities and fixed income is so high that it feels like this model currently provides little or no real diversification.

Gambles explained that one of the most consistent performers in the past year or so had been the equity long-short and the equity multi-strategy. He said those had worked well almost every month since the roller-coaster markets set in, while equities have behaved like the proverbial rollercoaster. "Accordingly, those hedge fund strategies that I have highlighted are far more consistent and appealing than unhedged equity currently," Gambles concluded.

He then also commented on the US Fed's approach as being potentially unfit for the new environment, telling delegates that he has been very outspoken on this issue. His thesis is that the Fed is using a framework that does not really work in 2022 and 2023, as we are in a different environment, and they are looking at the wrong causalities.

> **"Major sea changes such as those being witnessed right now happen every several decades, and if people do not acknowledge and adjust to these new realities, and if they carry on investing as if nothing has changed, they will likely get hurt."**

Right now, Gambles indicated, cash feels like it is king, and if investors cannot find anything better than cash, then Gambles advised them to keep cash at elevated levels.

Reiterating the view that investors should be thinking about strategies that have worked during the past year or so since markets turned downwards, he then pointed to hedge funds, which had been out of favour for quite a number of years as markets surged, but where there are more opportunities today - "Clients need to look at other spaces, and it is diversification of the investment approach and the investment strategy rather than the asset that will achieve that type of required diversification," he remarked.

Gambles said that given a lot of the assumptions that the Fed uses about inflation, capital market models, and pricing models mean that there is a significant risk that the Fed is getting it completely wrong. "If policymakers get it completely wrong, we have to make sure we jump off that train before it goes over the cliff!" he told delegates.

The difference today, he added, is that while the Fed might have made huge mistakes in 2008-2010 and in the aftermath of the GFC, the results were great for investors, as the Fed was essentially underwriting their investments, making it much easier to make money. "But today, the worry is the Fed making different assumptions and mistakes that will really hurt investors," he warned.

Gambles also observed that investors do not take a sufficiently long historical view on allocations and suffer from what he called 'recency bias'. He said investors tend to look at the past five, 10 or perhaps 15 years, and that means their portfolios are formed too often driven by that recency bias rather than a more tempered vision of the past informing the future.

"Major sea changes such as those being witnessed right now happen every several decades, and if people do not acknowledge and adjust to these new realities, and if they carry on investing as if nothing has changed, they will likely get hurt," he warned delegates.

He drew his observations to a close by acknowledging that sitting there at the Forum, he could not predict whether this current environment will prove to be positive or negative for equities.

"There is so much volatility and so much uncertainty and so much reliance on policy decisions and their effects," he said. "We will actually only know in the future, with the benefit of hindsight."

Accordingly, right now risk management, diversification into key hedge fund strategies, plenty of caution and a hefty allocation to cash are all advisable until there is greater clarity on markets and different classes of assets. ■