

Evidence-based investing

Speaking at Hubbis' Investment Solutions Forum 2017 in HK – Harmen Overdijk of Capital Company shines the spotlight on active management by looking at evidence-based investing.

Evidence-based investing has key features that should benefit all types of investors. For example, says Harmen Overdijk, founding partner of the Capital Company, it is a way to gain insights about the markets and returns from academic research. It enables investors to structure portfolios along the dimensions of expected returns. And it focuses on investment discipline and minimising costs.

By contrast, conventional active portfolio management attempts to identify mispricing in securities by relying on forecasting to select 'under-valued' securities or time markets. Yet this also generates higher expenses, trading costs and risks. This is based on attempts to out-guess the market – methods Overdijk believes have relatively low odds of success.

Meanwhile, passive portfolio management allows a commercial index to determine strategy, attempting to match index performance by restrict-

ing which securities to hold and when to trade. Yet this involves buying and selling the same securities at the same time as all funds tracking the index.

Instead, Overdijk highlights evidence-based investing as an alternate approach – viewing the market in a different dimension.

Decades of academic research have identified relevant dimensions that point to differences in expected returns, he says, adding that a well-diversified portfolio can emphasise market areas offering higher expected return potential.

Instead, he believes in long-term strategic investing based on the findings of Nobel prize-winning academics. He points to the fact that markets have rewarded discipline, so investors should focus on what they can control: an investment plan to fit their needs and risk tolerance; a portfolio around dimensions of returns; diversification; reducing expenses; and minimising taxes. ■



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