Alpha Beta
PARTNERS

Thought leaders in decumulation

Article 5.

'Avoid being the turkey'

December 2020

“What may be a black swan surprise for a turkey is not a black swan surprise to its butcher; hence the objective should be to ‘avoid being the turkey’ by identifying areas of vulnerability to ‘turn the Black Swans white’.” Nassim Taleb

The phrase "black swan" derives from a Latin expression; “*rara avis in terris nigroque simillima cygno*" ("a rare bird in the lands and very much like a black swan") attributed to Roman satirist Juvenal c82AD.

Juvenal's phrase was a common expression in 16th century London as a statement of impossibility. However, in 1697, Dutch explorers became the first Europeans to see black swans, in Western Australia.

The term subsequently became known as a black swan event and has, of course, been adopted by the investment industry to describe sudden market falls and exogenous shocks – the like of which give rise to sequence risk for investors.

Black swan events were discussed by Nassim Nicholas Taleb in his 2001 book *Fooled By Randomness*, which concerned financial events. Taleb asserts that a black swan is an event with the following three attributes.

- First, it is an outlier, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility.
- Second, it carries an extreme 'impact'; and
- Third, despite its outlier status, human nature makes us concoct explanations for its occurrence after the fact, making it explainable and predictable.

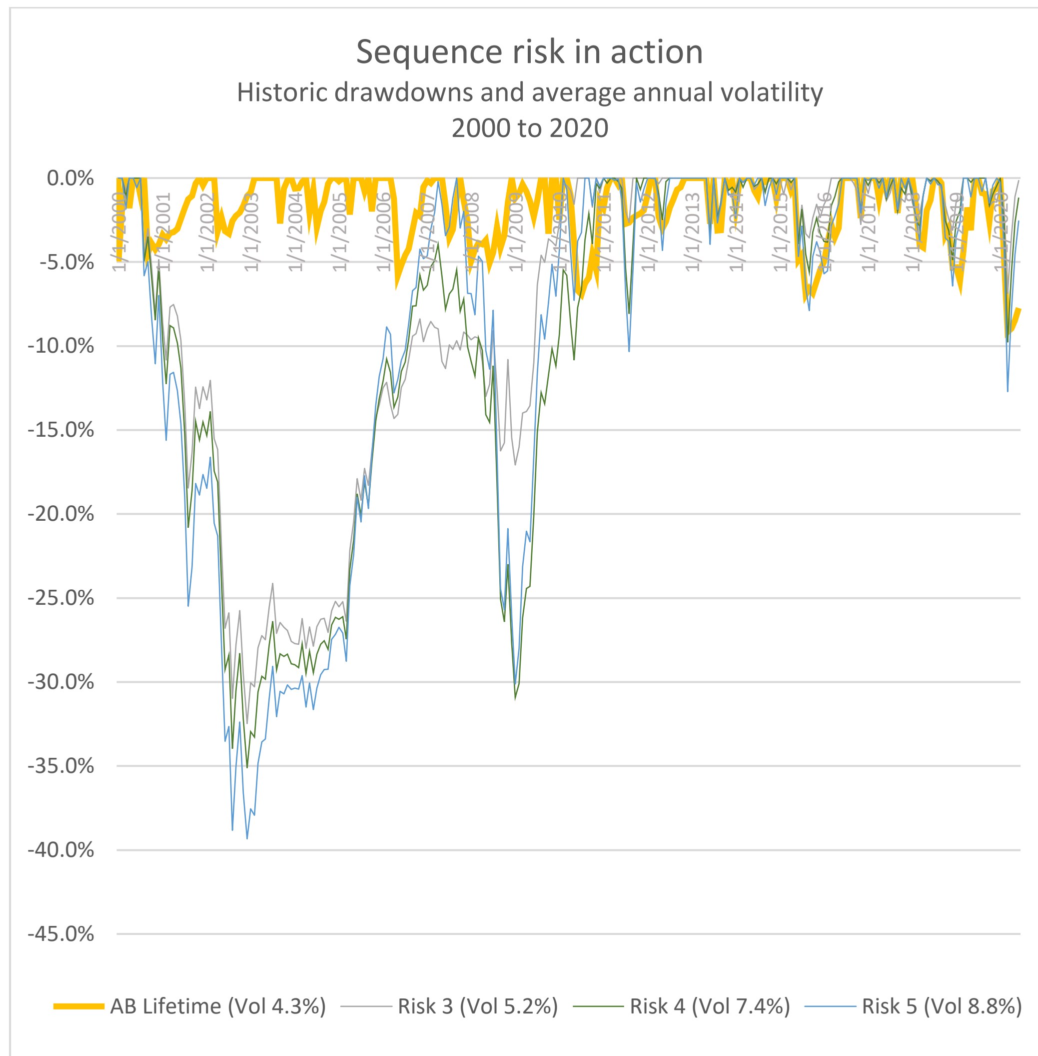
The dotcom bubble of 2001 and the 2008 financial crisis are cited as examples of black swan events.

The practical aim of Taleb's book is not to attempt to predict events which are unpredictable, but to build *robustness* against negative events while still exploiting positive events.

An extreme ‘impact’ for a client, is to suffer a bad sequence of investment returns particularly just before or after retirement as their pension pot is at its greatest, as happened to retirees in 2001 and 2008.

Exhibit 1 compares the historic drawdown or losses of the AB Lifetime portfolio and three popular volatility risk rated portfolios over the last 20 years, from 2000 until June 2020.

Exhibit 1:



Source: Whole Money 01.01.2000 – 01.06.2020. Performance gross of fees. Back test used for data pre-May 2019

The average annualised volatility of the four portfolios over this period are not significantly different and so volatility as a measure of major risk is of little use in helping to guard against a decumulation black swan.

The AB Lifetime portfolio includes an academically robust methodology which switches equity exposure to cash when markets trend lower and vice versa and so "builds in *robustness* against negative events while still exploiting positive events" as Talib promotes.

Defeating sequence risk is important for investors, particularly those entering or in decumulation.

Please contact Andrew Thompson for more information about the AB Lifetime portfolio, which is specifically designed to mitigate sequence risk or to start a discussion about strategies suitable for decumulation.

E: at@alphabetapartners.co.uk T: 07968 934127

Important Information:

This communication is from Alpha Beta Partners Limited an Appointed Representative of Oakham Wealth Management Limited, Registered in England at Berkeley Square House, Berkeley Square, London, England, W1J 6BD. Oakham Wealth Limited is authorised and regulated by the Financial Conduct Authority. Reference No. 431206. Alpha Beta Partners Limited – reference number 799887.The information in this email, and those ensuing, is confidential and may be legally privileged. It is intended solely for the addressee. If you are not the intended recipient(s) please note that any form of disclosure, distribution, copying or use of this communication or the information in it or in any attachments is strictly prohibited and may be unlawful. If you have received this communication in error, please destroy this message and any copies of it and kindly notify us immediately-mail communications may not be secure and may contain errors. Where possible, confidential data should be sent to us in encrypted form. This e-mail will have been scanned by our anti-virus software before transmission. We cannot however, warrant that this e-mail is free from viruses. We do not accept liability for the consequences of any viruses that may be inadvertently be attached to this e-mail. Anyone who communicates with us by e-mail is taken to accept the risks in doing so.

When addressed to our clients, any opinions or advice contained in this e-mail and any attachments are subject to the terms of business in force between Alpha Beta Partners Limited and the client.

Alpha βeta PARTNERS

Alpha Beta Partners Ltd.
4 Lombard Street, London EC3V 9AA

info@alphabetapartners.co.uk 020 8059 0250

www.alphabetapartners.co.uk

www.alphabetapartners.co.uk