

A Conversation with Chief Investment Officer Tom Digenan, CFA, and Portfolio Manager Kristin R. Finney-Cooke, CAIA



Thomas Digenan, CFA
Chief Investment Officer



Kristin R. Finney-Cooke CAIA
*Managing Director –
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Markets have often been operating against uncertain backdrops so far this year. What’s your high-level advice to investors in these kinds of markets?

Finney-Cooke: It’s true that the year so far has been marked by the market’s recurring volatility, almost to the extent we’re normalizing the different shocks to the system, whether it be tariffs, the Middle East, interest rates, or inflation. In extraordinary markets like this one, it’s crucial that investors stick to their long-term strategic allocation plans.

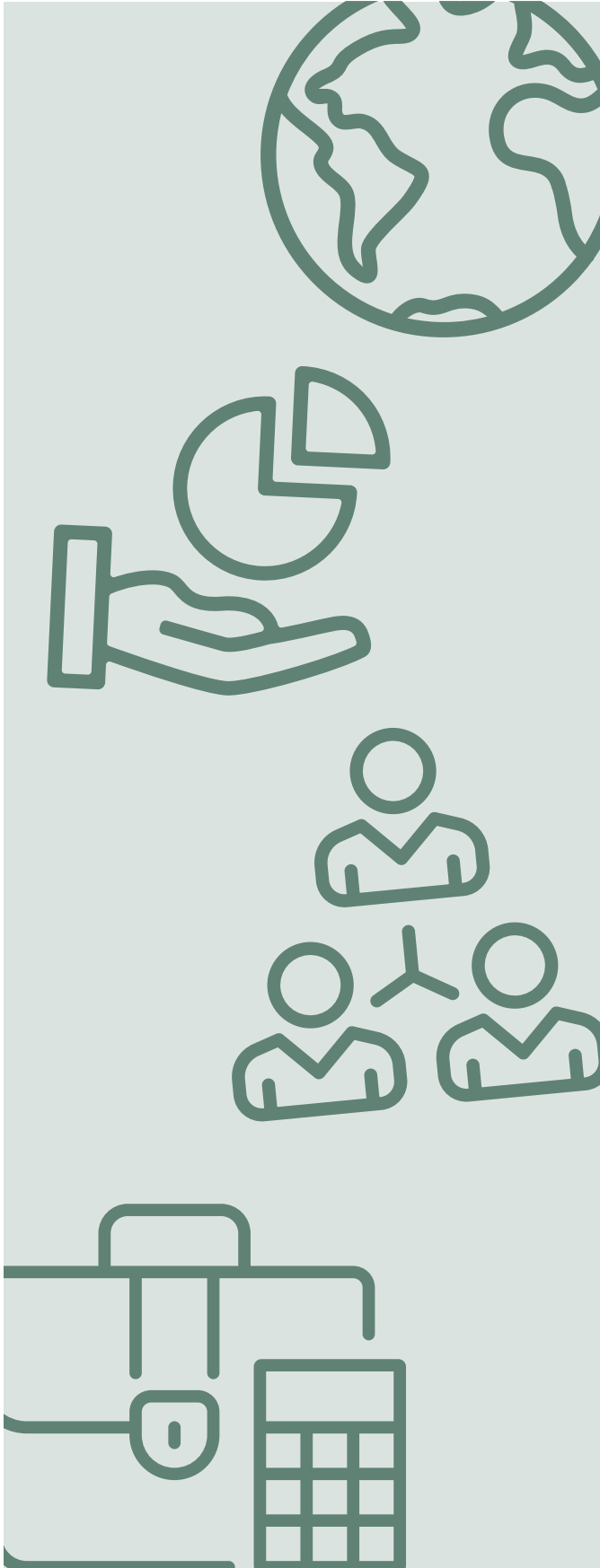
Digenan: We know how dangerous knee-jerk reactions to volatility can be for a portfolio’s well-being. On the other hand, for investors who remain disciplined and maintain a strategic asset allocation, volatility can prove to be an opportunity.

“In extraordinary markets, it’s crucial that investors stick to their strategic allocation plans.”

— Kristin R. Finney-Cooke

How do you suggest investors position their portfolios in these rather uncertain times?

Digenan: The best approach is always diversification. It’s a key tenet of our investing philosophy at CBIS. When we’re building portfolios, we really believe that adding additional asset classes and multiple managers uncorrelated in their performance is the best way to benefit investors over the long run.



Finney-Cooke: We're always thinking about the rationale of portfolio construction from a risk-return and key objective perspective. Regular review helps ensure we're not making any broad, large movements that can be counterproductive to a portfolio.

Is it possible to construct portfolios that adapt to different economic conditions around the world?

Digenan: The easiest way for investors to opportunistically take advantage of these changing conditions is to maintain a disciplined rebalancing process.

Finney-Cooke: That said, remaining disciplined around rebalancing is more difficult than people might think. In practice, you're rebalancing into asset classes that haven't done as well while selling out of asset classes or strategies that have out-performed. While the process is altogether counterintuitive, it goes a long way toward mitigating risk and preserving capital.

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— Tom Digenan

Are there certain allocation choices that might stabilize portfolios in rapidly changing market environments like the one we're in?

Finney-Cooke: We're in favor of having multiple asset classes throughout the capitalization ranges in the equity market, as well as various strategies within the fixed income. This diversification would be both from a U.S. and non-U.S. standpoint. Additionally, we believe alternative asset classes can also add a good deal of value to a portfolio. We like to think of it as similar to building a house. You want to make sure that you have a strong blueprint and that you evaluate all the options before you solidify and then implement.

Do you think portfolios can be designed in a way that might reduce reactive decisions in volatile markets?

Digenan: The best way to design a portfolio to reduce reactive decisions in volatile markets isn't really in the design of the portfolio, it's in the execution of the process. We're all human and we're all subject to some degree of behavioral bias. This is why we all need a process that's as objective as possible. In addition to taking a long-term approach, one of the things we find very valuable is having a rebalancing policy that's more mathematical in nature. A stable strategic asset allocation policy together with a sound rebalancing policy is the best way I can think of to help buy low and sell high.

Finney-Cooke: I think the main message here to investors is to be thoughtful about their asset allocation, making it strategic and long-term in nature while considering the opportunities that may exist around the edges.

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