



BINARY CAPITAL

Binary Capital Investment Management



Thought leadership Asymmetrical Investing

Long-termism shapes our relationships and our investments.

April 2021

Asymmetrical Investing

Overview

Investing requires deep insight, skill and resilience; even more so in upside asymmetrical investing. One needs to have a very resilient mindset to be successful in such a strategy. Not many can invest in this manner.

Indeed, the rarity of such a strategy, is the very reason that asymmetrical returns can occur in the first place.

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Chief Investment Officer

Our investment portfolios are indeed designed with an asymmetrical philosophy in mind. It is a strategy that underpins all our investment work. It is something that we are very confident in understanding and then implementing.

We are very focused in this investment style.

What exactly is asymmetry in investing? What does it mean?

In summary, this is the opportunity where the long-term return potential from an investment is very significantly positively skewed – upside returns. In holding an investment, the most one can lose is 100% of the capital sum invested. In this investment thesis the investment return could be far in excess of this potential 100% loss – in other words, a significant multiple of the sum invested. The upside return is therefore asymmetrical to the downside potential loss in a portfolio of such investments. Investment winners will far outweigh the investment losses. In this scenario even if an investment position is all lost, i.e., the 100%, the combination of investments will offset this loss, there will be real winners in the portfolio, real significant excess returns. The ultimate goal in growth-style investing should be such asymmetry.

Asymmetrical Investing

We believe that asymmetrical investing will be even more important going forward – the concentration of returns in key sectors and themes will make that obvious. Academic literature as well as practical portfolio management bears out the possibilities in such an investment strategy. The opportunity for future disruption in growth sectors: technology, healthcare, biotechnology and others is very real, it lends itself to asymmetrical investment pay-offs.

In the investment industry we see a strong bias towards the short-term, towards minimizing investment drawdowns, towards sales and marketing to increase assets under management and importantly being impatient with investments; all possible reasons why most investment professionals are distracted from looking at this asymmetrical approach in any meaningful manner. This type of investing is also not typically well understood by investment professionals. There is an opportunity to make returns from market participants lack of knowledge, an inability to truly appreciate such opportunities.

Asymmetrical investing works best, if one takes a long-term approach to investing. By doing this, the pay-off opportunity of the upside investments can take place and the real winners can emerge from the conviction cluster of investments held. Time allows for the compounding of positive investment returns. Let the long-term winners emerge and run with the investment winners - to practically realise real asymmetrical returns.

One practical example of this pay-off strategy is illustrated from this year: from mid February to around mid March there was a substantial sell off in many growth sectors in the US, and more broadly. Our adventurous portfolio lost around 10% during this period, moving from +8% in mid February to -2% by the end of March 2021. This loss of 10% happened in six weeks. In April 2021 in the first two weeks alone the same portfolio has moved up +6%, thereby erasing more than half of the losses in just two weeks.

A drawdown in six weeks, significant upside potential gained in two weeks. Noting that this is a very short time period. The point is well illustrated to highlight the potential upside acceleration. This upside potential will become more apparent and pronounced over the long-term.

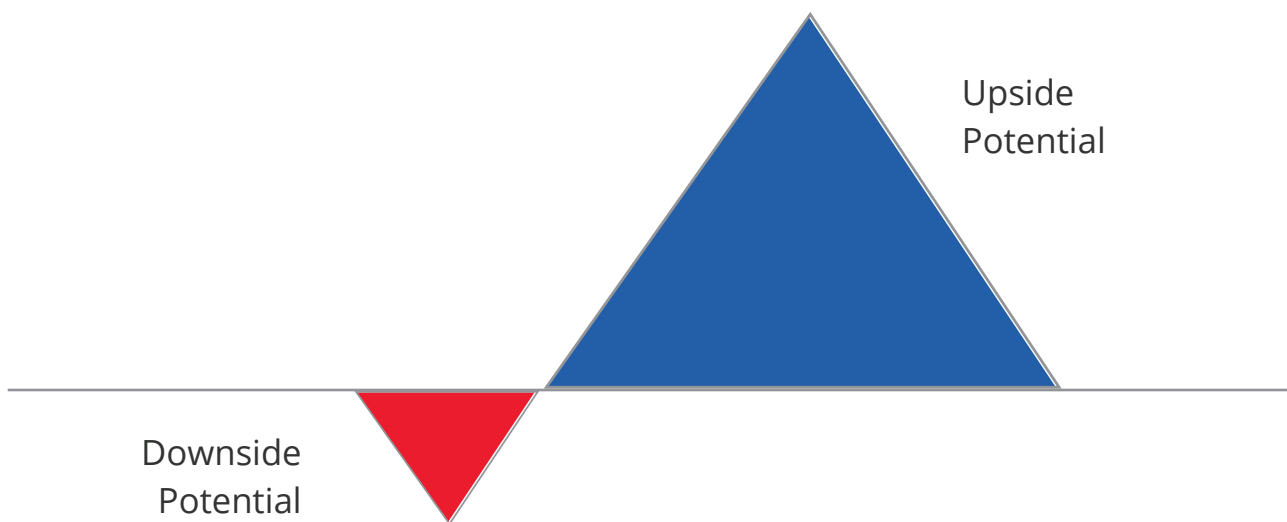
We have designed our investment strategies around a clear, simple and transparent philosophy. We are long-term high conviction investors. This runs through all our investment strategies. Asymmetrical pay-offs are an important feature of our work.



Asymmetrical Investing

In essence whilst we will face investment drawdowns, indeed it is inevitable in such high conviction portfolios, it is expected, the acceleration of the price recovery from such investment drawdowns is substantial. The acceleration or speed of the upside is the key. This upside potential is not temporary and can run for many months. We expect the upside return to only deliver in a patient manner, hence why we ourselves are patient in our investment outlook. Extreme returns often occur within narrow time-frames, and impossible to time. We take an ultra long-term view in everything that we do. By taking this patient approach the development of the asymmetrical pay-off can occur. Time allows it to occur, time gives us leverage.

This illustration demonstrates the point around asymmetry in investing:



We believe it is imperative that future investment strategies cover such a philosophy of asymmetrical thinking, otherwise index-like returns will continue to be achieved by active managers. This is not momentum investing, it is not based on short-term price movements. It is based on fundamentals and genuine active management. Of all strategies or products out there, we invest in around 10 funds. To give some context, there are over 50,000 product choices across Europe alone.

It is with this mindset that we invest at Binary Capital. A mindset and philosophy that is unique in the DFM space. In a peer group of consensus thinking, we truly stand out. We have a return and risk trade-off that is well aligned across all our strategies.

Saftar Sarwar

Chief Investment Officer

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