

"CONVENTIONAL INVESTMENT PHILOSOPHIES MUST BE CRITIQUED."

The Colin&Cie. Academy questions existing philosophies and strategies in order to offer our clients the best possible and most up-to-date asset management. Professor Ernesto Turnes reports on the cooperation of theory and practice.



Prof. Ernesto Turnes, FHS St. Gallen

In 2018, in order to live up to our claim of unique asset management and to ensure that our investment solutions are based on the latest scientific findings, we established Colin&Cie. Academy together with the FHS St. Gallen College of Applied Sciences. Professor Ernesto Turnes is responsible for bringing the latest academic findings to the Colin&Cie. Academy and its existing project groups. Today he is reporting on topics that the Academy has already studied and will deal with intensively in the future.

Professor Turnes, what changes do you notice when you look at the current investment situation, with a view to the current financial markets?

The ultra-expansive monetary policy initiated at the global level after the financial crisis has pushed up prices in almost all asset classes. In this context there is sometimes talk of an "Everything Bubble." From the investor's point of view, however, this development, which has so far been welcome, has its downsides. On the one hand, safe investments have not yielded returns for quite some time, which is a real challenge, especially for defensive investors and institutional investors such as pension funds. On the other hand, investors who are willing to take risks will increasingly have to adjust to lower yield expectations in the future. Another undesirable side effect of the global low-interest policy is the associated increase in interest rate risks. The changes expected on the interest front in the medium term will not only shake the bond market, but will also affect the equity, real estate, and currency markets. Against this background, conventional investment philosophies and strategies must be put to the test and critically questioned.

What challenges must we expect in the areas of investment advice and asset management in the future?

The primary goal must be to create added value for customers. In the financial sector, there has been a move away from product centricity towards customer centricity in recent years. Investors must prepare themselves for the fact that historical yield expectations are a thing of the past and that enormous interest rate risks have accumulated in recent years. False expectations are known to lead to disappointment. The financial markets are very dynamic and are influenced by various factors, which is why adhering to historical contexts and half-truths can lead to painful losses.

Comprehensive, individual, and goal-oriented customer consulting is indispensable in order to be able to assert oneself in an increasingly digital world.

What will be important in the future when looking after customers and investors?

In my view, it will become even more important in the future to fully understand the needs and goals of our clients and to make transparent which specific risks exist and which expectations of return are still realistic. For when forming yield expectations, it is no longer sufficient to simply pay attention to history. It is also important to consider all asset classes as well as equity holdings and real estate. As part of comprehensive investment advice or financial planning, client needs and investment objectives must be jointly identified. The aim is to tailor an investment strategy to the needs of the client, as opposed to pure yield optics. In addition, clients must be given an understandable explanation of how individual investment strategies are derived from investment objectives.

Which questions are academics currently dealing with in the realm of finance?

As in all areas of finance, countless articles and studies are written and published every day. This inexorable increase in knowledge harbors the danger of the academic world becoming decoupled from practice. From my point of view, it is the task of institutions of applied sciences to constantly build bridges between these two worlds in order to enable mutual fertilization. In recent years, research has dealt with the following topics, among others:

Rule-based investment strategies

What rules and indicators must we apply to generate attractive performance and protect investors from emotional pitfalls?

Alternative investments and illiquid investments

What are the risk-return characteristics of alternative and illiquid investments? How attractive are they?

Sustainability and impact investing

Investors are increasingly favoring sustainable and responsible investments. What does their performance look like?

Correlations and diversification

How do we deal with the observation that correlations between asset classes can increase in times of crisis?

Investment styles and factor investing

Which risk factors should yield a risk premium depending on the market phase? Several factors, such as value, momentum, and size, were identified.

What does the cooperation of practice and theory offer within the framework of Colin&Cie. Academy?

Practice and research should not be played off against each other. Rather, they should enrich each other. The Colin&Cie. Academy offers an optimal vessel to combine academic findings with practical experience. Existing philosophies, approaches, methods, and strategies are deliberately questioned in the Academy in order to keep up with the times and offer clients unique investment advice and asset management. I look forward to continuing our collaboration and am convinced that Colin&Cie. Academy not only benefits those involved, but also benefits customers in particular.

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