



## Compiled by the Leader in Alternative Investment Education

HOME

CONTACT

**SUBSCRIBE** 

**RESEARCH ARCHIVES** 

CAIA ASSOCIATION

**EVENTS** 

ALPHA SEARCH

## ACTIVE MANAGEMENT, THE BUSINESS CYCLE, AND THE SILK ROAD

Allocating to A.I., Alpha & Beta, Finance & Economics, Macroeconomics, Newly Added, Other Topics in A.I., Retail Investing, The Global Economy & Currencies

31 Jul 2018



LPL Financial's 2018 Forum Conference for investors took place in Boston this week, Sunday through Tuesday. This is an annual event that brings together thousands of advisors and program managers to discuss industry issues and new products.

LPL is an independent broker-dealer headquartered in Boston, with offices in Fort Mill, South Carolina and San Diego, California. Its subsidiaries include LPL Insurance Associates, Fortigent LLC, and The Private Trust Company NA.

One regular participant in the annual Forum is Kashif A. Ahmed, the founder and President of American Private Wealth, based in Bedford, Mass. APW is a financial planner that offers what it calls "bespoke" solutions. It also offers an international perspective: Ahmed was born in Pakistan and spent what he describes as his "formative years" in Kuwait before the Iraqi invasion of that country in 1990.

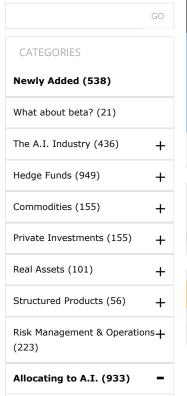
We spoke to Ahmed about APW, LPL, and today's investment scene in the U.S. and in the world

AAA: You recently tweeted that the independent broker dealer space is the "future of the industry" and LPL is a great home. Can you explain? What does LPL do for you? What is the broader trend of which it is a part?

Ahmed: Our firm uses LPL as its broker-dealer. It is the largest independent BD in the country by headcount. Under its new leadership many positive changes

User ID	
Password	
Remember	Ме
Forgot ID or pa	ssword?
Having trouble	logging in? Get in t





Alpha & Beta (386)

Portable Alpha & Alpha/Beta Separation

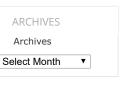
Alternative Beta & Hedge

Fund Replication (114)

(153)

130/30 (83)









have been deployed that have increased the efficiency of running our business and LPL seems committed to making sure the improvements continue.

AAA: Do you agree or disagree with the school of thought that says that for most retail investors, the best course, especially in equities, is to avoid anything that smacks of stock section or alpha hunting, to go with funds that mirror broad-based indexes? If that view is valuable for a wide base of investors, then can you tell me for whom the more activist sort of asset managers might be appropriate?

**Ahmed:** Active management works, it's just most managers are terrible at it. That doesn't mean you choose the lazy way out. Certainly for your do-it-yourself investors, they can gain exposure to a broad index fund and call it a day, but in my opinion that is stupid (remember, not everything in an index is worth buying. During the financial crisis and the one before, you would have had exposure to GM, AIG, Citi, Worldcom, etc.) Today there is so much information from so many free sources. It should not be difficult to do some research and pick those managers that are in fact delivering alpha. So the narrative that you should just stick with passive investments is also biased, and pushed by those that have passive vehicles to sell you.

Having said that, you can certainly use passive investment vehicles, like index ETFs and mutual fundss, but you should actively manage those, i.e. "actively manage your passive investments." With regard to fixed income and small caps, those really do require more due diligence as they have less coverage by analysts (also small caps are not yet "proven," so here you should most certainly use active managers.)

Now if you have hired a planner like me, and he/she just dumps your money in passive investments and calls it a day, fire them. You can do that yourself too. A good planner shouldn't pander to you and place you in passive just because s/he thinks that this is the narrative out there and that you have probably heard it too, and thus will be pleased that your planner is also doing the right thing. I call it doing the "fashionable thing," which is a cop-out.

AAA: What explanation would you offer for the rise in broad-based indexes over the last couple of years? Is it a continuation of what was happening under Obama (when it was driven by the quantitative easing of Bernanke-Yellen, which may be changing under Powell)? Or is it more a response to the new business-friendly administration, lower taxes, less regulation, etc.?

Ahmed: A combination of both. Remember the bull market is now in its 10th year. A massive economy like our–much like a massive plane–can't just take off. It needs a long runway. QE and many of the Obama-era efforts to put our economy on solid footing, and the bull run, was years before Trump came along. He can't take all of the credit. The Fed has done a great job. QE was wound down in the right way and at the right pace. It was a difficult and largely thankless effort. Low interest rates became the crack cocaine for investors and much like any addict, when there was talk of raising rates, investors reacted strongly. But kudos to the Fed. What could derail it is the negative effects of trade "wars" and uncertainty from headline risk.

AAA: To the extent that the stock price has been a response to the business friendly climate of the new administration, is there a point where we should say that this has already been discounted? Where we should "be fearful because everyone is greedy" as the saying goes? Have we reached or are we nearing that point?

**Ahmed:** Yes and No. Stock prices are at record levels, but if you look further the froth is not at the same levels as 2007 or 2000. And yes, you should start preparing for the eventual end of the bull run now. It's much more difficult to get out of a burning building when it is already engulfed in flames, and everyone else is headed for the same exit. Remember, greed and fear are emotions, not investing strategies. Both can get you killed when it comes to investing. I would

ETFs (18)  Benchmarking & + Performance Attribution (181)  Asset Allocation Models + (62)  Institutional Asset +
Performance Attribution (181)  Asset Allocation Models + (62)
(62)
Institutional Asset
Management (379)
Finance & Economics = (499)
Financial Economics Theory+ (230)
The Global Economy & - Currencies (159)
Currencies (91)
Forex (24)
Emerging markets (42)
Economics (5)
Frontier markets (4)
Macroeconomics (16)
Business News (132) +
Other Topics in A.I. (381)
Liquid Alternative Investiments (98)
Retail Investing (67)
Alternative Mutual Funds (11)
Liquid Alts (20)
Smart Beta (12)
Emerging Alternative + Investments (45)
Personalities in AI (171) +
Sales & Marketing in the AI+
Industry (26)

MORE ON 'ALLOCATING TO A.I.'

suspect that most of the greed is at the retail DIY investors side (or the investor who has a mediocre "financial advisor"). Most intelligent advisor/planners and institutional investors are likely already positioned for an imminent pull-back, or already have well-balanced portfolios.

AAA: What are the consequences for investors (alpha seekers or not) of all the talk of trade war and the actual tariff measures taken against China, and taken in retaliation by China? Are there undiscounted-for ways in which one could make a play with regard to the industries/sectors most likely to be affected?

Ahmed: There will be collateral damage. Remember, China's president doesn't need to win any swing states (or more elections for that matter). China has retaliated with pin-point strikes. U.S. soybean farmers in states that Trump won for example are already getting squeezed. Handing out \$12 billion of taxpayer money to comfort them is outrageous in a democracy; the government shouldn't be picking winners and losers.

Luckily these trade skirmishes should not lead to an all-out war because there still remain checks and balances and there is no one-man rule in this country. Not to mention this is not something Republican ideology stands for.

I recommend that most investors ride it out and try not to pick and choose winners and losers. A well-balanced portfolio will have a smoother ride over the long run no matter the headlines.

AAA: Looking beyond the U.S. domestic investments and again thinking about China - the PRC continues to pursue its New Silk Road initiative, aka "One Belt, One Road." Do you believe that China is exercising or is soon to exercise a great deal of influence on the nations to its west, extending to Turkey and/or the horn of Africa, as a dominant trading partner? Is there a way to play that near- to medium-term?

Ahmed: Yes, I agree. In addition to the Silk Road, they are also building infrastructure (and military bases) in Africa, and offering cheap loans to host countries. You can benefit by ensuring that your portfolio doesn't skew toward mostly U.S. stocks (the case for most investors). The U.S. may be the cleanest dirty shirt in the laundry right now, but the future is beyond our shores. The massive rise of the middle-class (consumers) in many developing and underdeveloped countries is where the future returns are to be had. Not to mention, most of the global market cap is beyond our shores.

Yes, you can get global exposure by investing in U.S. multinationals, but selective exposure to equities domiciled in other countries that are rapidly rising is where the "real money" will be made. Oh, and definitely use active managers for that!

**AAA:** Thank you for your time and your perspective.

Be Sociable, Share!





Tweet

Like 7

Share

	LEAVE A REPLY	
Name (required)		
Email (required)		

Active Management, the Business Cycle, and the Silk Road

Asset Management in China: **Expect Growth** 

Pension Funds, 'Tilt,' and Underperformance

Much More...

MORE ON 'ALPHA & BETA'

Active Management, the Business Cycle, and the Silk

The Quants, the Algorithms, and the Performance

Robeco Researcher on Factor Premiums and ETFs

Much More...

**™**ORE ON 'FINANCE & **ECONOMICS**'

Active Management, the Business Cycle, and the Silk Road

Centralized Exchanges and Cryptocurrencies

A Counterintuitive Result on Bank Size and Too Big to Fail

Much More...

MORE ON 'MACROECONOMICS'

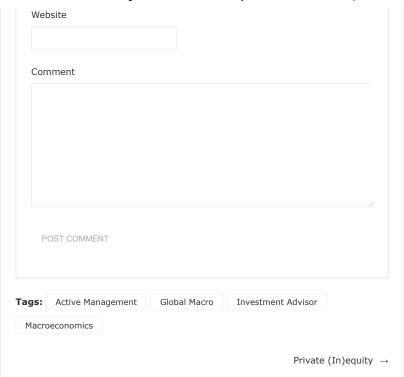
Active Management, the Business Cycle, and the Silk Road

Eurekahedge on Japan as an **Investment Mandate** 

Artificial Intelligence and Productivity: NBER Takes a Look

Much More...

MORE ON 'NEWLY ADDED'



Private	(In)equity
	y Arbitrage and Cross Options
Much N	lore
MORE (	ON 'OTHER TOPICS I
	Management, the
	ized Exchanges and currencies
Travails	from the Crypt
Much N	lore
MORE (	ON 'RETAIL 'ING'
	Management, the silk
DON'T I	FEAR THE ROBO!
Can We Next Ur	All Participate in The nicorn?
Much N	More
	ON 'THE GLOBAL DMY & CURRENCIES'
	Management, the silk
	ized Exchanges and currencies
,	Hedge Numbers Show currency Dive