OCEAN PARK
ASSET MANAGEMENT

Invest wisely. Rest easy.

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Observations and Perspectives:

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Terri Spath joined Sierra Investment Management in 2015 and has more than 27 years of investment management experience. She is responsible for market and economic analysis, portfolio allocation and investment strategy for the firm.

"How can I limit my risk while still producing upside?"

Playing Whack-a-mole in Wacko Season

A widely followed bond guru recently declared that investment markets have entered "wacko season." Some of his reasons include bitcoin mania and also European junk bonds that yield the same as U.S. Treasuries (which would you invest in)? We do not disagree and would add to his already long wacko and confusion list:

- Military strikes and North Korea threatening global security
- Interest rates going up
- Interest rates going down
- Robotics and Artificial Intelligence taking half of today's jobs in 10-20 years
- A record number of ETFs flooding the markets (GOP Stock Tracker, MAGA, or One Belt One Road, OBOR, sound good, but really what is that?)
- Fill in today's headline

Sifting through and digesting all of the information available to figure out how to invest in this "wacko season" is like playing Whack-a-mole -- that arcade game where plastic moles pop up out of their holes and the player tries to whack the mole with a mallet before the mole retreats. What issue is popping up now? How to react?

The question most investors really have is "How can I limit my risk while still producing upside?" A rules-based, tactical manager offers the answer of what to buy, when to buy it and when to sell it. Of course, passive management has its virtues, but left unchecked the results can be terrible – particularly during big sell-offs. Contrary to popular opinion, for many asset classes, active managers outperform their benchmark. A study by PIMCo in April 2017 showed that unlike stock counterparts, active bond mutual funds largely outperform passive peers after fees.[1]

Some bonds perform well during falling rates, others depend on the direction of the dollar or the pace of inflation. Still others rise in value during periods of rising rates coupled with strong stock markets. The key to a successful fixed-income portfolio is to be in the right bond asset class at the right time. Our tactical, rules-based fixed-income strategies participate during bull markets by rotating across emerging market bonds, high-yield bonds, floating rate loans, Treasury bonds, international bonds, municipal bonds and more. At the same time, our discipline allows 100% cash exposure to mitigate losses during broad market collapses.

There are always more moles to whack. Are you doing the right thing with your money? A dynamic tactical process driving the decisions of what to buy, when to buy and when to sell produces solid investment returns while preserving capital.

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[1] https://www.pimco.com/handlers/displaydocument.ashx-?fn=PIMCO_Quantitative_Research_Baz_Mattu_Moore_Guo_April2017.pdf

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