



## Quarterly Letter October 2019

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THALASSA CAPITAL LLC

*“What you spend years building may be destroyed overnight. Build anyway.”  
– Kent M. Keith.*

In our recent blog “An Interesting Week,” we analyzed three major elements of instability that hit the market almost simultaneously: the attack on Saudi’s oil fields, the liquidity crisis in the repo market and the Fed meeting. Most indexes were left rather unfazed by the rising of uncertainty and hovered around all time highs.

Since that missive, a few more economic indicators have shown that the increasing uncertainty is probably taking a toll on real economic activity as a few statistics are showing a continued global slowdown.

Seasonality is also not helping us as September and October tend to be often unkind to the investing community.

It is at times like this that one must be reminded of the importance of asset allocation and the process that leads an investor to a repartition of assets and risk that is in fact in line with long term objectives and acceptable volatility parameters.

Risk management is a paramount element of investment success and, depending on how active one is in financial markets, it can be executed in different ways. Active traders and certainly leveraged traders will manage risk very proactively keeping very short leashes on most of their positions. In this case, tax optimization, dividend income and executions costs are elements subjugated to the day to day profit and loss statement and to the trader’s ability to come back for more the next day.

However, for most investors, the relationship with risk management is very different. Most investors are not active traders and their investing advantage comes from the long-term view, the tax advantage available in different situations and the ability of being liquidity providers when liquidity trades at a premium or in more simple words: to buy when no one would.

In this scenario, risk management starts before one invests even one penny in the markets. Understanding objectives and personal risk profiles is the investors first step in the process of properly allocating assets and budgeting risk. The next step will force an astute investor



to familiarize him/herself with capital market history and current conditions. Understanding the “law of the land” will go a long way toward creating reasonable expectations therefore mitigating mistakes that might result from classic behavioral biases.

The process continues with proper implementation or the choice of investments that match the investor’s profile. Quality and discipline over speculation and emotions are usually distinguished advantages and yet often forgotten rules in a world driven by FOMO (fear of missing out) and information overload.

Once properly allocated, regular monitoring and infrequent tactical rebalances should be additional integrated elements of a successful process.

In essence, as David Swensen, the Yale Endowment Fund Manager, once put it, asset allocation is part science and part art. In our own words, asset allocation is a dynamic where virtuosity meets mathematics, and where discipline meets behavioral sensitivities.

Asset allocation is where preparation meets final success.

As always, we would like to thank you for the renewed confidence in our work,

Youri Bujko

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