



Understanding Our Approach

Understanding A Multi-Temporal Approach

Some readers have expressed confusion over my use of “tactical”, “strategic” and different timeframes in some research pieces so I think it’s important to get on the same page here so you really understand where my thinking is at. This is briefly discussed in the “How To Use Orcam Investment Research” that everyone receives when they sign-up, but it’s obviously not clear enough. I’ll do my best to clarify the confusion here.

There are no “holy grails”


I utilize a multi-strategy approach in my investment approach. This approach includes views on many markets and seeks to avoid “holy grail” approaches that are designed around one view of the world or one strategy. I view the investment world as a dynamic system that is constantly evolving and changing. No approach will conform to that changing system at all times. Therefore, I use multiple timeframes and multiple approaches in my work. Therefore, you will often see me discuss cyclical and trading ideas. This is designed to layer multiple strategies over multiple timeframes in an attempt to eliminate uncertainty, manage risk and ride macro trends.

In an earlier note I discussed the “intertemporal conundrum”. This is probably one of the most difficult parts of proper portfolio design and management. It is the problem of time within a

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The Intertemporal Conundrum—The problem of time in a portfolio resulting from a lack of proper portfolio structure.



portfolio. When do you buy? When do you sell? How long do you hold? What duration should your portfolio be? What assets fit this duration? How do you comprise the portfolio to achieve this certain goal? These are not easy answers. Anyone who's been involved in a bad trade knows how easily a trade can turn into an "investment". I've certainly been there. And if you know what I mean your portfolio has likely suffered from a lack of structure that is largely the result of the intertemporal conundrum and what is essentially time mismanagement within a portfolio.

How does one resolve this issue? You can automate strategies, but that doesn't fully eliminate the intertemporal conundrum. I resolve this issue by using multiple timeframes by layering timeframes through different approaches. My preferred approach is designed with a core and satellite that uses a longer-term strategic core and a tactical satellite designed to identify long-term and short-term macro trends while using the tactical approach to reduce risk in the strategic core.

You can think of this in a similar manner to building a ladder bond portfolio. A ladder bond portfolio reduces duration risk by buying (and reinvesting in) a portfolio of many different durations. So, a ladder bond portfolio of 1-10 year bonds might allocate 10% of capital to each year from 1-10 and will cycle through those bonds replacing each bond as it matures. In essence, the portfolio has no maturity date, but it is a combination of short-term and long-term approaches since the 1 year bond is more akin to a trading position while the 10 year is closer to a buy and hold approach. You're basically climbing an endless ladder. This is how I think of portfolio construction. A proper portfolio should attempt to reduce the risk that time naturally creates in a portfolio. This simply can't be done through one singular time focused approach as most portfolios are designed.

I should be very clear though. I am not a day trader or even a very short-term trader, but approach the macro environment with a multi-month or multi-year perspective. My strategies and views will never perfectly conform to your approach and are not designed to accommodate your personal investment plans/approaches, but will provide substantial insight into the macro investment world helping you implement your own investment strategies. It's impossible for me to know exactly how you're investing, but my hope is that my multi-temporal insights will help you not only better understand your own portfolio, but provide insights that are applicable to your personal style.

If you ever have questions or comments on research or Orcam's services please contact us directly.

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