SHINNECOCK PARTNERS

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Jointness + Resilience: Critical Portfolio Neologisms
By Alan Snyder

Our headline is quite the mouthful. However, parsing it will challenge all of us to strengthen our thinking and our investment portfolio with a fresh perspective. Our goal is to stimulate your thinking and challenge the old tried-and-true by making "jointness," "resilience" and, ultimately, "portfolio objective" into a useful toolset for evaluating investments.

1. Neologism, a $10 term, simply means a newly-coined word or expression. Jointness and resilience qualify in this application.
2. Jointness emerges from military jargon to describe cross-service (Army, Air Force, Navy, Space Force, etc.) cooperation in all aspects of military process, particularly between two service branches. It creates opportunity for greater efficiency and effectiveness, including new forms of warfare. By analogy, a second-to-die life policy or joint life annuity takes this jointness concept into the insurance world. In this example, insurance coverage is based on two lives versus the more traditional one.
3. Resilience is more obvious but no less important; it is our capacity to recover from difficulties, i.e., spring back. It is like portfolio "silly putty." Yes, we are leading the witness, but more to come.

Okay, enough of a warmup and setting the stage. We submit to you that substantial "investment" wealth is only created from consistent and durable return generation. Compounding is the eighth wonder of the world. Sure, buying Google, Apple, etc. when they first launched, if held, could have made one very rich. However, is this truly a portfolio "investment" strategy for most of anyone's money who maybe has substantial savings, some inheritance, good fortune from employer granted stock options/restricted stock or a successful spouse? And/or someone in their mid-40s, 50s, near retirement, or even retired? In short, probably not. We are using an individual's viewpoint but don't be fooled as these concepts apply just as well, if not more, to institutional pools of capital such as large-scale pension plans.

Unfortunately, the challenge of portfolio management must be considered in three dimensions: jointness, resilience and portfolio return objective, including risk tolerance.

Jointness applied to investing means considering the whole enchilada, getting all of the military branches on your side, each with its unique competencies. The interplay between interest rates, equity prices (U.S./global/developed/frontier/venture/private equity) and economics (expansion or contraction) is the woof of this fabric. Since no one has a consistently reliable crystal ball for predictions, does the asset mix allow for variability in these macro factors? Will the mix of assets circumnavigate volatility amongst these factors? What is the cross-correlation between each investment asset?

Exact weighting is shaped by the jointness of the asset mix and its degree of resilience required to meet the portfolio objective. For example, what blend of equity and fixed income in all of their potential subset categories, fits your portfolio needs? A classic portfolio might be one that needs the Army ground strength of fixed income, the equity punch of an Air Force and the private equity future power of Space Force. In sum, jointness is simply a more intriguing and holistic way of thinking about diversification.

Resilience measures portfolio durability against the inevitable yet unexpected shocks. How long will it be until there is recovery? What is my portfolio elasticity? For example, after the 2008 - 2009 shock, many portfolios took almost ten years to get even after expenses and taxes, which meant a lost decade of no compound growth. Many state pension plans were crushed, requiring additional funding to meet retiree obligations. The desired amount of resilience can be measured by the depth of a potential downturn and the timeframe to return principal value to where it started before any decline.

Time for the third dimension: portfolio objective and risk tolerance. There can be endless questions to frame this dimension! A few follow to highlight.

1. How much time do I have for resilience and recovery to happen, e.g., if I am 75 and living off the income/gains from the portfolio, time may be short.
2. What portfolio shrinkage can I accept without undue anxiety?
3. Have I calibrated my gain expectations in establishing my portfolio objective? Generally, the higher the expectation, the greater the portfolio risk in the asset allocation and potential lack of resilience. To benchmark, most experts assert that long-term results can achieve 4%, maybe 5% - - shockingly low, no doubt.

Now the fun part; let's pick on Shinnecock. After 25 months of investing in loans against fine art, there is a track record to examine and ponder in our jointness evaluation. Currently, there is an annualized yield of approximately 7.4%, no losing months, a 7-month duration, and hard-asset collateral under our control. Where, when and for whom should such an investment be considered?

Our scolding nature without any prejudice, of course, remands consideration of jointness and resilience. Jointness indicates a balanced portfolio to include niche* investments with short duration, allowing for flexibility to exit. A 7.4% net yield certainly beats other short-term alternatives such as an unlevered collateralized loan obligation (CLO) portfolio.

*Many, including us, believe that niche investments offer an especial edge when contemplating jointness. To steal a page from Nassim Taleb, a niche investment can be almost "antifragile," meaning it acts uniquely and independently from other investments and the interplay of interest rates, equity pricing and economic factors.

However, the potential return is lower than equities, other longer duration credit funds, or private equity. Still, the powerful duopoly of jointness and resilience demands more. Investments in art-secured loans resemble Army ground forces grinding out reliable victories, versus longer duration credit funds offering stand-off shelling by the Navy and private-equity-like venture investing with long duration and illiquidity providing moon shot potential. Thus, art lending might only be considered for a portfolio dollop.

Resilience in alternatives that offer higher potential returns would have to be considered as lower, maybe a great deal lower. Art collateral has a 50-year historical track record of resilience, yet there is a "but." History never exactly repeats itself.

Each portfolio and its owner will have different portfolio objectives and desired balance between jointness and resilience. Not surprisingly, as the largest individual investors in our art fund, we believe that it belongs as an allocation to be that anchor to windward, enhancing the probability of achieving your objective. Portfolio objective, whether personal or institutional, will seal the deal as a yes or no. It is your choice based on your own unique circumstances.

As always, we welcome critical reaction!

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you'll be attending so we can look for you!

Upcoming Events

Shinnecock will be in attendance and/or speaking at the following events. We'd be happy to have you join us!

September 17 – Irvine
IvyFON Family Office Forum
Buchalter
UCI Research Park, 5301 California Avenue, Irvine, CA 92617
For information and registration: http://www.ivyfon.com or email: martysecada@broadwall.biz

October 3-4 – New York City
Context Summits New York 2019
New York Hilton Midtown
1335 6th Avenue, New York, NY 10019
For information and registration: https://contextsummits.com/newyork/

October 22-23 – New York City
Hedge Connection: Global Fund Forum
TheTimesCenter
242 West 41st Street, New York, NY 10036
For information and registration: https://www.hedgeconnection.com/gff-intro-2019/

November 4-5 – New York City
Agecroft Partners: Gaining the Edge
The Roosevelt Hotel
45 East 45th Street, New York, NY 10017
For information and registration: https://www.apgainingtheedge.com/

November 11-12 – New York City
3rd Annual Beryl Elites Alternative Investment Conference
The Cutting Room
44 East 32nd Street, New York, NY 10016
For information and registration: https://berylelites.com/3rd-annual-beryl-elites-alternative-investment-conference

December 4-5 – Dana Point
Opal Group: Alternative Investing Summit 2019
The Ritz-Carlton, Laguna Niguel
One Ritz Carlton Dr, Dana Point, CA 92629
For information and registration: https://opalgroup.net/conference/alternative-investing-summit-2019/