BEHAVIORAL FINANCE, IMPACT AND TECH INVESTING

Jeremy Schwartz — Global Head of Research
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Last week on our podcast, we had two great guests with very different foci.

The first guest, Ron Albahary, Chief Investment Officer of the Threshold Group, a $3.3 billion registered investment advisor (RIA) founded as the Russell Family office, relayed how he has embraced behavioral finance extensively at Threshold, with a special focus on impact investing.

The second guest, Beeneet Kothari, founder of Tekne Capital Management, focuses on the technology sector, and we had an interesting discussion on valuations in the Internet space.

Behavioral Finance and Impact Investing

Ron Albahary outlined the four areas where he uses behavioral finance in managing client outcomes:

- **Transparency in Personal Biases:** Albahary talked about the behavioral mentalities that each of his team members brings to the table and how being aware of team dynamics and biases helps them understand how they approach different decisions in their portfolios.
- **Understanding Manager Biases:** Albahary suggested the biggest problem he has found with active managers is their overconfidence in their abilities and how due diligence helps manage behavioral biases in their portfolios.
- **Client Communications:** Albahary talked through an example of a simple framing issue in communication with a client: "You have $20 million; would a 10% loss be acceptable?" The client said yes. But when the question was framed as "Would you be comfortable losing $2 million?" the client said no. Using clear communications with clients is one way Threshold helps manage portfolios to achieve their clients' goals.
- **Mental Accounts for Structuring Portfolios Geared toward Impact:** For many clients interested in impact investing, Threshold has started utilizing a concept of mental accounting to better frame investments geared toward impact. Listening to the bucket approach of mental accounts was an interesting way to manage toward outcomes.

Albahary's team does a lot of work on impact investing for clients. This discussion was worth having to understand how an RIA moves investors toward having an impact with their investments and how they change portfolio structures to help investors achieve these goals.

Albahary and I talked off the air about how all the political conversations currently happening are accelerating interest in impact investing—which is an interesting commentary on today's state of affairs.

Tech investing: Searching for Profitable Growth

In the second half of the podcast, I talked with a fellow Wharton graduate. Beeneet Kothari now runs a technology fund that is focused on the impact of the Internet. He believes some of the largest companies today are still selling at very reasonable valuations, given their growth profile. He contrasted these large tech companies with some slower-growing consumer staples companies that are selling at similar multiples, but without any growth.

Kothari made some very interesting points about ride-sharing programs in emerging markets such as China and India. Emerging markets often leapfrog the developed world by embracing new technologies. An example is the adoption of mobile phones in emerging markets that goes beyond PCs or landlines.

One of the largest expenditures people make—outside their homes—is in cars. Kothari sees the ride-sharing services in countries such as China and India replacing the need for these consumers to own their own cars—which makes for smaller expenditures. And with car companies adding more wear and tear to cars than when people owned them individually, Kothari doesn't see this as actually lowering net car demand—and he ventured to look into his crystal ball to suggest that we will sell more cars globally in 2027 than in 2017.

Kothari looks for profitable growth opportunities—companies that can drive growth but in a profitable way. He remarked how easy it is for technology companies to transition across their traditional platforms into things like payments, investment management and other services. This will be one of the more interesting developments over the coming years, and I appreciate Kothari sharing his perspective on the tech world as it stands today.

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DEFINITIONS

Behavioral finance : An academic branch of finance devoted to studying the behavior of individuals as it relates to their financial decisions.

Impact investing : nvesting in a socially or environmentally conscious manner in addition to financial profit.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Active manager : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.