

Embrace Volatility: Quality and Income are your Friends

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Market volatility provides a slew of opportunities and challenges for investment managers whose role during this time is to calm clients while determining the best path forward with their portfolios.

While banks, wirehouses and RIAs are pouring resources into developing competitive wealth management offerings, many are focusing too much on providing products and not enough on curating the client experience during times of volatility. More and more, investors are seeking quality advice, premiere expertise and straightforward information.

Periods of volatility bring the opportunity to meet this need and it is during this time that managers need to act. Advisors should be doing everything they can to optimize their businesses by making strategic decisions to streamline operations so they can spend more time with their clients.

Finding the right strategy, though, is not quite as simple as prompting ChatGPT to give you the best investment playbook. While some firms are quick to put all their eggs in the artificial intelligence (AI) and ChatGPT baskets – citing productivity benefits – humans are still valuable and important in the process.

A “shared CIO” arrangement serves as a technology and productivity enhancer, providing advisors with more tools, insights and data than they might have access to on their own. It enables advisors to tap into a broader team with analysis, research and insights without the operational challenges of bringing that team on in-house; and it empowers advisors to do what they’re best at: client services. Particularly during times of volatility and stress, this approach can be a highly valuable asset.

Evaluation and evolution are crucial, especially in times of high volatility, and there are a few strategies both advisors and investors can employ during this, and future, periods of volatility:

- **Manage cash more strategically. Chances are,** there are excessive amounts of cash sitting in checking accounts earning 0%. If you haven’t looked at floating rate treasuries for your cash management, there is an opportunity to earn over 5% today while banks are failing to pass Fed rate hikes to checking accounts.

- **Look at profitability and quality. Review your portfolio, look at your equity holdings and screen for profitability and quality.** An overly tight Fed that is creating volatility can hurt the most cyclical stocks. Companies with strong balance sheets, higher free cash flow and low debt have lower refinancing risk and are less vulnerable to profit slowdowns with higher rates caused by Fed tightening.
- **Take advantage of the higher yields in fixed income.** Yields on quality-screened high-yield bonds can deliver over 8% and that may approach similar returns on equities given elevated market valuations. Quality screens are important to do due diligence on companies that you're investing in. You don't need an active manager to conduct such screens any longer, as some index-based ETFs apply screens for quality within the high-yield bond universe today.
- **When market returns are muted or negative, look at strategies that incorporate downside market cushions, like options selling.** Because this is more complicated for the average investor, leveraging an asset managers or a "shared CIO" approach can help walk you through the benefits. If expectations for returns are subdued, writing options can turn higher volatility into higher income levels that provide downside market cushions.

Advisors know they often need to wear multiple "hats" to deliver a superior wealth management solution. These hats are critical to running their business. But the burden of all these hats can make an advisor feel like the business is running them, especially during sustained periods of volatility.

This brings us to our conclusion: outsourcing wealth management services, whether via a "shared CIO approach," or AI, will increase dramatically in the coming years. The wealth management practice that can capture this experiential magic in its wealth management offering will be the firm that succeeds.

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