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Vantage Point

We don't see things as they are, we see them as we are - Anaïs Nin

I just returned from a trip to California where I spent two days with the folks at AQR (Applied Quantitative Research), one of the hedging managers we use. The majority of the time spent there was on the topic of risk; the types of risks that exist in the investing world, and methods they used to reduce that risk.

On the plane ride back I thought a lot about the risks these guys see compared to the risks a typical equity manager sees.

Most "long only" managers (those that own stocks, but don't use any hedging strategies) consistently see risk as missing the ride, of losing the purchasing power of money relative to inflation. They contend that the only way to consistently beat inflation (and the market) in the long run is to stay fully invested in quality stocks and ride out the occasional gut wrenching downturns.

The "hedging" managers (those that apply some risk reduction techniques, through offsetting investment positions, or more active trading) see risk as the loss of principal, even in the short run. They believe that the way to get ahead is to avoid the sharp moves down, thereby eliminating the need to chase returns on the way back up.

So who's right? I think they both are.

The title of this newsletter is taken from a 2008 movie of the same name starring Dennis Quaid. Quaid plays a Secret Service agent charged with protecting the president (William Hurt) who is to speak at a counter terrorism summit in Spain. The movie opens as the president is shot by a sniper. The remainder of the film replays the events leading up to, and immediately after the shooting, through the eyes of eight different people (including the shooter). Each character adds a piece to the mosaic until a complete picture of the actual events is formed.

The vantage point of a hedging manager is what is in front of his face. He is concerned with what's around the next corner; what is going to affect him this month, this week, today, in the next hour. The vantage point of the long only manager is well down the road. He views all this short term stuff like speed bumps, things to be aware of but not serious enough to change direction.

This is why I believe the two strategies fit well together. We ask the hedging managers to watch out for short term danger. The long only managers have their eyes in the distance. Together they work a lot like a navigation system (GPS) does in a car. The driver provides the short term view by watching for traffic, road conditions and detours, and the GPS locks on to the ultimate destination keeping the car headed in the right direction. The GPS doesn't know (or care) about traffic snarls, or the road construction. The driver makes short term corrections to account for these, and the GPS keeps moving to the target. It takes both perspectives to navigate successfully.

P.S. Enclosed are two additional pieces in this mailing. The first is the *Access Privacy Policy Statement.* You are receiving this as required by the SEC. In addition, enclosed is the *Access Firm Brochure Part II A of form ADV.* Delivery of this document is a new requirement by the SEC. If you have any questions on either of the enclosures, please give us a call.