

Ineichen Research and Management ("IR&M") is a research firm focusing on investment themes related to absolute returns and risk management.

Risk management research

The essence of investment management is the management of risks, not the management of returns.

—Benjamin Graham

IR&M's risk management research was designed to improve investment decision making. The basic premise is the idea that long-term success is dependent on survival and avoidance of large losses, i.e., the management of risk, not returns.

One of the greatest pieces of economic wisdom is to know what you do not know.

—John Kenneth Galbraith

IR&M's risk management research is fact based. Conclusions are drawn from changing conditions, rather than opinions. As General John Sedgwick put it: "They couldn't hit an elephant at this dist..."

Remember always: Risk is not about uncertainty but about the unknown, the inescapable darkness of the future.

—Peter Bernstein

IR&M's risk management research is not a quantitative exercise. Risk is multi-faceted and includes policy errors related to socio-economic or monetary experiments, corruption, expropriation, negative compounding of capital, war, etc. The research consists of four quarterly theme pieces, 25-35 updates, and 45-50 momentum monitors per year.



IR&M Risk management research

Europe doubling down

3 October 2013

Alexander Ineichen
+41 41 511 2487
@ineichenrm.com
www.ineichen-rm.com

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18 January 2013

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@ineichenrm.com
www.ineichen-rm.com

Repressionomics

Feature

- The great manipulation continues: The most important variable for savers, producers, and investors to allocate capital and risk continues to be manipulated in a fashion that is arguably unprecedented and dangerous.
- The current political regimes do not trust the markets: It is far to say that the distrust is mutual.
- More and more investors want real assets. They want out. They want something outside of the whole financial system where the authorities are becoming more and more repressive. Trust has been lost. Sadly, not all investors have the flexibility to take their funds and park them outside of the financial system; they're stuck.
- Bonds are expensive. If an asset class is priced cheaply and something goes wrong, the asset class gets even cheaper and potentially becomes an opportunity for value and distressed investors and bottom fishers. If an asset class is priced expensively and something goes wrong, hell breaks loose.

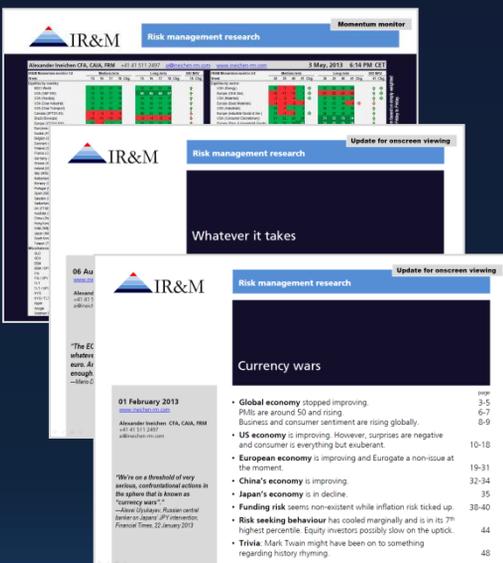
Macro update

- Global economy remains at an inflection point.
- The average P/A is below 50 and stabilizing. So the economic trend, on average, is towards slight contraction and slow deterioration of economic circumstances. This would be more or less consistent with a falling average GDP growth rate and falling average industrial production. All the monetary easing and fiscal stimuli have stabilized the whole situation. Economically it's not great, but it's not a global depression either.

Risk update

- Risk is on. Risk seeking behaviour remains elevated, currently in the 47th highest percentile since 1997.
- The easing of sovereign credit spreads is partially a function of Draghi and partly a function of regulatory-induced short covering.

"My true adversary does not have a name, or face, or a gender, the enemy I seek is not in the world of men, but in the world of ideas."
—Francis Fukuyama, Financial Times, 22 January 2012



IR&M Risk management research

Momentum monitor

Alexander Ineichen CFA, CMA, FRM
+41 41 511 2487
@ineichenrm.com
www.ineichen-rm.com

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Update for onscreen viewing

Whatever it takes

06 Aug 2013

Alexander Ineichen CFA, CMA, FRM
+41 41 511 2487
@ineichenrm.com

The EC whatever it takes. It's enough.
—Marc D.

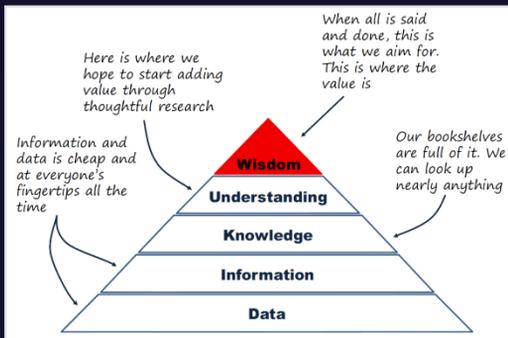
01 February 2013

Alexander Ineichen CFA, CMA, FRM
+41 41 511 2487
@ineichenrm.com

Currency wars

- Global economy stopped improving. P/A's are around 50 and rising.
- Business and consumer sentiment are rising globally.
- US economy is improving. However, surprises are negative and consumer is everything but exuberant.
- European economy is improving and Eurogate a non-issue at the moment.
- China's economy is improving.
- Japan's economy is in decline.
- Funding risk seems non-existent while inflation risk ticked up.
- Risk seeking behaviour has cooled marginally and is in its 71st highest percentile. Equity investors possibly slow on the uptick.
- Trivia: Mark Twain might have been on to something regarding history rhyming.

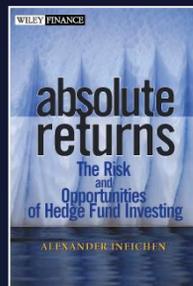
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Praise for Absolute Returns

"The world of investing floats on a vast sea of words, most of which are obvious, simple-minded, and clichés, and all of those are dangerous to financial health. The story of this book bears no relation to all that stuff. Ineichen's message is original, powerful, comprehensive, and essential to robust financial health. The literary clarity he blends with his financial wisdom is an additional blessing."

—Peter Bernstein



Contact

Alexander Ineichen CFA, CAIA, FRM
 +41 41 511 24 97
ai@ineichen-rm.com

Request free three-month trial:
info@ineichen-rm.com

Samples:
www.ineichen-rm.com

Philosophy

- The absolute return investment philosophy makes sense while the relative return investment philosophy does not.
- Active risk management is the key to "absolute returns" (i.e. long-term positive compounding of capital) and therefore the key discipline in investment management.
- Large losses kill the rate at which capital compounds and are not good for one's financial and mental health. All investors are loss averse, not risk averse.
- Active risk management is a craft, neither a science nor an art. The first principle of risk management is "learning by doing," i.e. experience matters.
- Most of the risk management literature is about risk measurement, rather than risk management. Risk management is about responsibility, not models.
- Most of the risk management literature is focused on risk and volatility, rather than uncertainty. Investors need to get compensated for bearing uncertainty.
- Active risk management and continuous investment success is difficult. We are sceptical of all the academic research suggesting otherwise.
- Markets might or might not be forecastable; active risk management is doable and worthwhile in any case.
- Many axioms in economics and finance (rational expectations, efficient and complete markets, etc.) are wrong and expensive to investors and the system alike.
- Knowledge, understanding, insight, perspective, and, ideally, applied wisdom improves the quality of investment decisions; more granular data does not.
- When it comes to understanding, most of the detail simply does not matter. Common sense trumps minutiae.
- Yes, the devil is in the detail. But if you get the big picture wrong, you need not worry about detail.
- Leonardo da Vinci hit the proverbial nail on its head: "Simplicity is the ultimate sophistication."