Fall 2024
Info SIGMA

Reliable returns: Do you know the movie *Moneyball*?

It was baseball fever in the US not too long ago, and it might remind some of the movie *Moneyball*. Released in 2011 and starring Brad Pitt and Jonah Hill, *Moneyball* tells the story of Billy Bean (Pitt), general manager of the Oakland A's baseball team of the 90s, early 2000’s. The A's had a miserable record despite the staggering salaries paid to a few star players. With a limited budget, Billy Bean had to rethink his way of doing things.

Enter Peter Brand (Hill), a young economist and baseball buff, who introduces Billy Bean to a whole new way of designing a winning team and leaving old traditions behind. He convinces Billy to see the team as a cohesive whole and not as a discrete roster of players. From this perspective, the way to choose the best players for the team's success takes on a whole new dimension. A funny example is the player who is not very fit, not very fast and of fairly advanced age for professional sports but happens to lead the league in walks to first base. His potential contribution to the team’s success might have been overlooked if his skill set (admittedly limited!) had not been judged in the context of overall strategy and budget constraints.

The A's made it to the 2002 American League final with a heartbreaking loss to the Minnesota Twins. In 2004, using the same method, the Boston Red Sox won the world championship for the first time in 86 years, ending one of the most infamous droughts in professional sports.

Many of the lessons learned from this story are also good for your portfolio, but with an added challenge; the performance of baseball players is relatively predictable, while the performance of managers is not. In our last issue, we discussed the lack of persistence of performance and the real risk of chasing after star managers. The key to success in the medium and long term is not in the selection of managers, but rather in the implementation of a portfolio structure composed of complementary investments specifically chosen for their contribution to the overall result. Some investment choices may sometimes seem counterintuitive, but the contribution of each person becomes obvious sooner or later. That is why for example, adding riskier high yield bonds to even a conservative portfolio will actually reduce risk rather than increase it, or that a seemingly

boring dividend index will in the long run add to the growth focused investors wealth accumulation.

We have been applying these principles since 2006 with our Sigma balanced and Sigma income baskets and the results are clear. Both portfolios rank in the top 25% (1st quartile) of *all* comparable mandates tracked by *Morningstar*, across *all* time horizons.

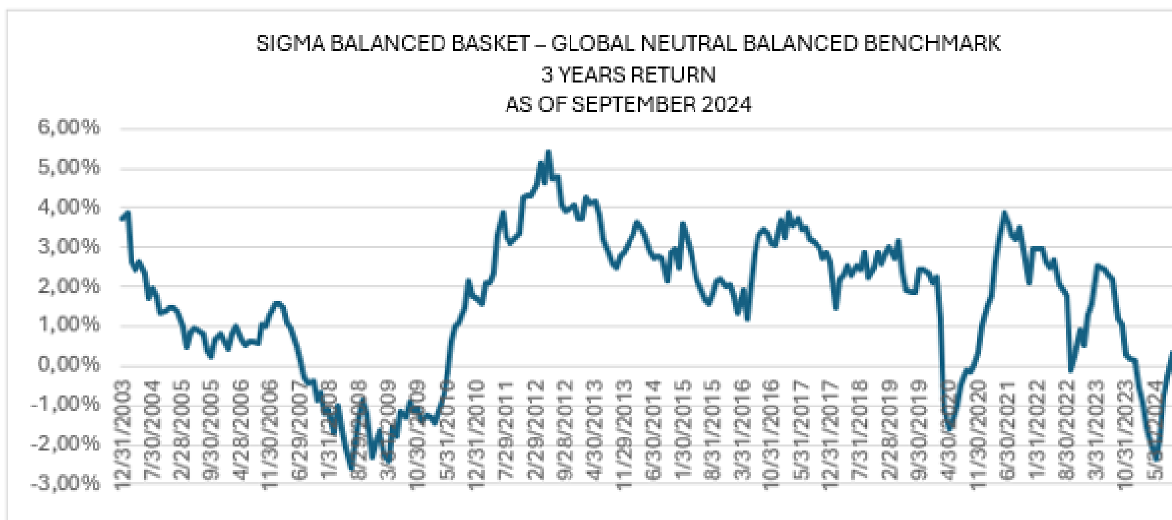
2024-09-30

Sigma Income	1 Year	3 Years	5 Years	10 Years	YTD
Return	18,99%	3,10%	4,13%	4,62%	10,33%
Morningstar Index	15,74%	2,44%	3,33%	3,45%	7,29%
Morningstar Category Average	15,71%	2,27%	3,15%	3,93%	8,04%
Morningstar Quartile	1	1	1	1	1
Sigma Balanced	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**YTD**
Return	23,42%	5,39%	6,89%	6,64%	13,87%
Morningstar Index	19,93%	4,93%	6,34%	6,41%	11,71%
Morningstar Category Average	19,57%	4,28%	5,64%	5,46%	11,56%
Morningstar Quartile	1	1	1	1	1

Source : Croesus 2024

No portfolio can be the first quartile 100% of the time. By focusing on portfolio structure and costs rather than on the talent of managers, the few periods of underperformance in our index portfolios are short-lived and a little patience is rewarded. We know that 2023 has been more challenging for a well-diversified portfolio, especially when compared to U.S. stock indexes propelled by a few stocks. It could have been tempting to go for one of the star managers of the moment who had a good year. But as we saw in the last issue, by chasing managers who have recently outperformed, we find ourselves investing our money with a manager who is highly likely to end up in the 3rd or 4th quartile once we have bought their fund. When it comes to active management, relative returns are stronger before hiring than after hiring most of the time.

As the chart below demonstrates, this results in selling just before a period of outperformance. We can also observe that for the majority of the time, the multi-asset class index approach offers outperformance relative to its benchmark, presented here over a three-year average, every month since 2000.



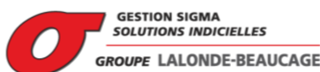
Source: Croesus FBN 2024

The analysis represents a period of 250 months. The balanced Sigma basket outperforms the benchmark for 198 of those 250 months, or 79% of the time. The sum of the extra return for the outperformance periods is 462%, and the sum underperformance return for the 52 underperformance periods is -62% for a net total of 400%.

Returning to our baseball analogy, we increase the performance and reliability of your portfolios by consistently hitting singles and doubles instead of trying to hit home runs and take the risk of getting struck out on three strikes.

In the next issue, we will focus on the other dimension of our management, Asset class rotation. Risk management and the reliability of returns are played out on two fronts. First, there is diversification by asset class, provided by the balanced and income Sigma baskets.

Second, exploiting long- and medium-term trends, as we do with the Sigma basket of asset class rotations, not only adds potential for additional returns, but offers an additional layer of diversification by combining complementary investment approaches.



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I have written this report to the best of my judgement and professional experience to provide you with my views on various investment solutions and considerations. The views expressed herein, which represent my informed opinion and not a research analysis, do not necessarily reflect those of NBF.

Sigma Asset classes rotation basket	1 Year	3 Years	5 Years	10 Years	YTD
Return	21,62%	7,58%	7,37%	8,07%	15,32%
Morningstar Index EQ Growth	24,61%	7,44%	9,17%	8,41%	15,61%
Morningstar Category Average cr	22,31%	5,37%	7,14%	6,52%	13,88%
Morningstar Quartile	2	1	2	1	1
Morningstar Index EQ tact alloc	20,03%	2,71%	5,92%	4,41%	9,09%
AT Morningstar Category Average	16,82%	1,34%	3,97%	2,40%	7,43%
Morningstar Quartile	1	1	1	1	1

Sources: Croesus 2024 and Blackrock 2024. The 10-year yields are based on simulations carried out in 2016.