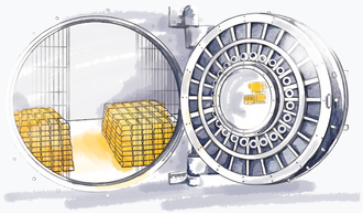
The Forvest Investment Philosophy

Never forgetting its roots as a family office, Forvest develops unique wealth management solutions for high net worth individuals and families across continents and generations.



COMFORT

"Comfort" is your need for the current income necessary to meet your lifestyle. It may come from a variety of places (salary, pension, rentals, etc.), but it can also come from the distributions from the securities in your portfolio. In the near-zero interest rate environment we now find ourselves today, maintaining portfolio income has taken on new meaning for an aging global population. The time frame here is short.

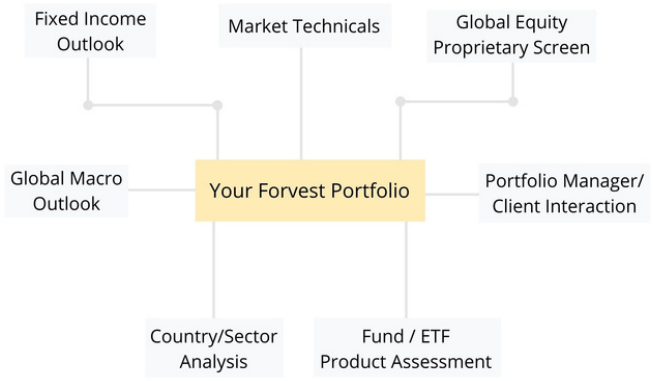
CONTINGENCY

"Contingency" refers to assets that can preserve your "Comfort" stream in times when the world is anything but comfortable. Contingency assets are more than cash; they include alternative asset classes such as commodities, real estate, alternative investments, and currencies that can maintain value when traditional securities falter. How much Contingency protection you need is the essence of ascertaining your tolerance for assuming risk.

CHARITY

"Children and Charity" refer to the long-dated assets in your portfolio held as much for your legacy as they are for you. These primarily growth investments that are held to ensure that the needs your children or your charitable legacy can be met. Your long-dated assets can be held directly by you or in a unique structure (trust, corporation) that can best insulate you from not just market events, but life events as well.

Our disciplined investment process takes various inputs to curate a portfolio precisely tailored to address each and every unique need to meet your financial requirements



Forvest Global Wealth Management

Our Family, Working With Your Family.

www.forvest.ca

Fixed Income at Forvest

Why do you have Fixed Income securities in your portfolio? Is it for their "fixed" interest/dividend payments? Is it for the high degree of certainty of getting your money back? Or is it because Fixed Income securities can diversify portfolio volatility risk?

Your answer could be one, two or all of the above. While each are appropriate, at Forvest we look at Fixed Income a bit differently. Adhering to our "Three Pot" philosophy of portfolio construction, our view on Fixed Income securities is that these "assets" offer a unique role in fulfilling the Comfort and Contingency requirements of your portfolio. By "Duration-Matching" your fixed income holdings to your expected portfolio needs over time, we can minimize the risk of future disappointment while earning the higher returns which come from longer-lived assets.

An example is the best way to explain. Consider how you finance your daughter's college education four years from today. You know that in four years' time you will have an expected payment of say, $60,000. Option 1 is to put the money in a bank and earn a paltry rate of interest. Option 2 is to put the money in an equity fund and hope that markets are higher in four years' time. Option 3 is to buy a $60,000 fixed income security that matures in four years, when school begins. Under Option 3, not only do you know the money will be there (unlike equities), but the return on the four-year security is significantly higher than that on a bank deposit.

The only risk to duration-matched Option 3 is inflation, a risk present in any longer-term investment decision. At Forvest, inflation risk is considered not only in the investment specifically selected for you, but in the Contingency bucket built into your overall portfolio.

What does a Forvest duration-matched fixed income portfolio look like? Its three key components are:

1. "Laddered" low risk bonds issued by governments and high-quality corporate issuers where principal loss is virtually nil. A ladder is built by staggering maturity dates of the securities held in the portfolio matching the projected Comfort requirements of the client.
2. "Inflation-Indexed" bonds to provide portfolio protection against unexpected price level changes. Known as "TIPS" these bonds possess yield characteristics very different from traditional fixed income. TIPS area core holding in the Contingency component of Forvest client portfolios.
3. "Yield Enhancement" securities include preferred shares, convertible bonds, private placements and alternative yield products, held to provide income above that available from Laddered and TIPS holdings.

The current yield environment, marked by inflation-driven increases in interest rates, is unlike anything seen in the past four decades. So far in 2022 traditional fixed income holdings have not only lost money, but they have not fulfilled their traditional diversification role. At Forvest we recognized inflation risks early and have positioned clients to benefit from yields not seen since the Financial Crisis of 2008.

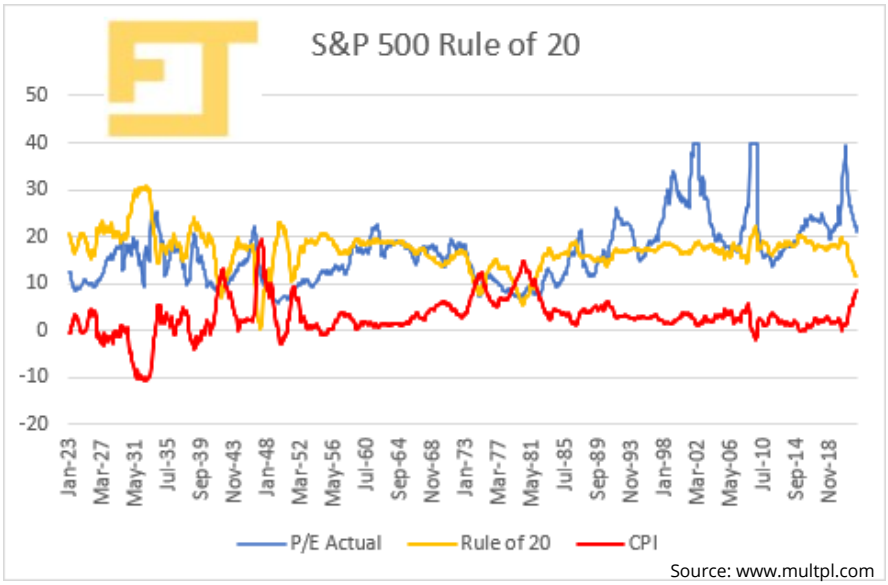
Forvest Market Musings

Lyle Stein • 1st
President of Forvest Global Wealth Management (Canada)
1d • Edited •

Posted:
LinkedIn June 15th, 2022

How much do you pay for a stock today?

Since the beginning of 2022 the market has witnessed a collapse in the price it is willing to pay for earnings. This P/E contraction has decimated equities, and just this week the S&P 500 entered bear market territory. The Forvest chart below is a 100-year perspective on how markets value equities and it offers a cautionary tale in light of the recent run-up in inflation.



Three lines are shown: the S&P500 earnings multiple (blue), the U.S. CPI (red) and The Rule of 20 (gold). What is the Rule of 20? Take 20, subtact the CPI, and that is an approximation of what the P/E should be. The essence of the Rule of 20 is that when inflation is high (ala the '70's) you pay less for earnings; when inflation is low, you pay more. From the mid-'50s to the mid-'90s the Rule worked pretty well (nothing is perfect). Prior to the post-war period, it wasn't too bad, but beginning this century, the Rule went to pot. In this decade's historically unprecedented time of ever-falling yields, markets became infatuated with paying higher multiples for the exptectation of ever-growing earnings.
An now, the come-uppance. With inflation at 8%, investors are fretting over paying too much for earnings that are increasingly less certain. For those of us who remember the '70-'80 investment period, the thought of a market trading at <10x is not out of our minds.
What should we pay today? A lot less than we were used to!

#markets #valuations #inflation

Contact us

info@forvestglobal.ca
+1 (647) 362-3990
@Forvest

Lyle Stein
President
@LyleStein
l.stein@forvestglobal.ca

Robert Wollach
Relationship Manager
@RobertWollach
r.wollach@forvestglobal.ca

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