Cuffelinks
Connecting investors with ideas

Edition 170, 26 August 2016

This Week's Top Articles

(The article on Treasurer Scott Morrison and his statement about not revisiting the superannuation changes is on our website).

Inside a hot IPO

Hugh Dive

Two weeks ago, Viva Energy (a portfolio of 425 Shell service stations) listed on the ASX. This was a very successful IPO, well-managed by its investment bankers, who structured the deal astutely to create institutional investor demand. The stock gained 16% on its first day of trading. The success of this IPO has prompted Woolworths to look at spinning out its portfolio of service stations into a property trust with an expected valuation of between $1.3 billion and $1.5 billion.

We are usually sceptical of IPOs for reasons so eloquently outlined by the father of value investing, Ben Graham:

"*Our recommendation is that all investors should be wary of new issues – which usually mean, simply, that these should be subjected to careful examination and unusually severe tests before they are purchased. There are two reasons for this double caveat. The first is that new issues have special salesmanship behind them, which calls therefore for a special degree of sales resistance. The second is that most new issues are sold under 'favorable market conditions' – which means favorable for the sellers and consequently less favorable for the buyer*." (The Intelligent Investor 1949 edition, p.80)

But occasionally a great one comes along, either for a long-term investment or for making a short-term gain on its opening trading day. This article examines the machinations of institutional investors during a hot IPO's roadshow and listing, and the game of 'Liar's Poker' that goes on between fund managers and the investment banks running the IPO.

List of 2016 Initial Public Offerings							
Ticker	Company Name	Listing date	Listing Price	Current Price	Performance Since Listing	IPO Size	BANK
TFC	TFS Corp	8-Apr-16	$ 1.55	$ 1.70	10%	$60m	Canaccord & Moelis
WTC	Wisetech Global Ltd	11-Apr-16	$ 3.35	$ 4.94	47%	$167m	CS & MS
RWC	Reliance Worldwide Corporation	29-Apr-16	$ 2.50	$ 3.33	33%	$919m	JP Morgan
MTO	Motorcycle Holdings Ltd	29-Apr-16	$ 2.00	$ 3.85	93%	$46m	Morgans
RBL	Redbubble Ltd	16-May-16	$ 1.33	$ 1.13	-15%	$40m	Canaccord & Morgans
GTN	GTN Ltd	1-Jun-16	$ 1.90	$ 2.50	32%	$188m	Macquarie
SSG	Shaver Shop	1-Jul-16	$ 1.05	$ 1.20	14%	$98m	Ords, Shaw
KGN	Kogan.com Ltd	7-Jul-16	$ 1.80	$ 1.60	-11%	$50m	Fosters, Canaccord
SCO	Scottish Pacific	13-Jul-16	$ 3.20	$ 3.46	8%	$293m	Citi, GS
RAN	Range International Ltd	22-Jul-16	$ 1.00	$ 1.49	49%	$50m	Morgans
VVR	Viva Energy REIT	3-Aug-16	$ 2.20	$ 2.57	17%	$911m	DB, ML
PLG	Propertylink Group	5-Aug-16	$ 0.89	$ 0.78	-13%	$503m	CS, GS, JPM

Source: IRESS

Ignore, a quick trade or a core position?

An investor needs to decide, on receipt of a prospectus and the research reports from the sponsoring investment banks, whether an IPO is:

a) a core part of their portfolio

b) not investment grade at the offered price, or

c) maybe a profitable short-term trade.

Most IPOs fall into the second category, as IPO vendors know the business far better than investors and are choosing the most favourable time to maximise the price when they list. The third category occurs where the float is in a sector currently in favour (such as lithium or fintech), is similar to other recently-listed companies that have performed well, or the IPO is priced relatively cheaply compared with other listed companies.

Liar's Poker

This term refers to the dance that goes on between institutional investors and the investment banks prior to an IPO, especially one where the pricing is yet to be determined. The investment banks listing the company are incentivised to both exaggerate demand and the superior investment merits of the company. The institutional investors, on the other hand, will downplay their interest as they attempt to develop a picture of the real underlying demand. This process will involve numerous conversations with the sponsoring investment banks and with other large institutional fund managers to gauge their interest. The Liar's Poker dance is of the greatest importance in a hot IPO, where the fund manager is looking to sell their allocation on the day it is listed for a profit.

Getting noticed

For the Perpetuals and Colonials of the funds management world, getting noticed by the company is not an issue, but for the bulk of fund managers getting noticed and showing interest is part of the process in helping secure an allocation in a potentially hot IPO. This involves attending management briefings, and writing nice letters to management thanking them for their time, while constantly emphasising your fund's long-term interest in their company. The thought process behind this dance is the hope that when the allocations are done in some dark smoke filled back-room, your fund may get a better allocation than another fund manager who did not show any interest.

Banks use allocations as a big client carrot

One of the reasons investment banks are keen to run IPOs and capital raisings (other than the fat fees) is to reward good clients (and use it as a lever to attract new ones) when allocating holdings. From my observations, large allocations tend to go to the funds that generate the largest brokerage commission, which are often high-turnover hedge funds rather than long-term owners of the company.

In 2009, Bendigo Bank conducted a deeply discounted capital raising, which had a high probability of delivering capital gains to participants (BEN traded up 30% when it resumed trading post listing). At the time I was helping to manage an Australian equity fund on behalf of Bendigo Bank and I was extremely surprised to find out that the investment banks gave the bank's own fund a very small allocation to their own raising. This was ultimately changed after some muscular discussions with the bank's management and the investment banks involved. Occasionally the company runs the allocation process, as Amcor did in their 2009 $1.6 billion capital raising conducted at $4.30 per share, which mainly went to loyal long-term shareholders.

Underwriting and sub-underwriting

In many IPOs and also large capital raisings, a key reason why a particular bank is awarded the mandate by the company (and the associated fees) is its ability to underwrite the deal. This removes the risk for the company or the IPO vendor that they are unable to raise the expected amount. Underwriting is where the bank effectively uses their balance sheet to guarantee that the company will receive a fixed amount for the shares being sold.

Post-GFC, few banks want to take the risk that a global catastrophe could occur that could cause investors to walk away from an otherwise desirable float, potentially leaving the bank's shareholders with several hundred million dollars' worth of equities that are worth less than the underwritten price. To mitigate this risk, investment banks will call some of their better clients and offer them the opportunity to sub-underwrite the issue. Here unitholders will generally receive 0.5% of the amount sub-underwritten, for 'loaning out' their fund's balance sheet to the investment bank. In a desirable issue, this can be a great way to augment portfolio returns, as there is little chance that you will actually have to take a large amount of unwanted stock.

Bidding and Shakespearian drama

When I started in the industry the thought process for a hot IPO was to work out what you really want and then bid for five to 10 times that amount. Then when your fund is allocated a fraction of the original bid amount, the fund manager can either stoically accept the allocation or engage in high Shakespearian drama shrieking at the bank running the IPO of how their unitholders have been slighted, while secretly being satisfied. The investment bank running the IPO process is happy to indulge in this charade, as they can point out to the company that the issue was say five times oversubscribed, implicitly highlighting the bank's superior relationships with the capital markets. The current thought process is to give a more realistic bid of twice what you actually want, and highlight to the investment bank running the IPO that this is the 'real number'.

In any IPO or deeply discounted capital raising it is an extremely poor outcome to actually get the allocation asked for, as this is an indication not that the company is keen to have your fund as a shareholder, but rather that the fund manager has misread the actual demand for the IPO and that the bank is struggling to fill demand. In this situation, the IPO inevitably performs poorly on listing, as shareholders dump their excess allocations.

Hugh Dive is Senior Portfolio Manager at Aurora Funds Management. This article is general information and does not consider the circumstances of any individual. Disclaimer: The author was unhappy with the minute size of his fund's allocation to the Viva Energy IPO.

Asia's online dragons compare favourably with Facebook

James Syme

"One time only: Legendary Scroll. Bonus: Mystical Scroll x 5, Mana Stone +50,000. £79.99"
Summoners War mobile game, 29 July 2016

When analysing domestically-focused stocks in emerging markets it is important to be sensitive to cultural differences. Brazilian supermarkets need wide aisles because whole families tend to shop together; Russian savers will convert from roubles to US dollars at the slightest hint of economic trouble; wage negotiations in Korean heavy industries invariably involve strikes.

An area in which those differences apply is internet businesses, particularly in emerging Asia. Usage patterns are often very different to those in the US and Europe, and, we feel, underpin the great opportunity in this space.

It's not all about Silicon Valley

Three of the world's five largest listed internet businesses are Chinese: Tencent, Alibaba and Baidu. We have significant exposure to Tencent and Alibaba, and it is a comparison between Tencent and its global peer Facebook that demonstrates the scale of the opportunity. Both are huge social networking/ messaging platforms growing rapidly into other related businesses, both aspire to create a full ecosystem to meet user needs (and exclude competitors), both continue to grow rapidly despite their enormous size. Admittedly, Tencent still awaits its Hollywood biopic.

In the first quarter of 2016, Facebook had 1.65 billion monthly active users (MAUs) and generated US$5.4 billion in revenues, of which US$5.2 billion was from advertising. Income from operations came in at a highly impressive US$2.0 billion. By comparison, in the same quarter, Tencent had 0.9 billion MAUs, US$5.0 billion in revenues and US$2.0 billion in operating profit. The main difference, however, is in the composition of revenues. Tencent achieved US$2.6 billion in revenue from online games, US$1.2 billion in social networking fees and revenues, and only US$720 million in advertising revenues. Tencent is only just beginning to grow advertising revenues and has huge growth opportunities that Facebook does not.

Direct payments for services

Tencent's great achievement is in persuading users to pay the company directly for services (such as digital content subscription services, membership subscription services and virtual item sales), something Facebook has yet to achieve. Virtual items, such as stickers to customise user experience, are not something widely purchased by American or European users, yet are major revenue streams for some Asian internet firms.

Similarly in gaming, American and European users generally expect games to either be single purchase or advertising-driven, limiting revenue streams. Activision Blizzard, one of the largest gaming companies in the world, managed US$1.5 billion revenues in the first quarter. Tencent's gaming business alone is far larger, again because users are comfortable paying directly for in-game items, stickers or customisation.

The quote at the top is from a leading online game, Summoners War, published by the Korean game company Com2Us. Com2Us similarly makes most of its revenue from the sale of in-game items such as the aforementioned scrolls and stones. Spending over US$100 on items for a virtual game seems odd to many Americans and Europeans (although 40% of Com2Us revenues came from those regions), but Summoners War made over US$100 million in revenues alone in the first quarter and is growing quickly.

The assumption is often made that the most successful online businesses are American. We feel that overlooks the emerging Asian peers, whether giants like Tencent or niche players like Com2Us, which offer the powerful growth of emerging industries in emerging economies.

James Syme is Senior Fund Manager, Emerging Markets, at BT Investment Management. This article is general information and does not consider the circumstances of any individual.

Fintechs overcome the trust barrier

Danny John

It's become fashionable post-GFC to label any company disrupting the financial services sector as a 'fintech'. Small, fast-moving and innovative, these firms are primarily start-ups and offer a new approach to service, product development and ease of doing business in the digital age.

But fintech (an amalgam of financial technology) is just the latest phase of an electronic revolution that began with the advent of NASDAQ, the National Association of Securities Dealers Automated Quotation system, in the US in 1971, and was adopted by global financial markets and their operators from the mid-1980s onwards.

In that regard, fintech has been around for over 40 years and we can see the impact these technological changes have had on the financial services industry and consumers over that period.

The democratisation of financial services

While it has been a constant driver of change, it's the combination of technology, creative thinking and new business models with the aim of solving customer problems which create the opportunities for true disruption and revolutionary change. What we are witnessing today is the democratisation, or what you might call the 'retail-isation', of financial services.

Access to financial markets has never been easier, accompanied by tools that allow people with little or no financial sophistication to trade for lower fees, at faster speeds, and with greater efficiency.

Technology is dramatically changing the way that business is done. But what hasn't changed and which is absolutely key to how this business is undertaken is the intermediation process: matching providers of financial capital with users of capital.

That process provides for a use, transfer and recycling of capital in exchange for a reasonable return (to the providers) at a cost (to the users) and all undertaken for an acceptable level of risk.

Over the past 300 to 400 years we have had different names for this process; banking, exchanges, pensions and funds management, capital markets, superannuation and financial advisory. The latest form of this is peer-to-peer lending or what is now called marketplace lending.

The crucial role of trust

At the heart of this process lies the business of trust and particularly of financial trust between strangers. The history of disruption has shown us that for any new entrant to succeed they need to acquire this trust. But consequently, by causing disruption, trust is often difficult for new players to attain, primarily because consumers are inherently cautious when it comes to trusting their money with others.

It is little wonder then that people will hand that trust and their money to long-established incumbents, especially in uncertain times, the so-called 'flight to quality' that we saw during the GFC.

However, there are signs that this nexus is gradually breaking down. The digital revolution has altered the power dynamic and has placed consumers increasingly in control. As a result, their expectations regarding ease of use, speed, convenience, transparency, personalisation, access, security and design have all changed. To this, we can now add trust.

This hasn't happened because of the banks and financial services companies but rather as a result of technology-driven companies such as Apple, Google, Uber, AirBNB, Facebook and Alibaba. You can see a pattern here when it comes to the transfer and exchange of money: they have in effect taken over the process of intermediation.

Their rise, together with digital disruptors in the financial services market, is due to four primary drivers of change, according to Rachel Botsman, a global thought leader on the collaborative economy who recently looked at 750 disruptors across more than 32 countries.

These drivers are:

- complex experiences (time-consuming and frustrating processes)
- redundant intermediaries (layers of people and processes that don't add value)
- limited access (to goods and services)
- broken trust (where trust in an institution has fractured).

Each of these factors is present in the Australian financial sector, which is why banks, insurance companies and wealth management groups with their sizeable profits and high ROEs are being targeted in ever-increasing numbers by new, more customer-centric and innovative players backed by serious capital.

Not all of these operators will survive. But there are signs that companies such as SocietyOne with $100 million of personal loans and 5,000 customers, Click Loans in mortgages and Prospa, OnDeck and ThinCats in small business lending are making headway against their respective incumbents.

These Australian pioneers are part of a global trend which investment bank UBS said pose a 'real and growing risk' to banks and their traditional services, in a July 2016 report. UBS interviewed executives at 61 banks and nearly 28,000 customers of 210 banks in 24 countries and predicted that the take-up of new applications such as transfers, payments and peer-to-peer lending could surge by between 47% and 150% over the next 12 months alone.

That suggests consumers – borrowers and wholesale investors - are increasingly prepared to place their trust in the new financial intermediaries and lending market places precisely because they are creating a direct bond and connection between the providers of financial capital and the users of that capital.

Danny John is Director of Communications at SocietyOne and a former Business Editor of The Sydney Morning Herald. SocietyOne is a sponsor of Cuffelinks.

Are you in fixed interest for the (rising) duration?

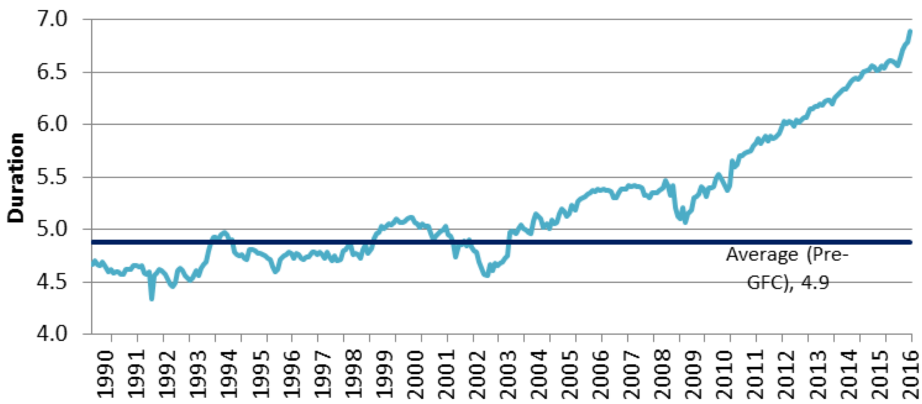
David Scobie

The most commonly followed global bond benchmark, the Barclays Global Aggregate Index, is poised to reach seven years – not in age (it has been around a lot longer than that) but in duration, being in simple terms the index's average weighted term to maturity. Why should we care about such a milestone? The answer lies in how the index's duration has tracked over time and how that affects investment returns, particularly in the current context of historically low (in some cases negative) interest rates.

Know your duration

Duration is important to investors as it indicates the sensitivity of bond exposure to changes in interest rates. All else being equal, bonds with higher durations have greater price volatility than bonds with lower durations. The longer the duration, the greater the price will fall for a given rise in interest rates, and vice versa.

The chart below shows the duration history of the Barclays Global Aggregate Index.



The duration of the Barclays index has progressively lengthened, like many conventional fixed interest benchmarks, particularly over the past decade. Currently sitting at 6.9 years, this compares to 5.5 years in 2010 and an average of 4.9 years prior to the

Global Financial Crisis (1990-2008). One of the drivers is the increase in longer-dated issuance by both governments and companies – who themselves have diminished in credit quality on average – to lock-in the alluring borrowing rates on offer.

The consequence for investors is that, by being in a fund which closely or broadly tracks the Index, the interest rate risk exposure has increased markedly over time. And it has happened without an investor necessarily making any active decision.

A related issue is that the yield on the Barclays Index is now just under 1.2% compared to, say, 4.3% a decade ago. Investors are receiving lower compensation per unit of interest rate risk for their investment. At the same time, the positive return 'carry' from hedging to local currency has fallen in recent times, alongside the Reserve Bank's opposite monetary policy path to that of the US Federal Reserve. Hence the buffer to help insulate a fund's overall return from any downward movement in the capital price of bonds has diminished.

So is this a comfortable state of affairs for investors? That depends on your outlook for global interest rates. If you believe yields will rise in the short-medium term (particularly at a relatively brisk pace), then that could have an adverse effect on portfolio returns. Even if you hold no view you should be aware that, by default, indexes have been changing the risk characteristics of your portfolio.

We need not jump to the conclusion that additional duration is a bad thing. Global economic weakness and low inflation over recent years have pulled yields downward, thereby generating solid returns for bond holders, and high quality credit exposure is typically a useful safe haven for investors during times of market stress. However, when it comes to duration, the relevant question is 'how much is too much?'. There is no sign of an end to higher duration trend in conventional benchmarks. One might wonder where it will end, and moreover, what the rationale may be for an investor to passively follow.

Forewarned is forearmed

Most portfolios would do well to retain material exposure to the diversification and liquidity benefits of fixed interest. At the same time, however, some regard for 'duration creep' in bond indexes is warranted. This may be addressed via asset allocation decisions, or in some cases we have worked with clients to consider alternative benchmarks or partially using more absolute return-oriented solutions.

The lower-for-longer interest rate theme continues to dominate markets, but this theme is notably embedded in current equities pricing and other risk assets as well as fixed interest. Strong exposure to duration has been a tailwind to portfolio returns for an extended period, but under some economic scenarios it could be a less-than-welcome attribute.

David Scobie is a Principal in Mercer's Investments business, based in Auckland. He advises institutional clients on their investment policies and structures. He is also involved in evaluating fund managers, linking in with Mercer's research capability in Australia and globally.

The other problem with volatility

Raewyn Williams

Investment volatility is the talk of the town in the wake of the Brexit vote, nervousness about future US leadership and slowdowns in key sectors (commodities) and countries (China). Volatility is a challenge for anyone managing a portfolio. For example, large superannuation funds must manage their members' capital in a way that helps their members answer questions like: When can I retire? How much can I expect to have to live on during retirement? How much investment risk do I need to accept in my portfolio to meet my retirement goals?

The investment journey

Discussions about the damage volatility can do to an equity portfolio tend to focus on the investor's journey and how to smooth ups and downs to increase the investor's confidence and reduce fear of loss, or serious diminution of capital. This is described as the 'journey problem' and a number of solutions are emerging to address this.

Simple responses include moving to risk-adjusted investments and favouring equity portfolios with innate defensive characteristics (e.g. investments with counter-cyclical or inflation-hedging qualities).

Sophisticated investors are increasingly considering more complex, targeted solutions like purchasing downside, tail risk protection, or volatility dampening. This can entail investing in derivatives that pay off during market downturn events or running a volatility strategy where the value moves in the opposite direction to the underlying equity portfolio.

What these responses are missing is the fact that volatility creates not just a journey problem for the investor but also what we might call a 'destination problem', where volatility creates a phenomenon called the 'variance drain'.

Variance drain is a drag on returns. It can be illustrated in the following example where we compare two hypothetical $10 million equity strategies. The two strategies have delivered the same arithmetic return at the end of a five-year period of 15%. One has experienced no volatility ('No vol' in the table), while the other has experienced volatility ('Vol') over this time period.

Strategy	Starting NAV	End yr 1	End yr 2	End yr 3	End yr 4	End yr 5	Arithmetic return	Geometric return	Volatility leakage
No vol	$ 10,000,000	$ 10,300,000	$10,609,000	$10,927,270	$ 11,255,088	$ 11,592,741			
		3%	3%	3%	3%	3%	15.00%	15.93%	
Vol	$ 10,000,000	$ 10,500,000	$10,080,000	$10,886,400	$ 11,648,448	$ 11,531,964			
		5%	-4%	8%	7%	-1%	15.00%	15.32%	0.61%

Source: *A Wide-Angle Lens View of Volatility: Managing the Journey and the Destination*, Parametric Research, July 2016.

We see here that relative to the No vol portfolio, on a geometric (compounding, linked) return basis, there is a return drag from volatility (in our example) of 61 basis points, or $60,777, over the five-year period. Larger portfolios, higher returns, higher volatility or longer time periods can all potentially increase this 'leakage'. The return drag from volatility is akin to other hidden leakages in implementation like fees, taxes and transaction costs that can furtively and assiduously eat away at an equity portfolio's value over time.

Watch the journey and the destination

The principle of variance drain should remind superannuation funds and other sophisticated investors seeking to address volatility that it is a two-dimensional problem. A solution which simply removes some risks on the downside may indeed solve the journey problem but the costs associated with this solution can mean that the investor's destination (in a superannuation fund's case, member retirement balances) is compromised.

Portfolio managers need to avoid the return drag from either living with volatility or addressing it in a costly way, as well as smoothing the journey. While solutions which look to solve both problems are few and far between, they do exist and are generally constructed to reduce volatility in a cost-sensitive way; for example, by using out-of-the-money rather than in-the-money derivatives. They also seek to find a replacement source of returns to continue the important task of building the overall value of the portfolio. Such strategies take a 'wide-angle lens' view of volatility and can be found in the hands of a specialist implementation manager.

Raewyn Williams is Director of Research & After-Tax Solutions at Parametric, a US-based investment advisor. Parametric is exempt from the requirement to hold an Australian Financial Services Licence under the Corporations Act 2001 (Cth) in respect of the provision of financial services to wholesale clients as defined in the Act and is regulated by the SEC under US laws, *which may differ from Australian laws. This information is not intended for retail clients, as defined in the Act. Parametric is not a licensed tax agent or advisor in Australia and this does not represent tax advice. Additional information is available at www.parametricportfolio.com/au.*

Portrait of a modern investor

David Goodsell

What is the biggest threat to investment savings today? You'd be forgiven if you answered volatile markets and anemic growth when in fact, it's investors themselves.

Modern investors aren't just nervous, they're deeply conflicted. Our recent survey (the Natixis Global Survey of Individual Investors included 7,100 global investors of which 300 were in Australia) shows how deep this conflict runs. Investors say they want to grow assets but don't want to take on risk. They value passive investments for their low fees but mistakenly translate that to mean less risk. They want to evaluate their investment performance based on personal goals but then admit they don't have them. They understand more of the responsibility for retirement is theirs but drastically underestimate the cost. And the list goes on.

Why is this important? Because left unresolved, these conflicts reduce savings and investment and deter people from doing what they need to do today to provide for a stable future tomorrow.

Cautious, but searching for double-digit returns

A majority of individuals we surveyed call themselves 'cautious' investors. But in the same breath, they said they needed returns of 8.6% above inflation to meet their goals – which in today's world would expose investors to significant volatility. Not many are likely to stomach the risk when 67% of investors say they'd take safety over investment performance. What investors need is education about risk and help understanding just how much they are willing to take on.

See low fees and think less risk

When it comes to passive index investments, a surprising number of investors wrongly assume that lower fees mean less risk. Some 55% think index strategies are less risky and help minimise losses. But by their very nature, passive investments have no built-in risk management. When markets rise, they generate market returns. When markets decline, they generate market losses. Passive strategies have a place in portfolios, right alongside active investments, but investors need to understand what they own. Professional investors get it. Our annual survey of institutional investors found they mix in passive to keep overall fees down, but they turn to active management to generate returns and provide risk management.

Goal oriented, but lacking clear goals

Seven out of 10 Australian investors claim to evaluate their investment performance based on personal goals. But that seems unlikely for many when less than half (45%) say they have clear financial goals in the first place. Fewer still say they have a financial plan (34%). The first step forward for any investor should be to write down specific goals and work with a financial professional to help set a realistic plan.

Understand retirement, but underestimate what's needed

Government benefits and employer pensions once shared equal duty with personal savings for retirement funding, but 77% of Australian investors now believe the responsibility of shoring up retirement is increasingly theirs. The problem is that few realise just how much this responsibility really adds up to. They believe on average they will need to replace only 70% of current income in retirement – this is on the lower side of the 70% to 80% most experts recommend, but above the global average expectation of 64%. Investors need to consider longevity risk as their biggest challenge. Determining how much to save needs to begin with a serious accounting of how much they will actually need to live in retirement.

Investors have much to resolve, but the good news is that they recognise the value of professional advice and believe it is worth the fee. Just under two thirds say individuals who get professional advice are more likely to meet their goals. However, investors today have a clear vision of what they want from an adviser – and it's not a hot stock tip. They want to become more informed investors. They want solutions for managing risk. They want help setting goals and plans, and they want a more collaborative relationship with their adviser.

One out of every two investors globally thinks the investment industry is not putting their interests first. If we are going to rebuild that trust, we need to get on the same side of the table with investors. We need to put risk first in the investment discussion so they understand what to realistically expect from their investments. We need to stop talking about investment products and start talking about personal portfolios designed to fit their unique goals. It's our responsibility to help them make more informed decisions about their financial future.

David Goodsell is executive director of the [Natixis Global Asset Management Durable Portfolio Construction Research Centre](). This article is general information only and does not constitute any offer or solicitation to buy or sell securities and no investment advice or recommendation. Investment involves risks.