

Powering the outcomes-based investment conversation

The 2008 global financial crisis was not just another event that temporarily derailed investors from an investment strategy – it shocked many into the realisation that we were at the precipice of another Japan 1989. Analysts started talking of recovery in decades, not years, while market participants started re-evaluating return expectations and how they viewed investment risk.

In 2015, the Centre for Applied Research (New York) published a paper titled The Folklore of Finance, which discussed the “crisis of faith” in the investment management industry. They argued that the industry was profitable but not successful, because 60% of resources were focused on generating alpha with little regard to whether investors were actually able to reach their specific goals. Ultimately, this leads to distrust, dissatisfaction and eventually disintermediation (circumventing advisers). Investors were looking for something different; a solution with risk related to their investment goals and performance not tied to an arbitrary market benchmark.

A recent paper published by the EDHEC Risk Institute in Paris and co-authored by Merrill Lynch, summarised the changing nature of wealth management as follows:

“The wealth management industry is about to experience a profound paradigm change. It is expected that the next generation of financial advisors will focus on building a modern approach to wealth management that will depart from a product-centric search for performance to focus on satisfying the clients’ needs through a dedicated investor-centric goals-based investment solution approach.”

The value of the modern wealth manager or financial adviser will be that of a translator; asking clients to express their goals in the nontechnical language most comfortable to them and then translating those goals into the language of finance and investment so that they can be achieved, monitored and reviewed.

Designed with a tight client-centric focus, Momentum’s outcomes-based investment solutions (OBI) were launched last year.. Chief Investment Officer, Sonja Saunderson summarises it as follows:

“Everything we do is centred on whether we are actually helping people retire better. This talks to defining the right goal: how do we measure success, and what should we get paid for? But it’s also about making it more comfortable, intuitive and meaningful for the client. Do we optimally use the right tools to formulate and communicate the financial plan so that investors know what they should expect? Are we relating value-add to the right level of fees and are we transparent with fees? It’s an all-encompassing approach to delivering outcomes that are trustworthy and beneficial to the client.”



To support the OBI revolution, we are releasing a series of innovative toolsets beginning with the industry-first OBI score. A multitude of investment performance and risk analysis metrics exist and the challenge for practitioners lies in aggregating these measures or deciding which is more important. In the absence of guidance, the conversation invariably focuses on past performance against an arbitrary benchmark (like the ALSI) when in fact the correct benchmark would be the outcome the client is trying to achieve.

In summary, the OBI score will quantitatively rate the investment journey (how bumpy the ride will be) as well as the portfolio hit rate (when the portfolio misses, what the magnitude thereof is). The score will reward portfolios with a superior hit rate and penalise those with high volatility, resulting in a score from 0 to 100. We believe that this empowers the right conversation, focused on the investor's goals and the associated risk/return expectations. A comprehensive investment report is also generated to assist in managing these expectations.

Ultimately, portfolios designed to deliver returns in line with investor goals and optimised to provide a relatively smooth investment journey, are key components of financial wellness.

