

Lussier, Jacques – Successful Investing Is a Process

Bloomberg Press, 2013, [Finance] Grade ★★★★★

Jacques Lussier, the CIO of the Canadian asset Manager Dejardins Asset Management, has written an essential book on asset allocation for the serious investor. The topic at hand is not the tactical type of asset allocation that investment banks try to advise you on but the strategic asset allocation – the base setting, the important stuff – plus the practices around the SAA.

The text is organized in 4 parts and a number of chapters. According to the author the book is aimed for institutional investors, asset managers and sophisticated individual investors. I would skip the last of these. This is rather a book written by a CIO for other CIOs, asset allocators or strategists at pension funds, endowments, sovereign wealth funds or insurance companies. Although the writing is surprisingly fluent and there are very few equations, the technical and detailed nature of the topics and the academic bent of the writer make this a book less suited for the individual investor.

Considering this knowledgeable target audience I found Part I of the book largely superfluous (and also the chapter on tax effects – nearly all institutional investors are tax exempt). The author in chapters 1 through 3 pretty much covers the standard understanding of any institutional investor that has some notion of what is the knowledge du jour of intuitional asset management. Then things pick up considerably. The chapter on the effects of volatility on long-term wealth might even be the most illuminating I've read and I liked the breakup into the determinants of equity returns.

What is Lussier trying to convey? A number of things, but in my opinion the most important are: 1) an asset manager should formulate a logic process that he believes in and sticks to and because of this has time to perfect, 2) there is still more benefits to be had from good honest portfolio diversification using liquid securities and rebalancing using objective functions, so there is less need to lock the money up in endowment-style

solutions that will make rebalancing difficult and deprive the asset manager the chance to buy cheaply after large drawdowns, 3) improve the functionality of the underlying asset class portfolios by using cheap non-market cap based constructions that are rebalanced, don't waste time searching for alpha and look to long horizons and 4) preferably use volatility based solutions for allocation and rebalancing.

By making many small right choices the author claims the combined effect over time of this "evidence based portfolio management" could be higher Sharpe-ratios and an annual return increase of 1.5-2%. Even better than the books excellent and very true title is Lussier's notion that "[o]ur objective is not so much to outperform the market, but let the market underperform". Overall, Lussier has written a very impressive and voluminous text combining insights from academic research, from external product suppliers like Bridgewater, Research Affiliates etc. and from a fair amount of his own research.

Why not give the book full marks then? I can't shake the "conventional" feeling that I picked up from start. Since the GFC all everybody has talked about is to lower the risk contribution of equities, volatility based solutions are everywhere etc. I'm a bit afraid that the last 30 years' bull market for bonds has affected what we see as the cutting edge knowledge in more ways than we realize. We may just have switched one set of risks for another. For example, volatility based allocation or rebalancing implies selling equities as they become more volatile before a presumed downturn. This is okay as long as not everybody does it at the same time. Further, there is no discussion on the difference between risk factors/style factors that have offered a return premium without repricing and those that have just become expensive.

For the serious investor engaged in strategic asset allocation this book is an absolute must. For the non-CIO there are more suitable alternatives.

Mats Larsson, Jan 24, 2017