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Cash is offence, not defense II

Brandon Snow, March 8, 2018

As a follow-up to Tyler Hildebrand's Blog, I want to discuss what *cash* means to Cambridge and why it represents such an integral part of our investment process. During the recent market correction, we fielded many variants of the question, "*How much cash have you put to work?"* This is typically Advisor shorthand to ascertain how bullish or bearish a portfolio manager (PM) is about the market. The quick answer is that Cambridge did put some cash to work in select opportunities across our funds, although this action wasn't as blog-worthy as when Brexit happened. In the more recent case, the market pulled back only to mid-December levels and the risk/reward skews did not hit our 'buy' targets.

At Cambridge, we don't predetermine a cash weight and our cash levels don't necessarily reflect a PM's or our firm's bullishness or bearishness on a given market. Cash represents the residual outcome after the stocks under coverage have been analyzed by our investment processes. Once we've determined which investments to include or exclude based on the risk/reward opportunity they provide, the cash weight represents the remaining amount. In sum, cash levels at Cambridge shouldn't be taken as a proxy for our view on markets.

In June 2014, I wrote the blog *Cash is offence, stock picking is defense*, after returning from a marketing trip across Canada. At the time, markets were ticking upwards, nothing was out of the ordinary and my portfolios were higher in cash. I was amazed how often I was asked why I was so *bearish*, so I clarified:

> *"One of the comments that we frequently hear has to do with managers "raising cash" when they get defensive. We find it comical when we are told that someone has shifted from 2% to 8% cash in their portfolio because they are bearish – what really matters is the 92% of the portfolio that remains invested!*
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> *At Cambridge, we consider our stock picking and risk-reward discipline to be defensive actions in our portfolios, while the cash positions (which run at about 8% to 10% on average, with a range of 2% to 40% depending on the market and fund) is our offence. Holding cash gives us the ability to put significant amounts of capital to work quickly without having to sell other investments at potentially inopportune times. Of course, patience is the key to this process."*

At Cambridge we are constantly reviewing our process in order to improve, and a lot has changed over the last four years! Within our team, we have hired and trained new analysts, thereby expanding our *idea-generation capacity.* This provides more options for putting cash to work as our coverage grows. Additionally, we have implemented portfolio enhancements to generate better returns from the cash we hold. Both have enhanced our opportunity to deliver for you, our clients, while maintaining our bottom-up discipline.

Of course, a lot has changed in the markets as well, including expectations, valuations and where we are in the cycle. Simply put, investors are not getting paid to take on risk like we were 3, 4 or 5-plus years ago. This is why remaining disciplined and maintaining our process is so important today.

In summary, many things have changed over the last four years, but our focus on bottom-up investing and our disciplined approach to allocating clients' capital based on risk-adjusted returns have not, and will not change.

Sincerely,

Brandon Snow

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