Black swan film parents guide

A theme of some of my recent articles is finding products that help investors build a different kind of portfolio than the typical stocks/bonds/cash mix. Ten years of (very) substandard equity returns leave investors looking for different approaches to portfolio construction. An interesting view comes from Nassim Nicholas Taleb, author of The Black Swan: The Effect of The Highly Improbable. He calls for 90% to 95% of your assets in T-bills from different countries and the rest in highly aggressive investments, with the idea that only a small portion of someone's portfolio should be exposed to risk. One way to take advantage, sort of, on this concept is with the Barclays Asian and Gulf Currency Revaluation ETN (PGD). PGD offers equal weighting to the Saudi riyal, UAE dirham, Hong Kong dollar, Singapore dollar and Chinese yuan in the hope that one or more of these currencies will be allowed to float freely in the foreign exchange market. The Singapore dollar and the yuan can move, but are considered to be managed. If none of the currencies are unpegged from the dollar, then the price of PGD should not move very much, and that is the case with the bandwidth from high to low since its inception only 4.9%. The political pressure on China and inflationary pressures in Hong Kong and the Middle East create visibility, but not certainty for revaluation. If there is no revaluation, PGD won't do much except depreciating a T-bill-like revenue monthly. Perhaps the biggest risk with PGD is Barclays Bank. As an ETN, it is a debt obligation of a bank and therefore faces similar problems, such as depreciation, impairment and a capital raising plan that has caused controversy among shareholders. It may be that the structure of the PGD product poses a greater risk than the strategy of the product. Barclays' fate is far from certain, but I would note that if it were to fail, the Barclays Global Investors unit, or BGI, which doesn't have to write anything down, would be a highly sought-after asset. It is BGI that manages the ETFs and ETNs. One layer of complexity to this theory is that PGD is not actually part of BGI. It is one of many ETN's managed by Barclays Capital. In the event of a restructuring, it would come as no surprise that PGD was part of BGI. One thing to watch out for is low trading volume and a small asset base, about $90 million at the last check. While not ideal, it would not be difficult for the typical individual investor to conduct a trade for a few hundred shares. A final point on the risk for Barclays is that it is highly likely that Barclays' fate will be resolved before any of the underlying countries in PGD remove their link to the US dollar. In general, funds such as PGD rely on certain result (and doing nothing in the meantime), or more generally, alternative-return products such as the Dover Long Short Sector Fund (DLSAX), stand to become more important to investors who realize they don't want to volatility that goes with full participation in the stock market or if returns on equities remain below par for longer than people expect. Finally, I will add that moderation is important with any product like this. The consequence of PGD somehow trading away from its net asset value due to bankruptcy fears is much less if it is only a 2% portfolio weight as opposed to a 10% weight. At the time of publication, Nusbaum had no investments in securities mentioned in the article, although positions may change at any time. Roger Nusbaum is a portfolio manager with Your Source Financial of Phoenix, and the author of Random Roger's Big Picture Blog. Under no circumstances does the information in this column represent a recommendation to buy or sell shares. Nusbaum appreciates your feedback; click here to send him an email. Go to headerSkip to main contentSkip to footerAferAfer's massive stock market boom of the 1980s and 1990s, investors thought they couldn't do anything wrong. But the events of September 11, 2001, shook everyone from their complacency. Investors realized that large forces outside the market pose a much greater risk than the inherent dynamics of the market. Let's call these macro events, and since 9/11, or so it seems, the markets have created some kind of hypersensitivity to such shocks to the global economy, which has led to dramatic yo-yo movements in the markets. The challenge for investors is that the uncertainty of macro events is not measurable in terms of their potential risk, making them all the more worrying. What exactly are macro events? Natural disasters (Hurricane Katrina), geopolitical shocks (Arab Spring), systemic shortcomings of markets and national economies (the European debt crisis or the Chinese currency devaluations of 2015) are all macro events that may occur with or without warning, but in most cases with far-reaching, often global consequences. The less anticipated such events are, the more unlikely, the more dangerous and harmful they can be. Called black swan events, in reference to the rarity of black-colored swans, they are generally not factored into investment models or asset allocation strategies or in the mindset of investors, so if they occur, their impact on markets can be devastating. While we may have experienced a black swan once every few decades, they seem to occur with more frequency. Some of the events that occurred in just the last decade, such as the 2008-2009 financial meltdown and the Japanese earthquake tsunami, would be considered black swans. And this high percentage of rare bird spotting has a crippling effect on investors anxious about uncertainty of the next event. Preparing your portfolio for the uncertainty of macro events is not as difficult as you might think. However, investors who have strayed from the fundamental fundamentals of long-term investing may find it a challenge. First and foremost you have the right right You should be able to keep your perspective in place and keep your fears in check. Think of the most successful investor of all time, Warren Buffet, who has made billions by preying on the fears of investors, buying while everyone else is selling. In his 1994 Berkshire Hathaway shareholder letter, he wrote: Imagine the cost to us, then, if we had let a fear of strangers cause us to delay or change the stakes of capital. Indeed, we usually made our best purchases when fears about some macro event were on a high. Fear is the enemy of the faddist, but the friend of the fundamentalist ... Another set of big shocks is sure to occur in the next 30 years. We will not try to predict these, nor to take advantage of them. If we can identify companies similar to those we've bought in the past, external surprises will have little effect on our long-term results. Second, stop listening to everyone. Between the gurus, the experts, social media and the guys around the water cooler, it's become a deafening world, and all that noise has very little to do with your specific goals and goals. The movements of markets are driven as much by herd mentality as they are fundamentals, and the two are very rarely in sync. Your intestines is probably equal more often than a market prognosticator. Or if you don't trust either, you can adopt a dart-throwing monkey because it can't get any worse. Better yet, set a strategy based on your investment objectives, preferences, priorities and risk tolerance, because they are the only benchmarks that matter. Thirdly, diversify, diversify, diversify. Diversification into contemplation of macro events is a little more involved than just spreading your money out among many stocks and bonds. It is important to structure your portfolio with different types of asset classes that act as a counterweight to responding to different economic or financial circumstances. For example, a macro event that sends the dollar plunging will likely drive up the price of gold. A spike in inflation could depress most small and mid-cap stocks, but boost large, dividend-paying stocks. By creating more non-correlations between different asset classes, your overall portfolio will have more stability over time. Fourth, don't try to time the market. It just doesn't work. Most investors sell near market bottoms and buy near the tops. Investors who fled the market in 2008-2009 will never recover from the 40% or 50% loss they suffered when they sold near the bottom. Instead, adjust your exposure based on what you perceive as happening. Stay with your and use market declines as opportunities to buy while using market rallies as opportunities to capture some gains, but always try to keep your allocation the same. Finally, invest for your own purposes, and keep your eyes on your goal. That's the only benchmark that really matters. You don't have to chase market returns (the latest hot stock or mutual fund). If your portfolio is on average 7% or 8% return you need to achieve your long-term investment goals, what difference does it make if the XYZ fund has won 27% this year? The fund is likely to underperform next year. Woodring is the founder of San Francisco Bay area Cypress Partners, a fee-only wealth consulting practice that provides personalized, comprehensive services that help retirees and busy professionals to enjoy life free of financial care. Craig Slayen, a new partner at Cypress Partners, contributed to this article. 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