ASYMMETRIC RETURNS

Investment Manager Douglas Brodie explains why we embrace uncertainty and a diverse portfolio in pursuit of outlier returns.

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk.

This communication was produced and approved in December 2022 and has not been updated subsequently. It represents views held at the time of filming and may not reflect current thinking.

Douglas Brodie: When it comes to individual stocks, we believe our biggest mistakes are not the investments we made that lost money but those exceptional companies we failed to recognise and invest in.

We know that losses are limited to the size of the original investment. You invest one pound, and you may lose 100 per cent of that pound. But the maximum upside of a fundamentally successful investment is theoretically unlimited.

So to quote Jeff Bezos, "If you have a 10 per cent chance of 100x return, you should take that bet every time even if it's going to feel bad nine out of ten times."

To focus on what might go right rather than wrong, investors need to be long-term. To pay attention to the fundamentals of the company and the world it exists in and how that opportunity can persist. It also requires the courage to hold fast, believing that the long-term upside can outweigh what we stand to lose.

Having an asymmetric portfolio supports the acceptance that we cannot tell the future. By holding diverse stocks we aim to dilute the impact of the ideas that didn't work and remain long-term by softening the effects of short-term bumps. If the success of a few outlier companies can make up for the underperformance of the rest, it makes sense to break away from the fixation on short-term risk.

Inevitably, some of the investments turn out wrong. But only by embracing uncertainty, being brave and remaining long-term, can we hope to find the small group of special companies that ultimately matter.

Important information and risk factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, and Baillie Gifford and its staff may have dealt in the investments concerned.

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA).