

ViewPoints

Research Matters – In House Research



Entasis
ASSET MANAGEMENT



Entasis Asset Management is an investment firm founded by investors. Not surprisingly, one of our three core beliefs is **Research Matters**. We believe that accountability and thorough, grass roots research are critical to generating outsized returns. Our founders average more than 15 years of investment experience and we conduct all of our research in house.

In this inaugural edition of **ViewPoints**, I am going to highlight our in house research, to provide you with a better understanding of why we believe this is important.

Before I get into the main topic, a few notes on our research process:

- We follow a methodical, patient approach to selecting individual investments. Oftentimes, it will take more than one year to complete the research we believe is necessary to fully understand an investment that will be used in client portfolios.
- We conduct our own analytical work utilizing data from third-party databases. We view these databases as providers of data, not providers of recommendations.
- We employ our own proprietary methods of analysis. We have developed our own analytical tools and databases of information, based on decades of experience researching investments.
- We have extensive interactions with management, portfolio managers, analysts, and other key decision makers face-to-face in their home office. We believe “boots on the ground” research is critically important in order to fully understand the investments we select on behalf of our clients.
- We will often make our initial investment in a product (or security) following a period of underperformance. We do not believe that the long held mantra of “buy low and sell high” is routinely followed in practice. Our methodical research process provides us with the understanding and confidence to make otherwise “uncomfortable” investments.

A few things that are not a part of our research process:

- We do not work from a “home office” list of approved investments that is provided to us from a “parent” company. We do not pass off someone else’s investment research as our own.
- We do not build a portfolio, or select individual investments, based on historical performance rankings or results. We firmly believe that past performance is in the past. Past success does not equal future success.



Charles (CJ) Batchelor, CFA
Chief Investment Officer -
Equity

Summary

Entasis Asset Management is an investment firm founded by investors. All founding partners have earned the right to use the Chartered Financial Analyst (CFA) designation.

We believe conducting investment research in house is a significant differentiator and the article provides support for that viewpoint.

Additionally, we believe that the individuals managing portfolios should also be the individuals conducting detailed “boots on the ground” research on individual investments.

Research takes experience, a monetary investment and patience. Unfortunately, many firms do not have the ability or inclination to make research a central part of their offering to clients.

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- We do not “window dress” portfolios. This refers to the ugly practice of selling a poor performing investment and replacing it with a better performing investment prior to a reporting date. Out of sight, out of mind. Needless to say, we believe this is very damaging to long-term results, not to mention extremely unethical.

With the above as a foundation, I’ll shift back to the explanation on why we believe conducting our own research in house is important.

Prior to co-founding Entasis, I was the Director of Investment Research at a large investment advisory firm. In that position, I interviewed hundreds of professional money managers (i.e. individuals that manage mutual funds, etc.). One of the many things I determined as a result of those experiences is that it is extremely beneficial for the person managing a portfolio to also be an analyst (the individual conducting the research on individual securities). And if it’s important that a portfolio manager also conducts individual security research, then why wouldn’t it be important for the advisor managing your investment portfolio to also have responsibility for evaluating individual investments?

We believe your financial advisor or wealth manager should have intimate knowledge of the investments used in their clients’ portfolios. If they don’t, how will they have the confidence to know:

When to purchase an investment?

- All investments go through their own unique investment cycle (performance that is better or worse than the market or other similarly labeled investment products). In turn, the starting point for an individual’s initial investment is very important to an investor’s long-term experience.

What size an investment should be in your portfolio? 5%? 10%? 25%?

- The size of an individual position in your portfolio is critical for a number of reasons; too little and it may have a de minimis impact on your portfolio’s overall results, too large and it may distort your portfolio’s exposures in certain areas of the market.

What other investments should be owned alongside it in a portfolio?

- Portfolio diversification by market-capitalization, investment “style”, sector and geographic domicile, to name a few, is important. However, diversification of the *types* of investments included in portfolios is also important.

If they should be concerned about short-term periods of relatively poor performance?

- Is the investment’s process, philosophy and overriding strategy the same as when it was purchased? Is the investment team the same? What are management’s strategic goals? Is the current short-term period of underperformance different when compared to other historical short-term periods of underperformance? The answers to these questions, and many others, are critically important in determining if you should be concerned or not about periods of relatively poor performance.



When an investment should be sold?

- Over time, many aspects of investments will change. Determining whether or not the changes that do occur are significant or not is important.

We believe that being able to effectively answer questions, such as the ones outlined above, may have a dramatic impact on your overall investment experience and results. Research takes experience, it takes a monetary investment on behalf of the advisory firm managing your money and it takes patience. Unfortunately for investors, many advisory firms do not have the ability or inclination to make research a central part of their offering to clients.

In future **ViewPoints**, we look forward to providing you with more details about our firm and our investment process, among many other topics.

Most importantly, we would like to learn more about you and your investment needs. We would be happy to answer any investment questions you may have.

Charles Batchelor, CFA

IMPORTANT INFORMATION

Statements may be forward looking and are not intended as specific investment advice without further review of individual circumstances. Commentary, opinions, analysis, and recommendations may be subjective, do not guarantee future performance, and could change at any time without notice. Under no circumstances does the information contained within represent a recommendation to buy or sell any security.

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