Quarterly Point of View
Paid Better Taking Less Risk

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I have been paid better my entire career taking less risk. This observation, offered matter-of-factly by Grantham, Mayo, & van Otterloo co-founder Jeremy Grantham, captures a principle that runs counter to much of modern market behavior. It is also a foundational insight that resonates more deeply the longer one spends time managing capital. Grantham was not referring to reducing risk by shifting wholesale into defensive asset classes or by avoiding equities altogether. Rather, he was describing a more subtle and enduring discipline: taking less risk within equities themselves.

Earlier in my career, I had the opportunity to hear Mr. Grantham discuss his investment philosophy firsthand in a small forum where I recorded this statement. The comment stood out to me, not because it was overtly declarative, but because it was understated. It reflected a career built not on episodic brilliance or speculative insight, but on the systematic avoidance of unrewarded risk.

The equity market consistently rewards innovation, optimism, and the narrative that surrounds those things. A small subset of stocks - often volatile, concept-driven, and lightly tethered to current fundamentals - can deliver extraordinary gains over relatively short periods. These outcomes receive disproportionate attention, amplified by media coverage and reinforced by behavioral dynamics such as 'fear of missing out', or FOMO. As a result, many investors develop a predisposition toward high - beta 'story' stocks, extrapolating a handful of exceptional successes into an expectation that riskier equities offer superior long-term returns.

In reality, this dynamic obscures a less visible but more powerful truth - most speculative stocks fail to deliver durable wealth creation. Elevated volatility, uncertain business models, and aggressive valuations combine to increase the probability of permanent capital impairment. While a small minority of such companies become transformative winners, the broader cohort tends to underperform once enthusiasm fades and fundamentals reassert themselves.

Grantham's insight reframed for me the concept of equity risk. Risk is not synonymous with owning stocks rather than bonds, nor is it defined solely by short-term price fluctuation. Within equities, risk is more accurately reflected in the likelihood and magnitude of permanent loss. Companies with unproven economics, fragile balance sheets, or valuations dependent on optimistic assumptions, expose investors to outcomes that are asymmetrically unfavorable. Avoiding these risks does not require sacrificing participation in equity markets, it requires selectivity.

Lower-risk equity investing, as Grantham described it, is rooted in ownership of high-quality businesses with durable competitive advantages, strong balance sheets, and consistent cash-flow generation.

These companies may appear unexciting relative to their speculative counterparts, particularly during momentum-driven market phases. However, their ability to compound capital steadily over time - while avoiding catastrophic losses - creates a return profile that is often superior on a full market - cycle basis.

The mathematics of compounding reinforces this discipline. Large losses require disproportionately larger gains to recover, and portfolios that experience significant drawdowns face structural hurdles to long-term wealth creation. By reducing exposure to the types of equities most prone to extreme downside, investors preserve the base upon which compounding operates. In this way, risk avoidance becomes return enhancement, not through leverage or prediction, but through consistency.

Importantly, this approach also aligns with behavioral realities. Periods of speculative excess place pressure on disciplined investors to abandon restraint in favor of participation. When lower-quality stocks dominate short-term performance, the opportunity cost of prudence can feel acute. Yet history suggests that such periods tend to sow the seeds of future underperformance. Investors who resist the impulse to chase returns and instead remain anchored in quality are often better positioned when market leadership rotates and valuations normalize.

Grantham's six-decade career illustrates that superior long-term results need not rely on bold forecasts or heroic risk-taking. Instead, they can be achieved through a persistent focus on valuation, quality, and downside control. This philosophy does not eliminate volatility, nor does it guarantee outperformance in every environment. What it does offer is a higher probability of achieving favorable outcomes over time, an objective that matters far more than episodic success.

In an investment landscape increasingly influenced by narrative, momentum, and short-term performance metrics, the idea of being "paid better by taking less risk" may seem counterintuitive. Yet it reflects a clear understanding of how capital compounds and how markets ultimately function in practice, not just in theory. By eschewing the most speculative corners of the equity market in favor of businesses with proven track records and resilient fundamentals, investors reduce the likelihood of large losses, and allow time, rather than aggressive risk exposure, to drive long-term outcomes. Over full market cycles, it is this quiet discipline, often overlooked and occasionally uncomfortable, that has proven to be one of the most reliable paths to durable investment success.

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Respectfully,

Cameron K Martin
Chief Investment Officer
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