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The Clarity Formula® – Investment Management – The Satellites



You have heard the adage “Do not put all your eggs in one basket.” This common phrase introduces the idea of diversification. Diversification is a key pillar in portfolio construction and helps to minimize the draw down any one position can have on your overall portfolio. Through the lens of diversification, we believe in a multi-discipline investment strategy. We use both strategic and tactical asset allocation to actively manage the risk in our clients’ portfolios, by individually tailoring each portfolio using a core-satellite approach.

The Core portfolio portion of our approach is built using publicly traded investments like stocks, bonds, mutual funds, and ETFs. The core portfolio gives you broad diversification and helps reduce overall risk. Having a strong core portfolio allows for investments into different “satellite” opportunities. The satellite portion of our approach consists of non-correlated, “alternative” investments. Adding alternative investments to portfolios can further increase diversification and reduce overall risk because these investments tend to be less correlated to the public stock and bond markets. The satellite portion of a portfolio offers opportunities for investors to access markets with less volatility and better risk-adjusted returns.

Many of these investments trade in the private markets, which are much bigger today than they have ever been. As of October 2020, there were roughly 220,000 U.S. companies with revenues greater than \$10 million and fewer than 6,000 of those companies were publicly traded. Getting access to these investments presents another hurdle. Given their complexity and illiquidity, most private/alternative investments are not offered to the public. In order to invest in these alternatives, one must qualify based on net worth or annual income and often meet a significant initial investment threshold to obtain access. In addition, information is not publicly available, creating additional obstacles for investors trying to access these investments and perform initial and ongoing due diligence. By working with a professional advisor, we can help significantly reduce the initial investment requirement and ensure proper due diligence is handled throughout the course of the investment.

We focus each client's alternative investment allocation by building out the satellite portion across these four overarching categories:

1. Private Equity

Investor capital is pooled and used to invest in or acquire private companies not listed on public stock exchanges or engage in buyouts of public companies. Private equity investments tend to focus on funding new technology, making strategic acquisitions, expanding working capital, and bolstering and solidifying a balance sheet.

2. Private Debt/Credit

Investor capital is pooled and used to make loans to companies. Companies typically seek private debt to finance growth, expand their working capital, or fund new real estate developments. Private credit/debt investments tend to focus on the following strategies: opportunistic and distressed debt, middle market investing and specialty finance.

3. Private Real Estate

Investor capital is pooled and used for the acquisition, financing, and ownership (either directly or indirectly) of property or properties via an investment fund. Private real estate investments tend to focus on one of the following four strategies: core, core-plus, value added or opportunistic.

4. Multi- Strategy

Investor capital is pooled and invested across a variety of different asset classes and market sectors. Typically, multi-strategy investments tend to focus on asset classes and sectors that can benefit across many different economic environments.

Alternative investments represented through satellite positions in a portfolio increase diversification and can help reduce overall risk. They can also help investors obtain access to less volatile markets and experience better risk adjusted returns. As the size of private markets continues to increase and they become more accessible, it is paramount to consider whether they make sense in your portfolio.

If you have questions specific to your situation, please do not hesitate to contact your advisor.