

# THE ARETÉ QUARTERLY

## Welcome

As it becomes progressively more apparent that the investment landscape presents unique challenges, it is also becoming progressively more apparent that conventional investment approaches are not sufficient for meeting those challenges.

Areté is a unique organization for unique times. With an orientation to research and analysis, these activities are applied for the purpose of solving problems and helping investors do the best they can. Each investment decision and communication is made with the mindset of having skin in the game.

If you are interested in getting more (or different) investment insights, please take a look at our blog [[here](#)]. Content for the posts is selected and created on the basis of being important, relevant, and useful.

In addition, *Observations by David Robertson* provides a weekly collection of insights and analysis that are intended to be especially relevant for long-term investors. You can find the letters on the substack platform at: <https://abetterwaytoinvest.substack.com>

Finally, please always feel free to contact us with questions or comments.

## Business Update

The first quarter was trying one for many investors as both stocks and bonds lost

ground. Importantly, the Vanguard fund VBIAX, a representative 60/40 fund, lost over five and a half percent.

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Of course, one should never place too much weight on the performance of one quarter. It is hard, however, to not appreciate the prescience of my statement just three months ago that “the notion of a 60/40 index as being ‘safe’ is going to get sorely tested”. Here we are.

In short, the conventional balanced fund did just what I expected and lost ground. At the same time, the All-Terrain allocation strategy did just what it was designed to do: It was largely insulated from overvalued stocks and bonds and at the same time benefitted from gold and other less conventional investments.

The good news for Areté is that I don’t expect the underlying conditions that produced these results to resolve any time soon. In fact, I strongly suspect these investment “winds” will be blowing for quite some time. The current forces took years and years to accumulate and will also take years and years to unwind.

This is all very, very good for Areté. The new investment strategy and value proposition are sound and the landscape is unfolding in a way that really plays to the strengths of the strategy.

As a result, I am expanding efforts to increase awareness and to market the All-Terrain strategy more aggressively than I have done since Areté's launch almost fifteen years ago.

Part of that effort is to reach out to friends and acquaintances. I recently refreshed the website to highlight the All-Terrain strategy and if you haven't checked it out recently, I encourage you to do so at <https://www.areteam.com/>.

One type of situation that tends to work well is when someone has some assets or a particular account that just isn't managed very actively. Oftentimes people end up with stray retirement accounts, for example, that could use more direct oversight.

Another type of situation that can work well is when investors want to re-allocate assets among advisors. Many investors have done well with advisors who maintained large allocations to stocks the last several years but are having a hard time adapting to the new environment. If so, it may be time to consider moving some assets.

Finally, it's probably also a good time to reflect back on the "[Observations](#)" newsletter I started up on Substack in response to the turmoil arising from pandemic lockdowns in early 2020.

The letter is still going strong and I am extremely pleased how the effort has imposed more discipline on my strategic

thinking and also facilitated regular communication with investors. If there is one thing that really distinguishes Areté from other advisors, it is this kind of consistent, thoughtful, personal communication.

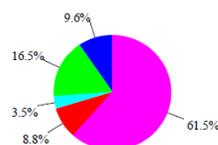
As always, thanks for your support!

David Robertson, CFA  
CEO and founder, Areté Asset Management

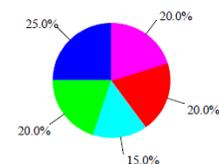
## Asset Allocation

In the current actual allocation cash is still the largest position followed by gold and now inverse correlation. Relative to last quarter, the cash portion is smaller as net funds were deployed to increase positions in the inverse correlation category. The stock position is smaller due to sales and the gold position is larger due to appreciation.

**Actual Allocation**



**Target Allocation**



As a reminder, the easiest way to think about the strategic priorities of the All-Terrain strategy is as an effort to get the most out of the valid market opportunities that exist. In other words, it is more about finding attractive assets and creating thoughtful diversification than about speculating which hot stock might do well.

The current environment is dominated by the Federal Reserve's (loudly) expressed desire to increase rates and embark on Quantitative Tightening. These actions will substantially worsen liquidity which in turn

will eventually weigh on financial assets. This is happening at a time when stocks are still fairly close to all-time highs.

As a result, the primary goal currently is to stay mostly clear of stocks and bonds. This explains the high cash levels. Finding attractive inflation hedges is still an important effort, though less somewhat less urgent in light of the Fed's increased vigilance. Other than that, I will be watching the trajectories of commodities, stocks, and bonds in anticipation of slowing growth and inflation.

## Transactions review

There were a few more transactions in quarter, each of which represented a very measured and deliberate transition to a more diversified portfolio. The position in EXC was sold as was its recent spinoff, CEG. In addition, relatively small and non-strategic positions in SRG and VTRS were also sold off.

These funds and more were redeployed into HSGFX, the Hussman Strategic Growth Fund. I have followed Hussman closely for well over ten years and consider him to be one of the foremost experts on valuation. His fund is set up to calibrate stock exposure relative to opportunity. In other words, when the market is really expensive and conditions are terrible, his exposure is minimal. In fact, if conditions are really bad, as they are today, he will even go to a net short exposure.

These attributes are especially useful in the context of the goals of the ATA strategy. The combination of thoughtful and opportunistic allocation and potential for inversely

correlated returns dovetails perfectly with my vision for the allocation strategy.

## Performance review

As investment strategy transitions over to the All-Terrain strategy, there will be some changes in performance evaluation, but many of the general principles will remain the same.

For example, the search for undervalued assets will remain the same, although the scope of that search will expand significantly from the universe of US mid cap stocks to a much broader universe of publicly traded securities and funds.

The overarching goal of providing attractive returns to investors on an absolute basis will also remain the same. As many markets become significantly overvalued, this is especially important to keep in mind.

Finally, the major change will be a greater emphasis on diversification. This new focus will elevate the importance of uncorrelated return streams and reduce the importance of individual security performance.

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Since the Areté All-Terrain Allocation (ATA) strategy started at the end of August, performance is reported from that date.

For the first quarter, the ATA strategy returned 3.91% (net of fees) while VBIAX returned -5.60%. The significant outperformance highlighted all of the major dimensions of the strategy.

The large cash position proved useful in the context of both stocks and bonds going down

for the quarter. The large allocation to gold was useful in the context of inflation concerns and geopolitical turmoil. Other diversifying investments proved effective in generating good returns even when stocks and bonds were not. In short, it would be hard to imagine a more complete proof of concept for the strategy.

## Investment Philosophy

We firmly believe in the critical importance of a cogent investment philosophy for any investment operation. In order to emphasize this point, and to assist you in understanding how we work, we provide an abbreviated version of our investment philosophy here. The text of our investment philosophy is also provided, in its entirety, in our Form ADV, Part II which is available upon request at any time.

### **Asset allocation is a key function of wealth management**

One of the most important functions for long-term wealth accumulation is to have access to certain asset classes when they are attractive and to be able to minimize exposure to other asset classes when they are extremely unattractive. In short, diversification moderates the long-term swings in portfolio performance and therefore significantly increases the chances of wealth accumulation over a reasonably long investment horizon.

### **Mispriced assets are an important source of performance**

One of the keys to investment performance is finding and exploiting market inefficiencies. While such inefficiencies can arise in the form of mispriced securities,

they can also arise in the form of over- or under-valued industries or asset classes.

Identifying such opportunities begins with the assessment of underlying intrinsic value. When disparities with market prices exist and clear rationale for such mispricing can be identified, there are opportunities to take advantage of the differential.

### **Information management is a core skill of investment management**

Analyzing investment opportunities and developing portfolio construction is a dynamic exercise that involves a constant and ongoing process of gathering information, processing it, analyzing it, developing knowledge, and applying it for the benefit of clients.

### **Execution is crucial for investment success.**

In order to create value, an investment strategy needs to be implemented continuously and comprehensively. Actions speak louder than words. We believe the most effective efforts focus on a few simple, but key concepts that work to ensure proper execution of a firm's investment strategy. This approach is notably distinct from the common practice of simply gathering assets.

The first key to execution is structural in nature and involves a firm's independence. By maintaining independent ownership, an investment firm eliminates agency effects which can present a conflict of interest between clients and certain of its ownership groups.

The second key to execution is temperament. The best investors tend to have a temperament that provides them the

courage and initiative to act, often going against the grain, when opportunities arise. However, the same temperament provides balance such that decision-making is not simply a risk-taking activity, but a very conscious and targeted effort to engage in propositions with high risk-adjusted expected returns.

Finally, another important element of execution is simply doing what you say you

do in your investment process. Too often, perfectly acceptable investment processes fail when actual investment activities bear little resemblance to the process described in the marketing presentation. We call this the “marketing gap;” the difference between what is said and what is done. Execution is optimized when the marketing gap is minimized.

## Areté All-Terrain Composite

**Arete Asset Management, LLC**  
**All Terrain Composite**  
**August 31, 2021 - March 31, 2022**

Period	Gross-of-Fees Return (percent)	Net-of-Fees Return (percent)	Vanguard balanced		Internal Dispersion (percent)	Total Composite Assets (\$)	Composite Assets With Bundled Fees (\$)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets (\$)
			Index Fund (percent)	Number of Portfolios					
2021	0.06	-0.20	2.22	3	NA	841,887	841,887	100%	1,460,255
2022									
January	-1.04	-1.27	-4.52	3	NA	831,184	831,184	100%	1,444,243
February	1.83	1.83	-1.96	4	NA	1,359,907	1,359,907	100%	1,470,735
March	3.36	3.36	0.84	4	NA	1,405,634	1,405,634	100%	1,520,113
Q1	4.16	3.91	-5.60	4	NA	1,405,634	1,405,634	100%	1,520,113
YTD	4.16	3.91	-5.60	4	NA	1,405,634	1,405,634	100%	1,520,113

Areté Asset Management All-Terrain performance composite disclosures follow:

### Definition of the firm

Areté Asset Management, LLC (Areté) was established in 2008 and is registered as an investment adviser in the state of Maryland. Areté is defined as an independent investment management firm and is not affiliated with any parent organization. Areté currently manages one strategy, the U.S. equity mid cap core strategy, which it markets to individual and institutional clients.

### Benchmark

The benchmark is the Vanguard Balanced Index Fund Admiral Shares (VBIAX), and its performance is reported in U.S. dollars.

**Areté Asset Management All-Terrain performance composite disclosures continued:****Calculation methodology**

Portfolio valuations are calculated as of calendar month-end and are computed in U.S. dollars and performance is also reported in U.S. dollars. Time-weighted rates of return are used which adjust for external cash flows. Our smaller, retail accounts contain fee structures in which one flat, per-transaction fee is charged for trading expenses, and which embeds an implicit charge for custody. Since trading and custody charges cannot be directly segregated in these cases, they constitute “bundled fees”. Gross-of-fees performance returns are presented before management and custodial fees when custodial fees can be segregated from trading but are presented before management fees and after bundled (trading and custodial) expenses for our retail accounts. Net-of-fees returns are presented after management fees, trading expenses, and custodial expenses are deducted or after management fees and bundled (trading and custodial) fees for retail accounts. There are no instances in which management fees are bundled with trading or custodial fees. Returns are presented net of nonreclaimable withholding taxes when applicable. Areté does not use leverage or derivatives in the management of portfolios. Additional information regarding policies for calculating and reporting returns is available upon request.

**The composite**

This All-Terrain allocation strategy composite was created in August 2021 and includes all fee-paying, taxable and non-taxable, discretionary, long only, fully invested portfolios benchmarked to the Vanguard Balanced Index Fund. Every new portfolio is added to the composite in the first complete calendar month that it is “fully invested”. For purposes of composite construction, a portfolio is “fully invested” when it breaches the threshold of 90% similarity with core composite portfolios. Each portfolio will remain in the composite until its similarity with core composite portfolios falls under 90%. A complete list and description of firm composites is available upon request.

**Fee schedule**

The management fee schedule is as follows: 1% of AUM up to \$1 million, 0.75% on AUM greater than \$1 million, but less than \$5 million, and 0.65% on assets greater than \$5 million.

**Minimum account size**

There is no minimum account size for inclusion in the composite. Please note, however, the minimum initial account size accepted is \$100,000.

Areté Asset Management All-Terrain allocation strategy performance composite disclosures continued:

**Dispersion**

Internal dispersion is currently not meaningful as there are five or fewer portfolios included in the composite. In the future, we plan to calculate dispersion using the dollar-weighted standard deviation of all portfolios included in the composite for each performance period.

**Verification**

Areté has not been verified by an independent verifier for its compliance with GIPS.