Finanzas Personales

Juan Pablo Jimeno

Ex Head Equity Markets, ex Head Asset Management, ex Head Global Markets USA

CIO Multiplo Capital, BME Senior Advisor

Profesor ETSII, Co-Director Master MEFI

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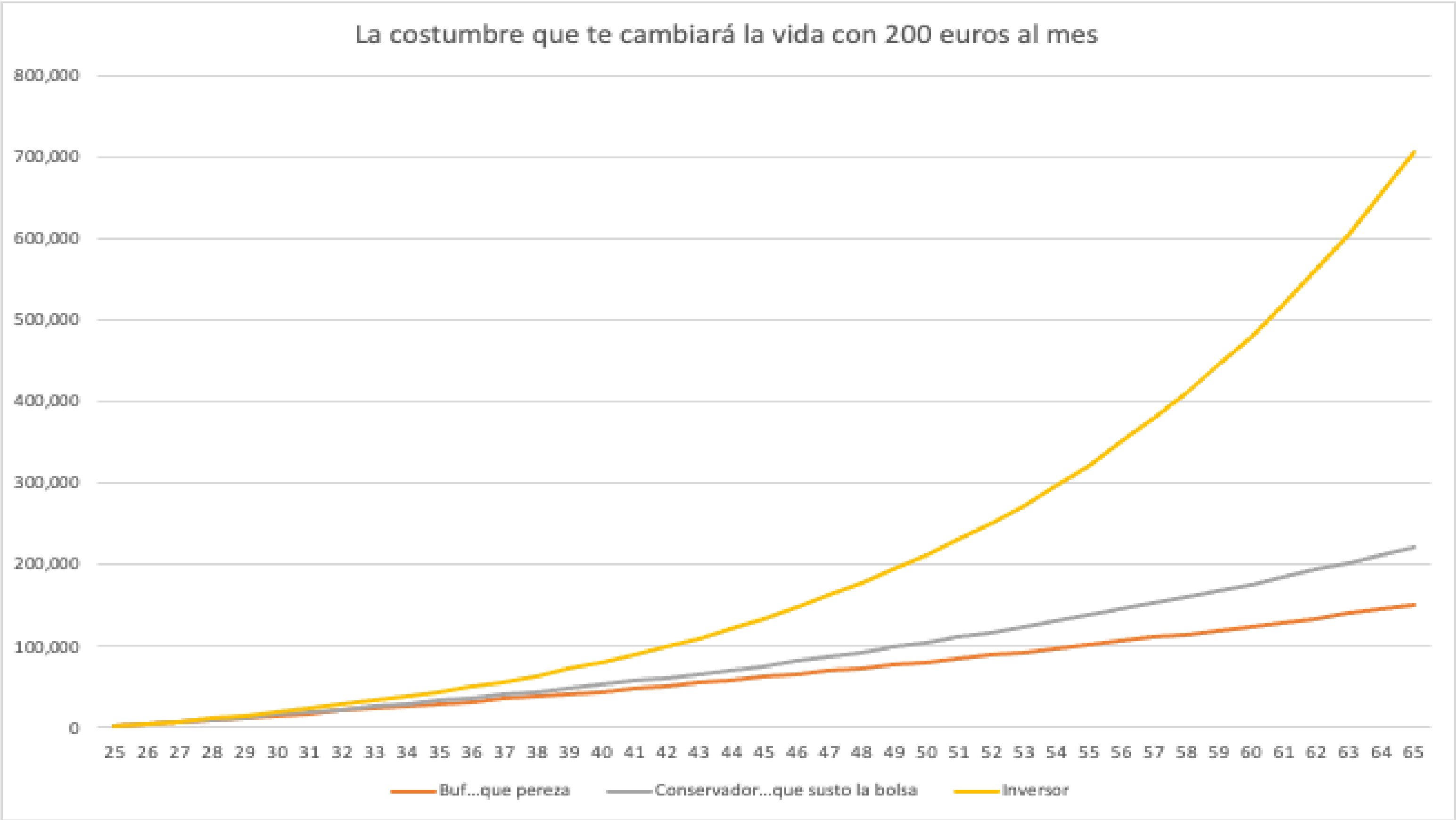
1. WHERE ARE YOU TODAY ???

- ***The Difference between Investing, Saving and Just not doing Anything: just 200 euros per month until retirement***

7%: Investor
2%: Scary
0%: Lazy



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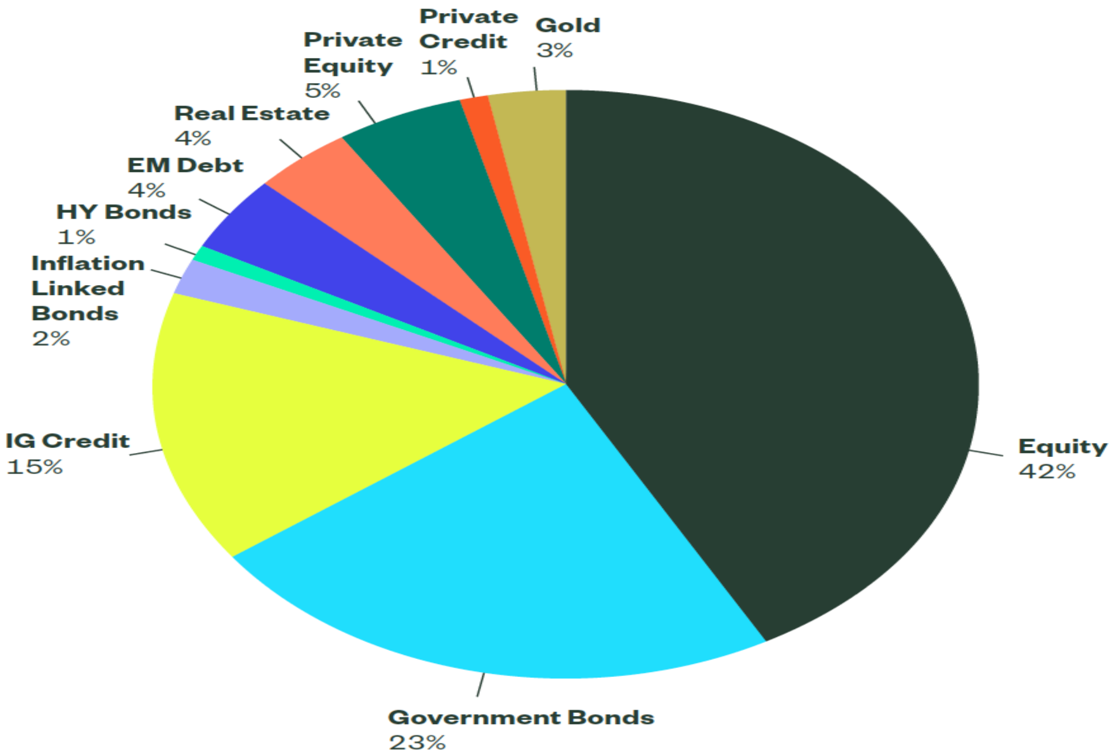
1. WHERE CAN YOU INVEST TODAY ???

- ***The Global Portfolio: where do the Global Population invest***

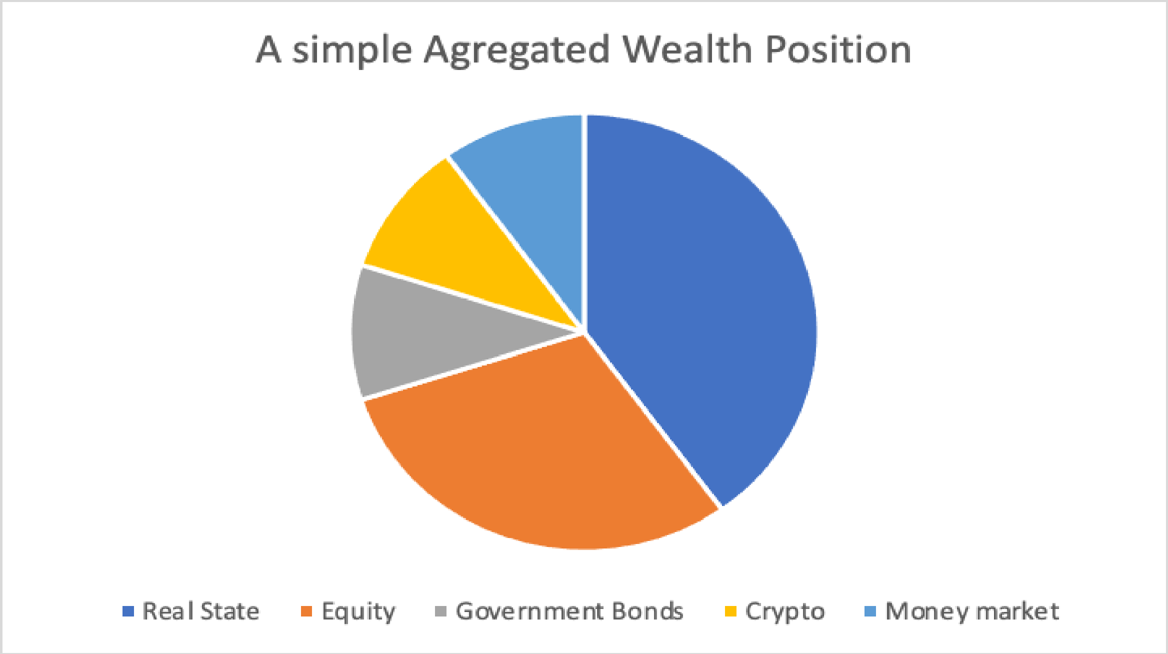


42%: Equity
23%: Bonds
22%: Corporate Bonds
………

WHERE CAN YOU INVEST TODAY ???

That in most cases can be translated into:

Equities
Government Bonds
Corporate Bonds
Deposits/Money Markets
Real State
……



WHERE ARE YOU TODAY ???

I know that in most of your cases that can be *nothing* as of Today

But we need to start ASAP……

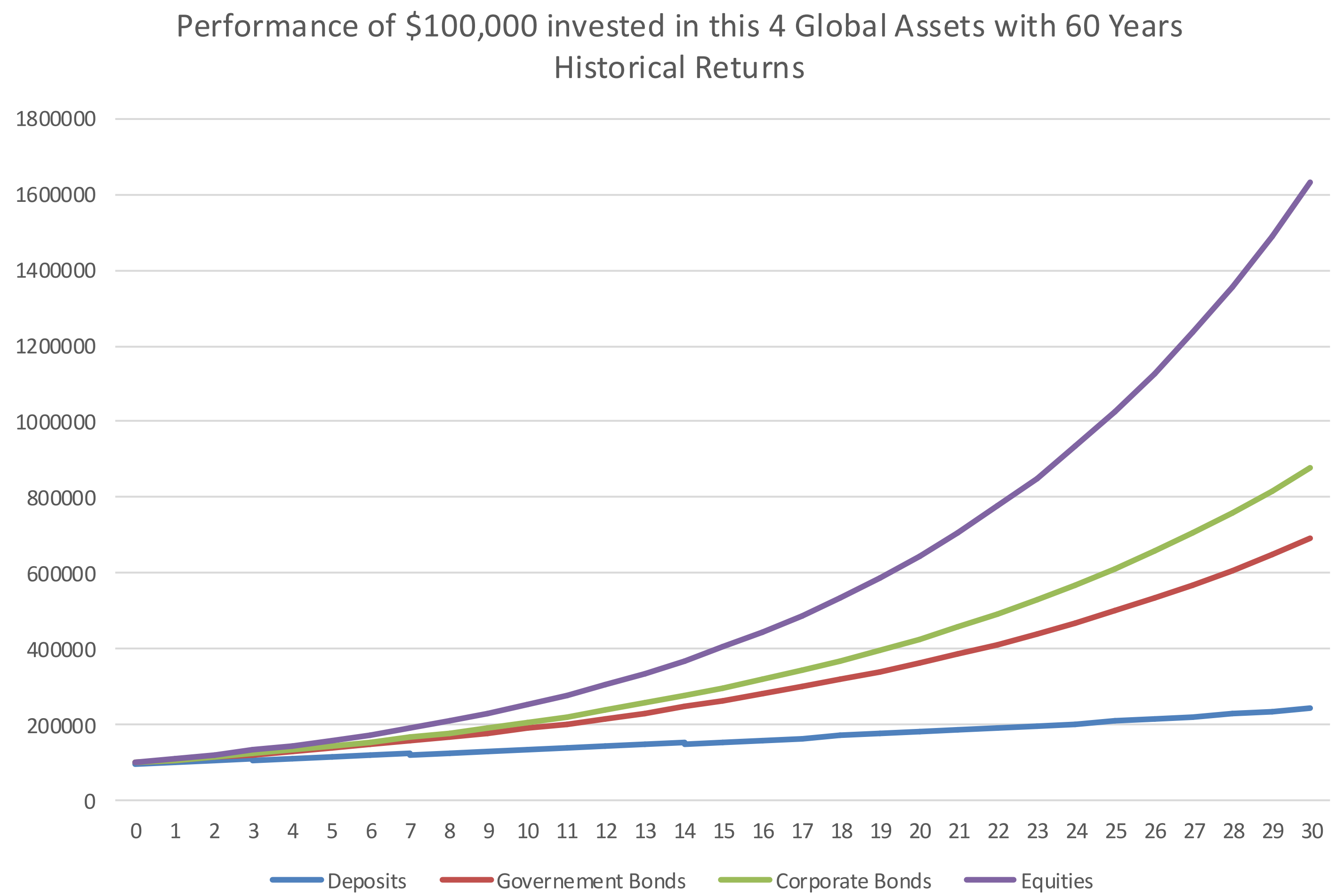
WHERE DO I INVEST ???

- During last 60 years the difference between investing in these four main assets has been:

1. Global Equities: 9.76%
2. Global Corporate Bonds: 7.51%
3. Global Government Bonds: 6.66%
4. Deposits: 3%

WHERE DO I INVEST ???

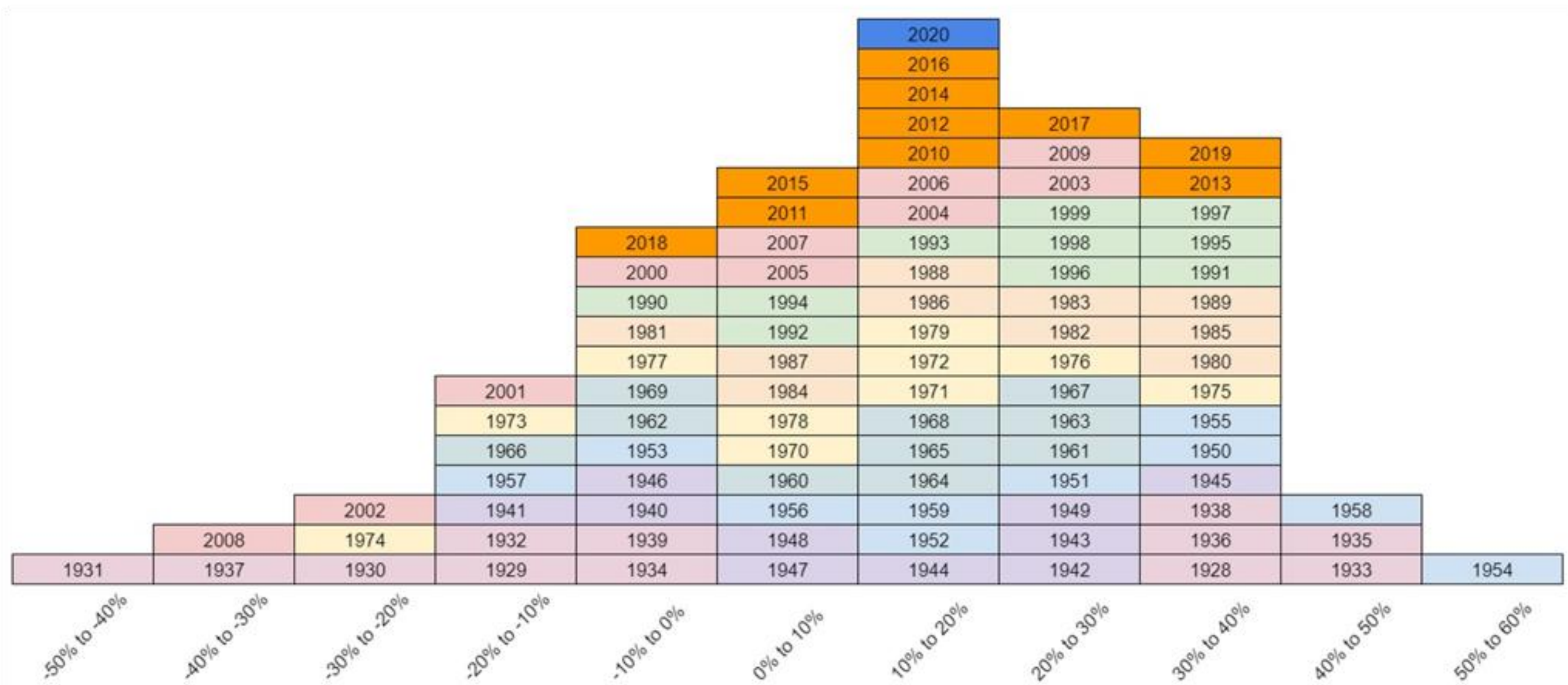
- *That translated into a 30 year Investment*



WHERE DO I INVEST ???

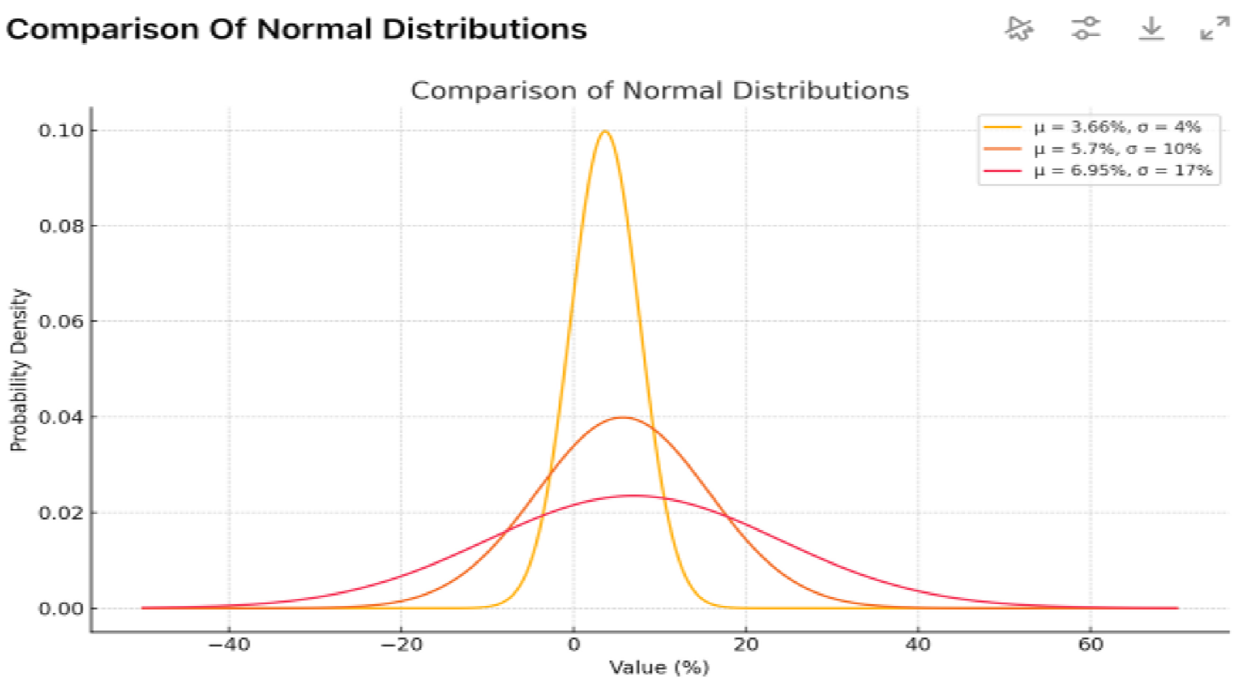
- *But during these periods of time there has been good and bad times…let's take a look at the performance of the SP500*

  - I am talking about **RISK**



WHERE DO I INVEST ???

- *And Risk can be translated in something very familiar to us: Normal Distributions:*
  - With an **average that can express the future average return**
  - With a **standard deviation that can express the future Risk around the average. This is the well known VOLATILITY**



Three portfolios:

- **Expected return: 3.66% & σ=4%**
- **Expected return: 5.7% & σ=10%**
- **Expected return: 6.95% & σ=17%**

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WHERE DO I INVEST ???

- *VOLATILITY can be identified with the maximum drawdown you could receive one year at home:*
- *Let me enjoy using formulas that you can understand*

$$\mu \pm 2 \times \sigma$$

If the expected volatility is 17% and the expected return is 7% it could happen: $7\% \pm 2 \times 17\%$
If the expected volatility is 1% and the expected return is 2% it could happen: $2\% \pm 2 \times 1\%$

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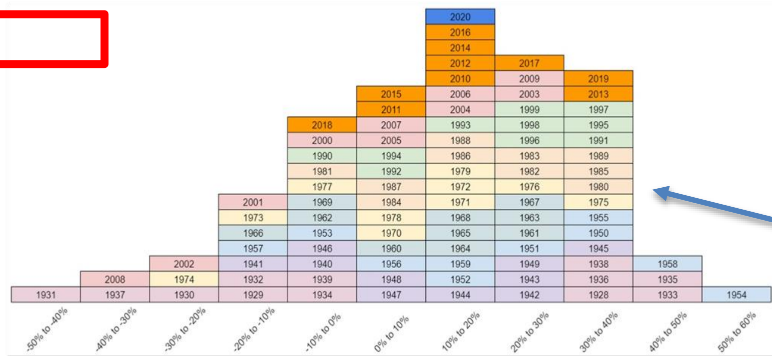
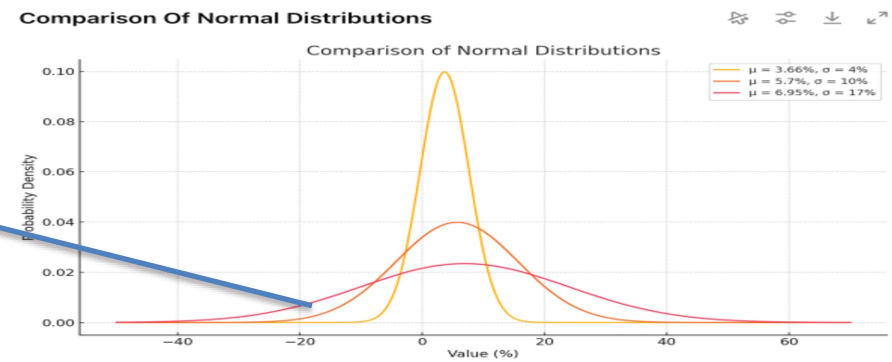
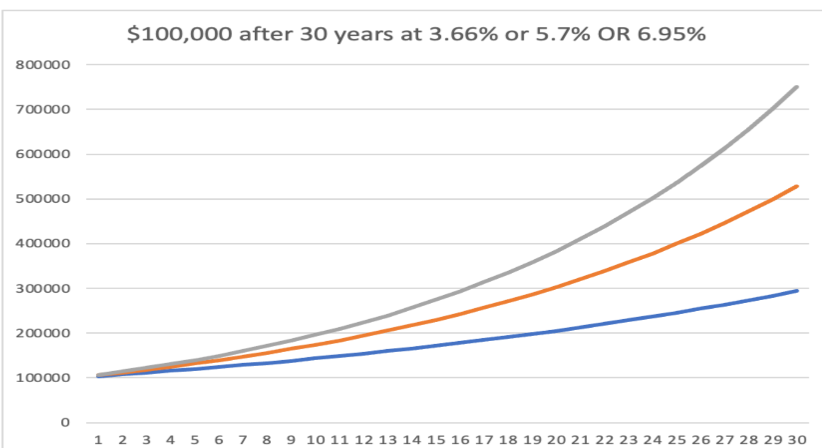
The Risk Tolerance paradigm

RISK





REWARD



- *The Standard Deviation of this Distribution is know as VOLATILITY in Financial Markets:*
- ***The Higher the Risk---The Higher the expected return***

WHERE DO I INVEST ???

As a Chief Investment Officer in Multiplo Capital I have an Expectation for next 5 years:

- *Global Equities: 7% with 17% Risk (Volatility)*
- *Global Corporate Bonds: 5% with 8.4% Risk (Volatility)*
- *Global Government Bonds: 4.5% with 7.3% Risk and*
- *Deposits: 2.5% with 2.3% Risk*

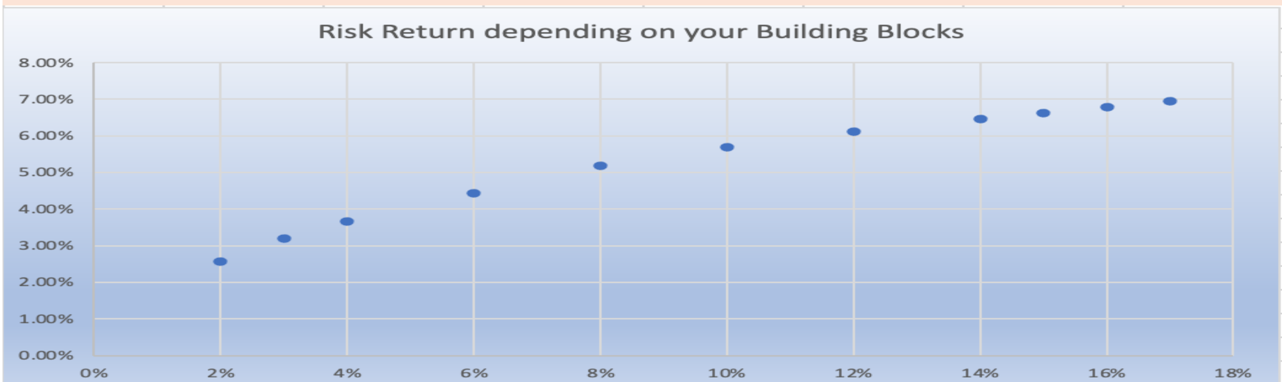
I can run a very simple Allocation model and, now, you can choose

WHERE ARE YOU TODAY ???

- **And you have to translate that into a Risk Return profile**

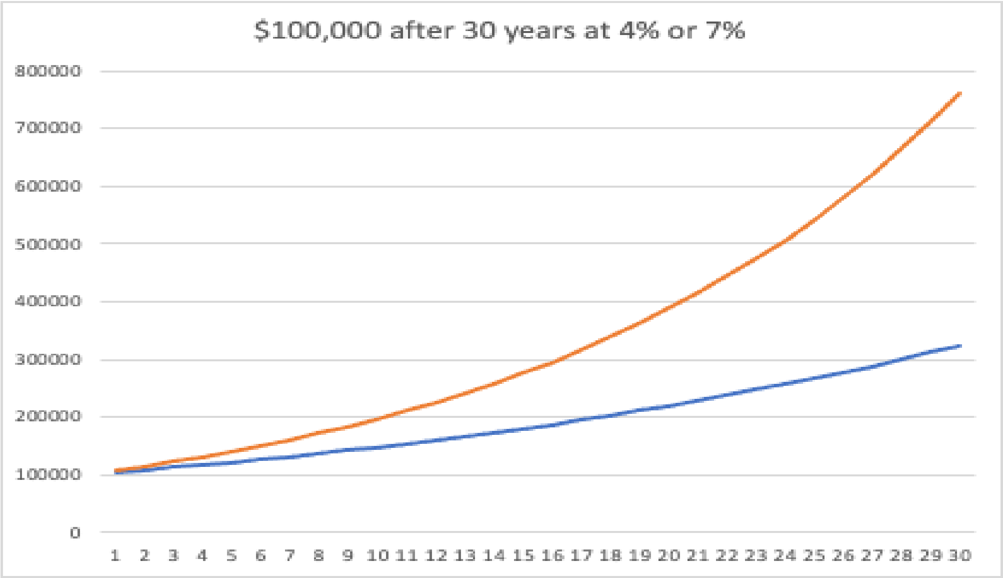
(this is when the Finance professor start asking questions to their students 😀 😀 , remember the Markowitz Theory?)

VOL	Return	GE	CB	GB	MM	Highest up and down markets in 1 year	
2%	2.57%	0%	0%	4%	96%	-1%	7%
3%	3.20%	6%	1%	22%	72%	-3%	9%
4%	3.66%	10%	1%	34%	55%	-4%	12%
6%	4.44%	18%	1%	55%	26%	-8%	16%
8%	5.18%	27%	4%	70%	0%	-11%	21%
10%	5.70%	42%	31%	27%	0%	-14%	26%
12%	6.11%	56%	44%	0%	0%	-18%	30%
14%	6.47%	73%	27%	0%	0%	-22%	34%
15%	6.63%	82%	18%	0%	0%	-23%	37%
16%	6.79%	90%	10%	0%	0%	-25%	39%
17%	6.95%	98%	2%	0%	0%	-27%	41%



WHERE ARE YOU TODAY ???

- *By the way…it seems that a difference in return between a 7% and a 4% can look like a little difference but remember the **beauty** of the **compound return** after several years*



Do not loose a minute and invest TODAY!!!

2. WHERE DO YOU WANT TO BE?

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Understanding your Risk profile*: this is probably one of the most challenging questions I have faced in my professional career but it is probably the most important one before taking any financial decision*

The end of the story should be to identify which is the optimal relationship between your financial goals and the risk tolerance you have

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2. WHERE DO YOU WANT TO BE?

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Normally we run a set of questions that can help you to better understand your risk profile. Let me use one very good example as a guidance

Vamos ahora a hablar de tus preferencias de inversión y tolerancia al riesgo. Queremos consultarte qué plazos de inversión tienes en mente. Ahora bien, te adelantamos que nuestra filosofía de inversión es de largo plazo, dado que es la modalidad que creemos que entrega mejores resultados. Dicho esto, ¿qué plazos de inversión manejas?*

Largo plazo: +7 años

Con respecto a tu tolerancia al riesgo, indícanos ahora con cuál de las siguientes situaciones te identificas más. Recuerda que cuanto más a largo plazo inviertas, menor es el riesgo de tu inversión y que nuestra filosofía de inversión es de largo plazo.*

Quiero tener la posibilidad de obtener una plusvalía importante, asumiendo una posible minusvalía del -10,0%

Hablemos del concepto de diversificación. En tu opinión, ¿la diversificación es importante para eliminar riesgos innecesarios, o es un impedimento para sobre ponderar inversiones de las que estás seguro? (y por tanto un obstáculo a la rentabilidad)*

No tengo una opinión clara y me gustaría que me asesoraseis al respecto

En el mundo de la inversión existen diferentes estilos. Queremos empezar a hacernos una idea de cuáles pueden ser los más idóneos para ti. En esta línea, ¿con cuál de las siguientes afirmaciones estás más de acuerdo?
*

No estoy segur@

¿Te motiva o entretiene estar informad@ periódicamente sobre novedades de las compañías que tienes en cartera, o esto es algo que no te interesa y que prefieres tener completamente delegado?*

No me interesa

Hay gente que está plenamente conforme con ir invirtiendo a largo plazo y esperar con paciencia a que sus inversiones aumenten su valor, y hay gente que prefiere invertir en activos que vayan generando algunas rentas salientes (aunque sean modestas), para poder ir disfrutándolas. Lo segundo tiene algunos inconvenientes (por ejemplo, acabas pagando más impuestos), pero a este tipo de personas les sale a cuenta por el impacto positivo psicológico que les genera la recepción de estas rentas. ¿Cuál dirías que es tu caso?*

Prefiero recibir alguna renta, aunque tenga algunas implicaciones desfavorables (como las fiscales). Me ayudará psicológicamente durante mi viaje financiero.

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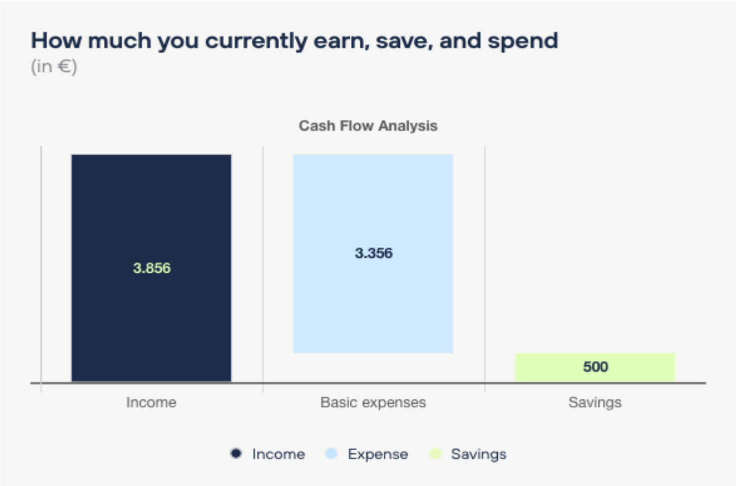
2. WHERE DO YOU WANT TO BE?

*At the same time we need to translate our financial goals into a **BUDGET:***

EXPECTED FUTURE INCOME + EXPECTED FINANCIAL RESULTS & SAVINGS = DESIRED FUTURE EXPENSES



The exercise has to be as granular as possible and needs to be done for any years up to ………

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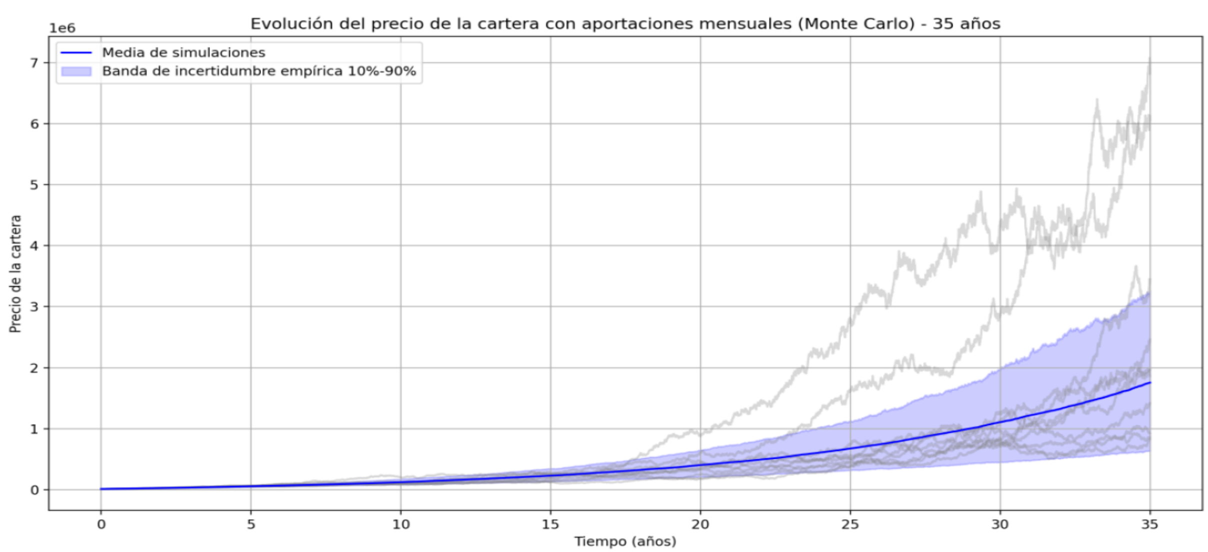
2. WHERE DO YOU WANT TO BE?

And this should be the final output: **the magic of your financial plan with a degree of uncertainty**

Let's imagine that you are able to save every year 10,000 euros and you are an "agresive, 17% volatility" investor. After 35 years this could happen to you:

- Resultado esperado medio al final de los 35 años: **1.754.963,06 €**
- Peor resultado esperado (percentil 10): **630.931,14 €**
- Mejor resultado esperado (percentil 90): **3.265.549,47 €**

A continuación, se muestran, en la *Figura 21*, visualmente los resultados obtenidos:



Jaime Cañete,
TFM 2025

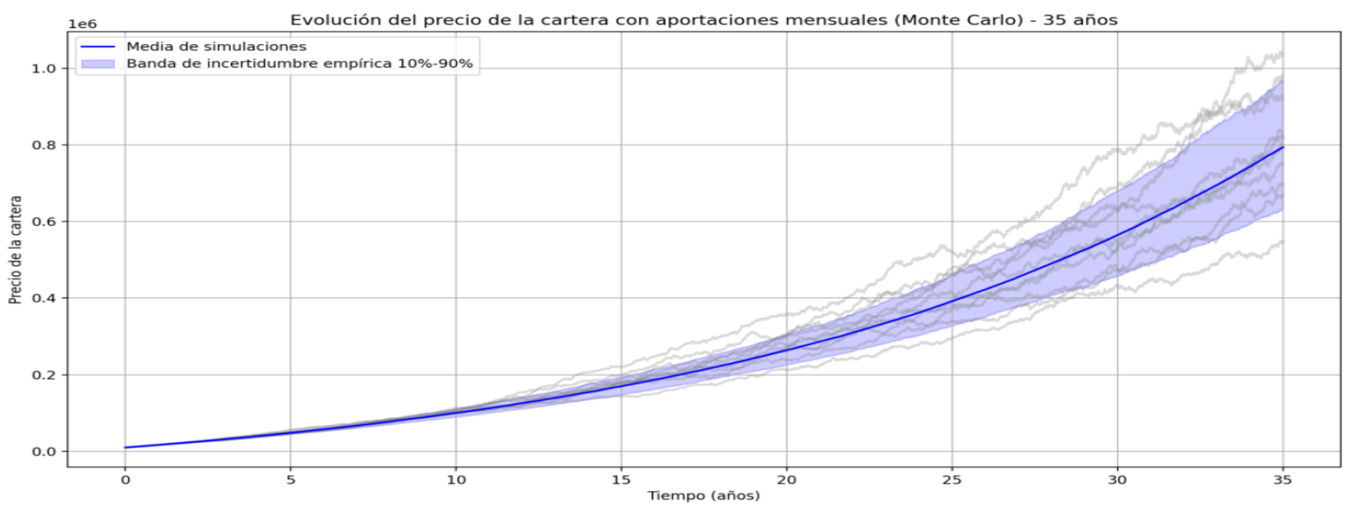
2. WHERE DO YOU WANT TO BE?

And this should be the final output: **the magic of your financial plan with a degree of uncertainty**

Let's imagine that you are able to save every year 10,000 euros and you are an "scary 4% volatility" investor. After 35 years this could happen to you:

- Resultado esperado medio al final de los 35 años: **794.110,04 €**
- Peor resultado esperado (percentil 10): **632.031,06 €**
- Mejor resultado esperado (percentil 90): **971.909,75 €**

Como puede observarse, frente a los escenarios anteriores, el rango de posibles resultados se amplía notablemente debido a la presencia de riesgo. Esta dispersión refleja precisamente la incertidumbre inherente al mercado, que la simulación de Monte Carlo permite capturar.



Jaime Cañete,
TFM 2025

2. WHERE DO YOU WANT TO BE?

The power of the **Montecarlo simulation**: as we do not know what is going to happen in the future we can use historical data or we can simulate future scenarios with the expected returns of your portfolio and the risk associated with this portfolio:

-we focus in the average growth of your wealth
-we choose the 90% best output
-we choose the worst 10% output

After making 1,000 simulations for next years you can get the best proxy of your Financial Plan

3. How do I get there

Once everything is OK you have to translate your plan into a real portfolio allocation and you need to decide how to materialize your “building blocks”:

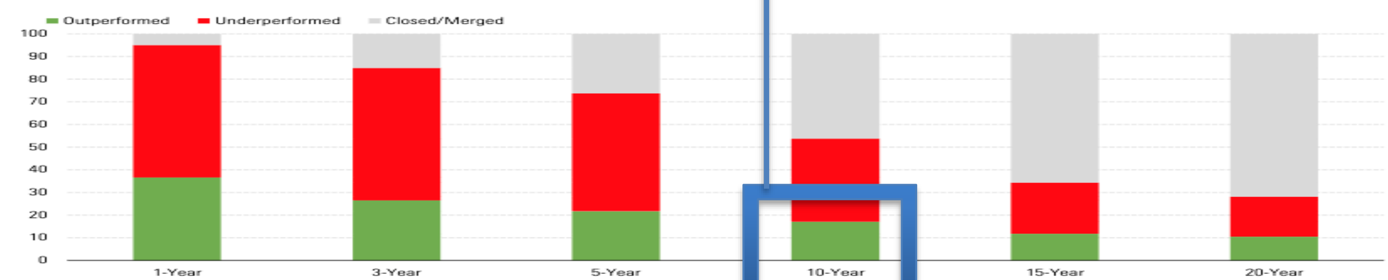
-If I have decided to invest in equities, bonds, money market, real state…..**HOW DO I IMPLEMENT THIS STRATEGY?**

-let’s start with the easy solution: I will delegate the responsibility in professional fund managers

3. How do I get there

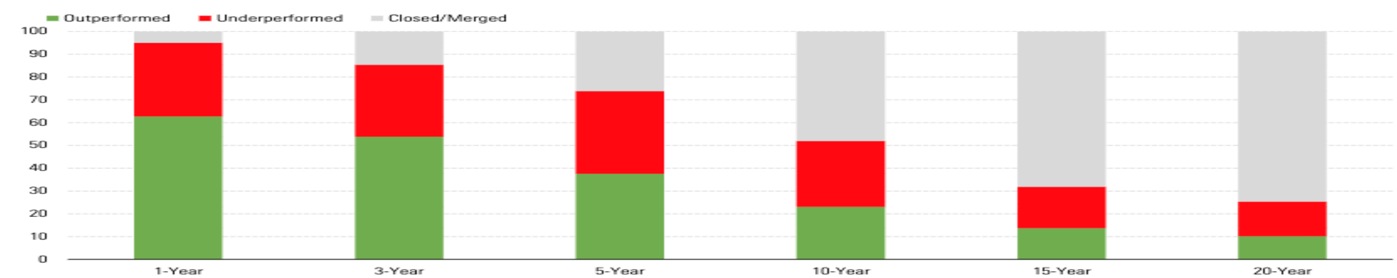
As you can see in this graph, just around 15% of active managers do better than the Market in a consistent way

Exhibit 1 Active Equity Managers' Year-End Outcomes (%)



Source: Morningstar Direct. Data as of June 30, 2023.

Exhibit 2 Active Fixed-Income Managers' Year-End Outcomes (%)



Source: Morningstar Direct. Data as of June 30, 2023.

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3. How do I get there

An this an extremely costly problem:

- *Imagine you are going to invest 100,000 € till your retirement (next 30 years) with a profesional Fund Manager that charges you a 2% fee in his fund. The other alternative is investing in a passive Fund with a 0.3% annual fee. Just imagine that both funds give you exactly the same performance, 5%, or in other words that the Active Funds does not offer any extra performance over the Passive Fund:*

➢ *With the Active Fund you would get* ***242,000€***

➢ *With the Passive Fund you would get* ***396,000€***

➢ ***You would end paying 154,000 € to your Active Fund Manager***

3. How do I get there

The opposite is also True:

If you find the proper Active Fund Manager, for example, an Active Manager that gets an 8% annual return (compared to the 5% of the Market) you would get
574,000 € instead of 396,000 €

CONCLUSIONS:
-Maybe you should avoid doing this by yourself
-Maybe you should focus on Passive Managers
-Maybe you could also add to your Passive Investments a portfolio of good Active Fund Managers

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MY FIRST ADVICES:

1. Do not be lazy: start Today
2. You still have a lot of years in front of you: **risk** in on your side. Equities are great for you (forget the advise of dad & mom)
3. Start investing in Global Indices: in three clicks you can buy the Global World Index in one Fund
4. A small amount will mean a big difference

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THANKS !!

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