Absolute Return Investing – not so alternative

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Oscar Wilde famously defined a cynic as a man who knows the price of everything and the value of nothing. Many investment professionals have mused over the relevance of Wilde's quip to modern investment markets – especially whenever the next "market darling" rears its striking head.

The price / value dichotomy is always present in all investment markets, and it's never simple to resolve. Pure "value" investing carries with it the risk of owning a so-called value trap. Some investments that seem cheap are simply reflecting the fact that they aren't valuable. Perhaps their business model has become irrelevant, perhaps their moat has been drained, or perhaps they are former market darlings that have been found out.

Similarly, "growth" investing can easily get confused between stocks that genuinely offer the prospect of superior earnings growth and their less valuable (but often apparently attractive) siblings that, in reality, only offer growth in price / earnings ratios.

And, of course, there are always those other "investments", like Dutch tulips and crypto-currencies, where it can be virtually impossible to discern a real value proposition, meaning that determining any sort of value-based price is effectively impossible.

When evaluating investment opportunities and the propositions offered by professional fund managers, it is of paramount importance to be clear and unemotional about the use of language. Who doesn't want to invest in "growth"? Also, the critical investor issue is not whether a given manager outperforms their peers but whether they are making decisions that are protecting and growing their clients' wealth steadily over time.

Absolute Return investing is, at its core, an investment philosophy that is based on avoiding investments that represent an unacceptable risk, whether that risk emanates from value traps or growth stocks that have been bid up well beyond their fundamental value. It does not care about peer decision-making nor about performance relative to market benchmarks. It is solely concerned to deliver positive returns over time so that the value of the sum invested can grow reliably over time.

Which raises another interesting language conundrum.

Many analysts and researchers of fund managers place absolute return managers in the "Alternative Investment" category. Given that the basic premise of investing is to grow wealth over time, absolute return investing is surely a mainstream strategy, rather than an alternative.

As Benjamin Graham so succinctly put it, "... the intelligent investor is a realist who sells to optimists and buys from pessimists".

Bring on the realists - they're absolutely sensible.