

What is a High Conviction Fund?

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It is a term often used but less often defined. My view is that it is a fund of quality stocks that can be left unmonitored for periods of time – usually without tinkering. There are no speculative stocks – from exploration nor corporate actions – in a High Conviction Fund. Importantly, a drop in price of one or more stocks is more likely to attract attention for any spare cash rather than a cause for abandonment!

I have my own rules for assembling a High Conviction Fund. At times like present, I would advocate 8 – 15 stocks if equally weighted but more if some stocks are given less weight. There are ways of determining the equivalent number of stocks for general portfolios. In more turbulent times – such as 2008 – 2010 – the optimal number of stocks is more like 12 – 20, and possibly more. I have papers in the *Switzer Super Report*, *Professional Planner*, and my website woodhall.com.au on these and many more associated issues.

I determine how much weight should be given to each of the 11 major sectors using my quantitative methods. Then, I allocate an appropriate number of stocks for each sector based on the size of the sector and the quality of the component stocks. Care should be taken not to have too much exposure to any one stock. Only companies from the ASX 100 belong in a High Conviction Fund in my world.

When I assemble a new portfolio, I only choose stocks with a 'good' consensus rating from brokers as published by Thomson Reuters. With '1' for a buy and '5' for a sell, I would only 'buy' a stock with a 2.5 or better. However, I would not sell unless the ratings fell well below that number. I have rules.

I like to think of rebalancing a 'High Conviction Fund' either once or twice a year. Rebalancing any more often is a sign of a trader's spirit.

The problem is that even big companies sometimes have mergers or divestitures associated with them, capital raisings and the rest. Real portfolio management is a full-time job but a High Conviction Portfolio should require less effort – but not no effort.

I also build High Octane Funds which seek out smaller capitalisation stocks of high consensus ratings. These are higher risk and possibly higher return funds. My High Fusion Funds are an amalgam of the High Conviction and High Octane Funds – and the blend of the two funds varies as other factors change.

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