Austin Root – Chief Investment Officer - Stansberry Asset Management

Root gave sage financial advice to investors.

Investors need to understand their goals. Depending on an individual’s investment goals they may be looking to generate capital appreciation, capital preservation, or current income.

Roots says investing is about generating high risk adjusted returns. It’s not worth it taking big risks to squeeze out a little extra return because it’s not worth it.

He thinks it’s necessary to understand the difference between strategic investing versus tactical investing.

Strategic investing involves allocating across different asset classes. But you don’t need to have the same asset allocations all the time. That’s where tactical investing comes in. With tactical investing, you’re evaluating current market conditions and opportunities and optimizing your investing mix. Successful investing requires both strategies.

Though it’s important to have cash as dry powder for good opportunities, it’s bad to store all one’s money in cash. Overtime, the purchasing power of the cash will be wiped out by inflation.

Root thinks gold is a better store of value than cash. But the problem with gold is that it can go long periods of underperforming the market. That’s why it’s important to own productive assets – which earn returns in excess of inflation and an investor’s own cost of capital.

That’s why at the core of each portfolio, Root thinks investors should own world class businesses. Examples of businesses that outperformed the market over the past 20 years are NVIDIA (NVDA), Amazon (AMZN), Microsoft (MSFT), Apple (AAPL), Monster Beverage (MNST), and O’Reilly Automotive (ORLY).

All of them outperformed based on the innovations they brought to market. And the ability to identify secular trends. They all have strong business models, pricing power, high returns on capital, attractive margins. The businesses are run by talented leaders – with skin in the game – who can adapt and innovate.

So while investors want to have an overall strategic strategy. They need to be able to tactically adjust their allocations based on opportunities.

With strategic investments that you want to hold for the long-term, investors need to accept more volatility. For example, Amazon dropped 50% many times along the way. That’s why it’s best to get into these investments early.

Stansberry Asset Management invests in these type of businesses.

He sees Parker Hannifin (PH) – which makes motion and control technologies for mobile, industrial, and aerospace markets worldwide - as a great world class business to invest in today. It’s well-run and consistently investing in technologies and buying business in the direction that industry is going. So it tends to be ahead of the trend.

Additionally, Root says it’s important that investors are mindful of portfolio correlation - so their whole portfolio doesn’t move together. Having uncorrelated positions in a portfolio causes less volatility and thus better returns over the long-term. Merger arbitrage – capturing the spread in a merger like with the recent Activision Microsoft deal – is a good way to generate uncorrelated returns.

Stansberry Asset Management incorporates these strategies into its portfolios.

It’s an SEC Registered Investment Advisor that provides informed active management – optimizing recommendations made at Stansberry Research.