C WORLDWIDE
ASSET MANAGEMENT

INSIGHT

Why Thirty?

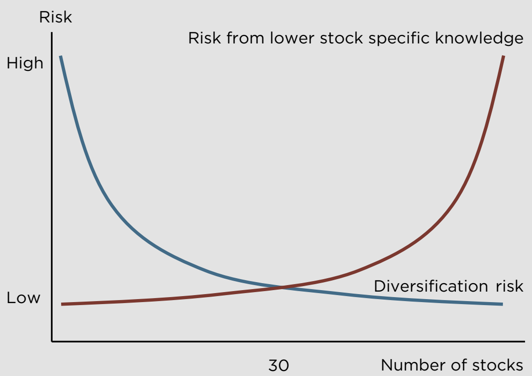
By Bo Knudsen

By Bo Knudsen, Managing Director and Portfolio Manager.

The fundamental idea behind our global strategy is to hold the best 30 stocks worldwide. This has been the case for more than 30 years where we have never owned more than 30 stocks in the portfolio.

The most important consideration when deciding on the ideal number of stocks in a portfolio is how to balance the advantage of focus and specialised knowledge of the individual stock with the advantage of diversification. This is illustrated in figure 1.

Figure 1: Interaction between diversification and specialised knowledge



Source: C WorldWide Asset Management based on Meir Statman, 1987

1. The Diversification Effect => More Stocks

The positive diversification effects of having more stocks in the portfolio is well known. You reduce the overall volatilityby adding more stocks to the portfolio up to a certain point. After this point, the benefits of additional companies will not reduce the portfolio's overall volatility significantly. Meir Statman proved this in an academic survey published in the Journal of Financial and Quantitative Analysis in September 1987. He concluded that the optimal number of stocks is 30 to 40 – fewer than in most actively managed institutional portfolios.

2. Single Stock Understanding => Fewer Stocks

An often overlooked risk factor is the loss of specialized knowledge about the individual company. There is a natural limit to the number of companies a decision maker or a decision team can truly understand and follow. In addition, companies and thematic trends need to be seen in a global perspective. It is essential to understand the central dynamics affecting the individual company to also monitor the cross dynamics within the portfolio. With too many stocks in the portfolio, you risk losing oversight and risk emphasising mechanical risk analysis based on notoriously unstable historic patterns.

We believe that when balancing these two considerations there is a maximum and ideal number of stocks in an active managed global portfolio, and that number is 30.

The Additional Advantages of Maximum 30 Stocks

There are at least three additional advantages of having a maximum of 30 stocks in a global portfolio:

1. Focus

Over time, there are only a few listed companies that manage to create significant value. However, there are many average companies that do not create value over time, but only present themselves as occasional buying opportunities.

We focus on the long-term. We carefully select 30 unique companies from a universe of thousands of companies worldwide. Focusing on sustainable growth creates a particular focus and increases the probability of extraordinary results.

2. Built-in Sell Discipline

You build up a certain positive relationship to things you own and have spent a lot of time on. This applies to stocks as well. For the typical investor, it is therefore more difficult to sell a stock than it is to buy one.

With a strategy of a maximum of 30 stocks, we have to sell one in order to make room for a new position. This forces us to prioritize. This constant prioritization is an importantdiscipline, as the company being added to the portfolio needs a better long-term risk/return profile compared to the company being sold.

3. In-depth Knowledge of the Portfolio

It can be useful to analyse a portfolio's quantitative risk profile. This analysis is typically based on historic price patterns. We know that the historic price action patterns are notoriously unstable, so it is even more important to have an in-depth knowledge of the basic business model and other key factors driving the future performance in the portfolio. This increases the possibility of understanding future risks that may affect the entire portfolio.

More Than 30 Years

A concentrated portfolio approach has been the backbone of our day-to-day work for over 30 years. It is deeply rooted in our philosophy. This concentration has shown its value over time and is key to the returns, that we have generated since 1990.

Just like in professional sports, competition within the investment community is intense. We have never had more than 30 stocks in our global portfolio. This simple principle has been our corner stone for more than 30 years, creating focus, discipline, and insight.

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