Risk takes center stage at Pension Bridge conference

By ARLEEN JACOBIUS | April 8, 2015

Bud Conrad, chief economist of Casey Research LLC, Stowe, Vt., called the Federal Reserve a "Ponzi scheme" that has $2.7 billion of capital compared to $4 trillion balance sheet.

Mr. Conrad made the comment while presenting his macroeconomic view on Tuesday at the Pension Bridge conference in San Francisco. The discussion was emblematic of the conference so far, which has been devoted to analyzing risk in investment portfolios.

The Federal Reserve would go out of business if it were borrowing money, rather than "printing money," Mr. Conrad said. "I worry that the importance of the dollar would be replaced by other currencies" by 2020.

This and other factors make Treasury bonds less attractive — especially if interest rates rise, he said. Stocks are more likely to produce a return of about 5%, based on his preferred formula of earnings divided by price, rather than the more traditional price divided by earnings.

But stock market returns could hit their limits, he said, adding that better investment options could include real estate, energy and housing.

Donald Pierce, chief investment officer of the $8 billion San Bernardino County Employees' Retirement Association and Timothy Barrett, associate vice chancellor and chief investment officer of the Texas Tech University System, Lubbock, which has an $1 billion endowment, kicked off the conference with a discussion of dynamic portfolio management, from asset allocation to contract negotiations.

One of San Bernardino's strategies is to focus on assets rather than funds, and executives also are aggressive in demanding favorable contract terms. "We will walk off the lot" if the fund cannot broker a good contract, Mr. Pierce said.

In a panel on "The Risk Allocation Framework — A New Paradigm," Eugene L. Podkaminer, senior vice president of capital markets research at San Francisco consulting firm Callan Associates Inc., decried the proliferation of asset classes, saying only a handful are truly different.

"I'd like to see how real asset classes correlate to other real asset classes," he said. "Let's not assume there are 10 different flavors of equities. They are all equities."

This asset class simplification will lead to more meaningful answers, he said.

Indeed, one of the main things for investors is "not to do anything stupid," he said. For example, investors shouldn't look at (asset allocation) modeling and assume it is the right answer for their portfolios.

Stephen L. Nesbitt, CEO of Marina del Rey, Calif.-based alternative investment consulting firm Cliffwater LLC, said identifying and managing risks in alternative investments is a challenge. However, managers have been providing more information sought by investors and "in five years we will be able to declare victory."

And he said alternatives are not as risky as people perceive, adding he "gets frustrated" with views that private equity is three times the risk of the Standard & Poor's 500 stock index. "I don't think private equity has more risk than public equities," he said. "Hedge funds are riskier than bonds, but not that much more risky."

He added that "public pension plans have too much liquidity" and there is room for them to take on more liquidity risk.

James Hughes, managing director, head of investment risk at C$238.8 billion ($191 billion) Canada Pension Plan Investment Board, Toronto, spoke on a panel on risk management and adopting risk culture, saying both transparency and valuation methodologies are starting to get closer to market realities.

Guy J. Foutz, investment risk officer at the $26 billion Utah Retirement Systems, Salt Lake City, who also spoke on the panel, said 90% of hedge fund managers hired by pension funds provide information on their risk systems. "We see what our positions are and how levered they are," he said.

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