FORSTRONG
LOOKS TO THE FUTURE

Forstrong President & Chief Investment Officer Tyler Mordy

Photos by Darren Hull

FORSTRONG	
FOUNDED	**2001**
LOCATION	**BRITISH COLUMBIA**
AUM	**$600M**

Forstrong Global Asset Management is at a key turning point. Newly rebranded, the British Columbia-based firm is looking to expand its business into the U.S. and beyond in 2016, and also make its global macro strategies more readily available to investors via ETFs. President and Chief Investment Officer Tyler Mordy and Global Head of Distribution Randy Bullard discuss Forstrong's investment approach and its future business plans.

Would you talk a bit about Forstrong's background?

MORDY: We're one of the longest-running ETF strategists in the world. Our track record of "all ETF" portfolios starts all the way back in 2003.

Those of us with the firm from early on consider ourselves sort of big-bank refugees. We all left the comforts of the big corporate world to build something better for clients. In the early 2000s, the wealth management industry was undergoing significant change. Many, including ourselves, were quite introspective and philosophical. We started from first principles, asking, "What problem are we solving?" and "How can we improve investor outcomes?"

We identified two big trends that would drive financial markets and ultimately determine client success over the longer term. First, we believed that globalization would continue to spread and macro influences would become even more important as a determinant of portfolio returns—much more than individual company factors. That's just an outgrowth of this hyperglobalization phase. That view has completely borne itself out in the data.

Second, we really believed that ETFs would be a true game changer for the portfolio construction process and would continue to colonize the world's asset classes. Similar to the globalization of people, information and capital, the ETF did globalize itself.

So the powerful combination of a global macro investment process with this new ETF vehicle was something we felt would really challenge the status quo of the industry.

You aren't a fan of the status quo.

MORDY: At the risk of sounding cavalier, we believe it's easier to add alpha by picking global asset classes than by picking the right stocks. We describe ourselves as pickers of themes, trends, countries, sectors, etc. Of course, this doesn't fit into the existing industry architecture, which is primarily based on siloed managers selecting stocks.

But all this is rapidly changing, and global multi-asset class approaches are now very ascendant. In Canada, we have this really strong home bias. People are very comfortable with their domestic investments. But as you travel the globe, what becomes very evident is that *every* country has a strong home bias. It's almost like a vitamin deficiency in people's diets. Because clients are sticking to mainly domestic investments, they end up being really deficient in the global component.

And going global has typically been thought of as increasing your risk to increase return. We look at it differently. Going global is actually the best way to *manage risk,* because you're more aware of the most important trends impacting portfolio returns and how those trends interact with each other throughout the global financial ecosystem. Progressively, more people are coming to this view.

That's the big lesson since the financial crisis: With more global interconnectivity, what happens abroad can have an enormous impact at home. For example, this is the first time the Fed has really focused on international developments as a key influence on its own monetary policy. That's a very different environment.

The firm has a new name. Are there any other changes in store at Forstrong?

BULLARD: Historically, the firm has been very focused in Canada, but we're effectively launching the firm in the U.S. market at the 2016 Inside ETFs conference. Our aspirations are to go far beyond that, and we've established a partnership distribution model. A good example of that is we're working with Horizons ETFs to package some of our strategies as actively managed ETFs in Canada. We'll be doing similar things in other markets, other countries.

We have a couple of distribution opportunities that are developing right now that we'll be launching in 2016 that are cross-border and will effectively give us distribution in both the U.S. and Canada. In the first half of 2016, we'll have several thousand financial advisors with one or two of the major firms that will be able to access the Forstrong portfolios.

So 2016 is a big year, where Forstrong will go from being the leading Canadian provider of ETF-based solutions to being a global provider, and, in time, a dominant global provider of ETF solutions to investors across the world.

Would you discuss the key personnel driving that initiative?

BULLARD: The firm continues to evolve and grow, but really Tyler and I are the leadership of the firm at this point. Tyler is the chief investment officer. He runs the investment team and is the global macro thinker. So he brings the underlying product DNA and is the spokesperson of the firm when it comes to anything related to the philosophy or strategy that drives the products. I'm the person who's driving the productization and distribution strategy globally.

Randy, what drew you to Forstrong?
BULLARD: I'm an industry infrastructure and fee-based platform guy. Placemark, the firm I founded before joining Forstrong, is credited with creating the unified managed account architect—the ability to integrate different types of products in a single custodial account and deliver a consistent set of customization and services across that solution set— and developing all the technology and operational delivery capabilities for making that work.

I'm not a portfolio management guy, but I am a student of and deeply steeped in the industry trends and things that are driving advisor adoption and client adoption of solutions. One of the big things that struck me was that so much of the growth around the ETF solutions and ETF strategies market in the 2009-2013 time frame was in deeply quantitative strategies grounded in mathematical models that all purport to predict the future in some manner based on historical data, factor analysis, etc.

As we all witnessed in 2013 and 2014, a huge portion of those quantitative mathematical models broke. It was reflected in all kinds of issues, but largely performance issues.

What I saw in Forstrong was a firm that was rooted in philosophy and skill that transcended math. And that, for me, was very powerful. If you look at the firms that have really succeeded in the ETF solution space in the last year, it's more traditional, more qualitative-based skilled portfolio managers with long histories who have opinions and original thought leadership. Global macro and the philosophy of being able to make calls around asset classes and themes within the industries and factors are really kind of ascendant at the expense of purely quantitative-based strategy.

Forstrong is a firm that has a real grounding in the more qualitative aspects of portfolio management, as borne out in our long-term performance history.

"Qualitative" isn't a term you hear mentioned a lot in the ETF space.
MORDY: I became skeptical of quant-driven "black boxes" very early on in my career. Coming into the industry with a mathematics background, I believed that quants could conquer the world, and all you had to come up with was the perfect formula.

I quickly realized that financial markets have this funny thing called "human beings" that really drive things. Our industry suffers from "physics envy." We want our models to be as predictive as those in physics. But it just isn't so, because of this human element. One Nobel Prize-winning physicist once said, "Imagine how much harder physics would be if electrons had feelings!" That's exactly the point. Markets are about people and their ephemeral opinions—not about concrete laws of nature.

What do you see as the big global risks right now?
MORDY: The big risk is that the environment based on a strong U.S. dollar changes. The one lesson in the post-crisis period is that the nation that deleverages first, wins. If countries can eliminate debt, they recover quickest. Now, the U.S. has deleveraged substantially and, unsurprisingly, the dollar has been in a seven-year bull market.

But the economy is growing and credit is expanding again, which is actually dollar-bearish, despite what the Fed is doing. If the U.S. dollar is topping out and beginning to decline, then the implications are enormous, because its value is so influential on world asset returns. For example, emerging markets tend to do really well when the dollar is weak and liquidity is expanding. Investors with a conservative stance could be caught on the wrong side this year. So there's actually a lot of upside risk. ●

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