
"Outcome-Driven Investing" Is The Future, DWS Exec Says

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The financial world has left the "Harry Markowitz" era where Modern Portfolio Theory and Monte Carlo projections reigned, says Philipp Hensler, CEO of U.S. distribution for DWS Investments.

Having suffered big losses even in cautious balanced funds, U.S. investors are ready for structured investments that offer principal protection, according to Philipp Hensler, CEO of U.S. distribution for DWS Investments, a unit of Deutsche Bank.

"Advisors who offer predictability will prepare accordingly," Hensler said during an address at the 5th annual Managing Retirement Income conference, sponsored by the Retirement Income Industry Association (RIIA) in Boston last February.

He told an audience of insurance and investment professionals that high correlation, high volatility and low returns last fall formed a "Bermuda triangle" in which trillions of dollars in savings disappeared.

Diversification failed in part because the correlation between the S&P 500 Index and the MSCI EAFE Index, which includes foreign stocks, averaged .47 in the 1980s, .54 in the 1990s, but .83 during the 2000s, and because the correlation between any two boxes in the Morningstar style chart reached .80 or more.

The financial world has left the "Harry Markowitz" era where Modern Portfolio Theory and Monte Carlo projections reigned, he said, and entered into an era of "Outcome-Driven Investing" where investors will match their health risks, market risks, and longevity risks with specific guaranteed and non-guaranteed products.

He described a European fund that guarantees an annual return of either 1.5 times the absolute return of a market index or zero return, depending on conditions. If the index rises by 8% for instance, the investor earns a 12% return. If it falls by 8%, the investor still earns 12%. But if the index loses or gains 20% or more, the investor's return is zero.

In early 2008, Hensler's company introduced the DWS LifeCompass Protect Fund, which offered U.S. investors exposure to a mix of stocks and bonds while allowing them to redeem their shares at the end of 10 years at the fund's highest net asset value, or NAV.

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