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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Revisiting Diversification: Building a Stable and Resilient Portfolio

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SECTOR — GENERAL INVESTING

TWST: Could you tell me about Cary Street?

Mr. Rubin: Cary Street is a Richmond-based RIA. We manage $10 billion of assets for individuals and institutional clients, based in Richmond, Virginia, with 18 offices up and down the East Coast and as far southwest as Austin, Texas.

TWST: Do you have different strategies available?

Mr. Rubin: Yes. We customize portfolios to clients across traditional and alternative asset classes using both public and private market strategies, as well as manage model portfolios across different risk tolerances, as well as manage alternative model portfolios. These include a hedged market strategy aimed at lower market volatility, as well as enhanced income.

TWST: As we talk at the end of December, what is on the minds of investors as you interact with them — and what are they thinking about 2025?

Mr. Rubin: A lot of clients are certainly thinking about coming off a very good year as far as investment returns, as the S&P has returned in excess of 20% this year. However, the returns have certainly been very narrow over the course of this year. Many of those returns have been driven across very narrow sectors and very few individual stocks. So many investors are thinking about how the market will perform over the coming year and how to think about diversifying portfolios across additional asset classes to further mitigate portfolio risk.

So obviously, risk has become a larger topic of discussion as we think about managing portfolios, and diversification is top of mind again, as we think about portfolio construction for the coming year.

TWST: What are some tips that you might suggest to investors as far as diversifying their portfolios?

Mr. Rubin: We're certainly talking to clients about broadening their equity portfolio beyond what has historically been a very narrow part of the market, as I mentioned earlier, including introducing our hedged equity portfolios that I talked about in context of the model portfolios that we manage, but also including many of the private asset classes that many individual investors have historically not been accustomed to investing in.

These are becoming much more mainstream for many investors. So, both private market exposure as far as the private equity and the private credit market are important topics of discussion, as well as looking at specific characteristics of fixed income portfolios more broadly.

Within fixed income portfolios in both the traditional and alternative asset classes, we're in a market today where yield is again present. So, looking across different segments of the fixed income market to identify both attractive sources of yield, as well as looking at fixed income allocations to cushion portfolio risk within the context of a broader asset allocation.

This along with our hedged equity, can further mitigate portfolio risk within the context of a broader diversified portfolio.

TWST: Any specific examples that you want to mention?

Mr. Rubin: Earlier this year, we invested in and structured an investment in a private-to-public BDC, or business development company, where we were able to identify and invest in a very high quality manager and make this investment accessible to high-net-worth clients. We were able to invest in the manager with very attractive economics and fees.

We believe this will enhance the return in an investment that we believe makes sense for many client portfolios. It is access to these type of investments — and adding to investment portfolios as we come into the new year.

TWST: You mentioned risk. How do investors minimize risk in this kind of climate?

Mr. Rubin: It really is all about diversification. At the end of the day, it's all about looking at your portfolio and looking at the balance between risk assets and more safe assets, and how that balance can best meet your objectives. And I think it's time for many investors to reexamine that, given the environment that we've come off of over the last 10 years, which has been a very strong environment for equity investments and a very poor environment for fixed income investments.

And now that we find ourselves in an investment climate where yield is again present, we want to make sure that investments are diversified across both fixed income and equities and that the proper overall strategic allocation is in the context of each individual client's investment policy.

TWST: When it comes to fixed income, are there any guidelines that you like to tell clients about, suggestions when they look at different options?

Mr. Rubin: Generally, it's really specific to each individual client. But for many clients, we look for fixed income to be the safety portion of a client's portfolio. Within fixed income, it's the area of the portfolio that we don't like to take on a lot of excess risk with. Therefore, we tend to look for safer investments within fixed income.

So, we'll often look to mitigate both duration risk and credit risk within the fixed income portfolio. We believe fixed income should be structured to provide for that buffer for a portfolio at times when we will be in a more volatile market.

TWST: Do you think retail investors, in particular, have had their eyes on maybe seven or so technology stocks and may not have looked at some of these other types of investments in recent years and that this might be a good time for them to take a look at those other things?

Mr. Rubin: Absolutely. Given the narrowness of the market in general, I think many clients and many investors have gotten very focused on the Magnificent Seven, as the market has termed these seven stocks, which have done extremely well and driven the overall performance of the S&P 500. And now is the time to really look beyond those seven stocks, as we believe that the market return over the next 10 years will be driven by further diversification and performance of names and sectors outside of the Magnificent Seven.

Certainly, AI and the benefits of technology and the technology enhancements in the current technology revolution that we're undergoing will continue to be performance drivers of the economy. We'll see a revolution in the energy sector, and we believe we'll see enhancements overall, economically.

However, those benefits will take place in other areas of the economy and other sectors of the market beyond these seven stocks that have benefited from them over the last few years. We believe that the broader diversification is what will drive a portfolio's performance for the next paradigm here.

TWST: Do you think some investors will be able to take advantage of a new presidential administration and some of the priorities that the administration might have?

Mr. Rubin: 100%. We believe that the current administration will be very friendly economically overall. With that, I think we need to be cognizant of some of the policies of the new administration, including tariffs and some of the other policies that may take place which could be inflationary. But overall, we believe that the policy of and regulatory regime that we see in the new administration will be a tailwind for investment in the economy.

TWST: Are there ways that investors can take advantage of that — certain sectors or certain approaches that they might want to use — or is it hard to do those kinds of things?

Mr. Rubin: Our approach to investing is to be flexible and to not necessarily take a sector approach at any given point in time, but really be nimble within the context of a portfolio, and as we see broader macroeconomic trends unfold, be able to actively take advantage of those opportunities within the context of a well-diversified portfolio.

TWST: Given that it's the start of a new year, what are some things investors should be doing at this point?

Mr. Rubin: I think investors should be really re-examining their overall asset allocation and looking at their diversification — broad diversification between different asset classes. I think as investors, very often we tend to allow our portfolios to drift with the performance of markets over time, and our asset allocation tends to get out of line with what we initially intended it should look like.

So, it is important we reexamine our asset allocation looking at them relative to what our intention was initially when we built the portfolio. This is a good time to do it, number one.

Two, looking at how the portfolio is deployed and how we're implementing that portfolio, what managers we're using to implement. Are we using the right managers for the right individual asset classes? Can we be doing that more cost effectively using different strategies, whether they be active or passive strategies for different asset classes across the different segments of a diversified portfolio?

These are the types of things that individual investors should be thinking about as we enter the new year.

TWST: Should they maybe look into what each one of their holdings is focused on, so that they become more familiar with it, if they're not already?

Mr. Rubin: Absolutely. It's never a bad time to really take a look at an individual holding and understand why you hold a specific

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position. And does it make sense to continue to hold a legacy position that may represent concentration in a portfolio and examine the risk around the significant individual holding? Does it make sense to continue to hold any individual position in the portfolio, or are you better off as an individual investor holding a diversified portfolio in the context of a mutual fund or ETF?

TWST: What would be the negative risk if, let's say, people wanted to largely invest in something like the Magnificent Seven and not go beyond that? Are there some issues if you're going to use that kind of approach?

Mr. Rubin: I believe the risk could be in the valuation of the Magnificent Seven. Those individual names will certainly be included in the context of a more broadly diversified portfolio. But by only owning those seven individual stocks, an investor is really narrowing their opportunity set by limiting themselves to a portfolio which from a valuation perspective might look expensive at this point in time.

An investor would also be limiting their exposure to areas of the market which on a relative value perspective look a lot more attractive fundamentally.

This is an opportune time to diversify into areas of the market and economy which might not yet have benefited from some of the macro forces which are likely to evolve over the course of the coming years.

TWST: So, there might be some good buys out there for investors with maybe some lesser-known areas of the economy?

Mr. Rubin: If you look at the dispersion in the market today from a valuation perspective, there are areas of the market that have seen a huge move from a valuation perspective and are trading at very high multiples. But there are still areas in the market that are trading at much more attractive multiples today and have yet to see nearly as large a move from a valuation perspective.

Areas of the market that I continue to believe can benefit just purely from a valuation perspective include, domestically, areas of the market outside of pure large cap growth, including areas in mid cap and smaller capitalization names, and areas of the market outside the U.S., including international developed names that might have exposure to the U.S., but have not benefited because they're domiciled outside the U.S., certainly being cognizant of some of the macro risk and geopolitical risk that exists outside the U.S., but valuations are attractive and that relative attractiveness in valuation should not be overlooked.

TWST: Any examples of either sectors or parts of the world?

Mr. Rubin: Generally, parts of the world that I would look at are developed Europe and Japan, with great selectivity.

And then here in the U.S., again, I would look at smaller capitalized companies as well as I continue to keep my eye open in both the private credit and private equity segments of the market, given that so many companies today stay private longer than they have historically, and there's so many opportunities today in the private market space where historically many of these companies would be trading as small cap companies, but because of their access to capital as private companies today, they remain private.

To invest in them, you need to look at the private markets to harness the opportunity in these companies. I also believe that deal flow in the private market segment will pick up as we've seen interest rates come down. So, to look to private equity in the true middle and lower middle markets will make sense over the course of the coming year.

TWST: Many investors don't even think about private markets and private equity, especially if they tend to focus on something like the Magnificent Seven. Has that been your experience?

Mr. Rubin: Absolutely. Private markets are really just beginning to become much more mainstream and more noticed by individual investors today. Accessibility to private markets is a key driver in opening these types of investments to individual investors today. And I believe that shift will continue over the coming years.

For individual investors, or for any investor for that matter, selectivity of investments and managers in the private market is absolutely critical. As a matter of fact, it's much more critical than selectivity of managers in the public market.

So, we will continue to need to be highly selective as to how we invest in the private markets. But I believe private investing for individuals is going to become much more prevalent in client portfolios over the coming years.

TWST: With the new administration coming in, are there any policies that they might want to follow or policies the Federal Reserve might want to follow that would help the investing climate in the United States?

Mr. Rubin: Well, with the Fed, despite a lot of what we've heard in the market and the rhetoric we've heard from the market, I believe that interest rates will stay higher for longer. I believe we're going to see rates continue to come down, but not as fast as many of the market participants who have talked about this maybe have initially thought.

We will see an interest rate that I believe is supportive of the investment climate, but not an interest rate environment that is going back to any place that we had seen over the last market cycle. And by that, I mean we're not going to see anywhere close to zero interest rates anytime soon.

As I said in my earlier comments, I do believe we're going to see an administration that is going to be much more supportive from a policy and regulatory perspective of the market and of the investment climate generally. And I believe that will flow through to all investments, including many of the comments I made on the private investment side.

TWST: Would it also give people who may not have had the resources in the past to take part in investing more options than they would have had in prior times?

Mr. Rubin: Absolutely. I believe it will. I believe that investors will need to continue to be very thoughtful about how they think about deploying capital into the private markets, as we continue to see a proliferation of new structures and structures that offer additional liquidity and asset classes that have historically been illiquid.

Investors will need to be very careful and thoughtful as they deploy capital into these asset classes around liquidity. But the reality is that many investors have the ability to allocate a portion of their portfolio to more illiquid investments for the potential of higher return.

TWST: Thank you. (ES)

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