

Find a Need and Fill It

Managed Income Strategy

Around 2012, the global economy was still healing from the global financial crisis and the yield on 10-year treasury notes had dropped below 2%. During that period, people were having a hard time generating income from traditional stock/bond portfolios.

At that time, prompted by a question from his father around how to generate more income in retirement, Aaron Foresman, CFA®, the strategy's architect and portfolio manager, began juggling possible solutions. Essentially, he began thinking through how he might supplement a traditional balanced account with other asset categories to generate a high level of income while providing diversification. The Managed Income strategy emerged as an attractive, objectives-based solution to a legitimate, real-world problem.

In 2014, the same year he joined Crawford, Aaron began building the portfolio out in his personal IRA account. Aaron recognized that he could produce an alternative that generated close to 6% income in a world where high-quality bonds were yielding just a fraction of that. While it would require taking on more risk, he knew that by clearly identifying the four major risk categories, he could offset individual, security-specific risks against one another. In sum, through a process of disaggregation and analysis, the strategy seeks to mitigate risk through diversification and balancing, hence, offsetting as much portfolio risk against itself as possible. The four risk categories include interest rate risk, energy price risk, stock market risk, and credit risk.

In an effort to expand its product offerings and in recognizing the value-add of the strategy, Crawford decided to begin offering the Managed Income strategy to clients in 2015. The strategy's framework seeks to bring the best of the firm's resources to bear, leveraging its distinct equity and fixed income departments and promoting cross-pollination of ideas.

The philosophy Aaron developed for the Managed Income strategy was well in-line with Crawford's 40+ year philosophy, which is focused on quality and reasonable valuation. With all things being relative, the strategy is focused on finding the highest-quality securities available in the higher-income subsets of the capital markets. And as far as value goes, the strategy utilizes traditional valuation metrics. Value is analyzed relative to a company's peers in its sector, its past history, and then, of course, the firm's research team spends some time looking at yield or income spreads to other available asset classes. In doing this, Crawford attempts to keep a broad understanding of what might be most attractive on a valuation or yield basis across our multi-asset opportunity set.

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Because the strategy was born out of a need, it fills a unique gap in the asset allocation landscape today. It is an objectives-based strategy that has consistently provided a yield of over 5% since its inception, while accepting lower credit risk, lower market risk, lower energy risk, and lower price risk than its benchmark, the Nasdaq U.S. Multi-Asset Diversified Income Index. The ability of the strategy to produce a high level of current income and generate positive alpha can be attributed to its security selection and asset allocation processes, both of which are highly opportunistic.

The strategy seeks income and diversification, and we believe it combines the greatest of our firm's core competencies. In a world where investors continue to seek consistent income, the Crawford Managed Income strategy is an attractive solution, which can exist as a standalone strategy or as a complement to a more traditional mix of stocks and bonds.

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