New Frontier

Robert Michaud

CIO
New Frontier

Robert Michaud is the co-holder of four U.S. patents in portfolio optimization and asset management and is the Chief Investment Officer at New Frontier. He holds a Masters in Mathematics from Boston University and pursued a PhD in finance from the Anderson School of Management at the University of California at Los Angeles before joining New Frontier. His research interests include risk models, empirical asset pricing, and international finance. He is the co-author of Efficient Asset Management: A Practical Guide to Stock Portfolio Optimization and Asset Allocation, (2nd ed. Oxford University Press, 2008) and research articles in refereed journals.

A Bigger Bite: How New Frontier's Optimization Process Accounts for Rising Inflation

August 31, 2021

With U.S. consumer prices reaching a 13-year high this quarter, inflation has once again become a prominent theme for economists, and a daily reality for consumers.

To share an anecdote on the potential transitory nature of inflation, one of the surprises on returning to the office post-pandemic was the price of my favorite sandwich—it had risen by nearly 50% in less than 18 months. The owner blamed it on rising costs for labor, ingredients, and especially their custom printed sandwich bags. But it was clear there was also a more fundamental supply effect going on as well given that the other two local sandwich shops had permanently closed, so consumers like me had little choice but to pay the elevated prices. Retail prices like these tend to be sticky since once customers show they're willing to pay more, shops are reluctant to lower prices.

We know that, in time, new shops will open and competition will create a new price equilibrium for the downtown sandwich market. It's likely that as the labor supply returns and supply-chain bottlenecks clear, the new shops will be able to charge lower prices. But the transitory question remains how quickly will this happen—if conditions allow entrepreneurs to move quickly, prices may return close to previous levels. However if costly labor and capital, economic conditions, or risk aversion prevents this, the prices may stick.

The prevailing sentiment at New Frontier is consistent with Jerome Powell's position that high inflation is likely transitory and driven by temporary factors, with bond markets also indicating that inflation is expected to moderate – New Frontier, nevertheless, does not place bets on the future, instead optimizing over thousands of scenarios (including scenarios where inflation remains high). Should inflation persist, our portfolios are well-positioned, as:

New Frontier regularly adjusts its capital market expectations. Whenever inflation affects bond markets, our optimized portfolios adjust dynamically in order to be well-positioned for the new market environment.

NEW FRONTIER

- New Frontier optimizes over thousands of different scenarios, including ones where inflation is higher than others. This ensures portfolios are not exposed to any one economic outcome.
- New Frontier invests in asset classes that perform well during inflation including real estate, gold, and inflation-protected bonds.
- New Frontier's portfolio consists of 27 ETFs across 26,000 securities spanning all liquid asset classes, risk factors, and regions. •

While it's uncertain how long inflation will last, New Frontier's investment process helps portfolios hold their value through a variety of different market environments. Since 2004, trusted advisors have hired New Frontier to give their clients the highest chance of investment success given uncertainty exists in the markets. Through independent research we formulate technologies to construct and manage optimally balanced portfolios allowing advisors to invest more time serving clients through planning and advice.

NEW FRONTIER