S&P Dow Jones Indices

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FA Talks

Main Management

With Kim Arthur, Chief Executive Officer, Main Management

FA Talks is an interview series where industry thinkers share their thoughts and perspectives on a variety of market trends and themes impacting indexing.

Kim Arthur is a founding partner of Main Management, LLC. He has served as Main's CEO and as a Portfolio Manager since 2002. Kim's expertise has been cited in articles by Barron's, Wall Street Journal, The New York Times,Business Week, Index Universe and Fortune Magazine among others. Kim has also been recognized by Institutional Investor Magazine as a "Rising Star" of Foundations and Endowments.

S&P DJI: Tell us a bit about Main Management and the clients you work with.

Kim: Main Management provides solutions to a wide range of institutional investors, high net worth advisors, investment advisors, and retirement plans.

We built this business 15 years ago with the goal of putting ourselves in the client's shoes—the first way we were able to achieve this goal was to "have skin in the game," so every partner has money invested with clients to make sure interests are fully aligned.

It's also important to make the distinction that we are not a wealth manager, we are a money manager, which means we can be a partner with our clients, including financial advisors. With financial advisors in particular, we want to focus on their strengths, take part in their asset allocation, and deliver benchmark results in a cost-efficient manner. We understand that we aren't immune to downturns in the market, so it's important to communicate to clients why they are invested in specific strategies at different times.

S&P DJI: What is your overall philosophy as a firm?

Kim: We believe that asset allocation is the dominant driver of long-term portfolio returns. In addition to size and style, fundamental sector analysis is crucial to portfolio returns. When it comes to the implementation of well-diversified portfolios, we believe ETFs offer tremendous advantages over actively managed approaches in the areas of cost and tax efficiency, transparency, and trading flexibility.

S&P DJI: You are well known for your U.S. Large Cap Sector Rotation strategy. Can you explain what it is?

Kim: We find that many clients usually try to buy single stocks and have weighting in just one sector/sub-industry. You tend to have a lot more risk in single stocks, albeit more reward, but the reward is not weighted favorably to the client's outcome. So by using an ETF sector sub-industry, you're able to get a diversified bet but still participate if you get that group right. Our flagship U.S. Equity Core Strategy is benchmarked against the S&P 500®. In this strategy, we overweight sectors and industries that are trading below their historical fundamental value. Price and proof rarely happen at the same time, which opens the door for different opportunities.

S&P DJI: Can you expand on the benefits of this particular strategy and other sector rotation strategies?

Kim: This strategy focuses on value/GARP (growth at a reasonable price) with a catalyst that tries to capture more on the upside, while delivering downside capture below the benchmark. Clients use us for core U.S. equity exposure and often satellite us with other complimentary managers.

S&P DJI: At times, Main Management utilizes a sub-industry ETF in place of a sector. Can you share a specific example?

Kim: Sure. Currently, we are neutral on consumer discretionary given its valuation and that it's a late cycle group. But we like the homebuilders as a sub-industry because they're still below peak valuations, with house formation, housing starts, and rates all proving tail winds to this industry.

S&P DJI: What are the sectors or industries you find attractive right now?

Kim: We overweight healthcare and biotech on valuation. Dispersion in sectors averages 35%, while the industry dispersion is even greater at 56%. We make focused sector bets that can be 2.5x their S&P 500 weighting, and conversely we can make an active sector bet by having zero exposure. Cash is built up if we have no sectors or industries that provide an attractive risk/reward.

S&P DJI: How have you evolved and what have you learned during the past 15 years as an ETF strategist?

Kim: The team and process are the same and have remained consistent since our start in 2002, but the toolbox of ETFs that we use to build the strategies has evolved, and embedded fees have collapsed. Both benefit our clients by being more liquid, cheaper, and offering more choices. All of these innovations make our job easier at the end of the day.

S&P DJI: Your firm recently launched a mutual fund; what did you learn in that process?

Kim: Launching a mutual fund required a large investment for Main Management, but the benefit for the client is it requires a smaller, bite size investment, but it provides better trade execution, potential tax advantages, and increased risk management opportunities.

S&P DJI: You've just launched SECT. What are the differences or virtues of the SMA and ETF structures?

Kim: The SECT ETF allows for a more consistent experience for clients across multiple platforms in terms of trade execution, tax loss harvesting, and risk management. This allows SECT to be a core U.S. equity allocation for clients, and provides access to the same trading, risk management, and pricing that is available to our institutional accounts.

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