THE WISDOM OF CROWDS – October 2025

The wisdom of crowds is a well-known statistical phenomenon. It holds that large groups of people are collectively smarter than any individual.

It is also a principle on which Methodical bases its systematic equity strategy.

“Share price movements are effectively the result of the views of all market participants,” says portfolio manager Edo Brasecke. “And the movement of all the shares in the market is what we see in an index.

“There’s plenty of evidence that shows that a broad market index outperforms 70% to 80% of active managers over time. To us, that’s confirmation of the wisdom of the crowd.”

A market-cap index is also effectively a momentum index, as stocks that grow larger make it into the index, and those that lose value fall out. And Momentum is the factor that Methodical focuses on in its portfolio construction.

“We look at price momentum, which we think of as the chameleon factor,” Brasecke says. “Normally, allocators frown upon any fund manager changing style, for example, from value to growth. But, in our case, it’s expected of us.

“We need to look like a value fund when value is doing well, and like a growth fund when growth is doing well. Currently, we look like a resources fund because those are the stocks driving the market forward.”

The Methodical BCI Equity Fund holds over 30% of its portfolio in basic materials at the moment. But there have been times when it has held close to zero.

It is the top-performing South African equity unit trust over the past year, gaining 42.1% compared to the peer group average of 19.5%. Over five years it is up 17.5% per year against the ASISA category average of 16%.

“When we look at individual stocks, we look at relative momentum,” Brasecke says. “We measure every share’s price momentum relative to the others, and hold the ones doing the best and driving the market forward. When they start underperforming, there must be something else doing better, and so we switch.

“That does mean we miss the inflection points, but we make that up in time because the cycles tend to stay in favour for a lot longer than people think they will.”

He adds that momentum is also a factor that has shown persistence.

“The first academic paper on momentum was published in 1993, but it’s never been arbitraged away,” Brasecke says. “We think momentum gives you the highest probability of outperforming in the long run because of how it captures whatever is driving the market at any time.

“If you are a value manager, you can’t outperform if growth is doing well. That’s not necessarily because you’re a bad manager, but because your style isn’t being rewarded. And these styles can outperform for much longer than people think.”

Methodical’s portfolio construction process starts by identifying the 60 most liquid stocks in the market. Liquidity is more important than market cap, as the strategy is traded frequently.

Shares are then ranked on price momentum over different time periods. Those with the highest relative positive momentum are included in the portfolio.

The strategy is often compared to Smart Beta but Methodical’s strategy is more dynamic and therefore quicker to respond to market changes.

“Smart beta also starts with beta – it references the index – which we don’t,” Brasecke says. “We are benchmark agnostic.”

The Methodical strategy also isn’t bound to holding a certain number of stocks.

“Smart beta typically always holds a set number of shares,” Brasecke says. “We don’t. We typically hold between 20 and 60 counters. If there are only 20 shares driving the market, we only buy those 20.”

Methodical also considers time series momentum, in which it looks at the asset class relative to itself. When the market as a whole is performing poorly, it will hedge downside risk by allocating away from its pure momentum strategy.

“We will move some of the portfolio into ALSI futures and hedges like gold and gold miners, because we know momentum as a style is challenged at big inflection points,” Brasecke says.

Another advantage of a dynamic systematic momentum strategy, in Brasecke’s view, is that the wisdom of crowds means that the market will show that there’s a problem with a company before it becomes catastrophic. For example, Methodical held Steinhoff when it was trending upwards, but had sold out long before it collapsed.

“That’s not because our process spotted financial shenanigans,” Brasecke says. “The market clearly told us that something was not healthy with Steinhoff in 2017. That year, the ALSI was up close to 20%, but Steinhoff was down 40%.

“Our process had sold out. The market wisdom showed us that on a relative basis, there was something better to invest in.”