Methodical: We’re not different just for the sake of it

By Patrick Cairns

I chatted to Methodical Investment Management's Edo Brasecke about the two core learnings that led to the conceptualisation of their systematic equity approach.

As a pure systematic momentum strategy, the Methodical – BCI Equity Fund is unique in South Africa. This is not just a question of philosophy. It is evident in the fund’s return profile.

Since its inception nine years ago, the fund is in the top quintile of the ASISA South Africa equity general category, but what’s significant is how that performance has been achieved at low levels of correlation with peers.

The matrix below shows the fund’s monthly performance correlation against the five largest SA equity unit trusts as well as the category average. What is evident is that it has the lowest correlation to the peer group, and relatively low correlations to each of the other five funds.

Correlation Matrix

Time Period: Since Common Inception (2016/07/01) to 2025/06/30

		1	2	3	4	5	6	7
1	Methodical BCI Equity B1	1.00						
2	Allan Gray Equity C	0.75	1.00					
3	Coronation Equity P	0.77	0.88	1.00				
4	Ninety One Equity I	0.85	0.91	0.90	1.00			
5	36ONE BCI Equity C2	0.79	0.86	0.81	0.88	1.00		
6	PSG Equity E	0.61	0.88	0.73	0.77	0.68	1.00	
7	(ASISA) South African EQ General	0.79	0.93	0.87	0.96	0.82	0.85	1.00

1.00 to 0.80 | 0.80 to 0.60 | 0.60 to 0.40 | 0.40 to 0.20 | 0.20 to 0.00
0.00 to -0.20 | -0.20 to -0.40 | -0.40 to -0.60 | -0.60 to -0.80 | -0.80 to -1.00

Methodical co-founder and portfolio manager Edo Brasecke says that while this is a key differentiator for the strategy, it was never a motivation for establishing it.

“We are not natural contrarians,” Brasecke says. “We never set out to build something different just for the sake of it.

“We built a process we believe in, and the uncorrelated return profile it delivers has been a by-product of doing that.”

This systematic process that Methodical developed is founded on two core learnings. The first is from Brasecke’s personal experience working as an equity strategist.

“I worked in a team that provided research to investment managers, focusing on analysing market dynamics and macro strategy,” Brasecke says. “Our job was to make forecasts about what we believed the big market drivers would be a few months ahead.”

Introspection

It was interesting work, but around 15 years ago something happened that caused Brasecke to reconsider its value.

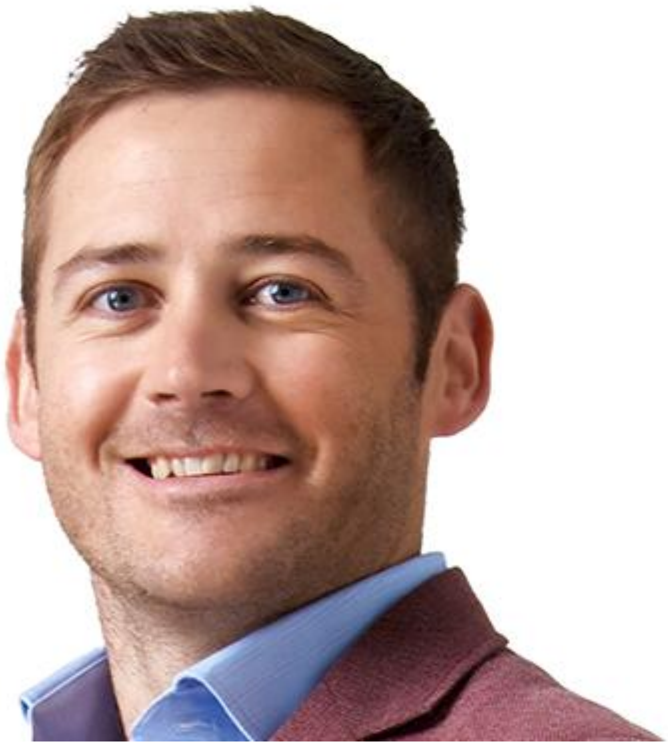
"In 2010 we made a forecast about the expected level of the FTSE 100, which we based largely on our expectations for commodity stocks. We presented this analysis to a number of hedge funds and pension funds who bought into the thesis.

"Just two months later, however, the Arab Spring erupted, causing massive volatility in commodity prices. The oil price spiked, and our entire thesis fell apart. Many of the investors who had followed our forecasts were badly hurt."

This led to some serious introspection.

"When something like this happens, you really have two choices," Brasecke says. "Either you blame the market and say your thesis was right based on what you knew, and there was no way you could have foreseen something like the Arab Spring. Or you look in the mirror and acknowledge that you aren't smarter than the market – that you can't reasonably expect to make an accurate forecast when you never have complete information.

Brasecke (pictured below) ultimately chose the latter course, which drew him to rules-based investing.



"I was looking for a way to provide investment ideas where you don't have to worry about what the market is going to do," he says. "As a systematic investor, you're not trying to be smarter than the market. You're trying to generate returns in the simplest way possible."

The next step on that journey was identifying what kind of rules would be the best to follow, and Brasecke was drawn to the momentum factor through the simple pull of history.

"Over time, momentum as a style factor has the highest level of outperformance over rolling periods," he says. "We know the S&P 500 outperforms 70% of active managers, and that's essentially a momentum index, following the simplest rule of all: just buy the 500 biggest companies in the market.

"But you can take that one step further with the MSCI USA Momentum Index, which looks at the largest 30% of companies and buys them based on 6-month and 12-month momentum. And that index outperforms the S&P 500."

It's a simple and highly successful investment approach, but one that is not widely followed.

"Hardly anyone does it because it's too far removed from their perceptions of what should work," Brasecke says. "But the truth is that if you look at data going back to the South Sea Bubble, momentum as a factor has always been there because human nature doesn't change."

It's a natural human tendency to buy something that has been going up, which in turn causes it to go up more, which then attracts more buyers.

Differentiation

"I don't think we can guarantee that certain styles will always be around, because markets change structurally over time," Brasecke says. "Do we still have any quality counters in the ALSI, for example?

"There is very little differentiation in the local market for many factors because it is too small. But momentum will always be present because you will always have cyclicality in shares and in markets."

To benefit from it, however, requires the discipline to stick to a process because it is a factor that experiences meaningful periods of underperformance.

"But if you manage the risks around that, you stack the odds in your favour," Brasecke says. "Yes, it is simplistic. We don't have 25 investment professionals meeting management teams and analysing financial statements. We are just a small team executing an investment process.

"But we have the discipline to stick to that very simple process. We have never overruled it in nine years, and we never will."