Distinguishing Ownership Assets from Lending Assets

Howard Marks, co-founder of the respected fund management firm, Oaktree Capital, asserts in his latest article that all investments fundamentally fall into just two asset classes: **ownership and debt.**

"If someone wants to participate financially in a business," Marks explains, "*the essential choice is between (a) owning part of it and (b) making a loan to it.*"

The Difference Between Ownership and Lending Assets

2) Ownership Assets - These include stocks, real estate and private equity. When investing in ownership assets, you are taking a direct stake in the asset or business with no guaranteed return. This can lead to substantial gains as the asset grows, but it's also riskier—returns depend on success after debts are paid, meaning there's significant risk of loss if the asset underperforms.

1) Lending Assets - Examples are bonds, various types of loans, and mortgage-backed securities etc. Lending assets involve a contractual agreement to receive a fixed return through interest and principal repayment at maturity. This means limited upside but lower risk, as returns are more predictable.

He emphasises that these two forms of investment are **fundamentally different**, each with their own characteristics and potential.

Balancing Ownership and Lending for Optimal Risk and Return

Marks advises investors to align their choice between ownership and lending assets with their individual **risk tolerance.** Here, risk refers to the potential volatility of outcomes.

1) Ownership Assets - are suited for growth, with higher potential returns but also more volatility.

2) Lending Assets - offer stability, making them attractive for those focused on capital preservation.

Rather than focusing solely on returns, Marks advocates for a balanced approach, where investors aim for the right "mix" of "offense" (growth) and "defense" (stability) to meet their financial goals. This approach is also integral to our philosophy at Seed, where we manage various risk-profiled portfolios, essentially blending various forms of ownership and lending assets.

Conclusion

Distinguishing between ownership, and lending assets allows for a more intentional, and adaptable approach to asset allocation. This process is not static; it requires continual reassessment as expected returns from each of these broad investment forms shift over time.

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