

Facing Regret: A New Framework for Building Sustainable Investment Strategies

In issue 28-1 of *The Journal of Performance Measurement* (Fall 2023), Stephen Campisi, CFA dives into the topic of [Managing and Evaluating Regret Risk](#).

Summary by Patrick W. Fowler

Traditional investment theory assumes that investors behave rationally, using logic and information to make optimal decisions. But anyone who's worked with actual clients knows better: regret, emotion, and fear often govern decision-making far more than spreadsheets and models. In *Managing and Evaluating Regret Risk*, Stephen Campisi challenges conventional wisdom with a compelling new framework that doesn't just acknowledge investor emotion, it builds it into the foundation of asset allocation strategy.

This approach, grounded in empirical data and behavioral realism, offers a timely contribution to performance measurement and client management. Below, we summarize Campisi's insights and offer commentary on how his regret-minimizing framework might change how we view both strategy design and performance evaluation.

The Problem with Traditional Asset Allocation

The cornerstone of successful investing isn't just designing a solid strategy, it's sticking to it. Campisi notes that many investors abandon their portfolios at precisely the wrong time, driven not by logic but by emotion: fear during drawdowns, and envy during missed rallies.

Such deviations introduce a second layer of risk, behavioral risk, on top of the markets' inherent volatility. And unlike volatility, which can be managed through diversification, behavioral risk is deeply personal and difficult to quantify.

Campisi's breakthrough is to treat this risk as a measurable and addressable component of portfolio construction.

Regret as a Quantifiable Risk

Regret, Campisi argues, has two sides: the pain of loss (despair) and the pain of missing out (envy). These emotions, though distinct, share a common root in hindsight thinking, believing we should have known what would happen (e.g., Hindsight is 20/20).

By studying 95 years of historical data, Campisi quantifies regret in both directions and demonstrates how certain returns, whether too negative or too positive, trigger emotional reactions that can lead to strategy abandonment.

To prevent this, he introduces a new target: not just maximizing returns or minimizing volatility, but minimizing regret-inducing outcomes.

A Three-Part Diversification Strategy

To minimize regret, Campisi proposes a "naïve diversification" approach, selecting assets not based on forecasts or optimization, but on intuitive counterbalancing:

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"Confidence is going after Moby Dick in a rowboat and taking the tartar sauce with you."

– Zig Ziglar

Industry Dates and Conferences

Celebrating 35 Years of Excellence: What to Expect from TSG in 2025

As TSG marks its 35th anniversary, we're thrilled to announce a dynamic lineup of events, learning opportunities, and networking activities designed to elevate your performance measurement expertise and strengthen our vibrant community. Here's what's in store for the year ahead:

April: Forums and Roundtables

Engage with Industry Leaders

- [April 23rd: Asset Owner Roundtable \(AORT\)](#) – Toronto, Canada – A platform for advanced discussions on performance and risk.
- [April 24th-25th: North American Forum](#) – Toronto, Canada – Join our membership group for thought leadership, practical insights, and collaborative dialogue.

1. **Equities:** A 70/30 mix of large and small caps.
2. **Reserves:** 50/50 split between 10- and 20-year U.S. Treasuries and gold.
3. **Combination Portfolio:** An equal mix of equities and reserves.

This diversified structure addresses three market regimes:

- Growth cycles (equities perform well)
- Contractions (bonds shine)
- Geopolitical crises and monetary instability (gold acts as a store of value)

Importantly, Campisi finds that gold and bonds, though individually volatile and regret-prone, combine to create a smoother, higher-return reserve portfolio. This is diversification in its purest behavioral sense: not just smoothing returns, but reducing emotional volatility.

The Power of Regret-Managed Returns

Campisi's analysis shows that the regret-managed portfolio performs admirably in traditional terms. Compared to the classic 60/40 stock-bond mix, his approach delivers:

- **Higher average returns**
- **Lower regret frequency**
- **Smoother 10-year rolling returns**
- **Improved positioning on the efficient frontier**

Even when adjusted for volatility, the regret-managed strategy outperforms the 60/40 benchmark. But more importantly, it reduces the frequency of regret events (downside and upside) from 1 in 8 years for the 60/40 to 1 in 12 years for the regret-managed strategy.

In essence, this strategy buys investors peace of mind, and that keeps them invested.

New Metrics for a New Framework: The Regret Ratio

To evaluate portfolio performance through this lens, Campisi introduces a new metric: the Regret Ratio, similar in spirit to the Sortino Ratio.

Where Sortino focuses on downside deviation from a minimum acceptable return, the Regret Ratio compares regret-adjusted returns to the volatility of regret-inducing returns.

This shift from abstract volatility to emotionally salient outcomes is critical. Investors don't just fear volatility, they fear being wrong. The Regret Ratio offers a way to measure how often, and how severely, a strategy is likely to make investors feel they made a mistake.

Reimagining the Client Suitability Conversation

One of Campisi's most provocative insights lies not in portfolio construction but in client diagnostics.

He critiques the widely used risk questionnaires for being too generic. These tools often lump together investors with very different emotional thresholds, leading to unsuitable asset allocations and disappointing experiences.

Instead, Campisi proposes a regret-oriented framework for assessing client suitability, asking questions like:

- "What size loss would feel gut-wrenching?"
- "How often could you tolerate that happening?"
- "What return would make you feel like you missed a once-in-a-lifetime opportunity?"

Using these responses, he classifies clients into regret-sensitivity tiers and matches them to appropriate strategy bandwidths. This gives advisors a practical tool for setting expectations and avoiding mismatches that result in strategy abandonment.

The Performance Measurement Forum and AORT events foster interactive networking and knowledge sharing, connecting professionals with global leaders to tackle pressing challenges and innovative solutions.

May: PMAR Connections

Join the Premier Conference in Investment Performance Measurement

- May **21st-22nd: PMAR North America** at The Heldrich in New Brunswick – Experience cutting-edge sessions and thought-provoking discussions led by top industry speakers.

For over 26 years, PMAR has been the flagship conference where investment performance professionals gather to shape the industry's future.

June: EMEA Forum in Belfast

- **June 19th-20th: Performance Measurement Forum (EMEA)** – Belfast, Northern Ireland – Convene with global leaders for dynamic discussions.

Explore performance and risk topics, implementation strategies, and innovative solutions tailored to the European market.

July: Toronto Networking Event

- **July 22nd: Performance Measurement Networking in Toronto, Canada** – Partnering with Rimes Technologies and First Rate, this event provides a space to connect and share insights.

Stay tuned for additional details on this interactive gathering in one of Canada's key financial hubs.

September: PMAR Europe in London

- **September 17th: PMAR Europe** – London's premier event for innovation and networking.

This is the European counterpart to our North American event, focusing on cutting-edge topics and innovations.

October: Performance Training in San Francisco

Develop key skills with our in-depth, in-person training programs:

- **October 7th-8th: Fundamentals of Performance Measurement Training** – Ideal for newcomers or those seeking a refresher.
- **October 8th-9th: Performance Measurement Attribution Training** – Dive deep into attribution methodologies to enhance your expertise.

November: Fall EMEA Forum in Copenhagen

- **November 6th-7th: Performance Measurement Forum (EMEA)** – Copenhagen, Denmark – Expand your perspective with insights from global leaders at our fall meeting in Denmark.

December: Year-End Wrap-Up in Louisville

Conclude 2025 with these essential events:

- **December 3rd: Fall Asset Owner Roundtable (AORT)** – Louisville, KY – Advanced discussions to round out the year.
- **December 4th-5th: Fall North American Forum** – Louisville, KY – Close the year with innovation and collaboration.

Celebrating 35 Years of Excellence

- We take immense pride in our legacy of success, innovation, and leadership. As we look ahead, TSG remains committed to advancing the field of investment performance measurement and empowering professionals worldwide.

Mark Your Calendars! Let's make 2025 a year to remember.

For information on the 2025 events and membership opportunities, please contact [Patrick Fowler](#) at [732-873-5700](tel:732-873-5700).

From Strategy Design to Performance Attribution

Perhaps the most exciting application of Campisi's framework is its potential for transforming performance evaluation itself.

By isolating sources of regret within a portfolio, whether from asset selection, timing, or missed opportunities, Campisi lays the groundwork for regret attribution analysis. This lets us understand not only how much a portfolio earned, but how it made the investor feel along the way.

The tables in the paper even break out regret by source (e.g., equity vs. reserves) and by type (despair vs. envy), helping to guide better decisions and improve client conversations.

Real-World Implications and Opportunities

Campisi's "regret risk" model has the potential to reshape investment practice in several key ways:

1. Improved Client Retention

By matching clients with strategies that minimize their likelihood of regret, advisors can reduce churn caused by emotion-driven exits.

2. Better Portfolio Design

Strategies can be built not just for efficiency or alpha, but for emotional sustainability, particularly important in fiduciary or retirement settings.

3. Smarter Performance Reporting

Standard deviation and Sharpe ratios may still rule the day, but new metrics like the Regret Ratio provide more relatable context for client reviews.

4. Next-Generation Risk Profiling

By refining how we assess emotional risk tolerance, we can move beyond the "middle of the road" problem and offer truly customized advice.

5. Institutional Applications

While the paper focuses on individual investors, the framework could extend to endowments, foundations, and pension funds, anywhere emotional decision-making (by boards or consultants) can derail a well-conceived plan.

Final Thoughts: Performance with Empathy

At its heart, Campisi's paper is a call to rethink how we define risk. It's not enough to measure volatility or beta; we must measure the emotional experience of investing.

By blending behavioral finance, long-term data, and practical strategy design, he provides a framework that is both intellectually rigorous and human-centered. For performance professionals, this presents a new way to think about attribution, efficiency, and sustainability, not just of portfolios, but of investor relationships.

In a world increasingly focused on personalization, Campisi's regret-managed approach may offer the most important customization of all: aligning investment performance with investor peace of mind.

Read the full article in [The Journal of Performance Measurement here](#).

Institute / Training

Access TSG's Online Training Content With One Pass

Our classes cover a wide range of performance measurement concepts, including the Fundamentals (Rates of Return, Attribution, Benchmarking, Risk, and the GIPS standards), and deeper dives into Attribution to include Equity Attribution, Fixed Income Attribution, Multi-Level Attribution, and Multi-Period Attribution. Students will also have access to the newly released Python for the Performance Measurement Professional class. Whether you want to get new members of your performance team trained, or you're looking to fill in gaps of experienced staff, these classes fit every experience level. This is also a great way to give non-performance professionals a solid overview of performance methodologies and jargon.

The multi-pass gives students *unrestricted access* to TSG's entire suite of on-demand training classes and conference recordings available on our online training Institute. This includes more than 80 lessons and over 50 hours of content that's directly beneficial to investment professionals. To learn more, contact Andrew Tona at (ATona@TSGPerformance.com).

Compliance Corner

Webinar replay: SEC Marketing Rule FAQs with Lance Dial, Partner, K&L Gates and David Spaulding, DPS, CIPM, TSG Listen as Lance and Dave dive into issues that have challenged advisors since the rule went into effect.

They focus on the SEC's recently published guidance, addressing:

1. **Extracted Performance**
2. **What Constitutes Performance** (including risk, yield, contribution, and attribution)
3. **Methodology for Calculating Gross and Net Returns**

They walk through each area and unpack the implications for your firm while sharing practical insights to help you align your performance reporting with regulatory expectations. [Click Here to Access the Recording](#).

Potpourri





GIPS® TIPS

Engage in Industry Education

Attend or send team members to relevant performance and GIPS standards webinars or conferences to stay informed on the latest trends and guidance in GIPS compliance. This would include our PMAR conference in May and September and the GIPS Standards Conference, which will be in November this year.

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Vanguard

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Upcoming Webinars / Surveys

WED., MAY 14

11:00 AM EDT

WEBINAR

Leveraging Automation to
Maximize the Benefits of GIPS® Compliance

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PANELISTS:

- Ashley Reeves, CIPM, TSG
- Dennis Lim, CIPM, AXA Financial
- Dena Hopkins, CIPM, Confluence Technologies
- Hans Groetsch, CIPM, Confluence Technologies



In Case You Missed It – Click on the Webinar Links Below to View a Replay

Webinar Replay: [Should Your Firm Pursue GIPS® Compliance and Verification?](#)

Webinar Replay: [Recently Published SEC Marketing Rule FAQ](#)

The Journal of Performance Measurement®

This month's article brief spotlights "The Role of Passive Funds in Actively-Managed Investment Portfolios" by Stephen Campisi of The Pensar Group, which was published in the Winter 2024/2025 issue of *The Journal of Performance Measurement*. You can access this article by subscribing ([for free](#)) to *The Journal* ([link here](#)).

The "active vs passive" debate is a perennial event that is less like a scholarly examination, and more like a shouting match between sports fans: lots of yelling, a few facts and "stats," and plenty of entertainment for onlookers. The fans in the active-passive contest share a similar dynamic: each side comes away feeling like the winner, and they return each year for a repeat of the same argument. One side makes statements such as "Active management doesn't work; that's a fact!" while ignoring the sensibilities of those who control most of the invested capital, which is managed actively. The other side continues its all-active approach, as passive funds continue to increase as a percent of total capital. Is anyone really "winning" here? More importantly – are clients being well served by the results of this debate? In this paper, we take an unbiased and practical view, in the hope of creating a reasonable approach that considers both active and passive investments fairly, in the context of customizing portfolios to meet each client's unique financial goals.

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Contact CSpaulding@TSGperformance.com if you have any questions or are having trouble accessing the site.

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Welcome



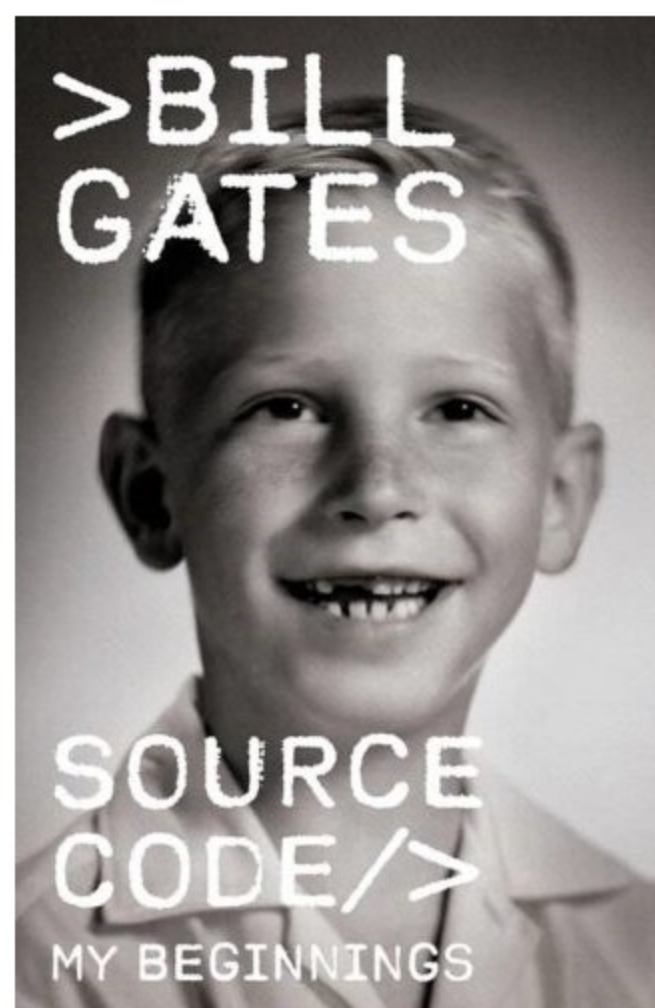
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Book Review

Source Code/> My Beginnings, by Bill Gates

Review by David D. Spaulding, DPS, CIPM



"I do not like that man. I must get to know him better." – Abraham Lincoln.

I'm often reminded of this quote, and have, at times, taken it to heart.

I never particularly liked Bill Gates. Well, maybe that's not exactly right: let's say I wasn't entirely impressed with him.

There's a story about how, at one point, Microsoft offered to sell the operating system they had developed for IBM's PCs, DOS, to IBM, for around \$75,000. IBM opted not to take the offer, and has often ridiculed for their failure to do so, suggesting they failed to see what the future of personal computers was. Well, what about Microsoft and Gates? What does their offer sound like? Apparently, he and his team wanted to develop

Article Submissions

***The Journal of Performance Measurement*[®] Is Currently Accepting Article Submissions**

The Journal of Performance Measurement is currently accepting article submissions on topics including performance measurement, risk, ESG, AI, and attribution. We are particularly interested in articles that cover practical performance issues and solutions that performance professionals face every day. All articles are subject to a double-blind review process before being approved for publication. White papers will also be considered. For more information and to receive our manuscript guidelines, please contact Douglas Spaulding at DougSpaulding@TSGperformance.com.

Submission deadlines

Spring Issue: May 14, 2025

Summer Issue: July 14, 2025

The Journal of Performance Measurement[®] is now accepting nominations for the Outstanding Women in Performance & Risk Measurement Awards. If you know someone deserving of this recognition, we invite you to submit a nomination by completing [this survey](#) by Monday, April 28th. For any questions, please reach out to Doug Spaulding at DougSpaulding@TSGperformance.com.

compilers, as they had been doing before winning the contract to provide the operating system for IBM's PC. Imagine what may have happened had IBM taken the offer, and Gates, *et al*, went back to developing compilers for various programming languages: do you think he would have been as successful as he became?

Keeping in mind Lincoln's philosophy, when this book came out I decided to buy it, to learn a bit about Mr. Gates. And, I'm quite glad I did.

It's well written, and he is quite candid in many ways. We learn, for example, that he took LSD on multiple occasions; likes to drive fast (he mentions, for example, the three speeding tickets he got when driving from Albuquerque, NM to Seattle, after he decided to relocate the company back to his hometown); and was quite inept with women, both in high school and college.

He comes across as being very human. He was advantaged, no doubt, but his success had, I believe, little to do with that. He was quite fortunate to make the acquaintance of Paul Allen. It would seem that the Gates/Allen partnership meshed their respective strengths, as the Steve Job/Steve Wozniak combination did for Apple.

He promises at least one more memoir, that will focus on his years running Microsoft.

I'd classify this as rather light reading, about a massively successful entrepreneur. Yes, I recommend it.

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