CREDO WEALTH

The Beauty of Boring

The Merchant of Venice would have been a far less interesting play had Antonio the wit to insure his cargo. Nowhere is Shakespeare's adage "all the glisters is not gold" more true than insurance: the interesting, high growth companies like AIG were exciting until suddenly, in 2008, they weren't. Rather, when it comes to investing in insurance, boring is beautiful. Today, comparative advantage comes not from heady growth numbers but from the boring reality of operational focus, modern data, and optimization. Within this elite cadre, Chubb is perhaps the most boring.

In today's market, the hunt for yield has left the insurance sector in an unsightly state. The easy supply of capital from investors has given rise to fears that, once the extent of liabilities becomes known, current pricing will result in future depressed returns. This has led to an insurance sector neglected by many investors. In this forgotten corner, Chubb's record in terms of steady growth, underwriting profit margins, and return on equity are almost unparalleled, all the while achieved with a relatively low degree of leverage.

The insurance sector has also suffered the attrition of historically low interest rates. The returns of investment portfolios, typically comprised of short duration, high quality bonds, have been consumed by low rates. Accordingly, Chubb and their defensive ilk may well benefit from a rising rate environment as higher rates boost investment returns.

With market valuations at highs, and macroeconomic risks abounding, Chubb's low correlation with the market is highly valuable. So too is the company's unexciting yet stable earnings stream and stringent capital management. Though sheltered from the whims of the market, Chubb is not exempt: though it currently trades much in line with its historical average valuation, it trades at a record discount to the market. Cheaper than traditional defensive names, the company offers considerable upside should the market continue to rally.

While Chubb is less committed than its peers to technology as a means to a competitive advantage, it benefits from a well cultivated luxury brand. This has allowed Chubb to embrace innovation at a slower pace without material change to profit margins. With management committed to buybacks as a primary source of earnings per share growth, strong earnings, and conservative guidance, it is likely that investors can bank on the persistence of Chubb's franchise.

Whether insurance is boring is beside the point; to the investor, beauty lies in the structurally sound franchises that lack a tendency towards the protean. Far from mutable, Chubb's management are stalwarts of disciplined pricing, conservatism, and stability. It is all too easy for this cocktail of boredom to blur Chubb's beauty, yet with such resilience against the turns of the market, a long-established moat, and a relatively cheap valuation, Chubb may well prove to be an attractive investment.

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