'We are not comfortable with the rally': Geneva wealth managers

Forum Finance Group managing partner Egon Vorfeld and CIO Nigel Turner did not look for protection by selling their equity positions.

by CAMILLA GIANNONI
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When the pandemic hit, causing significant market volatility, Forum Finance Group managing partner Egon Vorfeld and CIO Nigel Turner did not look for protection by selling their equity positions. Instead, they chose a different method.

Talking to *Citywire Switzerland*, Vorfeld said: ‘We put our hedging strategy in place early, by buying some put options before the significant March drop. This protected us all the way to the bottom and significantly reduced the volatility of our portfolios.

‘At the time the cost of hedging was still very reasonable. This allowed our clients to sleep well and enabled us to maintain our equity exposure through the highly volatile period. Market timing is a fool’s game.’

Examples of funds they are holding and did not want to sell include Alger Small Cap Focus, managed by AAA-rated Amy Zhang, which invests in US stocks. Over the past year the strategy has returned 12.2% compared with -5.5% of the sector average.

The Coupland Cardiff Japan Alpha, managed by AA-rated Jonathan Dobson and the Berenberg European Small Cap fund, which returned 12.8% over the past year, are also among the wealth managers' favourites.

'We were also fairly confident that our underlying investments would create alpha, outperform their respective indices and did not want to cut our equity exposure across the board,' Vorfeld said.

The duo has since renewed the hedging but are now using a put spread, which gives them protection against a 10% to 15% correction, as they believe they no longer need as much protection.

'We do not anticipate a similar correction [to the March one], however, we feel a lot of positive news is priced in at the moment like the governments' fiscal plans, the news of a vaccine against Covid-19, the speed of the recovery and, as a result, valuations are very stretched.

'Things can change very quickly and we want to be prepared,' Turner said.

Looking ahead

'For the US market, expected earnings for 2021 are in line with what was produced in 2019, which we are a bit sceptical about.

'Within the market, you have a big dispersion because some sectors are going to continue to grow at a faster speed than before the crisis while others are going to remain under pressure

'In relative terms, we prefer equity to government bonds but at the moment we are not comfortable with the rally, which is based on momentum rather than on fundamentals,' Turner said.

The duo is paying particular attention to the valuations of US tech mega-caps, as they see similarities between the current market behaviour and the late 1990s tech bubble.

'Apple's P/E ratio, for instance, is now at 35, but it is not a high-growth stock,' Vorfeld said.

'Some stocks, like Zoom, have grown so rapidly that at some point there has to be some kind of mean reversion.

'In some cases, it is large media coverage that causes stocks to become very popular. Tesla is an example. Even people that do not follow the market closely feel like they have to own some of it.'

'This is similar to what happened with the tech bubble, a lot of retail investors came in at the last moment and this extended the movement and adds to the euphoria,' Turner said.