

Dodgeball

Weekly Digest

6 August 2018

– James Klemptner, CFA

When I meet our investors and potential investors I often make the point that one of the facets of our approach that I am most proud of is our track record of keeping investors out of mischief. There are a number of different ways that investors can lose money. Some are risks that are inherent in investing such as having to convert a paper loss into an actual loss because you have to liquidate a holding which is underwater which would likely recover if given time. There are many other ways to lose client money which are permanent. These are often a result of careless strategy selection rather than market characteristics.

The irony is that there is no track record that we can point to that overtly shows the impact of avoiding stumbles. Rather the absence of these potential drags on returns are only evident from the good long term returns we have delivered to clients which would be lower had we seen greater impairments of capital.

There are a number of different types of potential mishaps that exist for the unwitting, but generally they fit into one of three broad categories.

The first are liquidity mismatches. The funds that we invest in are generally daily dealing and many of these daily dealing funds buy illiquid assets within them. This is a clear risk that is manageable in normal times but if there is a rush for the door these funds turn into lobster pots – very easy to get into but devilishly difficult (and all too often impossible) to exit when you want to. If these strategies become forced sellers, investor losses can accumulate rapidly. Worse still, they may be ‘gated’ and it could be months before you get your money back (at a likely discount).

The second are naïve investment theses. Many sound good on paper but even the most level headed back tests are the product of hindsight which may not fit the future as well as the past. Hedges are often imperfect, long term relationships can break down sporadically and ultimately there have been many smart investors undone by a heady mix of overconfidence and the perniciousness of markets. Remember David Viniar’s remark in 2007: “We were seeing things that were 25-standard deviation moves, several days in a row.” That’s so vanishingly close to meaning “impossible” that we can allow ourselves to paraphrase it as such. Improbable is not the same as impossible, sadly. The usual suspects that can lead to a strategy coming unstuck include leverage, poor risk controls, mark to model, regulatory or tax changes and so on.

The third is malign intent. Rarely is this patently obvious, of course, but there have been a number of instances where we have recommended our investors steer clear of strategies that didn’t ‘smell right’. If something appears too good to be true, or too mind-bendingly difficult to comprehend or so opaque that it is difficult to fathom, we tend to walk away.

Our process is not infallible, and this article tempts fate, but over the years by doing very detailed research, being savvy and unafraid to ask simple questions we have saved our investors literally tens millions of dollars, if not more and, while far less glamorous than stellar gains, avoiding permanent losses is actually very rewarding indeed. Unfortunately, you’ll have to take my word for it.



The Marketplace

- Brent crude oil finished the week at 73.5, up 0.4%
- Gold was down 0.8% to \$1215.88 per ounce
- Trade disputes rumble on, fuelling uncertainty
- Stocks slide amid trade war fears

Market Focus

US

- The Dow Jones index fell 0.3% closing at 25333
- The Nasdaq 100 rose 1.4% to 7395.5
- Apple shares jumped 3.5% on the back of strong results in its services business and better than expected iPhone sales
- The S&P index rose 0.8% to 2840
- US Non-farm payrolls increased by 157,000 in July and the jobless rate fell back below 4%. These were in line with Federal Reserve's outlook

UK

- UK was the only G7 country to see slowed growth during 2017, down to 1.7% from 1.8%
- The Bank of England's Monetary Policy Committee voted unanimously to increase interest rates to 0.75%, their highest level in almost a decade

- July Composite PMI dropped to 53.5 in July from 55.1 in June
- 20% of UK retailers plan to reduce headcount over the next quarter according to the British Retail Consortium
- The FTSE 100 fell over the week to 0.5% to 7659

Europe

- The Eurostoxx 50 fell 1.3% to 3482
- Euro area inflation accelerates to 2.1%, the highest since 2012. This was largely driven by increased energy prices
- GDP rose by 0.3% in Q2, this was slightly below expectations
- Economic sentiment for the Eurozone fell last month to 112.1 points to 112.3 in June. The largest decline came for the manufacturing sector amidst rising trade tensions

Asia

- The Nikkei fell 0.8% to 22525
- The US could be prepared to more than double tariffs on Chinese goods worth \$200bn from 10% to 25% in an effort to bring China back to the negotiating table. A move described by the Chinese as 'blackmailing'
- Japan overtook China to become the world's second largest stock market last Thursday – a reversal of four years
- The Hang Seng fell by nearly 4% in a tough week for Asian equities

Asset Class/Region	Currency	Currency returns			
		Week ending 3 Aug. 2018	Month to date	YTD 2018	12 months
Developed Market Equities					
United States	USD	0.8%	1.4%	7.1%	16.5%
United Kingdom	GBP	-0.5%	-0.5%	1.8%	6.0%
Continental Europe	EUR	-0.6%	-0.4%	2.2%	4.6%
Japan	JPY	-1.9%	-1.4%	-3.0%	8.9%
Asia Pacific (ex Japan)	USD	-2.2%	-1.9%	-4.9%	3.6%
Australia	AUD	-1.0%	-0.7%	5.0%	13.5%
Global	USD	0.0%	0.4%	3.7%	11.5%
Emerging markets equities					
Emerging Europe	USD	-0.5%	-1.7%	-7.1%	1.6%
Emerging Asia	USD	-2.3%	-1.9%	-6.0%	3.7%
Emerging Latin America	USD	0.9%	0.6%	-1.1%	1.6%
BRICs	USD	-2.7%	-2.2%	-5.2%	5.7%
MENA countries	USD	-0.3%	0.0%	10.8%	10.4%
South Africa	USD	-1.4%	-1.7%	-13.1%	3.8%
India	USD	0.9%	0.5%	1.6%	6.8%
Global emerging markets	USD	-1.7%	-1.5%	-5.8%	3.2%
Bonds					
US Treasuries	USD	0.1%	0.2%	-1.5%	-1.6%
US Treasuries (inflation protected)	USD	0.2%	0.1%	-0.6%	1.0%
US Corporate (investment grade)	USD	0.2%	0.3%	-2.3%	-1.1%
US High Yield	USD	0.3%	0.3%	1.4%	2.7%
UK Gilts	GBP	-0.4%	0.3%	0.0%	0.7%
UK Corporate (investment grade)	GBP	0.0%	0.5%	-1.5%	-0.5%
Euro Government Bonds	EUR	-0.4%	-0.1%	-0.1%	0.2%
Euro Corporate (investment grade)	EUR	0.0%	0.2%	-0.2%	0.4%
Euro High Yield	EUR	0.1%	0.1%	-0.3%	1.0%
Japanese Government	JPY	-0.3%	-0.1%	-0.3%	0.3%
Australian Government	AUD	-0.4%	-0.4%	1.6%	2.6%
Global Government Bonds	USD	-0.4%	-0.4%	-1.9%	-1.6%
Global Bonds	USD	-0.3%	-0.3%	-2.0%	-1.4%
Global Convertible Bonds	USD	-0.3%	0.0%	-0.4%	0.2%
Emerging Market Bonds	USD	-0.6%	-0.3%	-4.6%	-3.8%

Asset Class/Region	Currency	Currency returns			
		Week ending 3 Aug. 2018	Month to date	YTD 2018	12 months
Property					
US Property Securities	USD	3.3%	3.1%	2.6%	3.7%
Australian Property Securities	AUD	0.6%	0.7%	1.8%	8.4%
Asia Property Securities	USD	-4.2%	-3.7%	-5.1%	-0.5%
Global Property Securities	USD	0.4%	0.4%	-0.3%	4.3%
Currencies					
Euro	USD	-0.5%	-1.0%	-3.6%	-2.3%
UK Pound Sterling	USD	-0.7%	-0.9%	-3.7%	-0.9%
Japanese Yen	USD	-0.3%	-0.3%	1.2%	-0.9%
Australian Dollar	USD	0.1%	0.0%	-5.2%	-6.8%
South African Rand	USD	-0.7%	-1.0%	-6.8%	0.9%
Swiss Franc	USD	0.1%	-0.5%	-1.9%	-2.3%
Chinese Yuan	USD	-0.5%	-0.5%	-4.9%	-1.9%
Commodities & Alternatives					
Commodities	USD	0.0%	-0.8%	3.0%	12.4%
Agricultural Commodities	USD	1.3%	0.4%	1.4%	-2.4%
Oil	USD	-1.5%	-2.3%	9.5%	40.8%
Gold	USD	-0.8%	-0.6%	-6.9%	-4.1%
Hedge funds	USD	-0.3%	-0.1%	-1.0%	1.5%

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
Unit 01 - 03
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

Important notes

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.