

Investments and the fallacy of leaving it all on the pitch

Weekly Digest

13 May 2019

– James Klempster, CFA

Last week's Champions League football results are unlikely to have passed by even the most football phobic of our readers. Victories against the odds for Liverpool and Tottenham were hailed as perfect illustrations for sporting adages such as *never give up, it isn't over till it's over* and their ilk. Investment professionals regularly dip into sport for analogies or as a source of inspiration: I would guess that about half of the keynote speakers at conferences are there by dint of their sporting prowess. The implication is a compelling one: the investment manager surrounds themselves with successful people and appropriates, whether by osmosis or by some very prescient questioning, powerful and useful wisdom / tenacity / focus etc that enhances their abilities as an investor.

But the never give up schtick is, I think, only of limited use for investors and can be a very dangerous game indeed. While it might make sense for a sporting star to *leave everything on the pitch* and crawl off exhausted knowing they have *given their all* for a glorious victory / gallant defeat, it is not necessarily the same for investment managers. The problem for investors is that some of their positions are duds: it is an inevitability when managing portfolios that some of the holdings in them will not perform as expected. The decision investors face daily, therefore, for at least part of their portfolio, is whether to call it a day and move on to the next opportunity. Clearly this is a difficult decision to make not least because it flies in the face of the *never give up* orthodoxy.

Maybe at a micro level the sporting analogies can be useful. Pragmatism is a necessary feature of even the most red-blooded sporting encounters. If it wasn't then teams would not have a formation. Without pragmatism players would chase every ball and turn their legs to jelly. Players sometimes have to live with the fact they have been

tackled and get back in position rather than needlessly chase down their tackler. Marathon runners must pace themselves, rugby players must turn the other cheek and fund managers must sell.

The key questions for fund managers faced with a holding that is not working for them is *when to give up?* John Maynard Keynes provides us with a starting point "When the facts change, I change my mind". That's fairly simple to apply; if the investment thesis is totally undermined by something outside of your control you may want to think again. It gets difficult when only some of the facts change leading to nuanced decisions weighing up the balance of probabilities on a whole suite of variables. Ultimately this boils down to judgment. The benefit of a robust and repeatable process is that it makes this decision making as painless as possible. Judgment gets clouded by emotion, especially when it comes to cutting losses, but it is an essential discipline for fund managers. Having a focus on client investment outcomes adds perspective: when we build portfolios, we ask whether this combination of assets gives us the best chance of achieving an outcome. Having an experienced team that have worked together for a long time as we do at Momentum also helps. It is important to ask one another the difficult questions and have positions justified by economics not ego.

So, let's celebrate the prosaically pragmatic. Let's eulogise when a player lets the ball run out for a throw; a tennis player doesn't dive for a passing shot; a golfer plays it safe, because these are all lessons for investors. They may not make the highlights, but they are the difference between long term success and failure. As for the football, as a Spurs fan I hope Liverpool play like a bunch of fund managers and Tottenham leave it all on the pitch on 1 June.



The Marketplace

- US increased tariffs on China, escalating trade tensions
- Stocks slide as trade fears dampen risk appetite
- Brent crude fell 0.3%, ending the week at \$70.6 per barrel
- Gold ended the week 0.5% higher at \$1288 per ounce

Market Focus

US

- Trade wars hampered sentiment throughout the week and on Friday trade tensions escalated further, as the US administration raised tariffs from 10% to 25% on \$200 billion of goods imported from China. In response, China immediately vowed to retaliate but did not specify how it would respond
- US equities fell 2.1% on the week, recording their worst weekly decline since late December, despite a late rally on Friday on renewed trade hopes
- US Treasuries returned 0.5% on the week, with yields falling amid reduced risk appetite
- Uber, the ride-hailing giant, priced shares at \$45 a share on Thursday in a highly anticipated Initial Public Offering (IPO). Uber's shares ended the first day of trading down more than 7%

UK

- The UK major index declined 2.4% on the week, weighed down by US-China trade war concerns. The pound depreciated 0.9% against the US dollar

- Cross-party Brexit talks continue to show little progress

Europe

- German industrial production unexpectedly advanced 0.5% in March versus forecasts for a 0.5% decline. On Friday, Germany reported an unexpected rise in March exports, rising 1.5% from February and 1.9% from a year earlier
- The European Commission cut its eurozone growth forecast to 1.2% in 2019 from its previous forecast of 1.3% in February. Germany's growth forecast was slashed to 0.5% in 2019 from expectations of 1.1% in February
- European equities declined 3.1% on the week

Asia/Rest of The World

- Chinese equities tumbled, with the benchmark index falling 4.5%
- Exports from China unexpectedly declined, falling 2.7% year-on-year in April, below consensus forecast of a 3.0% rise. In contrast, imports surprised to the upside, rising 4.0% versus a 2.1% fall expected
- In currency markets, the safe-haven Japanese yen remained firm, appreciating 1.4% against the US dollar
- South Africa's ANC wins re-election, securing 58% of the vote, but with a reduced majority. Stocks in South Africa fell 4.3% on the week
- Turkish stocks fell 5.8% on the week amid Turkey's Supreme Election Council accepting the ruling AK Party's appeal to nullify the recent Istanbul mayoral election

| Asset Class/Region | Currency | Currency returns | | | |
|-------------------------------------|----------|----------------------------|------------------|----------|-----------|
| | | Week ending 10 May 2019 | Month to date | YTD 2019 | 12 months |
| Developed Market Equities | | | | | |
| United States | USD | -2.1% | -2.1% | 15.5% | 7.3% |
| United Kingdom | GBP | -2.2% | -2.7% | 8.8% | -2.5% |
| Continental Europe | EUR | -3.1% | -3.4% | 13.2% | -1.1% |
| Japan | JPY | -4.2% | -4.2% | 4.9% | -10.7% |
| Asia Pacific (ex Japan) | USD | -4.1% | -3.6% | 9.3% | -6.3% |
| Australia | AUD | -0.4% | -0.2% | 13.3% | 7.7% |
| Global | USD | -2.3% | -2.3% | 13.8% | 2.1% |
| Emerging markets equities | | | | | |
| Emerging Europe | USD | -4.0% | -4.3% | 5.6% | -3.7% |
| Emerging Asia | USD | -4.9% | -4.5% | 8.1% | -9.4% |
| Emerging Latin America | USD | -2.8% | -3.2% | 4.9% | -5.1% |
| BRICs | USD | -5.2% | -4.6% | 10.5% | -6.8% |
| MENA countries | USD | -3.8% | -3.4% | 8.7% | 8.8% |
| South Africa | USD | -3.4% | -1.8% | 10.6% | -12.2% |
| India | USD | -4.9% | -4.6% | 3.6% | 2.1% |
| Global emerging markets | USD | -4.5% | -4.2% | 7.6% | -8.4% |
| Bonds | | | | | |
| US Treasuries | USD | 0.5% | 0.4% | 2.3% | 5.4% |
| US Treasuries (inflation protected) | USD | 0.4% | 0.0% | 3.7% | 3.3% |
| US Corporate (investment grade) | USD | 0.1% | 0.0% | 5.7% | 6.7% |
| US High Yield | USD | -0.5% | -0.5% | 8.2% | 6.1% |
| UK Gilts | GBP | 0.9% | 0.4% | 2.3% | 3.9% |
| UK Corporate (investment grade) | GBP | 0.2% | 0.0% | 4.5% | 4.0% |
| Euro Government Bonds | EUR | 0.0% | 0.0% | 2.5% | 2.6% |
| Euro Corporate (investment grade) | EUR | -0.2% | -0.2% | 3.8% | 2.9% |
| Euro High Yield | EUR | -0.7% | -0.9% | 5.8% | 1.8% |
| Japanese Government | JPY | 0.1% | 0.1% | 1.4% | 2.1% |
| Australian Government | AUD | 0.4% | 0.4% | 4.7% | 9.6% |
| Global Government Bonds | USD | 0.7% | 0.6% | 1.9% | 1.8% |
| Global Bonds | USD | 0.5% | 0.5% | 2.4% | 2.3% |
| Global Convertible Bonds | USD | -1.3% | -1.0% | 6.2% | -0.6% |
| Emerging Market Bonds | USD | -0.1% | 0.3% | 5.6% | 4.8% |

| Asset Class/Region | Currency | Currency returns | | | |
|---------------------------------------|----------|----------------------------|------------------|----------|-----------|
| | | Week ending 10 May 2019 | Month to date | YTD 2019 | 12 months |
| Property | | | | | |
| US Property Securities | USD | -1.0% | 0.5% | 16.1% | 14.0% |
| Australian Property Securities | AUD | 0.7% | -0.4% | 10.6% | 9.9% |
| Asia Property Securities | USD | -2.9% | -2.1% | 9.1% | 1.1% |
| Global Property Securities | USD | -1.1% | -0.3% | 12.8% | 5.9% |
| Currencies | | | | | |
| Euro | USD | 0.4% | 0.2% | -1.9% | -5.7% |
| UK Pound Sterling | USD | -0.9% | -0.1% | 2.2% | -3.5% |
| Japanese Yen | USD | 1.4% | 1.5% | 0.0% | -0.2% |
| Australian Dollar | USD | -0.3% | -0.7% | -0.6% | -7.0% |
| South African Rand | USD | 1.4% | 1.2% | 1.6% | -13.0% |
| Swiss Franc | USD | 0.6% | 0.7% | -2.8% | -0.8% |
| Chinese Yuan | USD | -1.3% | -1.3% | 0.8% | -7.0% |
| Commodities & Alternatives | | | | | |
| Commodities | USD | -1.4% | -2.5% | 6.8% | -9.4% |
| Agricultural Commodities | USD | -3.0% | -3.2% | -8.0% | -17.3% |
| Oil | USD | -0.3% | -3.0% | 31.3% | -8.8% |
| Gold | USD | 0.5% | 0.3% | 0.5% | -2.4% |
| Hedge funds | USD | -0.6% | -0.6% | 2.7% | -3.8% |

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