Pythia's Investment Letter

Issue Mar/2020 – Valère Consulting SA

The journey matters more than the destination

Central banks have been the champions of rising stock markets for almost 10 years now. Whenever the market show signs of stress - whether due to political or economic factors - they take immediate action. Tweets are the new prophecies, politicians the oracle and Donald Trump the high priest vouching that up to election day the economy stays on track.

In this environment:

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Our robust investment process is delivering strong results for clients. Our core strategy (min. 30% Cash, Bonds and Gold / max. 70% equity) limited the downside to -6% so far in 2020 compared to -28% for global equities.

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Our prudence, reflected by a high cash-quota and strong Gold positions in our portfolios, has positioned us to take advantage of opportunities that are now being afforded by a repricing of risk assets on behalf of our clients.

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We have maintained the discipline of our investment process, which was based on the belief that investors simply were not being compensated for taking on further risks.

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Switzerland is once again a safe haven with its currency appreciating and hence protecting client assets (+9% against the British Pound and +3% against the Euro).

The godmother of our Investment Letters is Pythia, High Priestess and Oracle of Delphi.
When Croesus, the King of the Lydians, who was famous for his wealth, asked the Oracle for advice before a military campaign, Pythia is said to have answered: “If you cross the Halys River, a great empire will be destroyed.” He did cross the border river though – and thus caused his own empire to be destroyed. A false interpretation had caused a catastrophe, while the correct interpretation would have averted the disaster.

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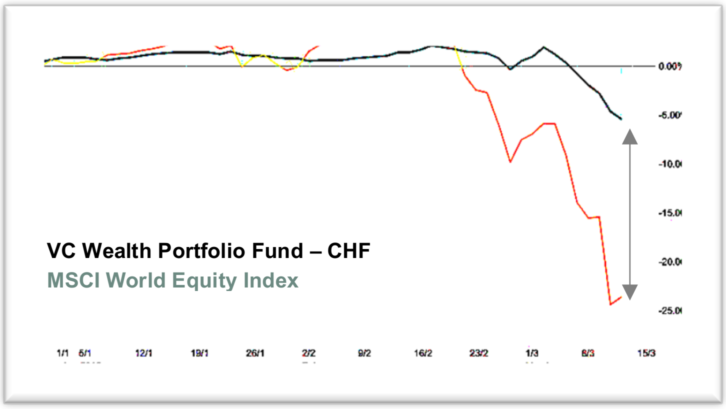
2020: COVID-19 crisis

VC Strategy
out-performance of
+21.7%

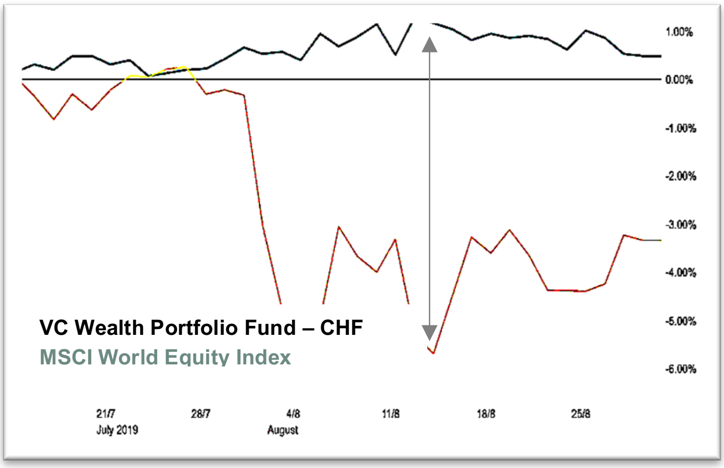
Period: 01.01.2020 – 16.03.2020



2019: recession fears

VC Strategy
out-performance of
+6.4%

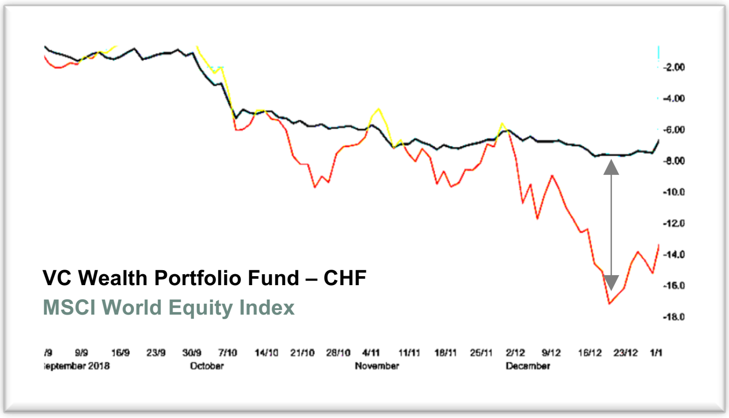
Period: 15.07.2019 – 15.08.2019



2018: year-end correction

VC Strategy
out-performance of
+6.3%

Period: 06.11.2018-01.01.2019



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What's next?

We trust in our proven active risk-management approach, eliminating emotions (which can prove to be very difficult) and helping us to navigate unchartered waters. Avoiding significant portfolio losses is still key for stable long-term investment returns.

As long as our quantitative models are not indicating a risk-reversal (or a potential bottom in the equity markets), we will maintain an underweighted and defensive equity quota.

We are prepared to reinvest and increase our equity quota eventually, having defined our game plan and worked out a selection of attractive companies with sound and sustainable business models.

We continue to believe that Gold is more than an insurance policy in a highly indebted and leveraged world with FIAT currency systems. Therefore, we will be increasing our Gold positions when appropriate.

Investments we would avoid

Debt instruments like corporate and high-yield bonds are most vulnerable, due to liquidity risks or a credit crunch. Investors holding collective Funds or ETFs, which include any bond positions, should be aware of the default risk, due to market dysfunction. Emerging Market bonds and currencies may suffer huge losses as many of these countries could default in current circumstances.

At this stage it is impossible to forecast the economic impact of COVID-19. As we are in uncharted waters we intend to hold direct equities of companies who can resist recession pressures instead of owning ETFs and hence being exposed to a whole risk spectrum including the weakest players in a market.

Portfolios with leverage or short-Put strategies need sufficient and rock-solid collateral without currency risks.

VC encourages everyone to practice the appropriate prudence in the protection of your health, that of your friends and loved ones, as well as the well-being of our neighbors and communities.

Tristan Bregy
CIO office / Partner