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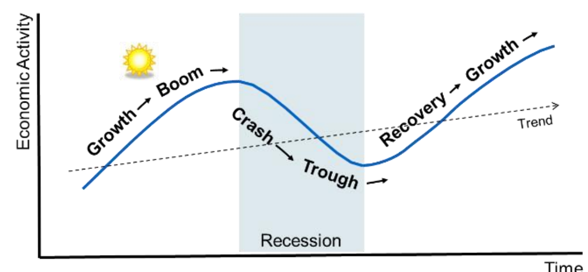
Briefing from the ARVEST Investment Committee

So far this year, no asset class has been able to generate meaningful profits other than oil and equities. The special market dynamics to which we had already referred in our last investment commentary continued to gain in importance. It became even harder to select a successful stock. Looking more closely at the widest global basket[1] of over 1500 stocks from developed and emerging markets, it is noted that only 28 companies were responsible for the positive total dollar return of 4.2% since the beginning of the year. With the others all together, money was lost. The list of winners is led by Apple, Amazon, Microsoft and Netflix. These 4 stocks alone contributed to half of the global annual performance. All but three companies on this list are American, mainly active in the technology, consumer discretionary and healthcare sectors.

There are certainly sound reasons for this development. Since the beginning of the year, lower corporate taxes have boosted the results of US corporations. In addition, they began to repatriate capital to the US at favourable tax rates. As they still have considerable liquidity abroad, the means to repurchase their own shares should be secured for the foreseeable future. In general, the economic data from the USA were strong. In the second quarter, gross domestic product grew by 4.2%. Unemployment was very low and core inflation remained close to the 2.0% target for months. Even stronger, however, were the so-called soft data, which capture the mood of consumers and companies. The record number of new companies that successfully listed on the stock exchange without ever making a profit themselves reflect the investors' high level of confidence in the future.

Future Prospects



Accordingly, we too are optimistic for the US economy. Our preferred economic models preclude a recession in the coming months and quarters. In our view, everything is even ready

[1] All Country World Index

for the US to enter into a veritable boom phase in the coming winter, which would push up stock market prices again. In the past, such boom phases lasted for two to eight quarters. Unfortunately, they never had a happy ending. Such upswings are brought about by human behaviour. Basically people prefer to do the same as others do to succeed. This is called "herd instinct". In addition, our brain prefers recent experiences when planning future actions. This is called "recency bias". And we always evaluate our experiences by comparing it to the near and known, the so-called "anchorage". We are also accustomed to the fact that good is expensive. Such shortcuts that our brains like to take are immensely valuable in everyday life and not stupid at all. So, in a foreign city, the well-frequented, upscale restaurant whose food my business partner recently raved about is certainly a suitable venue for the upcoming invitation to my friends.

The same patterns can now also be found on the stock markets. The long upswing of the US stock markets since the financial crisis is regarded as one of the most hated of the past. Only in the last few quarters have private investors also jumped on the strong upward trend. In the short term, all investors will benefit from the inexperienced actions of the adventurers. However, these rules of everyday life are not suitable for long-term investors like us. Expensive, for example, does not always mean good. And the success of the last few years does not have to last for the next 20 years. Especially not if the underlying equity valuations are based on long-term projections of estimates that are based purely on assumptions. Such optimistic behavior is typical in a bull market. They also do not disappear just because someone has particular expertise as an investor. However, investors are not slaves to their inclinations. Knowledge about one’s own biases and adherence to a disciplined, preventive investment strategy can help.

In the past quarter, for example, we have already reduced some of the above-mentioned stocks and thus realised profits. In the coming quarters, we will continue to sell expensive equity positions even if stock price trends remain positive, provided that our conviction of entering a US equity bubble solidifies. For investors who can hold US dollars and take the exchange rate risk, high-quality USD bonds seem sufficiently attractive to us in the medium term. For investors in Swiss francs, pounds and euros, this is not yet recommendable due to zero interest rate money market policy. We are maintaining our previous neutral equity ratio. Among the 98% of all global equities that did not make it onto the above winners list, we find some very attractive stocks. This is not least due to the rather moderate global economic development and the geopolitical risks, which so far have had a stronger impact on the markets outside the USA. Investors in those markets are by no means euphoric. In today’s market environment, we attach great importance to true diversification, and continue to favour high-quality international value stocks over high-flying US growth stocks, which also dominate many stock market indices and passive ETFs.

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On behalf of the Investment Committee
Stefan Kimmel
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