

Selector's views

What funds suits your market views?



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Christian Torres Lang is founder and managing partner at Solventis. He has over 30 years experience in the markets having worked in on senior roles in different companies in Barcelona, New York, Frankfurt and London. Before launching Solventis, he worked in the Corporate & Institutional Client Group division at Merrill Lynch as head of the Equity derivatives desk in the German and Scandinavian. Christian holds a MBA in Finance from the Stern School of Business in New York and is a CAIA (Chartered Alternative Investment Analyst) and FRM (Financial Risk Manager) chartholder.

Davide Alfano is founding partner and board member of Kaleidoscope Capital. Before he worked as a senior portfolio manager at Thalia, the hedge fund specialist arm of the Generali Group and as an equity portfolio manager at Epsilon SGR part of Eurizon Capital. He started his financial career at Assogestioni –the association of the Italian investment management industry– in 1999. David holds a MSc in Economics & Finance from the University of Warwick - Warwick Business School. David was an officer of the Italian Navy for a year and a half.

Christian Torres Lang

Having a market view when choosing a product

It deepens to a greater extent on the type of strategy or asset class you are considering and the time horizon of your investment. The more directional (beta) the strategy and the shorter the investment horizon, the more relevant is to have a short market view; but then we tend to select fund managers on asset classes outside our core strengths.

We believe firmly that **equity enjoys a great return/risk advantage**, therefore we focus most of our efforts in the fundamental analysis. Market fluctuations -up, down or sideways- on a time horizon of weeks, months or even quarters have much lower weight in our decision making.

At Solventis, we take into account different elements depending on the asset management and wealth management business. For wealth management we try to identify **outstanding and consistent** funds among a peer group set to be pre-defined individual strategies **able to outperform across the cycle**. As for our Asset Management, we try to pick **outstanding individual stocks by looking into Cash Flows, Growth and Risk features**. We favour companies with lasting moats and top alignment of interest among shareholders and the executive management. Moreover, **trading at what we believe are "cheap" prices is paramount for long term financial success**.

Market view and TAA

Our current TAA allocation is moderate overweight on risky assets. As for the long-term - as I said before- we are natural long-term asset allocators and **we believe that equity risk performance contribute to most of the returns**. We expect global rates to remain low for longer, inconspicuous inflation and moderate growth. For example, growth perspectives consensus for 2020 is for around 2% for USA, 5,8% for China, 1,2% for Europe and circa 3,5% for global growth. There is some wage growth in USA coming already but it is contingent on pricing growth which in turns depends on technology production.

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In a world of lower inflation well-below the average historical level, one tends to get caught on the appearances and expects to see a low nominal growth. That's a scary assumption. We need to be aware that China dominance keeps increasing at the expense of traditional developed zones, nominally USA, Europe and Japan. China is already surpassing the US in many fields. We think China's increasing weight on global growth is positive, especially if its growth becomes less volatile which is already as it is converging with that of traditional of developed countries. Just take for example, the case of asset under management in financial market. Sooner rather than later, we would see new Chinese players becoming the world's top asset allocators. **That change will bring a new paradigm to capital markets.**

Whatever, what worries us most is the long-term trend of increasing national indebtedness, an escalation in the China-US war, the growth of social economic disparities and climate change.

Davide Alfano

Having a market view when choosing a product

We do not think that having a market view is necessarily important when choosing a product. At least, it is not crucial to us. The relevance of having a market view depends on your investment approach and style. We do have views, but our approach tends to be structurally bottom-up and relatively agnostic to what might be the prevailing macro environment.

Our focus is on selecting sound investment strategies, which can deliver a distinct and repeatable alpha over time. Those strategies represent the real building blocks of our portfolios. The focus is not on getting right the market view, but on being able to **provide a positive performance independently of what will be the prevailing market regime.**

A top-down and macro point of view is more important to us in understanding what could be the main risks in the market and, consequently, stress test our portfolios. On some extent, market views are more relevant to our risk management process than to our selection process.

The real challenge is not to lose money when you are wrong about markets, rather than making money when you are right about them. **Such resilience is the real proof of a rigorous and effective risk management process.**

Market view and TAA

The global level of interest rates is possibly the main challenge that investors face today. Rates have never been so low and, **we believe, they might stay low for some time.** The challenge for a long-term fixed income allocator is easy to understand.

We discourage investors to maintain any fixed income risk in their portfolios and to manage their exposure to bonds accordingly, through an asset liability approach, being exposed to fixed income assets with a core view to hold investments until maturity, carefully matching their cash flow requirements with the payments coming from their fixed income portfolios, via coupons and capital repayments.

In terms of traditional asset class, we look at equities in a much more favorable way.

Indices might have also reached their historical peaks, but the action of central banks and government remains supportive and, more importantly, we believe that there are appealing niches of clearly defined growth for investors. Technology, healthcare, US small cap, and Asia are the main macro themes and sectors that we have emphasized in the last few years and still do, although the approach has become more granular lately.

With a thematic and a more tactical approach, we remain positive on equities, although the level of volatility to be tolerated is higher than in the recent past.

From an asset allocation perspective, what we now prefer are absolute return funds and liquid alternative investment solutions.

With a partial normalization of the economic cycle and the increase of market volatility the environment is just more favorable to hedge funds than a few years ago. Moreover, the impact of technology and new trading techniques is gradually expanding the range of available strategies, particularly in the quantitative space. Let's think, as an example, to the proliferation of investment strategies based on machine learning techniques and the use of artificial intelligence.

We still like illiquid alternatives, although the maturity of the cycle in private equity and venture capital deals make them a less compelling proposition than in the recent past. Even a marginal increase in interest rates might move investors to marginally reallocate to more liquid alternative investment solutions.

With investors chasing any form of sustainable yield, we believe that a properly managed portfolio of hedge fund solutions might be a smart way to allocate money in the years to come, partially replacing the carry component provided by traditional fixed income portfolios.

We are increasingly using a portfolio of liquid alternative investment strategies as a cash plus portfolio and bond replacement in the clients' portfolio allocation. Initially, clients appeared skeptical but are increasingly understanding the appeal of the proposition.