

Volatility – Friend or Foe?

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For investors in equity markets, volatility will always be a fact of life and is one of the most important investment considerations to understand. Long-term success as an investor is ultimately determined by how you behave in times of turmoil.

What is volatility?

Volatility is the speed or degree of the price change (in either direction). A higher volatility means that a security's value can potentially be spread out over a larger range of values. As volatility increases, the potential to quickly make (or lose) more money also increases. As an asset manager, it is important to understand how different types of volatility will impact your portfolio performance, and the impact of unpredictable events and market/stock moves.

Much time is spent trying to understand both market (or systematic) volatility and idiosyncratic (or non-systematic) volatility, as cycles and trends are often unpredictable and are subject to change. The risk of being wrong must be acknowledged and managed.

Finding the winners and losers, and managing risk

It is possible to outperform the market, as evidenced by Laurium's track record across multiple mandates.



Beating the market requires that you do something differently, do it well, behave consistently over time, and understand that compound performance doesn't accrue in a straight line.

With an experienced team and disciplined approach, volatility can be seen as an opportunity to generate alpha while minimising risks.

The core of our philosophy is bottom-up fundamental research and valuations. We seek to identify companies whose share

prices differ materially from our calculated intrinsic valuations, based on a longer-term, through-the-cycle cashflows and earnings. However, we acknowledge that there are material deviations of share prices from intrinsic valuations for extended periods. These must be considered in the risk management of a valuation-driven stock-picking process.

We believe that the market is right most of the time, but regular inefficiencies arise in the short term. Shorter-term inefficiencies may present trading opportunities, irrespective of a company's intrinsic value. These opportunities often occur due to significant money flows, news flow and emotions, structural inefficiencies, corporate actions, and other unique situations or events.

Through regular structured meetings, we review all positions in the portfolio and adjust these to take account of changes to our fundamental view, account

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for price moves, and account for other market-sensitive changes. Weightings of positions are modified on an ongoing basis to maximise portfolio returns and manage risk simultaneously.

Hedge Funds – Losers are winners too

The good news for investors in hedge funds is that you can benefit by being invested in the winners through long positions, while at the same time also generating returns by shorting the losers. One of the major reasons to have hedge funds as an investment is downside protection and diversification. Hedge funds in SA have a history of protecting against the downside when markets pull back aggressively, and this was evident in 2008 and in March 2020.

In 2008, when the SA equity market had the largest drawdowns (July, September and December), the hedge fund industry, represented by the Hedge News Africa Single Manager Composite, effectively protected investors capital and even provided positive returns over these three months. At a strategy level, market-neutral funds have been remarkably steady in all market conditions providing positive returns, while long-short funds significantly limited drawdowns relative to the equity market.

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