ACATIS Value Event Fonds (former ACATIS GANÉ Value Event Fonds) (WKN A0X754)

Investment Report September 2022 **Aschaffenburg, 5th October 2022**

We invest in winners. This means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

The value of liquidity

The expansionary monetary policy of the central banks and with it their active support for a positive stock market sentiment has completely disappeared. We are looking back on the worst first half-year in stock market history. After a temporary recovery in July, investors must once again summon up strong nerves. Record prices for energy, materials and food are fuelling inflation. Rapidly rising interest rates, a lack of skilled labour, fragile supply chains and geopolitical tensions are impacting businesses, consumers and the stock market. The current environment does not point to a rapid economic recovery. Yet it is precisely stock market phases like these that offer opportunities for investors who have free liquidity.

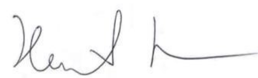
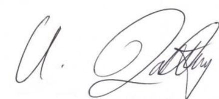
„When major declines occur, however, they offer extraordinary opportunities to those who are not handicapped." (Warren Buffett, 2018)

If we were always 100% invested, we would not only have to absorb greater price declines during bear markets, but we would also be deprived of the opportunity of taking advantage of low purchase prices resulting from a sell-off. Consequently, we are now once again prepared to gradually deploy the liquidity we have built up counter-cyclically via bank deposits and money market substitute bonds. The opportunity costs of insufficient liquidity to make such purchases are sometimes very high. This becomes clear if we take the example of Investor A, who is 100% invested in the market and, assuming a downturn, loses exactly 40%. Investor A must generate a 67% return in order to restore the portfolio to its original level. Investor B, on the other hand, is only 70% invested and, with identical, market-neutral security selection, also loses 40%. The remaining 30% is held as liquidity with a penalty interest rate of -0.6%, which was customary until a few weeks ago, and which is assumed to be reinvested at the market trough. If the stock market actually rises by 67%, Investor B has a 20% financial advantage over Investor A. This means that Investor A would have to have 1.2 times the initial capital of Investor B in order to have the same amount of assets in the end. To be able to achieve this while being fully invested as compared to being 70% invested during the upward trend, stock market prices would have to have increased by 124% in the period prior to the fall in prices (x = 2.24).

$$100\% \cdot x = 1.2 \cdot [70\% \cdot x + 30\% \cdot 0.994]$$

This type of rally is rather unusual. Conversely, we have neither a market-neutral portfolio nor the power to deploy liquidity at precisely the bottom of the market. However, the more severe a stock market decline is and the more often such events occur, the greater the probability that Investor B will gain an advantage over Investor A. This is why we always have a floating liquidity ratio.

Sincerely yours

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