



Special edition – December 18, 2024

Seasonal Reflections

Interim Management Commentary

Dear Readers,

Due to the weak 4Q and especially December performance of our **Incrementum All Seasons Fund (IASF)**, which registered a drawdown of 13.13% in the USD-I share class as on 16th December since the high on May 21, I would like to briefly discuss the reasons and the situation as well as possible risk-limiting measures.

But before we go any further, please note the following:



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For regular readers of my *Seasonal Reflections*, it should be obvious that the recent NAV drawdown took us quite by surprise, especially in view of the fact that our favourite equity themes came under unusually heavy pressure in December, while our short positions offered no protection or hedging.



Incrementum All Seasons Fund

- in pursuit of real returns -

In **IASF**, we have positioned ourselves strategically in such a way that, on the investment side, we mainly hold value and hard asset stocks, which we are convinced will best help to preserve and enhance the purchasing power of funds invested over the long-term course of the global debt cycle. In our opinion, the combination of excessive government debt plus growing deficits from social security and pension entitlements can only realistically be rectified by a prolonged phase of inflation and financial repression. We therefore remain convinced of our fundamental positioning on the investment side. In the short term, however, most investors seem to prioritise the risks of a (global?) recession, which has led to top-down-driven selling in almost all of our equity themes. In addition, there has clearly also been the effect of window dressing and tax-related sales before the end of the year. As a result, our investment themes have posted the following average returns since the NAV high in May 2024:

Topic (% of AuM)	31 May	16 December	Difference (in%points)
Energy (22%)	+11%	-9%	-20%
Gold and PM Mining (14%)	+15%	+27%	+12%
Shipping (13%)	+37%	-8%	-45%
Other Commodity Producers (7%)	+2%	-14%	-16%
EM Value (5%)	-3%	+1%	+4%
Japan Value (4%)	+19%	-1%	-20%
Infrastructure / Real Estate (3%)	+11%	+1%	-10%
Miscellaneous (7%)	+0%	-8%	-8%

This table shows that our equity themes of **SHIPPING** (in an accelerated fashion during November / December), **ENERGY**, **JAPAN VALUE** and **OTHER COMMODITY PRODUCERS** in particular have contributed the bulk of the losses suffered since May. We believe there are various reasons for this, but the main reason is that our investment selection encompasses what is normally classified as value stocks, which have fallen victim to the increased speculative sentiment in the market. By way of illustrating this, the election of Donald Trump as future US president has led to a 50% rise in Bitcoin and a 90% rise in Tesla shares, which seems simply incredible over a mere 6-week period and given the prevailing market capitalisation of these assets. – Its hard to argue that such price swings are based on fundamental factors.

This is offset by our short futures positions, which serve the purpose of reducing overall market risk, while benefiting from the expected long-term rotation from growth/tech into value / hard asset stocks, and have made the following contributions to earnings over the same period:





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<i>Short futures (% of AuM)</i>	<i>31 May</i>	<i>16 December</i>	<i>Earnings contribution(in%)</i>
Nasdaq 100 (-34%)	18591	22090	-5.5%
S&P 500 (-19%)	5296	6068	-1.5%
DAX (-5%)	18497	20313	-0.5%

This part of our allocation therefore contributed nearly half of the loss (7.5%pt) to the recent drawdown.

Of course, this is also extremely disappointing for us, especially as your portfolio manager has a significant portion of his savings invested in the fund as well. Looking in the rear-view mirror, it is obvious that we were far too negative in our assessment of the overall equity market development and had to accept a significant performance reduction due to our short positions held. But more recently, we have also suffered the aforementioned drawdown amid losses in some of our favourite long equity themes as shown above. - What should we do now?

In our view, we are currently experiencing the next rolling financial markets bubble following 2021, when the focus in the market was dominated by meme stocks, cryptocurrencies and (among other things) the almost unstoppable rise in Tesla shares (from \$30 at the beginning of 2020 to more than \$400 in November 2021) and the rise of the Mag 7. Subsequently, the rise in long-term interest rates led to the overdue correction of 2022, which may soon become an issue again as debt dynamics remain high in the Western world, which may thus increasingly face refinancing hurdles and difficulties.

It might be worth reminding investors that the annual new savings / investment pool is not infinite and will have to finance growing government debt for the time being without renewed QE measures / bond purchases by central banks. In the short term, demand for equities can of course be increased through the use of leverage (the private equity / asset industry has certainly made a significant contribution here), while overall supply or better the effectively available free float is also smaller than one would assume due to the largely passive wider asset management industry structure, which in turn explains the squeeze effect that can currently be observed.

In the longer term, however, this is offset by the trend of an ageing population that is successively liquidating and using up its savings and, at least in the current phase, a significant slowdown in money supply growth. We therefore do not believe that asset prices are on a permanently high plateau, but on the contrary that markets are more susceptible than they have been for a long time to a sharp correction that will bring valuations back into an approximately (and historically) fair range.



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Looking for example at the US Nasdaq 100, the index has tripled since the Covid crash and doubled since October 2022, which corresponds to increases in value that are historically only recorded in late phases of long-lasting bull markets, such as at the end of the 1990s. Back then, the internet revolution was the predominant motive, today it is the AI narrative that is in focus.



Nasdaq 100, [investing.com](https://www.investing.com), 17DEZ2024

Ultimately, it is exceptionally difficult to estimate how far today's speculative bubble can expand. **Record-high stock market valuations** (e.g. Shiller PE, but also Buffet's market cap-to-GDP ratio are higher than both in 2000 and 1929), an **extremely elevated risk appetite among investors** (e.g. measured by the gigantic option volumes, or enormous inflows into leveraged ETFs), as well as the flows into the USA that have been continuing for years and the associated **massive overweighting of international investors in US equities and investments** (I have regularly reported on the level of the US share in the [MSCI World](https://www.msci.com), currently 74%) are, however, clear qualitative indications of how far advanced this bull market is.

While all of this is a necessary condition for a trend reversal, it is not yet a sufficient one. For the latter, however, long-term momentum indicators point to the exhaustion of investor flows, which leads us to believe that we are currently experiencing the last hurrah of this bull market.

Now you may object (and rightly so) that there is no guarantee for this outcome, and that we have been forecasting and expecting a correction in this current bull market for a long time. That is certainly a valid argument, and I think in my cautious views, I have been very much influenced by a past, in which I have navigated through the two major bear markets (2000 and 2008) as a professional investor and portfolio manager as well as quite a number of smaller or regional crashes and corrections since 1987. What all these financial market corrections had in common was that there were always a few fundamental warning voices, who pointed out stretched valuations or structural weaknesses, but were widely ignored by the market and labelled as irrelevant. Typically, it is only when the bear market has fully unfolded that the narrative changes, and in the end quite often books are written about these prior warnings and why the majority of investors actually were unable to see any of this in advance...





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Before both major bear markets, I was one of the cautionary voices and had to take a lot of ex-ante criticism for my stance. But in both cases I managed to survive these (~50%) stock market corrections "unscathed", i.e. we managed to reach new record performance highs within 1-2 years. This was due to our more cautious positioning and thus minimised losses in the bear market. As the table on the right shows, it is the >50% losses that require a lot of performance and therefore time to make up for them.

Loss	% Gain needed to Break even
10%	11%
20%	25%
25%	33%
30%	43%
40%	67%
50%	100%
60%	150%
70%	233%
80%	400%
90%	900%
100%	Game over!

One question that inevitably arises here is how high our pain level is for this drawdown. This may also come with the question of whether it would not be better to liquidate the short futures positions or simply go entirely into cash? - In my view, the fact that we are obviously at an advanced stage of the bull market and that the partial elimination of market risk protection would therefore take place at the wrong time, speaks against liquidating our short futures positions at the present time. The idea of going into cash and waiting for the correction is also familiar, but not very practicable, since - as they used to say in my early professional years - they do not ring a bell on a trend reversal, which reliably can only be determined ex-post.

The only acceptable and sensible measure for me would be to reduce both the long investment as well as the short side in order to reduce the overall volatility of the portfolio. However, I think this is premature at the present time and for the reasons described above, though it is a measure that we will keep in our arsenal.

At this point, I can only assure all our investors that I fully realise how stressful, disappointing and frustrating such periods are, and I am sorry that we have exposed you to all this. We ourselves are disappointed with the performance of the current year and its investment results, but we also know that we cannot change the past and therefore only today and the future counts. As we also pointed out in our last *Seasonal Reflections*, we have always pursued our approach with care, caution and consistency, but it has also proved once again that performance lulls and occasional phases of headwinds are part and parcel of active investing. This does not alter the diversifying effect of **IASF** in a more traditional investment portfolio, nor the fact that we have comfortably achieved our goal of long-term real wealth creation.





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I also know that we have to accept that investors may decide to pull the plug, and seek their fortune / investment success elsewhere. As an investment manager, one would of course prefer to see counter-cyclical flows, i.e. buying into the doldrums, but this requires a lot of trust and a long-term investment horizon. This update is also intended to help build such trust and provide the necessary transparency about our thinking. The coming weeks will show whether I have been able to achieve this.

As always, I look forward to receiving your feedback [by email](#), but please understand that I may not be able to answer everything immediately and in detail due to the approaching holidays. And last but not least, I would like to thank all readers for their interest and especially our investors for their trust and patience, and wish you a wonderful festive season and a happy new year 2025.

Best wishes from Schaan, Liechtenstein!

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