JACOT INVESTMENT MANAGEMENT AG
Riesbachstrasse 57
CH 8008 Zürich
T +41 (44) 256 70 27
F +41 (44) 256 70 29
www.jacotinvestmentmanagement.ch

Input 10.02.2016

Good morning

Since January 2016 financial markets were overreacting, additionally triggered by HighFrequencyTrading. Performances are temporarly negative. We sense that the global economy and many coporates are in a different & better shape than 1998 or 2008, and suggest to remain invested in the asset class of liquid & listed equity. How can one blaim a Year of a Monkey or us the Super Bowl winner DenverBroncos to predict future market development ?

Why should an investor lend capital to governements and corporations around 0% if dividend yields in comparison on a S&P500 pay around 2,4%, EuroStoxx50 4,2% and Nikkei 2%? A bet on oilprices does not make any sense, but we are convinced that investments in companies as TOTAL, STATOIL will pay out, additionally an investor does collect annual dividends of 6,5%

We do not touch banking stocks.

Global debt market remains a question mark and we are hesitant on fixed income, especially on high yield bonds. The situation around Greece is not solved yet, but we hardly read any comments in the press.

It difficult to guess where the «true« GDP growth numbers are – remember that India just changed their formula http://www.wsj.com/articles/india-changes-gdp-calculation-method-1422622762, - but my conviction is, that the world, despite all challenges, will not come to and end, in opposite; organic & steady growth for needs, such as water, food, housing, transportation, increasing urbanization, use of technology are facts.

The HTF market participant must be regulated, respectively the form of front running and price manipulation they trigger based on their speedy time advantage. To ban off exchange venues such as «dark pools» must be a core effort, in order to reduce tensions over the control of share & currency trading.

«It is estimated that accounted for more than 60% of all US equity trading volume» Source Wikipedia «If you have the fastest access to information and the exchanges have given you incentives to jump in front of those users and make trades by paying you for any volume you create (maker/taker), then you can use that combination to make trades that you are pretty much GUARANTEED TO MAKE A PROFIT on. So basically, the fastest players, who have spent billions of dollars in aggregate to get the fastest possible access are using that speed to jump to the front of the trading line. They get to see, either directly or algorithmically the trades that are coming in to the market.

Algorithmically, means that firms are using their speed and their brainpower to take as many data points as they can use to predict what trades will happen next. This isn't easy to do. It is very hard. It takes very smart people. If you create winning algorithms that can anticipate/predict what will happen in the next milliseconds in markets/equities, you will make millions of dollars a year. (Note: not all algorithms are bad. Algorithms are just functions. What matters is what their intent is and how they are used)

In the past people used their speed advantages to trade their own portfolios. They knew they had an advantage with faster information or placing of trades and they used it to buy and own stocks. If only for hours. The exchanges both delivered information faster to those who paid for the right AND ALSO gave them the ability via order types where the faster traders were guaranteed the right to jump in front of all those who were slower «Source http://blogmaverick.com/2014/04/03/the-idiots-guide-to-high-frequency-trading/»

August 24th 2015 was a day, where the share of e.g PG (among many other names) were triggered by HTF. Luckily the stock is back on track, does pay a solid dividend of 3% to its longterm oriented investors, and did therefore (dividends included) generate 6,3% annualized returns over the past 10years. So an investor could have made drastic mistakes by selling out this holding in panic. We do believe in the capacity of managements, products and do invest with a different behaviour

Taking a look on average annualized returns our key holding, we discover that the participation of dividends in significant, and does outperform a trading oriented pattern. I fully agree with the thesis that on must not be a lethargic «buy&hold-investor« and can try to act dynamic. But to read the latest market moves, almost minute by minute, is not possible, unless one has a fortune telling «crystall ball». So for instance DAIMLER does look terrible so far, but consider that their financials are solid, and the dividends from part of the overall view, it was, and will be, a good investment, longterm. Same applies for HENNES& MAURITZ, a company with zero debt on their balance sheet, global clothing sales and increasing earnings per share.

JACOT

Warren Buffet (Berkshire Hathaway) averaged an annual growth in book value of 19.7% to its shareholders for the last 49 years (compared to 9.8% from the S&P 500 with dividends included for the same period), while employing large amounts of capital, and minimal debt.

We prefer to stay focussed on single stocks, and will not start to trade around, are though to taking an active approach where possible

Please do not hesitate to contacting us in order discuss your view or to receive additonal information at any times.

Kind regards

Bjoern