



Friday Morning Coffee

Nr. 34 – Against the odds

During Berkshire Hathaway's annual shareholder meeting in 1994, Warren Buffett made the following statement on trying to predict the market: *"I never have an opinion about the market because it wouldn't be any good and it might interfere with the opinions we have that are good"*.

This quote resonates with us as we write the current column on the day after the perceived dovish comments by Fed Chairman Powell that made the Dow rally by 2.5% last Wednesday night. We are asking ourselves whether Europe is going to follow suit this Thursday morning or whether investors will be spooked by the gloomy Brexit analysis from the Bank of England.

We admit we are not good at predicting Thursday's European close. **After more than 20 years as an active investor, I personally still believe it is a vain effort to attempt to position portfolios correctly in the market for the short-term where anything can happen. In other words, market timing does not work, especially when including trading costs.** The odds of getting the timing right are indeed extremely low for the upside of being right: the risk-reward relationship is not compelling.

In the graph below, we looked at the price performance of the European markets over the last 10 years as represented by the STOXX Europe 600 Price Index excluding dividends.



Source: Bloomberg, ECP. Data from 28/11/2008 to 28/11/2018. Past performance does not guarantee future results.

The following note gives the opinion of the Investment team at the time of the publication. Please refer to important notice at the end of the document.

Friday Morning Coffee - Nr. 34 – Against the odds

The portfolio of the long-term investor is represented by the blue line: by staying fully invested his initial 100 EUR have grown to 173 EUR in the decade since the financial crisis.

Our second investor is a "star trader" and has with his trading skills been out of the market on each of the 10 worst trading days over the last 10 years. One of the worst days occurred in 2008, two in 2009, four in 2011, one in 2015 and the remaining two in 2016. He was fully alert on these specific days at his desk and got out of the market for the day with no transaction costs and then back on the very next day.

What are the odds of getting 10 days right in a chronological time series of 10 years? I asked my most statistically skilled colleague at ECP, our risk manager Thierry Klaa, to compute the odds. According to him, **the probability is lower than the 1 out of 139.838.160 odds of winning the Euro-million jackpot !**

On the flipside, **there is a heavy cost if our star trader gets it wrong.** Imagine an unfortunate situation he is out of the market on the 10 best performing days. The initial 100 EUR will be worth 109 EUR after 10 years as represented by the green line.

At ECP, market timing is not within our circle of competence. We invest in what we consider undervalued businesses with a time horizon of 4 to 5 years. **In our strategy we try to exploit market volatility to find new investment opportunities the stock market offers to us. That is completely different than trying to time the market against the odds.**

We prefer to think about company fundamentals rather than spending excessive time trying to forecast short-term stock market moves.

I wish you a great weekend

Léon Kirch, CFA
Partner & Chief Investment Officer
November 30th, 2018

Important notice

European Capital Partners (Luxembourg) SA ("ECP") is responsible for the publication of this promotional document. ECP is an asset management company based in Luxembourg, registered at JF Kennedy avenue 35a, L-1855 Luxembourg (RCS Luxembourg, B 134.746) authorized as an Alternative Investment Fund Manager ("AIFM") of the Luxembourg law of 12 July 2013 and supervised by the Commission de Surveillance du Secteur Financier (CSSF). This document is published for information purposes only and gives the opinion of the Investment team at the time of the publication. It does not constitute an offer to buy or sell financial instruments or investment advice and does not confirm any transaction unless expressly agreed otherwise. Although ECP carefully selects the data and sources used, errors or omissions cannot be excluded a priori. ECP cannot be held liable for any direct or indirect damage resulting from the use of this document. The intellectual property rights of ECP must be respected at all times; The contents of this document may not be reproduced without prior written consent. Any investment involves risks, such as the risk of loss of initial capital. Please read the Prospectus of Selected Funds, their Key Investor Information Documents (KIIDs) and financial reports before making an investment decision to understand their specific risks, costs and conditions. Those documents are available on www.ecp.lu. Past performance does not guarantee future performance. Please refer to an independent tax advisor for country tax information that can change at any time and analyze the tax impacts of any investment on your personal situation.