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BLUE RATING

Riboldi (Banor SIM): "Here's our alternative to very complicated markets"

A long short anti-volatility strategy

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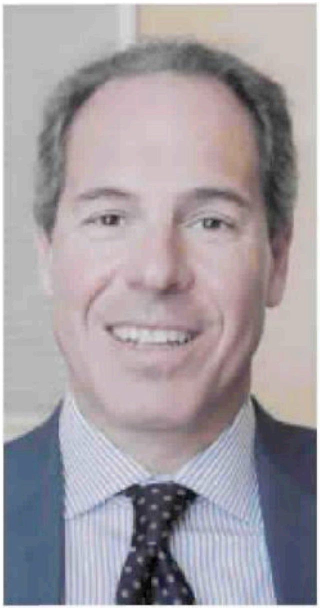

It's a time for long-short strategies and for seeking out alternatives, with markets as complicated as they are and with such low returns. Banor SICAV is active on this front, with its Long Short alternative funds, each of which follows a value strategy. Luca Riboldi (in the photo), Chief Investment Officer at Banor SIM and advisor for the Italy Long Short Equity fund, explains what they are.

Can you explain your strategy to us?

With the support of specialist analysts for each sector we meet companies, analyse their listing price and seek to understand if their shares might be under-valued. Then we decide whether to invest on an upwards trend over the long term (long) or to go short on a downwards trend. If we aim for a rising trend, managers taking a value approach buy the share because it's valuation is low and the stock is particularly attractive. And if we go short we again look for stocks that are under-valued but in this case it's vital to analyse the momentum, by which I mean identify a short or medium-term – which for us is 6-9 months – catalyst that might lead to a fall in the share price. For example: profits worse than expected, unfavourable macro-economic conditions or an obsolete business model.

And what's your "anti-volatility" strategy?

To limit the effects of volatility on the Banor SICAV Italy Long Short fund we've reduced the gross amount invested and taken a close look at the net amount and at sector-based adjustments. For the net investment we make sure we don't focus only on sectors linked to the performance of the economic cycle and are careful not to have sectors that are too closely related to each other in our portfolio.

What's your asset allocation in this period?

Europe is still much cheaper than America but it's also true that the growth in profits in America, especially for stocks linked to big companies like Amazon, Google, Facebook and Apple, continues to be strong. The portfolios managed by Banor SIM are weighted more heavily towards Europe than America, we've a neutral position on Japan and as regards the emerging economies we have a position only on China. We continue to be prudent on the emerging markets, but we're placing a bet on China.

Turning to bonds, we're seeing lower outflows than anticipated. Why is that?

Rates have been falling since 1982; the yield on 10-year US government securities has fallen from 14% in 1982 to 1.8% today. Apart from occasional brief periods, in the last 34 years we've witnessed the longest bull market in history.

We've always made gains – returns on bonds have been higher than on shares. When rates go up again we'll be at such a low level that capital losses will be significant, but for as long as we remain in a situation where there's a risk of deflation we won't see an end to this bull market.

Are there still opportunities in the high yield segment?

There are still plenty of opportunities, especially with bond picking. Investing part of your portfolio in the high yield segment is certainly justifiable, but not too large a share.