Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

March 2020 Review

The Coronavirus led market crash dragged the fund lower by net 28.2% in March in line with global equity markets that dropped by similar amounts over the month.

The outbreak and subsequent reactions of Government lockdowns and liquidity injections by global central banks has created an unprecedented landscape within which investors will need to navigate. The speed of market declines, the record levels of volatility and the huge levels of uncertainty require a change in investment strategy to be successful in creating positive returns.

I have traded through many market corrections in the past 25 years, all unique in their cause but largely similar in their effects on market psychology and trader reactions.

The first notable change is to bring the investing/trading horizon into much shorter time frames. Volatility has a benefit of accelerating gains and losses, so what took months previously to eventuate can take just days in this environment. Equally those gains can evaporate just a quickly so there is a need to be very active during this period.

To this point, I have personally been working tirelessly around the clock taking advantage of the volatility existing across all time zones. Following last month when I reported that this strategy added a +2.6% positive return to the fund, in March this strategy produced a greater than +15% return for the fund. I am continuing to allocate more funds to this strategy where it will ultimately represent 50-60% of the available capital. The optimal strategy in recent years has been to ride market trends as valuations soared off a persistent bull market. We had been very successful in implementing this strategy prior to the birth of the fund. Our allocation to short-term trading was very small given the lack of opportunities available.

Moving forward this has reversed and unfortunately during the market's rapid transition from long-term bull market trends to bear market volatility, the fund's performance has been affected. But I do believe that the fund is now better structured and positioned to begin producing the returns investors have expected (myself included) from the very beginning.

The second major change comes from understanding how markets recover from bear markets and market corrections no matter how small or severe. Large corrections have a way of resetting investors. Almost all stocks collapse from which their recovery needs to start all over again. The first stocks to recover are always the ones with solid businesses, strong balance sheets and clear visibility over earnings. In this cycle think Microsoft, Amazon and data centres, all of which we have used recent declines to add to the fund. Laggards unfortunately are those that require ongoing funding, are economically sensitive which often is dominated by mid and small-cap companies. To this we have taken the difficult decision of reducing our exposure to small cap companies. We did this very early in the month to free up capital to deploy to our short-term trading strategies which is already paying dividends.

Personally, I feel that this market collapse has presented opportunities that have been absent for many years. I only wish that I opened the fund to outside investors now rather than five months ago! In one of my very first reports to investors, I noted how extended and stretched equity markets had reached and that it was difficult to find attractive investments. There were many businesses that we liked but were just overpriced by the market. This overpriced nature has disappeared and provided one is of the view that the world will recover from the coronavirus, they do present some very attractive opportunities. One obvious example exists amongst the infrastructure stocks where Sydney Airports and toll road operator Transurban, have had short-term declines in earnings but the value of their long-term assets are unchanged. Share prices have dropped to levels not seen in several years but for those that can see through this short-term economic impact will understand the value of a 40% share price drop brings. The market is scattered with such potential and why we view the next 12 months as particularly exciting.

I am very optimistic that the ongoing changes we are making within the fund combined with the current market conditions and opportunities presented, will result in a much-improved performance. Governments and central banks around the world have instigated a “do whatever it takes” approach to stabilizing the economy and markets. While I do comprehend the danger of heavily indebted Governments that bail out consumers and companies presents, the notion of “don’t fight the Fed” suggests that the ramification of the current spending (and money printing) will be seen far down the road rather than in this current correction (possibly 12-24 months later at the earliest).

I would like to take the opportunity at this point to thank the investors in the GT Momentum Fund for showing faith thus far. While other managers and brokers have been fielding calls from concerned investors (including withdrawals), I have not fielded one call to date (or a single redemption) which has allowed me to concentrate whole heartedly on navigating these uncertain and unprecedented times.

I look forward to reflecting my current optimism in my report next month.

Until next month,

Gregory
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Portfolio
Manager
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