



Investment Insight

Friday, 1 June 2018

Cash is king: When bargains are hard to find, cash levels can drift northwards. Of course this comes at an opportunity cost in these days of zero, or even negative, returns for institutional cash deposits. However, this is an opportunity cost that some fund managers are willing to bear rather than be tempted to overpay for overpriced assets.

Troy Asset Management is a case in point. They have been successfully managing investors' assets for seventeen years and are long enough in the tooth to have the firm conviction that, after nine years of an equity bull market, now is not the time for abandoning caution. In **The Inside Track** we share some thoughts of the manager of Troy's highly successful "Trojan" fund, Sebastian Lyon.

Mamma mia! Italy continues to make headlines for the wrong reasons and markets have reacted accordingly. With the political uncertainty likely to continue for some time, investors have been reducing their exposure to the country by selling Italian bonds and equities.

Should we be surprised by recent events? It appears not as this week's **Pic of the Week**, courtesy of Deutsche Bank, illustrates.

Quoted...

"Rome has grown since its humble beginnings that it is now overwhelmed by its own greatness."
 – Livy (59 BC - 17 AD)

The Inside Track

When bargains are few, cash levels drift upwards in Troy's Trojan fund. The following is fund manager, Sebastian Lyon's, explanation of why he is happy to put up with the opportunity cost of not being fully invested.

We recognise the opportunity cost of holding liquidity. Our approach for the past 17 years has been to part with the Fund's cash only when we see compelling investment opportunities. This is an active decision. Conversely, we are not constrained from making sales because cash levels rise as a result. We have always had an aversion to the institutional pressure to be fully invested. By holding some liquidity you live in an absolute world rather than a relative one.

While cash holds its value in the short to medium term, it suffers long-term erosion from inflation. At times when interest rates are set by central bankers at negative real rates, gold may have an additional role to play as an alternative store of value. In the short term, the volatility experienced by holders of gold may be uncomfortable, even if it proves to be a better store of value than cash in the long term. Gold may also offer a role in portfolio protection by providing negative correlation with falling equity markets.

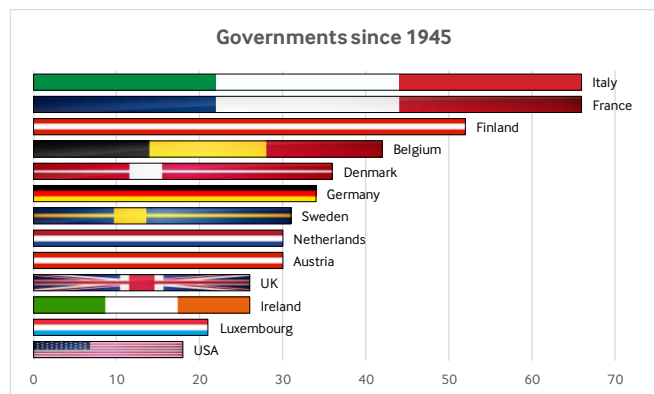
Over the long term our aim is to maintain the real value of capital, at a minimum. But we emphasise that our time horizon is five years and beyond on the basis that, when making our investment decisions, we are looking to longer-term returns based on the initial valuation.

Allocation to cash is determined by the potential returns on other assets. In May 2009, when opportunities knocked, we held less than 6% in cash. Today that figure exceeds 29% because opportunities have become scarce. What is often discussed is the opportunity cost of holding cash and not the return on cash once it has been invested. Yet with the prospect of heightened volatility, we are preparing ourselves to reverse this direction of travel from one of gradual risk aversion to increased risk appetite. There are signs that valuations are beginning to shift in our favour.

After nine years of this market and economic cycle we believe we are far closer to the end than the beginning. Now is not the time to increase cyclical or financial risk.

Pic of the Week

A picture says it all.



Week ahead: Key events

- 04/06 UK Construction PMI
- 05/06 Japan & Eurozone PMI Data
- 05/06 Eurozone Retail Sales & US Trade Data
- 06/06 US Mortgage Applications
- 07/06 UK House Price Index
- 08/06 Japan GDP Estimates & Germany Industrial Production

Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)	5Y Ann. (€)
Global equities	-0.4%	+7.5%	+2.8%	+10.8%
US equities	+0.2%	+9.9%	+4.0%	+13.5%
European equities	-2.3%	+0.8%	+0.0%	+7.4%
EM equities	-0.9%	+7.4%	-0.8%	+6.0%
Irish equities	-0.4%	+1.7%	+1.1%	+12.0%
Commodities	-0.7%	-1.3%	+6.9%	-5.3%
Hedge funds	-1.2%	-1.1%	-3.5%	-1.9%

Currencies	Current	YTD Δ
EUR:USD	1.1670	-2.7%
EUR:GBP	0.8782	-1.2%
EUR:CNY	7.4783	-4.2%
GBP:USD	1.3288	-1.6%
Bitcoin	7,342	-49.3%

Commodities	Current	YTD Δ
Gold	1,301.55	-0.1%
Copper	6,808.00	-4.9%
Oil	77.84	+16.9%
Wheat	528.25	+23.8%

Central Bank rates	Current
Eurozone	0.00%
USA	1.25%
UK	0.25%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+1.0%	-0.4%	+7.2%
Germany	+0.3%	+1.6%	+2.3%
USA	+2.8%	+2.5%	+3.2%
China	+2.2%	+1.8%	+6.8%

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