

What not to bare

A cautionary tale about clothing and investment

Hans Christian Andersen, the famous storyteller from Copenhagen, foretold the dot-com crash. His tale 'The Emperor's New Clothes' is a near-perfect allegory for the frenzy of speculation which overtook the investment world between 1995 and 2001.

As paper profits soared, investors began to believe dot-com stocks were invincible. Those analysts who failed to see their merits were fools. Communally, investors took leave of their senses (or did not dare contradict the hype). Standard business models were wrong. It was 'virtual' market share that mattered, not dull old price-to-book ratios and bottom lines.

■ Illusions exposed

In Andersen's tale, the illusion is shattered by a small boy who recognises the Emperor's nudity for what it is. Similarly, when the dot-com bubble burst, it emerged that the only asset managers to have been immune from the hype – and who had prioritised capital protection over capital growth at too great a risk – were our heroes, the level-headed practitioners of value investing.

This was the case for the fund managers at the independent Danish asset manager, Sparinvest. While the major markets frothed around the dot-coms, the team in Copenhagen carried on doing what they do best; searching for deep value among unpopular stocks. A glance at the

ten-year performance of Denmark's biggest single equity fund, Sparinvest Value Aktier, reveals why so many Danes are committed value investors.

"When I try to explain the advantages of value investment, it is almost a handicap that our Global Value Fund has performed so well," says Frits Carlsen, Sparinvest's head of business development. "I want to say: 'Don't give us your money just because of one period of good performance. We are proud of it, of course, but it is not really what we are about. Choose Sparinvest if you want a value manager with a strong and reliable process. Because that is what will count over the longer term – especially when conditions get tough.'"

Carlsen likes to point out some of the statistics that differentiate the Sparinvest Global Value Fund from the traditional global equity fund.

"Our average stockholding period of 3.9 years shows we are not con-

cerned with market timing. Our whole process is designed to minimise risk and eliminate the guesswork involved with stock selection. To achieve the widest possible margin of safety, we look for unloved businesses with shares trading at significant discounts compared with our forensic analysis of their real value. We keep them for as long as it takes for them to reach a fair price again – then we sell."

"Our geographical asset allocation is the result of our process, not what the index dictates. Only about 25% of our holdings replicate those of the benchmark and our exposure to the US has averaged 5% over the past five years. So investors obtain an extra diversification benefit from our value expertise."

■ Into the UK

Since receiving authorisation to distribute its Ucits fund range in the UK last August, Sparinvest has been working with con-



sultants Acuity to formulate high-level UK market entry plans, and find product providers whose business values best match its own.

"We like the fact that the UK offshore bond market is moving towards greater pricing transparency with market leaders paying fund retrocessions back to the client," comments Carlsen. "We entered into discussions with a number of these companies and expect to appear on approved fund lists soon."

"The fact we have AA ratings from Forsyth Partners and Standard & Poor's plus AAA for the fund manager from Citywire has put us on the radar screens of many wealth managers and institutional gatekeepers". Visit www.sparinvest.eu, contact your financial consultant or contact Frits Carlsen at Sparinvest on +352 2627 4728 for details. Subscriptions can only be made on the basis of the prospectus and the current annual/semi annual report of the Sparinvest SICAV.



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Sparinvest Global Value fund vs index

