REZCO
ASSET MANAGEMENT

IN SEARCH OF THE "V"

It sounds great when an economist states they expect a "V" shaped recovery, maybe a "U" in the worst case. A sharp fall, but everything back to normal before long. With hindsight this is what the Global Financial Crisis ("GFC") looked like, and the best thing to do after the market crash was to buy when central banks brought out serious QE. The post-GFC world has been conditioned to always buy the dips, as the powerful instruments of central banks printing money in a low inflation environment has resulted in every fall in equities resulting in more upside for new buyers. At Rezco, we do not view the current situation as a chance to buy the dip, rather, real economic implications of social distancing and shutting down whole industries still need to be digested by a market that is far too used to "V" shaped recoveries. We remain in search of great opportunities for our clients but will not base our view on a hope for things normalising quickly – **we need to look at the facts unemotionally.**

As we draw towards quarter-end, many advisors and clients will be reviewing their portfolios to see the impact the market has had. Immediately one hopes the funds that fell a lot have the most upside potential. Behaviourally this is normal; logically it is not necessarily true. Behaviourally one would hope a fund that has fallen significantly is best positioned to rise when markets go up. We tend to hope that everything goes back to normal quickly. If you are planning on making fund switches (or withdrawals given the needs of many investors in this tough economy), do you take money from the "winning funds" as they appear to have less upside now, or do you back the winners and take from the "losing funds"? Behaviourally, one is usually tempted to hope for the recovery back to previous levels of the losing funds, the thought runs through "I do not want to lock in my losses, I would rather withdraw or switch from the funds that have not experienced large losses".

Navigating a crisis is tricky. There do not appear to be sure bets, only ranges of probabilities. We find it very important that we are in a good space, thinking clearly, feeling energised, and have controlled emotions when making investment decisions. Given there is no exact formula or calculation to work out what exactly will happen, we need to manage well the behavioural side of investing (in conjunction with high tech tools and in-depth fundamental analysis).

Thus our view is that, given the behavioural difficulties of navigating the crisis, those managers with the least need to make up for past losses will be best positioned – they are in a good place to call the facts as they see them. There have been many opportunities to be sucked back into the market hoping for a quick recovery; so far avoiding the temptation has been the best bet. We are ready to reinvest when we think the risk and return expectations make sense, but for now we are still waiting for the right opportunity.

We are pleased to have protected client capital through the crisis thus far, but so it is worth noting another behavioural bias – overconfidence. Those that called the crisis may be overconfident and now prone to error. We try hard to avoid this bias and find that the following part of our investment philosophy helps: we think very carefully about our new investors that have not benefited from avoiding the GFC or avoiding the coronavirus crash; we are acutely aware of the need to make sure that starting today we manage the portfolios as best we can going forward and **not rely on past performance to justify future allocations**. Every investor should be treated like a new investor, going forward they should receive the best Rezco has to offer. We are focused and in a good space to deliver on our goal of risk-adjusted returns, as we have over the last 15 years, but also starting tomorrow.

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