

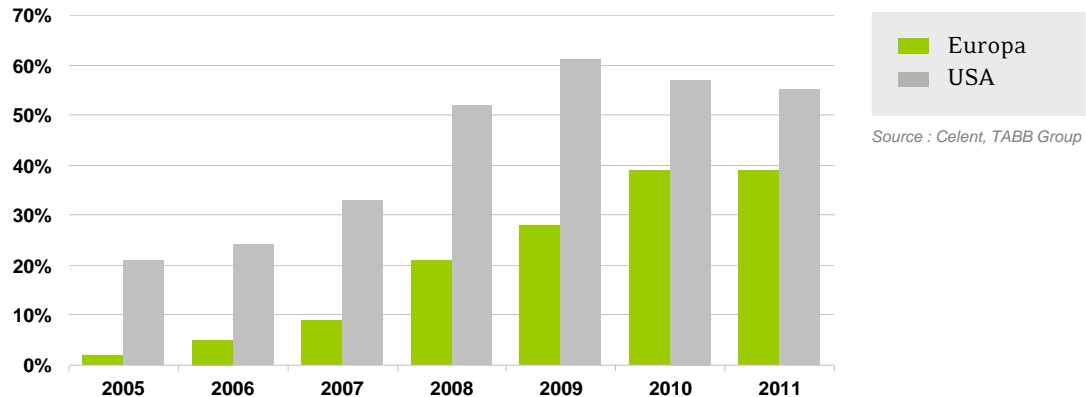
The Mandarin Gestion Letter

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Volatility

“Non-final” investors (also including long-short funds and other arbitrageurs) now represent the majority of investors in terms of market flows.

Share of high frequency trading in equity dealings



It is generally accepted that the fund manager universe has changed because of this. Is this change definitive? The answer to this question does not appear totally clear at a time when the role and economic and social utility of the financial sector and therefore the long-term viability of such practices is being universally questioned!

But what has changed?

On a day to day basis, what has changed is the physiognomy of the market, which is becoming highly volatile. This has not and should not change the equity investment horizon or long-term valuation criteria. Whether one favours a company's rate of growth (Growth strategy) or the discount rate (Value strategy), the price of a share is always equal to the present value of the sum of future dividends and must be calculated looking out three to five years.

If we accept this “principle”, we can ignore daily volatility!

But there is obviously market psychology! Fund managers and clients have difficulty resisting this daily casino atmosphere, thereby leading to this impression that the world has changed.

Three different responses to this situation are possible:

- attempt to profit from the volatility through arbitrage based on momentum investing (time-consuming ... and difficult)
- reduce volatility through systematic hedging or protection strategies (which can have a cost and be perceived as complex)
- decide not to manage this daily volatility, which is unconnected to the equity investment horizon. This can pose problems, as it reinforces the percentage of investors who continue to wait for “a correction before investing” and those who stay on the sidelines when markets fall “because this time it's different”.

Within Mandarin Gestion, our different products each apply these different logics in their own manner, always accompanied by rigorous implementation of our processes, which have proven their worth over time.

Volatility managed or ignored: there are diverse responses, and these responses will only be viewed as satisfactory if they are associated with performance.

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