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Successfully against the wind

The end of cheap money also ended the option of many companies of being able to finance their growth at low cost. Suddenly, investors are discovering their love for low-valued intrinsic value stocks. How investors can bet on a hand-picked portfolio of value stocks from the Euro zone.

The old merchant's adage of "the profit lies in the purchase" is particularly true for counter cyclical investors. The Fidecum Contrarian Value Euroland Fund (WKN: A0Q4S6) focuses on favorably valued stocks. With a plus of 14.4 percent since the beginning of the year, the fund has had a good start off into 2023. Quite a few arguments might support the view that value stocks will continue to outperform the long-favored growth stocks.

In the footsteps of Benjamin Graham

The fund with a classic stock picking approach comes from Fidecum AG, an owner-managed independent asset management company based in Bad Homburg. The portfolio managers waive the option of hedging the concentrated portfolio through derivatives or cash holdings to manage risk. "A top-down analysis in which the macroeconomic environment and the assessment of specific sectors is only carried out to optimize the risk of the portfolio, as cluster risks should be avoided" says fund manager Hans-Peter Schupp.
First, a screening process is used to look for companies that have a favorable price-to-book ratio or that have been driven down too far by market overreactions. Once portfolio candidates have been identified, an in-depth company analysis, which also includes direct contact with management and company visits play an important role. The stock analysis uses insights from the father of value investing, Benjamin Graham, the role model and teacher of the legendary investor Warren Buffett. Schupp makes sure that when buying shares, there is a safety margin of at least 30 percent between the value and the current stock market price. The valuation of a company is based on sustainably achievable earnings and not on the basis of future earnings estimates. "Actually there are only two reasons to invest in a company. Either the break-up value or the value of future discounted earnings is higher than the current market value," the strategist sums up his approach.

Interest rate turnaround as a game changer

The boom in growth stocks ended with the turnaround in interest rates. "Our value approach had a hard time while central banks kept interest rates artificially low through bond-buying programs. Low interest rates favor companies with high growth, because future earnings, no matter how distant, hardly lose any of their time value," explains Schupp. These days the fund manager finds a lot of value in cyclical companies and in financials in particular. The fund's top holdings currently include the Dutch insurance company Aegon and Deutsche Bank, as well as the French automotive group Renault. But other stocks also make the value investor's heart beat faster: "Salzgitter currently has a price/earnings ratio of 1.7, which means that 60 percent of the investment is covered by the current profits alone" With a view to the steel mill supplier Danieli, the expert points to the company's net liquidity, which is higher than its market capitalization, and that with an extremely favorable price-earnings ratio of 8.

Conclusion

The fund offers an interesting addition to fund portfolios, which in the case of equity funds are often still heavily weighted towards U.S. growth stocks. Fund manager Schupp remains true to his style even when facing headwinds. The reward is long-term outperformance. Since its inception in July 2008, the fund has returned 137.7 percent, outperforming the benchmark EURO STOXX Return index (up 111.5 percent as of Jan. 31, 2023).

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