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Investment Letter: 15th August 2013

The concept of breadth in relation to stock markets is a quite subjective measurement of participation. It describes how many stocks or sectors are moving sympathetically, up or down.

Participation rates are increasing as equity investors have become more confident. Whereas in recent financial history, increasing confidence has tended to result in flows toward Emerging Markets, the present age is different. Developed capital is remaining within developed markets. This should lead us to expect an increase in rotational activity and corporate activity. Several strategies benefit from this, including M&A arbitrage and small cap. It should be no surprise, also, to note that the greatest alpha is being generated by stock pickers in the medium cap arena. Portfolios should be scrutinised to ensure that managers of this ilk are present.

For two years we have been anticipating the time when the word "crisis" is replaced by the word "cycle", both in market analysis and in the press. Outside the truly reprehensible goings on in places like Syria and Egypt, where violent crises rule, we do seem to have entered a place where cyclical considerations are becoming paramount.

By contrast, bond markets lack breadth. One way to ensure they never invite you back for drinks in Newport Beach is to cry "there is only one bond curve in the world and that is the US Government curve, all other bonds are derivatives of these".

As we look back from the distance of mid-August, on the monetary authorities responses to the bond market volatility in June, we make the following observations: 1) if ever you needed decisive evidence that bond rates are being "fixed" this was it, 2) owners of inflation linked bonds (ILBs) were quite right to be disappointed with how ILBs performed when rates backed-up. This provides a clue to how they will perform during a return to "normal" inflation (in our view poorly), 3) Fed member Fisher's term "feral hogs" to describe market participants trading actions reveals a degree of intemperance toward an unexpected market response. While Fed members' ill humour reveals the boundaries of their knowledge, market participants are too prone to vault the Fed's expertise in experimental areas 4) This is true also in relation to how the BoJ and BoE is viewed, market confidence in Central Bankers is presently too high 5) Generally speaking, relative performance revealed fault lines in certain asset classes and these may persist (e.g. gold and emerging markets).

How should an investor deal with the fact that bond yields are being fixed? Critically, it should never be forgotten that the 10 year bond yield, a number that underlies much financial investment, can no longer be reliably adopted as the proxy risk free rate. All investors need to take the lead of the Scandinavian state pension funds who have added 2% or 3%to bond yields to arrive at a more plausible "normalised" risk free rate. This may be no more than a guesstimate, but this guess will serve investors well as we enter a period of interest rate normalisation.

We need to partly proof ourselves against the siren-call of "yield-gap analysis". It is bewitching, not least as year-to-date 2013 performance can be explained in reference to gap analysis. For the

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allocation that has made “gap” sense, and has worked, is that into equities, using fixed income as a source of cash.

Our point is that yield gap analysis, without adjusting the bond yield, will likely draw investors in beyond a point of rationality. Whilst this is a problem for the years to come, and not this year, our practice of thinking in terms of three year forward returns brings it closer to our horizon.

As we know from personal experience, sometimes it is better to travel than to arrive. Anticipation often trumps reality. In the pre-normalisation world we have just departed from, a mix of soft data and underlying threat of deflation brought with them the thick woolen comforter of QE and promises of rates low forever. In the newer world of normalisation, we face the abrogation of those promises, rates rising, bond market volatility and, consequently, greater currency divergences. If rates rise too quickly we will experience short but very sharp market shocks, and if rates go above a certain numerical level, financial asset performance will be impaired. Since 2009, participation has been the watchword for compounding gains. It remains the strategy for now but we begin to consider the time when we will need to hoard our nuts, like the squirrels in the parks.

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