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«Outperformance thanks to active sector management.»

Due to the global focus and close links between individual companies, the performance of stock prices is very heavily dependent upon the performance of the respective underlying industrial sector.

If one compares the risk/return ratio of the industrial sectors included in the MSCI World AC Index with the country indices of the largest industrialised nations over the past 16 years, it is apparent that the sectors exhibit a significantly better risk/return ratio than the country indices. The sectors generated a return of 8.34% with a volatility of 17.72%. The major country indices, on the other hand, generated a return of "only" 6%, coupled with a significantly higher volatility of 22.65%, in each case taking dividends into account. This consequently means that in the past a diversification across sectors reduced the risk more effectively than a diversification across the major country indices. The most interesting risk/return profile amongst the sectors was that of non-cyclical consumer goods. The worst, by contrast, was financials.

Active sector management, also known as sector rotation or the sector rotation model, has often proven to be a strategy that offers goods prospects for outperformance. A reason for this lies in the behaviour of the individual sectors within the respective economic phase. The economic cycle encompasses the four phases of upturn, boom, downturn and recession. Each of these phases has characteristic features. These are shaped by the respective growth outlook and the development of interest rates. At the same time, though, each phase is characterised not merely by its fundamental data, but also – with a corresponding lead period of six to nine months – by the psychological behaviour of investors and the associated resulting stockmarket situation. The economic cycle can be quantified using the OECD CLI Index, which has been drawn up and calculated by the OECD since 1961. When the correlation between individual industrial sectors over the past 50 years is measured using this index, sectors with high correlations such as financials, energy and cyclical consumer goods become apparent, along with sectors with low correlations such as pharmaceuticals, utilities and non-cyclical consumer goods. Over the past 16 years this has not changed: if one measures the average monthly performance of the MSCI World AC, including dividends in USD, taking account of the respective domestic currency, the result is 0.43% with a volatility of 16.67%. If one third had been invested over the same period in each of the sectors with a low correlation and declining OECD Index, and vice versa, then the monthly performance would have more than doubled to 0.87%, while volatility would have been lower at 15.89%.

Experience in the active management of the sectors has shown that it is far more promising in the medium to long-term to concentrate exclusively on the presumed outperformers. This investment strategy is particularly suitable for investors with a medium to long-term investment horizon, as well as for institutional investors who in addition to passive management are also looking for an actively managed approach.

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Helvetic Trust AG was founded by Kaspar Grob in Zurich in the year 2001, and is currently wholly-owned by its 16 active partners. In addition to the head office in Zurich, the company also has branches in Berne and Lausanne as well as an office in London.