triple3 PARTNERS

GSFM FUNDS MANAGEMENT

13 January 2020

MEDIA RELEASE

Markets teetering with volatility levels set to spike

An exceptional 10-year bull run coupled with lingering geopolitical uncertainty is likely to generate a spike in market volatility over the coming 12 months and demand a more defensive investment strategy, according to Triple3 Partners' chief investment officer, Simon Ho.

Volatility is recorded via the VIX - a real-time market index that measures the market's expectation of 30-day forward-looking volatility. It is calculated from the price inputs of the S&P 500 index options, and is a measure of implied volatility, market risk and investor sentiment.

Mr Ho said implied volatility was muted in 2019 by historical standards, and the VIX finished the year at 13.7 – although it did experience a high of 28 just after the new year (as a comparison, the VIX hit an all-time high of 80 in 2008 and its long term average sits around 16).

"It was surprising that US equity markets continued to rally during 2019 and the question is whether markets would continue their run into 2020.

"A 20 per cent rally in US equities was unusual considering the Quantitative Easing (QE) program has been in place since 2008 and markets have been bullish during this time, but US interest rate policy has been buoying the market," he said.

As a result, he believes the market is due for a turning point in 2020 as the growth numbers don't justify the market rally of the past two years, in particular.

"People have effectively been borrowing money for free, and when that gets taken away, there'll be some issues. A 10-year bull market by definition has to stop at some point.

"The QE program has run its course and there's no incentive for investors to put money into cash, so the efficacy of QE has rightly been called into question. If that's no longer a tool of policy, what else is there? We've got US/China, Iran, Brexit and North Korea all simmering in the background. We need to find the source of the disruption but it's often a spike that people aren't expecting," he said.

Mr Ho said in anticipation of increased volatility, investors should be looking to protect their portfolios this year and a more defensive play is required. Volatility-based funds are likely to deliver strong returns in a sell off.

"Retail investors in particular would do well to put their money into something that's negatively correlated to equities to ensure they're protected over the course of 2020.

"With the strong investment performance that equity investors have enjoyed since 2008, it would now be prudent for them to consider portfolio protection. Investors need to know that with every year that goes by, there's a greater risk there will be some sort of pull back, but if you buy volatility derivatives, for example, you can get a negatively correlated performance relative to any underlying equities," he said.

While the US Federal Reserve has indicated it is comfortable with the current rate settings and are unlikely to dip into negative territory per some European economies, the risk of inflationary stimulation remains for investors.

"We can't just assume that we're not going to see inflation again, and Australian rates are at the end of their wriggle room so it's a genuine risk that investors need to be conscious of and protect their portfolios accordingly," said Mr Ho.

For more information please contact:

Simon Ho
CEO
+61 410 330 565
sho@triple3p.com

-oOo-

Triple3 Partners is an independent research and investment firm based in Sydney that specialises in volatility as an asset class and provides volatility strategies to institutional clients. This includes alpha strategies, volatility overlay and volatility research.

Triple3 invests in portfolios of options in order to tap the alpha potential inherent in volatility. Using a proprietary quantitative strategy, Triple3 helps investors enhance returns and manage portfolio volatility.

Over the past seven years Triple3 has developed quantitative forecasting techniques and portfolio allocation algorithms, which represent a prominent source of its competitive edge. For more information please visit the website: www.triple3p.com

GSFM was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with fee-earning assets of CAD$181.9 billion (as of 31 December 2019). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*
- *Toronto and Boston based Cambridge Global Asset Management*
- *Redpoint Investment Management, a boutique equities manager based in Sydney*

GSFM represents approximately $17.9 billion funds under management (as at 30 November 2019). For more information about GSFM please visit the website: www.gsfm.com.au