

SEB Asset Selection lost 4.9 pct in October 2011

Copenhagen (HedgeNordic.com) October 2011 showed sharp reversals in all asset classes as investors switched from "Risk-Off" to "Risk-On". Our fund posted losses in all asset classes and a loss of 4.9% in total, writes SEB Asset Selection.

- A parallel can be drawn to April 2008, when our fund lost 4.3pct. At that time, the equity market got very excited when Bear Stearns was rescued (JP Morgan Chase paid USD 1.1bn to acquire Bear Stearns). This time around, the equity market became excited about the massive political support to save Greece from bankruptcy. In 2008, the S&P 500 Index soared by 11.5 pct between the first positive news about Bear Stearns and the subsequent peak in the US stock market index. Until that point, the YTD performance 2008 was basically flat. The bull rally this time around was even more remarkable. From 3 Oct to 27 Oct 2011, the S&P 500 index posted a 16.8 pct recovery and the 2011 YTD performance is, in a very similar way, basically flat, writes SEB Asset Selection.

- Unfortunately, the period of optimism following the Bear Stearns rescue in 2008 did not last too long. After that, the US stock market experienced a 50 pct decline over the following 10 months. As has happened so many times before, politicians have either been unable or unwilling (rightly so) to stop a house of cards from collapsing. Back then, it was sub-prime debt in the US. This time, it is government debt in southern Europe. In both cases, groups of people have been willing to borrow unreasonable amounts of money to satisfy their short term consumption addictions. In both cases, they have put their long term financial stability at stake and ended up in a big financial mess. In both cases, a lot of pain has been and will be the end result, writes SEB Asset Selection in their October report.

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