

# Elementa's X-Factor Stocks Avoid Turmoil

Stockholm (HedgeNordic) – Last week, stock markets across the globe endured their worst week since the financial crisis amid growing concerns over a global recession and the coronavirus pandemic. Most Nordic hedge funds experienced losses in the recent market decline, but a few funds such as Stockholm-based **Elementa** came out from the turbulence unscathed.

The niche long/short equity fund founded and managed by Marcus Wahlberg (*pictured*) gained a little over six percent last month, marginally surpassing its best monthly performance that was registered last year. “The explanation for the strong performance last month is the reporting period,” writes Wahlberg in a letter to investors. “Several positions on both the long and short side performed well, which resulted in positive alpha,” the letter adds. “The stock selection was driving our performance.”

Elementa undertakes deep fundamental analysis to find “X factor” companies with scalable business models that do not require huge reinvestments to grow operations. In addition to exhibiting a clear route to value creation, Elementa’s investment candidates are led by competent and motivated management teams and trade at attractive valuations relative to future potential. As Wahlberg previously explained HedgeNordic, Elementa employs a research-intensive approach that involves searching for companies with strong growth prospects, business model scalability and strong cash flow generation.

“We have long pointed to the importance of avoiding tail risk and building a robust portfolio that, not only resists, but also benefits when risks materialize,” explains Wahlberg in the letter. “The usual analysis work conducted as part of the stock selection process” builds the foundation for Elementa’s robust portfolio and risk management. Elementa enjoyed five consecutive years of positive performance since launching in March 2015 and delivered an annualized return of 10.4 percent since inception.

Instead of initiating only single short positions on individual companies, Elementa also bought low-priced put options during the autumn amid low option premiums relative to potential volatility. “After a long period of strong equity markets, the premiums for purchasing options in terms of volatility were priced relatively low,” writes Wahlberg. These options represented attractive risk-reward opportunities, creating a “good relationship between risk and potential upside.” In addition to the strong performance from its pure stock positions, “we also received a good contribution from these derivatives during the month.”