Othania’s Tiger Goes on the Defensive

Stockholm (HedgeNordic) – Following the turbulent markets in the last week of February, the systematic model designed by Danish asset manager **Othania** – called Tiger – decided to switch investments out of equities into bonds. The reallocation helped Othania’s two funds – **Othania Invest** and **Investin Othania Etisk Formuevækst** – navigate this month’s volatile markets quite well, with both funds in positive territory month-to-date.

Othania’s investment model uses indicators on economic activity, interest rates and stock market movements to assess the risk of equity exposure for the month ahead. On a monthly basis, depending on the degree of risk ahead, the Tiger model takes a binary decision of allocating capital either to equity or bond exchange-traded funds (ETFs). If indicators point to a high level of risk for the coming month, both Othania Invest and Investin Othania Etisk Formuevækst allocate their assets to ETFs offering bond market exposure for capital preservation. “All of our indicators flashed red at the end of February, which meant we changed our exposure from stocks to bonds,” CIO Vincent Larsen *(pictured left)* tells HedgeNordic.

“We saw falling growth and inflation expectations, risk-off from the interest curve, as well as a significant change in the stock market trend,” explains Vincent Larsen, who co-founded Othania in March 2016 with his brother Christian. “All of this combined signaled higher volatility ahead for stocks and therefore we switched to bonds, where we expect a better risk-return ratio.” With the first half of the month behind us, the Tiger model appears to have made the right call. Othania Invest, the asset manager’s first vehicle launched in May 2016, was up 1.5 percent month-to-date to the end of last week, whereas the other fund gained 0.2 percent. “But both our funds have positive returns so far in March with very low volatility compared to the stock market,” says Larsen.

Despite managing to avoid this month’s turbulent markets, the two Othania funds incurred some losses in February due to their exposure to equity ETFs last month. Othania Invest was down 10.4 percent in the first two months of 2020, while Investin Othania Etisk Formuevækst lost 8.6 percent. “We took a hit in the last week of February,” acknowledges Larsen, so both funds are still in negative territory year-to-date. The magnitude of losses for the Othania funds, however, is significantly lower than for the overall stock market.

Tiger’s Next Move?

Vincent Larsen reckons that investors “should expect very volatile markets, both up and down, over the combing 8-10 weeks at least and that the shutdown of countries, restaurants, shops and other travel restrictions will have a much bigger impact than we can forecast right now.” Whereas stocks have been plunging this month and continue to fall, the systematic model developed by Larsen “does not tell us if the market is oversold right now or not.” The model, however, suggests that “economic conditions do not favor risk-taking in the same way as before.”

Whereas Larsen does not completely rule out that the Tiger model will reallocate capital from bonds to equities at the end of March, the reallocation is highly unlikely. “Quite a lot of positive news or a significant change in market sentiment has to happen for the model to switch at the end of March,” explains Larsen. “But I cannot rule out a switch,” he continues. “Because of the volatility we see across all indicators and asset classes, a sudden “cure” to the virus or news that hospitals can actually keep up with the number of patients could make significant changes to the sentiment.”

“We have also seen a lot of central bank interventions,” adds Larsen. “But as long as we have not seen the virus curve flatten out, I do not expect this to “fix” the market sentiment.” He does see these interventions solely “as a stabilizer for now.”