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Return of the A-share?

The A-share has been a trying market for both investors and the fund managers. The rebound since end of April gives long investors hope, but the FED hikes and uncertain domestic recovery puts a dark background to the "recovery or reversal" debate. While it's tough to hover around the lows, it may be even tougher to go up and then fall back down. The wait for the reversal can be stressful and depressing, because no one knows if or when that moment will come. In the fund management industry, everyone is hoping for the positive results: when the online account statement shows up, we want to see the fund return rise in lockstep with the market. And if it rises today, then it SHOULD rise tomorrow, right?

Result is of course very important in fund management industry. There is a saying: "talk is cheap, show me the money!" With the overwhelming focus on the final investment return, the investment process becomes de-emphasized. But the investment process is the key that delivers the ultimate long-term investment results. It's worth asking: have I really looked closely the investment process? Do I really enjoy it? After all, if the investment process is painful to you, and all you want is a quick result that alleviate the pain, or a dream of a snap of fingers to grant you financial freedom, then maybe equity is not the right market for you. If your expectation is to achieve at or slightly above market return over the long-term, then equity market is right for you.

So how do you survive these challenging times? Maybe we should change our perspective, and search for hidden values and enjoy the investment process! When the market is dropping or becoming very volatile, there are at least three sets of values that emerge. Firstly, strong industrial logic and out-performing companies will rise above the crowd. Secondly, the excellent managers' knowledge will evolve quickly in

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the fast-paced market. And lastly, the market dynamic will bring shocks that provides opportunities for investment and fund managers to choose again.

In the 1970s, the widespread stagflation gave rise to the strongest US bull market in history. With the emergence of digital revolution, technology stocks like Intel became the new global growth engine that fueled outperformance of the tech-growth NASDAQ over the traditional S&P. At the same time, Germany also faced high imported inflationary pressure in the 1970s. It turned to its strong export sector to strongly supported its domestic economy, currency, and stock market. Similar to Germany, Japan shifted from capital-intensive steel or chemical industries to technology-intensive computer and electronics industries. This transformation dramatically decreased energy expenditure, increased export volume, and successfully overcame stagflation. Japan saw a decade-long bullish stock market since 1975.

Once the crisis comes, those remain standing will be the companies with core competitiveness, wide protective "moats", and high growth rates. How to identify these excellent companies is how we assess fund managers' core investment capabilities. When you evaluate a fund manger's research quality, it's worth following whether they dare to top up when the excellent company is tanking, and whether they are disciplined to cut when the company reached their target prices. These simple buy- and sell-decisions reflects confidence that comes from deep, thorough research, and investment foresights. Only when the tide recedes can we know who are swimming naked. The best time to observe fund manager is during volatile markets. Does the manager have a reliable and well-defined capability? Has the manager style drifted? Is the manager trying to pull a "fast one"? Were the returns more of Beta or their Alpha? These answers and more can be answered when we look at the results after the waves. If you can experience such episodes in their entirety, the investor will achieve much better insights about both the manager and the market. Investment if the process to monetize knowledge or skills. Investors and the managers are continually matching with each other in the bull and bear cycles of the market.

No manager can earn money based on past victories. Its knowledge and investment capabilities must continuously evolve so the managers can continuously create value for investors. To continuously create value is the most fundamental pillar of the fund management industry. Investors must check if their managers have the investment capability, have a well-defined and effective investment strategy, and whether there's a good fit. As we learn from Positive Psychology: to become happier, we should pay more attention to the process, and not just the result. For the fund managers, the key is building deep connection and trust with investors, so they can sleep at night even in the darkest moments, knowing the manager is looking after investor assets by deploying the proven long-term investment strategy. At Rosefinch, we're striving to continuously create value for the investors. Let's enjoy the journey together as we deliver long-term above-market returns.

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