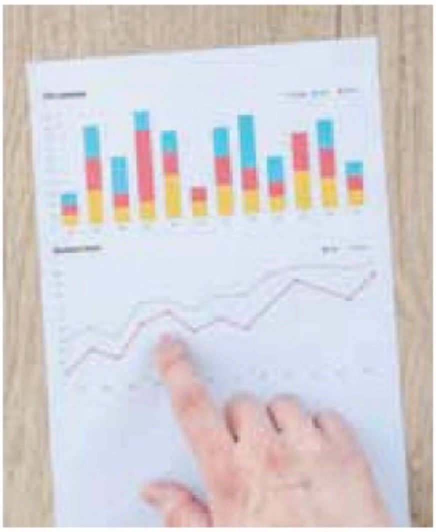
Riboldi (Banor SIM): "For medium-term performance, now is the time to reassess a value investing approach"

Over the last half century growth stocks have only had such high multiples compared with value stocks on three occasions: in 1970 with the Nifty Fifty, in 2000 with the Nasdaq bubble and today. With respect to the technology stock bubble at the beginning of the millennium, in most cases now, the growth stocks make profits. Is it still worthwhile to focus on the latter or would it be better to apply the techniques of value investing to private banking? **Luca Riboldi**, Head of Investments at Banor Sim, has no doubts that he prefers the latter approach. And he explains why. The revenue growth of the last ten years is mainly because to the boom in e-commerce, in digital devices and social networks. The rise in the US stock market and, to a lesser extent, in global stock prices was also driven by close to zero interest rates all over the world, increasingly low corporate taxation, strong concentration—thanks to which oligopolies that were nearly monopolies were formed in some sectors—and by globalisation, which made it possible to keep labour costs very low. In February, COVID-19 made its appearance, causing the sharp slowdown in global growth and prompting even more aggressive monetary and budgetary manoeuvres.
And what was the result? Even lower real interest rates and, in some sectors, a collapse in revenue with a

The value approach that we follow has enabled us to seize the opportunities offered by stocks with a strong competitive advantage and high growth rates, like Facebook, Google, Amazon, and Apple, when they were being traded at reasonable multiples. Focusing on American giants was one of the pillars of our strategies, and we still keep them in our portfolio today, while we are not exposed to companies from sectors that are very fashionable today, like e-commerce or

consequent collapse in the generation of cash or even huge financial holes. Think of Lufthansa burning one million euros an hour during April and May. "If it is going to take 18-24 months to return to the level of global pre-COVID demand, the companies listed on the US stock market will burn anywhere between 15 to 20% of their capitalisation in cash. In the meantime, we will have more information on the evolution of the pandemic, on the recovery of global demand and on the geopolitical situation", observed Riboldi. A longer term outlook for the US market shows that factor strategies (value versus momentum-growth) explain most of the market performance in the last ten years. Understanding these dynamics in the March sell off would have helped to limit losses by going long on tech and pharma stocks. Conversely, buying value stocks at the end of May rally would have significantly improved portfolio performance. So, now what's the best strategy? "The valuations of many cyclical value stocks in a medium-term outlook are very attractive compared with the crazy multiples for which many technological or fashion related companies are trading", explained Riboldi. "In recent years, our value lines of management have managed to generate excellent returns and outperform the reference benchmark.
videoconferencing, whose multiples and valuations are too high. We focus on valuations of companies that must be discounted with respect to their real value and we avoid companies that are too indebted, especially at this moment in time when uncertainty regarding the duration and the effects of the pandemic is so high".

Sergio Governale



Luca Riboldi