Global Matters Weekly

19 June 2023

Belvest 研富

Daring to be different

by Gary Moglione, Portfolio Manager

The UK is currently experiencing a scorching heatwave, with temperatures reaching 28°C. While it may not be extreme for some of our international readers, it's a significant event for us in the UK. During such heatwaves, consumers tend to rush out and buy fans to keep cool. Last year, fan sales increased by a staggering 1300% as prices surged and stocks ran out. It's interesting to draw parallels between the scarcity of fans during these hot times and the behaviour of investors in the stock market. When temperatures soar, demand for fans skyrockets, much like how investors flock towards popular stocks, driving up prices and leaving little room for bargains. This behaviour sets the stage to discuss contrarian investing.

Contrarian investors understand the value of going against the crowd. Just as contrarian investors would purchase fans in the winter when they are abundant and discounted, they seek undervalued opportunities in the market when others are focused on the hot stocks for the current economic backdrop. Currently, about half of this year's gains in global equities can be attributed to seven stocks, leaving ample room for contrarian investors to find opportunities in other areas of the market which may be overlooked.

Contrarian investing has witnessed remarkable success stories over the years. One noteworthy trade was made by Michael Burry of Scion Capital, who bet against the subprime mortgage market when property prices were continually rising in 2005. Despite facing significant underperformance, client pressure, and criticism, Burry remained steadfast in his view. His conviction paid off in 2008 when the subprime mortgage market collapsed, resulting in substantial gains.

Another example is Sir John Templeton, a legendary investor. During the depths of the Great Depression, Templeton invested $10,000 to purchase stocks trading below $1 on the New York Stock Exchange. Although considered reckless by many, his contrarian mindset enabled him to uncover hidden value and capitalize on the eventual market recovery. Within four years, his investment grew fourfold.

Being a contrarian investor is challenging. It requires the ability to withstand social pressure and the emotional turmoil of seeing investments temporarily out of favour. However, the potential rewards are significant. Contrarian investing allows investors to acquire undervalued and underappreciated assets, presenting opportunities for substantial long-term gains.

Contrarian investors possess the unique ability to detach themselves from herd mentality and think independently. They understand that markets are driven by emotions, often leading to overreactions to short-term news and events. By maintaining a long-term perspective and having the patience to wait for opportunities, contrarian investors can identify undervalued assets that others have overlooked.

In a world where the majority succumbs to the allure of hot stocks during market frenzies, contrarian investing stands as a steadfast and disciplined approach. Just as purchasing fans in winter offers discounts and savings, contrarian investors seek out undervalued opportunities when others are distracted by short-term market trends. While the mental challenges are undeniable, the potential rewards make it worthwhile. By having the courage to swim against the tide and patiently seek out hidden gems, contrarian investors can position themselves for long-term success in the ever-changing world of investing. With markets currently exhibiting high levels of valuation dispersion akin to the tech bubble and COVID-19 periods, diversifying capital away from the herd is prudent for any investor.

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