

# Investment Themes

## Investment Style - Momentum

### Investment idea

- Momentum refers to movement and its propensity to continue in the same direction. By using technical analysis momentum strategies try to identify a stable price trend which is likely to continue in the future (Trend Following). As the name implicates, such strategies are especially powerful in markets with a stable trend. The approach originates from behavioural finance and lacks the rationale of classical finance theories.
- Momentum strategies require a lot of discipline and risk monitoring. Due to the high number of transactions, this strategy is only suitable for trading oriented investors with high risk tolerance.
- Investment idea first launched on 30 April 2012.

### Selection Process

- Applying a two step investment process five North American and European stocks are selected. As underlying investment universe we use the indices MSCI North America Large Caps and MSCI Europe Large Caps.
- In the first step the investment universe is reduced to the ten most attractive looking stocks. This purely quantitative process uses a scoring model based on the rate of change (ROC) over two periods and its moving average in order to identify trend de- and accelerations.
- In the second step we use a discretionary approach to identify the stocks which offer the biggest upside potential from a technical analysis point of view on the one hand and exclude stocks, where the price movement has been influenced by special events like takeover rumours, on the other hand.

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## Investing into the energy transition

### Investment idea

- The discussions surrounding renewable energy sources are gaining in relevance. However, a long-term revamp of the energy mix appears to make sense not merely out of risk considerations: ecological arguments also point in the direction of a paradigm change. But choosing the best renewable source of energy is a difficult call. Apart from the cost factor, technological evolution also plays an important role in the decision. For investors, the energy shift basically opens up a wide spectrum of investment possibilities.
- Investment idea first launched on 3 November 2011.

### Rationale

- Investors should not be blinded by the existing growth potential: currently, the traditional energy forms still offer a clear cost advantage. As long as renewable energy sources have not achieved grid parity, shares of the operators, producers and suppliers within the green industry will harbour risks that should not be ignored.

- We prefer companies, which are active in the field of enhancing energy efficiency and smart grids.
- There is a need to rethink today's energy policies, but a rapid transition is unrealistic. So we think there is a need for a transitional solution. Natural gas combines several advantages: cost efficiency, low emissions, flexibility and a high security of supply.
- Further arguments can be found in our study "Investing into energy transition".

### Implementation

- Investment strategies can be implemented by mutual funds (please refer to our study) or through direct investments in single stocks. Investors preferring single stock investments should well diversify into different stocks.
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## How to invest in demographic changes

### Investment idea

- A turning point in demographic change is reached: For the first time ever, in the current year we face a decreasing working population within the industrial nations. Demographic changes won't only affect long term social and economic developments but also have short term implications. Investors who want to adapt their portfolio to the new environment should focus on the growing aging population. Especially equities from the health care and consumer staples sector with a focus on products on the aging population are likely to benefit.
- Investment idea first launched on 10 October 2011.

### Rationale

- A growing global prosperity leads to an increasing life expectancy and a falling fertility rate. Compared to 1950 life expectancy has increased by twelve years in the industrialized nations and by 25 years in emerging markets. In the meantime fertility rate has more than halved.
- As the post-war high birth rate generation (baby-boomers) is retiring, the population share of retired people is growing faster than working population.
- Health care costs are likely to increase. As retired people tend to consume their savings, consumer goods will gain market share relative to investment goods which in fact influences the GDP composition. Sales of companies directly linked will grow above average. Especially companies increasing the standard of living and the health of the elderly peoples benefit.
- Further arguments can be found in our study "Investments in demography".

- ▶ Study "Investing in demographics"

### Implementation

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## Natural Gas - an alternative to atomic energy?

### Investment idea

- The severe nuclear reactor incident in Japan has led in a number of countries to a reassessment of energy policies. In the opinion of most experts rapid changeover to sustainable energy sources is unrealistic. Tapping new, unconventional natural gas sources is a climate-friendly alternative during the transition period that lies ahead.
- We are upholding our investment idea first launched on April 6, 2011.

### Rationale

- The future of atomic energy is uncertain; the great white hope of "alternative energy sources" is disputed. At the same time, most experts are in agreement that electric power demand will increase by approximately 80% over the next two decades.
- Already today, 21% of the world's electric power generation is attributable to natural gas – and the trend is on the rise. Not to mention that natural gas is the "cleanest" fossil fuel: compared to coal, it produces only about half the amount of CO<sub>2</sub> emissions.
- USA has commenced with the exploitation of enormous natural gas resources. Here, it is a matter of unconventional, so-called "shale gas" deposits. To stress this point: without much public notice, the US recently overtook Russia as the world's largest natural gas producer. Plans are for a fivefold increase in production capacity over the next two decades.
- Also arguing in favour of a wider use of natural gas combustion are the economic aspects: per BTU, natural gas is today already four times cheaper than crude oil. Carbon offset trading will shift the relative attractiveness further in the direction of natural gas.

### Implementation

- Attention should also be paid to investing in the broadest possible range of the entire value chain. The implementation can be made with selected individual investments which are involved in so-called "shale-gas" deposits.
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## Tomorrow's Consumer

### Investment idea

- Asia needs an adjustment of its growth strategy. To maintain the growth rates of recent year, Asia needs a shift of its economic activity: less exports, more domestic consumption.
- We are upholding our investment idea first launched on September 21, 2010.

### Rationale

- Due to low wages and undervalued exchange rates Asia was able to sell goods and services successfully to global markets. As a result, several hundred millions people have overcome poverty. The OECD expects that by 2030 two thirds of the global middle class will live in Asian countries.

- The share of consumer spending is only about 36% of the Chinese gross domestic product. This is the lowest value among major economies. Rising wages and lower saving rates will result in increasing consumer spending.
- With more than 30% China has one of the highest saving rates in the world. As the People Republic is about to expand its social security net, saving rate is likely to decline.
- Consumer staples, automobile, luxury goods, sport clothing, tourism and leisure, health care, telecommunication, utilities and the financial sector will probably benefit. Index funds respectively ETFs are insufficient to focus on this topic, because the underlying indices often reflect the current "old" economic structure.

 Study "Tomorrow's Consumer" (PDF, 213 KB)

### Implementation

- To implement this idea we recommend an equity basket created by VP Bank. The basket consists of 38 stocks. The stock selection criteria are based on market position and market share, the emerging market exposure in total sales and the trademarks reputation in the emerging markets.

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## Focus on German Large Caps

### Investment idea

- Within the euro zone the German stock market has the best prospects. We therefore recommend focusing on German (export-oriented) companies within the European equity market.
- We are upholding our investment idea first launched on May 31, 2010, updated on 7 May 2012.

### Rationale

- German companies derive about 42% of their sales outside of Europe. Germany is the world's second largest exporter. A weak euro should therefore impact revenues and profits positively.
- With a strong focus on the manufacturing sector (57%) Germany will benefit from the global recovery. Compared with its European peers, German companies are less risky owing to their low debt levels.
- Moderate wage increases of the past ten years have augmented the international competitiveness.
- Germany has to save less than other European countries. To achieve the Maastricht criteria by 2015 savings efforts of 0.5% of the GDP are needed. The negative effect on economic growth should therefore be lower than in other euro-zone countries.

### Implementation

- The implementation can be made either with a diversified ETF on the German benchmark index DAX or with selected individual investments.

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## Sustainable Dividend Investments

## Investment idea

- Dividends as a source of performance for equity returns are gaining in importance. On a risk/ reward basis we consider investments in financially sound Blue Chips to be particularly interesting.
- We are upholding our investment idea first launched on August 31, 2010 (Update on May 7 2012).

## Rationale

- At current levels, bonds provide an unsatisfactory yield for many investors.
- Given the recovery in corporate profits dividend payments appear ready for a revival. For the Stoxx 50 analysts are forecasting a dividend growth of 9% (2012) and 7% (2013).
- Currently, we consider companies meeting the following criteria as particularly attractive portfolio additions: above-average dividend yield, historically stable dividend growth, no extreme pay-out ratio, dividend payments covered by operating earnings, a solid balance sheet and a relatively high equity/debt ratio.

## Implementation

- The implementation can be made either with a diversified fund or a selection of individual stocks.

[▶ Important Legal Information \(PDF, 61 KB\)](#)

### More Information

[▶ Investment Views in brief \(PDF, 51 KB\) 16.03.2012](#)

[▶ Financial market news](#)

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