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## Broad diversification is still the order of the day

Paul Severin



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Gerhard Beulig, fund manager and responsible for the YOU INVEST line, expects capital markets to remain highly volatile for a while. The central banks are trapped by their own extreme interest rate policy; interest rates therefore remain at practically zero percent for short-term investments, with no trend reversal in sight. Investors who want to earn at least the rate of inflation in the long run, will find no way around investing on the capital markets. At the moment the fund management team prefers the USA to the Eurozone due to the positive interest rate differential; we regard equities as neutral. The foreign exchange risk remains hedged.

**Many investors are unsettled by the fluctuations on the capital market and in your investment fund. How do you rate the development?**

**Gerhard Beulig:** the price fluctuations have been significant both ways ever since YOU INVEST was first launched. In the first year both the interest and equity markets provided us with above-average rates of return; but since August 2015 we have seen drastic corrections on most stock exchanges. The fluctuations will remain with us for a while longer, but for the medium term I envisage calmer waters.

**What is the reason for the high level of volatility?**

**Beulig:** the US central bank increased its Fed funds rate for the first time in a while last year, trying to herald the trend reversal of its monetary policy. However, this project has turned out more difficult than expected, given that from a global perspective the economy is expected to weaken. Commodity prices have fallen dramatically, as we can see with the oil price, and the growth engine China has slowed down while the geopolitical risks remain high.



Gerhard Beulig, Senior Fund Manager, Multi Asset Management

*Gerhard Beulig has been with the company since 2001. He was head of the credit segment in the Fixed Income division for nine years and became head of Asset Allocation with ERSTE-SPARINVEST KAG/ Erste Asset Management in 2010. Beulig has worked in capital markets since 1991. Gerhard Beulig holds CFA and CEFA charterships and is Vice President of the financial analyst association, CFA Society Austria.*

**Why should one stay invested?**

**Beulig:** the situation for savers is unchanged. The interest rates on savings books are practically zero, at the same time consumer prices are rising. January inflation was 1.28% in Austria. Investors who want to earn at least the rate of inflation in the long run will find no way around investing on the capital markets. The price they have to pay is the elevated level of volatility.

**The stock exchange expert André Kostolany, who died in 1999, said: "Buy some shares. Then you take a sleeping pill, wake up ten years later and realise that you have become rich." Is this wisdom still true?**

**Beulig:** in comparison with government bonds that yield lower rates of return, shares are attractive due to a higher dividend and earnings yield. Therefore shares – or equities – offer the chance of surplus return in the long run. Our goal for the YOU INVEST funds is to achieve an attractive yield on the back of active investment in various bond and equity segments.

**What strategy would you advise in these turbulent times?**

**Beulig:** an actively managed investment strategy across numerous asset classes, the way YOU INVEST offers it, is a good choice for investors. You have to keep your eyes on the long-term goal and stick to the strategy also through difficult times. We advise investors who have the means to do so to possibly increase their holdings in the fund or to invest regularly and to thus buy on the current weakness.

#### **What's so special about YOU INVEST?**

Beulig: if necessary, we can reduce the equity ratio to zero percent in the YOU INVEST funds. We did that for example with YOU INVEST solid at the outset of the market turbulences in August 2015 until the end of September in order to make the performance of the fund slightly less exposed to capital market fluctuations.

Also, transparency ranks very high on our list of priorities: we offer a dedicated website ([www.youinvest.at](http://www.youinvest.at)), which reports daily on the development of the fund. The website also provides investors with fund reports, videos, a newsroom, and invitations to various workshops.

#### **Which YOU INVEST fund would you prefer?**

Beulig: I think that question does not really apply the way you phrased it. The YOU INVEST funds come in various forms, from safety-conscious with a maximum 10% of equities in YOU INVEST solid to speculative with a maximum portion of 70% in YOU INVEST progressive. Every investor can choose their preferred version according to their risk tolerance and holding period. In the long run, the riskiest version offers the biggest expected rate of return.

#### **What is the current asset allocation in your funds?**

Beulig: we currently make use of the higher interest rates in the USA and have recently stepped up the share of US Treasury bonds and US corporate bonds at the expense of euro money market instruments and euro government bonds while hedging the US dollar risk. We are currently only at 50% of the maximum equity ratio in the funds. Overall, we currently pursue a balanced strategy that is slightly on the conservative side.

#### **What is the rate of return that you expect for the funds?**

In the long term I expect to see an average, positive performance of the funds in the ballpark of +1% to +5% p.a., depending on the risk profile. Of course the recommended minimum holding period of six years has to be taken into account here. \*)

\*) The expected rate of return does not allow for the one-off load of 4.00% due at the time of purchase nor other costs reducing return such as individual account and depositary fees or taxes.

#### **Forecasts are no reliable indicator for future developments.**

#### **More information:**

Visit the YOU INVEST Website: [www.youinvest.at](http://www.youinvest.at)

#### **Go to the funds:**

[YOU INVEST solid](#)

[YOU INVEST balanced](#)

[YOU INVEST active](#)

[YOU INVEST progressive](#)

#### **Risk notes according to 2011 Austrian Investment Fund Act**

YOU INVEST active, solid, balanced and progressive may make significant investments in investment funds (UCITS, UCI) pursuant to section 71 of the 2011 Austrian Investment Fund Act.

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### **Paul Severin**

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.

