Quarterly Investment Outlook

3rd Quarter 2020 June 2020

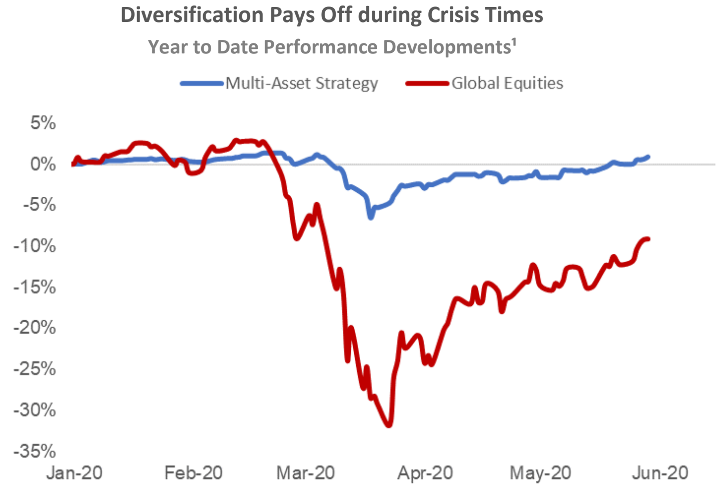
Haakon Håland
Chief Investment Officer

ameliora WEALTH-MANAGEMENT

Advisor's Commentary

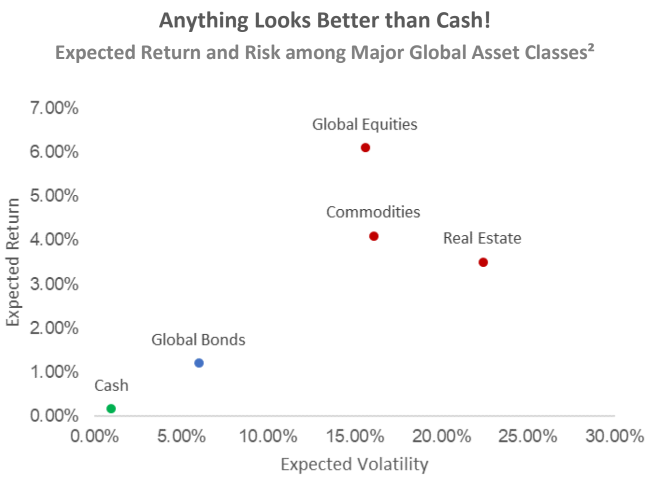
June 4th, 2020

"Beating the market" is supposedly the yardstick that determines the merit of a money manager. If you cannot beat the market, then you might as well pack up and succumb to the effortless style of "passive" investing. Although bluntly put, this is often the message relayed as to insinuate beating the market is all that matters. Being hell-bent on outperforming an index in order of achieving a statistical improbable outcome does not resonate well with sensible investment management in our view. Rather than compete against the market one should focus on utilizing what the market has to offer. The market itself can at times be awash with accretive investment opportunities that provide satisfactory returns, but also at times laden with risks where there is little to gain. Sound investment management starts with a plan that incorporates required returns and desired risk, and the probability of accomplishing it. The price and value of prevailing financial assets will dictate whether the goals are achievable and at what cost. The underlying motive of such a strategy is focusing on risk mitigation as opposed to risk maximization, which at times might appear underwhelming when risk appetite is high and markets euphoric. Nevertheless, keeping up with the market, or even trailing it during good times, is fine. It is during bad times that deviation from an index is key. This year so far has been a testimony to how fast seemingly good times can abruptly end and how vital it is to be prepared.

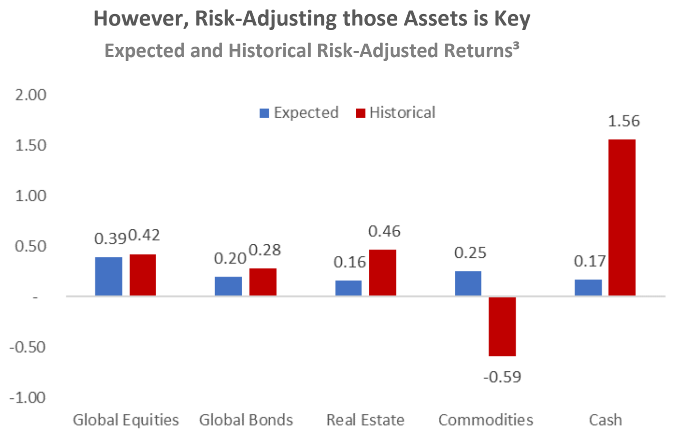


Source: Bloomberg, LP. Ameliora Wealth Management AG. Indexes: Multi Asset Strategy = BofA Merril Lynch Multi Asset Index in USD, Global Equities = MSCI World Net Total Return USD Index. [1] The Multi-Asset Strategy is not a representation of Ameliora Wealth Management's own strategy offerings, rather it serves as an illustration of the multi-asset class performance properties from a recognized index provider over the stipulated period. Data as of end of May 2020.

So how can one assess what the market has to offer and whether it is attractive? A crude way of identifying market opportunities is by looking at the expected return and risk of major asset classes compared to that of cash or risk free instruments, essentially the "opportunity" cost. A fair proxy for establishing the value of cash is by looking at prevailing interest rates on government bonds. These yield curves serve as both a basis and a mechanism for evaluating prices of riskier assets by factoring in what one could potentially earn by holding risk capital instead of cash. Since interest rates are so subdued around the world, one would conclude that holding anything else than cash is far superior and worth the added return, i.e. risk premium. However, the implied appeal of relatively higher returns must also commensurate with the perceived risk associated with that asset. Interest rates at or close to zero influence asset pricing since discounting future asset values at ever decreasing rates gives us elevated present values. As such, it is useful adjusting the respective risk premiums with the related risks to establish an expected "risk adjusted" return on the assets. Typically, a lower reading (below 1) signals a weaker risk/reward proposition as the denominator (risk) increases proportionally more than the numerator (return).



Source: Research Affiliates, LLC, Ameliora Wealth Management AG. [2] Data obtained from Research Affiliates' Interactive Asset Allocation model depicting 10-year risk and return expectations based on the provider's methodology for valuing assets.



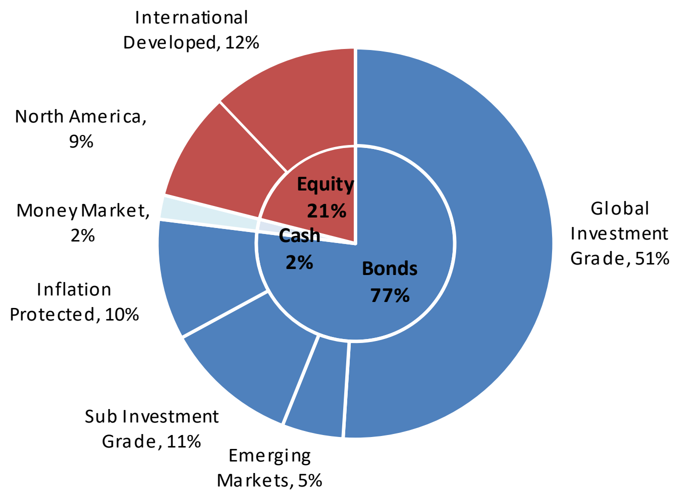
Source: Research Affiliates, LLC, Ameliora Wealth Management AG. [3] Risk adjusted returns for both expected and historical 10-year return and volatility data calculated based on Research Affiliates' Interactive Asset Allocation model own return and volatility numbers.

Although a rudimentary method, this approach helps underpin what is reasonable to expect from current asset prices and subsequent future return on investments. Furthermore, it provides guidance on how to structure suitable asset allocation strategies by avoiding the fallacy of mostly setting return expectations too high and risk tolerance too low. It is fully conceivable to expect excess market returns by identifying other similar assets with more attractive properties, even without increasing risk meaningfully. This ties into understanding an asset's worth and its sensitivity to the changes in prevailing economic environments. This year sparked a huge deviation between both the historical and intrinsic value of some securities in the global fixed income space. The dislocation opened up opportunities for potential market beating returns without augmenting risk. These events often happen during times of crisis and thus present excess return possibilities as heterogeneous assets' value characteristics change. Harvesting the benefits of portfolio diversification and capturing opportunities through multi-asset investing, especially during periods of crisis, is a subject frequently discussed by us. Please see our March 2020, September 2019, and March 2019 Investment Outlook, available at our homepage, for more on this topic.

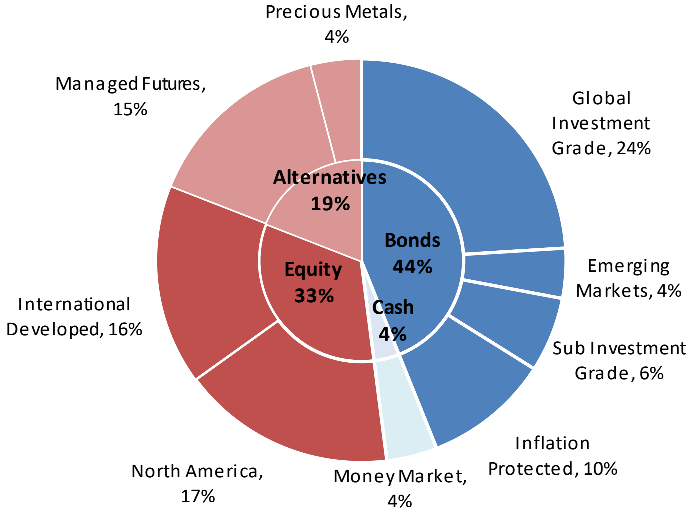
Asset Allocations

June 4th, 2020

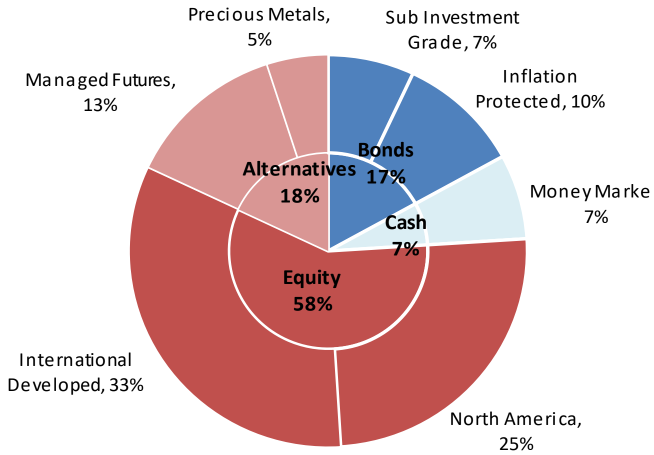
Income



Balanced



Growth



Source: *Ameliora Wealth Management as of 1st June, 2020. Asset allocation weights are subject to change without notice and represent investment strategies in USD*

Ameliora
Wealth Management Ltd.
Beethovenstrasse 19
CH-8002 Zurich
Switzerland

T +41 43 336 10 90
F +41 43 336 10 99
office@ameliorawealth.com
www.ameliorawealth.com