Renditewerk

Value Column by Hans Peter Schupp

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Translation for convenience only!

Numbers do not lie!

We have all heard this frequently from followers of the chart technique: A chart resistance line has been broken through and therefore the price is now free to move upwards. Or: A share is in a stable upward trend. But are these really buying arguments or buying signals?

We are skeptical about the chart reading

It reminds me more of a situation where just as you pull up to the gas station, the price of gasoline goes up 5 cents. I don't know if you would take that as encouragement to fill up quickly right now. For me, at any rate, this would not be a reason for joy.

At my first employer, Schröder Münchmeyer Hengst & Co, they used to call charting "throwing bones", that is, giving free rein to chance. I once learned as a junior fund manager in the wild days of the Neuer Markt: "Don't trust a chart you haven't drawn yourself."

Systematic influencing of the share price development

Particularly in securities with low market liquidity, systematic smaller purchases or sales can move a price in one direction or the other. The program "3satbörse" played a special role in this context at the time. For example, with the help of charts, people predicted that a share price would rise to "a thousand" euros. There were specialists for this who could argue very convincingly. The price also rose because the recommendation on television was enough for other investors to jump on the bandwagon. That had nothing to do with the chart. But by the way: Central banks also use charting as a kind of soul massage, albeit more seriously and in a less striking form.

Staying with the "3satbörse" one could also witness the following: Looking at the recommendations of a competitor very precisely, in order to purposely push down the share price below a stop-loss mark shortly before the broadcast of the interview with this competitor. Even the best charting technique was no longer able to do anything for supporting the stock price. It was simply levered out by targeted transactions. This is certainly "old news", and there are countless studies that prove that with a short investment horizon, the momentum or trend following strategy makes perfect sense.

Numbers don’t lie

But not for us. We invest with an investment horizon of 3 to 5 years. And here, science says that the contrarian approach is superior. For us, fundamentals are the all-important criterion. But where we look very closely is when the stock price falls while the fundamental environment improves. Especially on days with low turnover. When this is the case, alarm bells start ringing for us, because there are probably players in the market who are not acting on the basis of fundamentals. On the other hand, the market is only as good as its players.

A proper example of this is the share price performance of the Belgian Dredging company Boskalis Westminster in 2004. Despite good operating figures, the share price inexplicably fell continuously. To us, the valuation seemed very attractive, and after a thorough review of the figures, we bought almost 5% of the share capital at the time. As the Management Board told us only later, we had thereby unwittingly prevented an unfriendly takeover with a squeeze out. Although the share price did not rise by "a thousand," it did rise by six hundred percent.

But be careful: If the market bets overwhelmingly against your own assessment, you sometimes have to sell your position anyway.

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