

FS ASSOCIATES


2019

PERFORMANCE REPORT DECEMBER 2019



FS ASSOCIATES
STUDENT INITIATIVE OF
FRANKFURT SCHOOL

REPORT BY QUIRIN ZUNDL



TO WHOM IT MAY CONCERN

At FS Associates we began operations in October 2019 and started building a long-short portfolio according to our current market views. Additionally, we have started developing and programming algorithmic strategies, of which some are promising and will be implemented as soon as possible.

Quirin Zundl

QUIRIN ZUNDL

MANAGING DIRECTOR



LONG PORTFOLIO

FS Associates is exposed long with a total of \$30k and £10k of initial portfolio value in gold and silver corporations (Royal Gold, First Majestic Silver and Polymetal International). We are keen on diversifying our portfolio both regarding currencies and industries, so we are not reluctant regarding investments in companies traded in foreign currencies. In the past monthly reported, we noted that with round about 8% of total portfolio value, we found our precious metals exposure to be relatively moderate. Seeing the current development of precious metals and our intention to act upon promising opportunities, we are keen on soon increasing our gold and silver exposures.

Additionally, we have acquired our full strategic €60k Wirecard exposure. This is early and we want to point out that this position is linked to substantial risk. Nevertheless, we are inclined to believe that KPMG's report will be positive and that it is no coincidence that major asset managers including Goldman Sachs are long Wirecard. We are also aware of large short-selling activity, however this does not concern us too much, as this activity seems to target nervous retail investor positions.

The major investors are not backing out and if the price falls even further, we might consider increasing the position even more.

In order to hedge against political tensions in the Near East region with possible negative effects on the global oil supply, we decided to expose ourselves to oil.

"We are keen on diversifying our portfolio both regarding currencies and industries."

The Murphy Oil trade was successfully completed, while we are still exposed £10k in Royal Dutch Shell. We exited Abbott Laboratories, McDonald's, Borussia Dortmund and Ströer, overall generating profits. Current long holdings are Beiersdorf and Fresenius Medical Care, all for technical reasons discussed on our Instagram page.

In total, our long portfolio is up €671,19 (+0,34%) since inception, as of 31 December 2019. The main reason for our relatively weak long performance is the Wirecard position, however we do not see this as reason for anxiety.



SHORT PORTFOLIO

FS Associates is exposed short €20k in the banking sector with Deutsche Bank and Commerzbank. Our banking shorts are close to flat, with markets rallying this cannot be completely surprising.

Another short target is the automotive supplier industry (LEONI and Michelin), and we have decided to hold on to these shorts. It is a strategic position.

Other short positions are Salzgitter, Hugo Boss, Telefónica Germany, SGL Carbon, Netflix and Bayer, all for technical reasons discussed on our Instagram page.

"This can also not be much of a surprise, with markets rallying much more than we expected."

In total, our short portfolio is down €2475,09 (-1,24%) since inception, as at 31 December 2019. This can also not be much of a surprise, with markets rallying much more than we expected.

LONG-SHORT VIEW

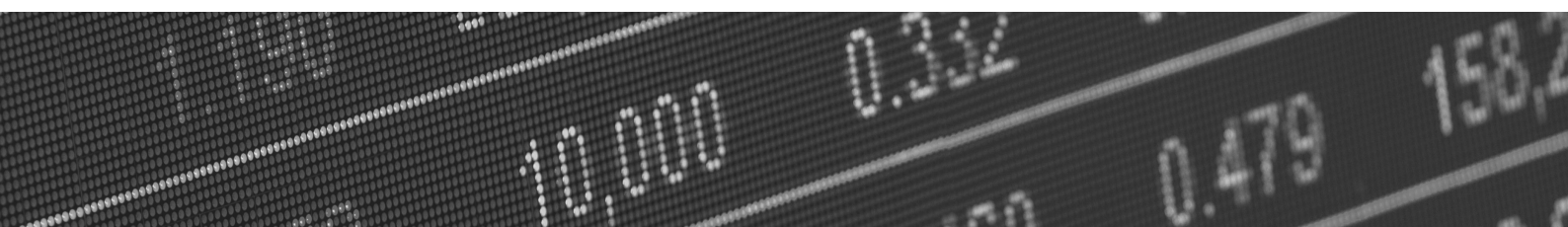
In total our long-short portfolio is currently not profitable. This is not surprising to us, since we are effectively net short: 100k short, 40k metals (effectively also negatively correlated with the market) and 90k long, resulting in round about 50k short. Overall, we are down €1803,9 (-0,90%), as of 31 December 2019.

In general, we are relatively pessimistic on the markets, believing that corrective movements are overdue. We saw a major threat for the global economy in the conflict between US and China, however this seems to be solved. In fact, considering in retrospect, the market “knew” the deal would come, already developing new highs as the conflict was still proceeding. Notably, the deal did not lead to massive price increases, i.e. it was already priced in. Additionally, the Brexit now seems to be a topic with much less uncertainty than before Johnson’s election to prime minister. Again, only minor price increases took place. To us, this suggests that from a sentiment perspective the hope phase has now turned into a greed phase.

It seems clear that investors who exposed themselves long before Brexit and trade war were solved deserve profits, now that both risks are much less problematic than expected.

However, it must be clear that buying after the trade deal and after the Brexit risk turned out to be lower than expected, cannot be very promising. From this perspective, upside potential seems limited and downside risk prevails. Additionally, central banks both in Europe and the US announced that no further interest rate reductions are to be expected. In the meantime, both equity indices and gold are rising.

This is a historically rather rare occasion which usually does not hold on for long. In our point of view, either the equity indices or gold are sooner or later going to fall, while the other continues to rally. We are prepared for both scenarios, however we are more inclined towards the scenario in which gold will continue its rally. Nevertheless, we will continue to watch this closely.

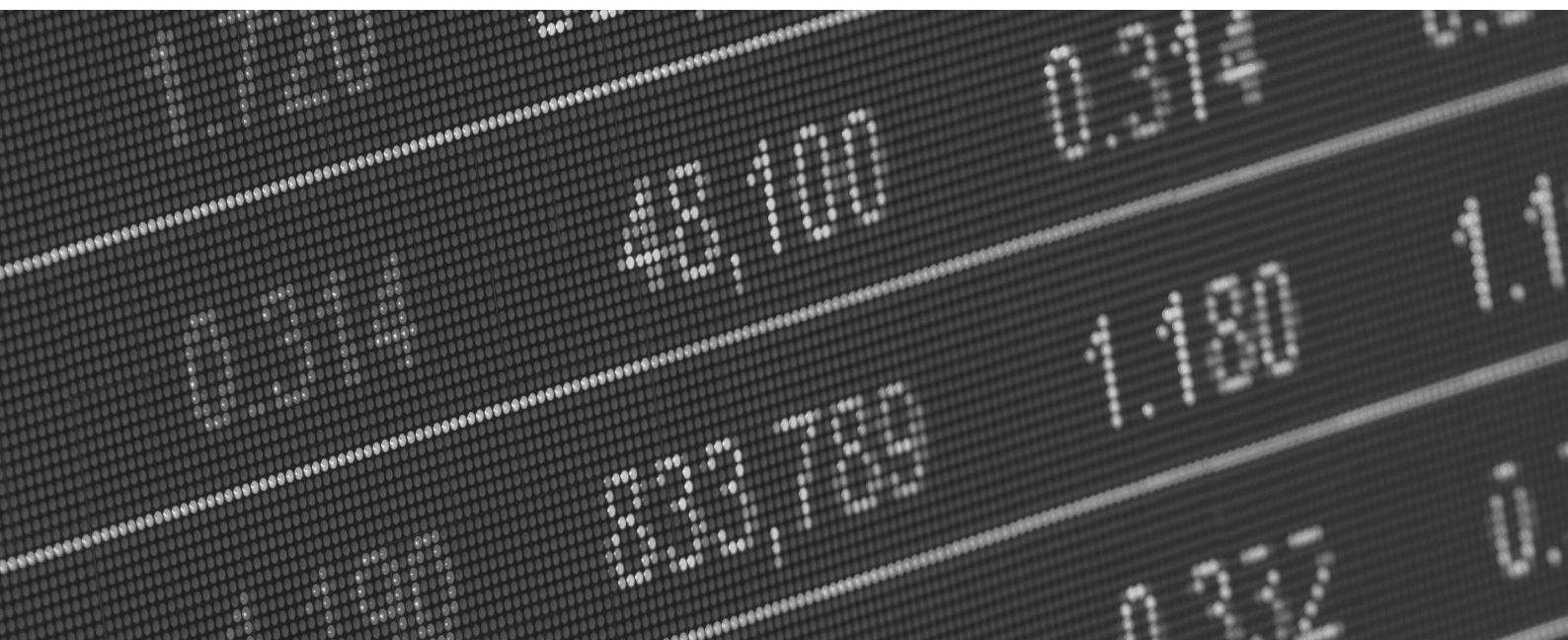


INTRADAY PORTFOLIO

Due to our negative view on the markets and our excess of cash in the intraday portfolio (€100k), we traded DAX manually on a day and week level. While FOREX trading (EUR/USD) was profitable, the DAX trading has been very volatile. In the end of November our trading balance was -€10.014,90 (-10%) in the intraday portfolio. This was recovered in December, however performance continued to be very volatile.

"manual intraday trading might be a field with many opportunities, however it is not practicable for students"

To us, it has become clear that manual intraday trading might be a field with many opportunities, however it is not practicable for students. Concluding, we have decided to shut down all manual intraday trading operations and focus on algorithmic intraday strategies instead. Luckily, we were able to learn our intraday lessons with virtual funds and are keen on putting them into practice in our automated strategies. For now, we value our intraday portfolio at the initial, recovered €100k.



An aerial, black and white photograph of a dense city skyline, likely New York City, featuring numerous skyscrapers and a construction crane. A large, solid blue circle is centered over the image, serving as a background for the text.

-0,36%

*Overall, the fund is down
€1.803,9 since inception.*

PERSONALLY:

Personally, as the Managing Director of FS Associates, I want to disclose that I still own my real-money stake in Royal Gold Inc with a buy price of \$113,5 per share. I also still hold stocks in Wirecard.

I am proud of our what we have achieved and learned. It is my distinct pleasure to announce that at FS Associates, we have a group of very motivated students, of which Timur, Lukas and Juan have been promoted to Manager positions for their great effort and excellence. In their respective fields, they developed outstanding ideas over the course of the past semester and put them into practice. FS Associates is a team striving for excellence, just as I had imagined when thinking about founding this initiative. It is my great pleasure to work with this exceptional team.

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