

FS ASSOCIATES

2019

# PERFORMANCE REPORT NOVEMBER 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. For now, we have used the intraday portfolio for manual short-term, speculative trading activity*

**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.

As fiat money keeps being printed at unprecedented pace and political as well as socio-economic tensions are evolving, we believe that investors are well-advised to hold a certain metals exposure. With round about 8% of total portfolio value, we find our precious metals exposure still relatively moderate. In case of promising opportunities, we are looking to expand our gold and silver exposures.

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 with £10k in Royal Dutch Shell and \$10k in Murphy Oil. This also has the target to be prepared for a possible inflation, i.e. devaluation of the greenback.

*"As fiat money keeps being printed at unprecedented pace and political as well as socio-economic tensions are evolving, we believe that investors are well advised to hold a certain metals exposure."*

Further long holdings are Abbott Laboratories, Borussia Dortmund, Beiersdorf, McDonald's and Ströer, all for technical reasons discussed on our Instagram page. In total, our long portfolio is up €1321,13 (+0,66%) since inception, as at 30/11/2019.



## SHORT PORTFOLIO

FS Associates is exposed short €20k in the banking sector with Deutsche Bank and Commerzbank. Our banking shorts are very successful (+ €960), which is not completely surprising to us, since the industry is experiencing severe margin pressures in Germany and desperately in need of consolidation.

Another short target is the automotive supplier industry (LEONI and Michelin), however our shorts have not developed properly yet, partially because we did not expect short-term recoveries due to new hopes in the trade conflict between China and the US, as well as the EU and the US. In our point of view this is only a short-lived recovery, since the structural problems in the industry should outweigh short-term hopes.

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

*"The industry is experiencing severe margin pressures in Germany and desperately in need of consolidation."*

In total, our short portfolio is down €499,73 (-0,25%) since inception, as at 30 November 2019.

# LONG-SHORT VIEW

In total our long-short portfolio is currently profitable. This is positively surprising to us, since we are effectively net short: 80k short, 40k metals (effectively also negatively correlated with the market) and 90k long, resulting in round about 30k short. Still, we were able to generate a profit in our overall long-short portfolio of €821,4 (+0,205%), as at 30 November 2019.

In general, we are relatively pessimistic on the markets, believing that corrective movements are overdue. We see a major threat for the global economy in the conflict between US and China, as well as steadily increasing debt burdens. While the trade war is political, the debt situation and monetary policy reactions are macroeconomic phenomena. It is proven that printing money and lowering interest rates can postpone recessions and economic downturns, however one should not confuse painkillers with actual medicine. It is our strong belief that the era of low interest rates would be an outstanding opportunity for corporates and states to reduce their debt burden, however in many cases we observe the exact opposite: More “cheap” debt is issued – leading to a situation in

which sooner or later an increase in interest rates would have catastrophic consequences, particularly in the Euro area. For this reason, we do not believe in rising interest rates, particularly not with Lagarde as ECB president. It is much rather the question, if we might see negative interest rates. In such a world, gold would certainly be a very nice asset to have. And classical banking would cease to exist in the way we know it.

*"It is proven that printing money and lowering interest rates can postpone recessions and economic downturns, however one should not confuse painkillers with actual medicine."*

Don't mistake our views for certainty. We do not know when and how the monetary system will face its next big challenge. We do not know whether a next crash will happen at all. However, we see plenty of “red flags” and have decided to navigate prudently.



Currently, particularly concerning to us is the very bullish sentiment displayed by retail investors, seemingly betting on a year-end rally. In the meantime, institutional investors are preparing for falling asset prices. Prominently, Ray Dalio bought \$1.5bn of S&P500 and EuroStoxx50 Put Options with expiry date March 2020. These options represent index volumes of ca. \$100bn. Dalio claims that he is not betting net short, however we would like to point out that his long positions in these two indices are lower than \$100bn. He is clearly operating with more information than we are: It is his fund, not ours.

Nevertheless, it is clear that this bet will only become profitable if the indices fall rapidly and volatility increases.

Additionally, markets are technically clearly overbought. In the DAX we have seen a rise of over 2000 points since 15 August (+18%) with nearly no corrective movements. In our point of view this situation is not sustainable this way. For us, it can only be a matter of time until retail investors will be surprised in a possibly devastating way. In our long-short portfolio, a total of €200k are still looking for attractive entry opportunities.



# INTRADAY PORTFOLIO

Due to our negative view on the markets and our excess of cash in the intraday portfolio (€100k), we have begun trading DAX on a day and week level. While FOREX trading (EUR/USD) was profitable, the DAX trading has not yet delivered the desired results, particularly because we have consistently shorted DAX. We apply large leverages (up to €150 per point, i.e. a traded volume of e.g. 13.000 points \* 150€/point = €1.950.000), therefore large profits and losses are to be expected and our capacity to generate profits is solely dependent on our capacity to successfully anticipate the market. In November this has not yet been the case, the market was much more bullish than we expected. In the end of November our trading balance is -€10.014,90 (-10%) in the intraday portfolio. This might sound bad, however one should take into account that we are a hedge fund and that it is our mission to create abnormal returns. In doing so, we develop strategies to minimize our risk, however we cannot achieve these returns without risk and are very confident to see the DAX develop in our direction. As soon as this is the case we expect to recover and overcompensate our losses of this month.

Additionally, we are developing algorithms so that we can implement automated instead of manual intraday trading.

Critics might be inclined to say that our DAX short position size is too large, however we would like to note that we only trade on thoroughly analysed occasions in which success is highly probable.

*"We trust in our capabilities and talents and will do our very best to recover."*

Yet, as can be seen in the result for November, highly probable and certain are two very different things. Nevertheless, we trust in our capabilities and talents and will do our very best to recover.





**-1,84%**

*Overall, the fund is down  
€9.193,5 since inception.*

# PERSONALLY:

*I personally, as the Managing Director of FS Associates, want to disclose that I have bought a personal, real-money stake in Royal Gold Inc at \$113,5 per share. Additionally, I am currently short FDAX, i.e. the DAX Index Future, traded at EUREX. While the Royal Gold position is currently profitable, the FDAX position is not.*

*I am proud of our work in the past month. We have achieved much and acted according to our principles. 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.*

**QUIRIN ZUNDL**  
MANAGING DIRECTOR