# WIS Investments

# Periodical overview

**WIS Investments, Lugano**

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# In this report

Note: this report refers to data collected until November 20, 2020.

## Markets outlook

News released at the beginning of the month related to announcements of well performing vaccines against Covid-19 have had a highly positive impact globally. However, this positive effect on the financial markets has been contained in the very short term by the uncertainty of the pandemic situation, making prudence to prevail.
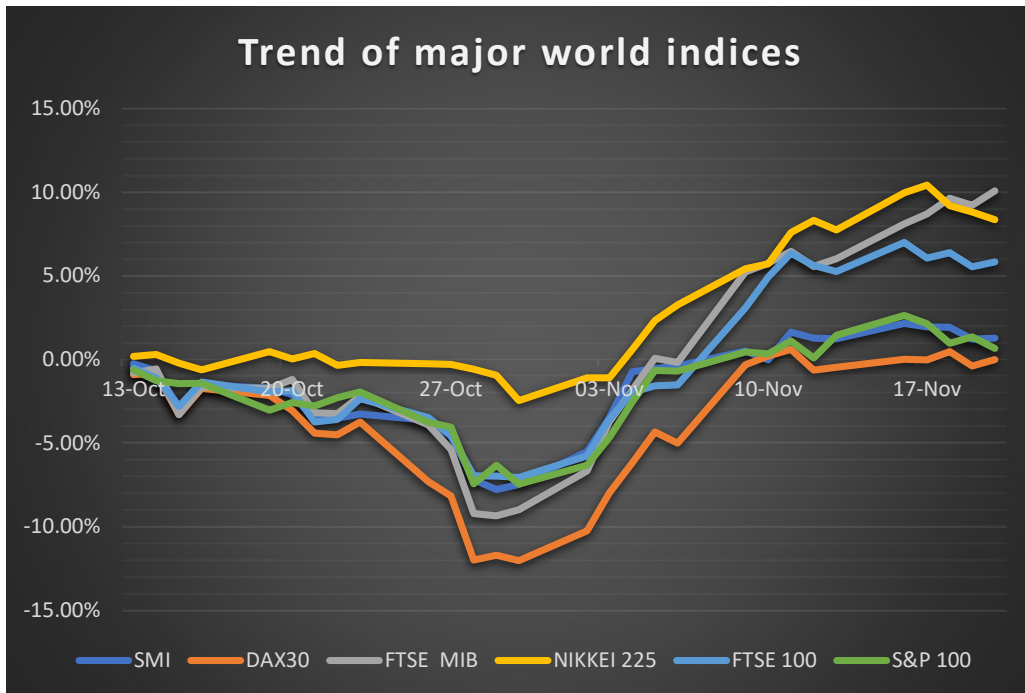


As the graph shows, the American financial market has sharply risen after the announcement of Biden as next President and, right after, the proclamation of an effective Covid-19 vaccine by American firm Pfizer and in collaboration with BioNTech, which guarantees the product to be available from January 2021. Another positive announcement in the middle of November is related to another vaccine by the American firm Moderna, which has increased the hope for a close exit to the pandemic crisis.

A key date in this process is 10th December when the Food and Drug Administration Committee will decide whether the Pfizer vaccine respects consumer protection requirements and therefore can be actually traded.

Nevertheless, in Wall Street reigns the prudence that had caused a slight reduction of the positive trend mainly because of the increased number of Covid-19 cases and the worrisome growth of unemployment rate.

On the European side, the main markets have positively reacted to the news of well performing Covid-19 vaccines and to the results of American presidential elections, but the growing trend had been slowed down by the fear of a pandemic second wave which could freeze again the markets.

Even the Japanese markets have shown positive reaction to the release of vaccines announcement, but in contrast with the other markets the positive trend has been much more long-lasting. In fact, the financial markets have continually grown: the NIKKEI 225 has even reached its maximum level in the last 29 years

on 17<sup>th</sup> November. However, the fast up warding Japanese race had been right after stopped by alarming Covid-19 cases in Tokyo.

Future trends are very much linked to the confirmation of the validity of the vaccines by the authorities. In the United States, Biden's policy, which should resume that implemented by Obama on the National Health Service, could contribute to a further revival of pharmaceutical companies that would have a much wider user base (even those without health insurance would have access).

In Europe, in addition to the vaccines issue already mentioned, there is also the possibility for European countries to relaunch their economies, thanks to the important availability of liquidity at low rates or even non-repayable contributions from European central bodies. All this liquidity, if used in the various countries for the relaunch of infrastructure (e.g. hospitals, nursing homes, schools, roads) could contribute in the short to medium term to the distribution of GDP with inevitable growth in company turnover and therefore greater profits and an inevitable increase in share prices.

Also, with the immense resources placed at this time of insecurity on liquidity funds, the solution to the Covid-19 crisis could return to the markets quickly, favoring investments and the creation of new jobs. Biden's policy will also be able to return to favor exports to the United States, from which all typically exporting countries could benefit. Trump's exit might be important for a less protectionist American policy.

## Performance of the second round

The good news about the possible release of new vaccines and the win of presidential elections of Joe Biden have not had the expected positive effects on the returns of the WIS' portfolio. In fact, the performance of the portfolio of WIS investments fund has been slightly negative over the last two weeks. In the table below are summarized some of WIS' portfolio and S&P 100 (benchmark) statistics for the period between November 11, 2020 and November 23, 2020:

|  | WIS | S&P 100 |
|---|---|---|
| Return | - 0.87% | 0.33% |
| Volatility | 0.85% | 0.96% |
| Sharpe ratio | - 1.01 | 0.34 |

The data are reported on a monthly basis. The negative Sharpe ratio of WIS' portfolio is due to the negative performance of the fund in the period considered. Though, a positive aspect that comes from these numbers is the small volatility of the fund which is also smaller if compared to the volatility of the index.

It is interesting to notice that not only the performance of the fund is (slightly) negative, but it is also smaller than the performance of the benchmark.

### Performance analysis

In order to understand why the fund underperformed the benchmark, it is necessary to analyze the positions (weights and returns) of WIS and the benchmark in terms of sectors and securities. This process is fundamental to understand if actions may be needed to help the fund to improve the performance for the coming weeks.

Starting from analyzing the sectors, in the table below are illustrated the performance and weights of WIS fund and the benchmark, divided by sector:

| Sector | Average weights (%) | | Return (%) | |
|---|---|---|---|---|
|  | Portfolio | Benchmark | Portfolio | Benchmark |
| Health Care | 26.63 | 13.19 | -1.89 | -2.14 |
| Consumer Discretionary | 21.79 | 12.35 | -1.60 | 1.61 |
| Information Technology | 21.09 | 31.73 | -0.87 | 0.82 |
| Consumer Staples | 10.25 | 7.81 | 3.96 | 0.74 |
| Utilities | 10.18 | 1.67 | -0.58 | -2.14 |
| Industrials | 10.05 | 5.69 | -0.88 | 1.96 |
| Energy | / | 2.15 | / | 4.50 |
| Materials | / | 0.43 | / | 1.79 |
| Financials | / | 9.04 | / | 0.01 |
| Communication Services | / | 15.02 | / | -0.08 |
| Real Estate | / | 0.66 | / | 0.65 |

As noticeable from the table, the bad performance of the fund comes mainly from the over exposure in certain sectors that performed poorly, such as health care and utilities, and under exposure in sectors that had positive performance, such as energy and materials. Moreover, in these sectors WIS had no exposure at all. However, it is noteworthy that in multiple sectors WIS investments fund outperformed the benchmark.

Going deeply, to better understand the drivers of the performance of the fund and the benchmark, the returns and weights of the securities that are contained both in WIS' portfolio and the benchmark are reported in the following table:

| Security | Average weights (%) | | Return |
| --- | --- | --- | --- |
| | Portfolio | Benchmark | |
| Danaher Corp | 9.73 | 0.74 | -0.05 |
| UnitedHealth Group Inc. | 8.94 | 1.70 | -5.37 |
| Eli Lilly & Co. | 7.97 | 0.58 | -0.21 |
| Home Depot Inc. | 10.09 | 1.51 | -2.09 |
| Lowe's Inc. | 8.06 | 0.60 | -3.71 |
| Nike Inc. | 1.99 | 0.82 | 4.13 |
| Amazon.com Inc. | 0.98 | 6.75 | 2.12 |
| Target Corp. | 0.66 | 0.42 | 9.46 |
| Apple Inc. | 7.59 | 9.73 | 1.18 |
| Microsoft Corp. | 6.96 | 8.26 | -0.03 |
| Mastercard Corp. | 1.92 | 1.50 | -3.53 |
| Visa Inc. | 4.62 | 1.81 | -4.27 |
| Costco Wholesale Corp. | 10.25 | 0.85 | 3.96 |
| Lockheed Martin Corp. | 10.18 | 0.47 | -0.88 |
| NextEra Energy Inc. | 10.05 | 0.76 | -0.58 |

Even in this case, some of the securities that performed weakly over the period had a greater weight than that in the benchmark's portfolio. This magnified the negative contribution of these stocks in the portfolio of WIS fund. Three of these stocks are UnitedHealth, Lowe's and Home Depot. On the other hand, a stock that had a greater weight in WIS' portfolio than the benchmark and performed very well, adding a great value to the fund, is Costco.

# Quantitative strategy

The WIS' fund has decided to perform two optimization strategies for this third investment period in order to try to outperform the benchmark again after a fundamental analysis integration. The first strategy will be applied to the main part of the portfolio and consists of a replication of the Markowitz optimization strategy which maximizes the Sharpe ratio. This strategy is the same adopted for the first investment horizon and doubtless has shown great performances in both back-testing and initial weights behavior.

The second strategy is applied to a lower part of the portfolio and is a combination of Contrarian strategy and Minimum Variance Portfolio (MVP) optimization. In fact, considering the macroeconomic situation and the extraordinary volatility of the stock exchange markets, the fund has analyzed the last month worst performances on the S&P100 index (excluding the tobacco companies and the stocks already present in the portfolio). Once obtained the list of the worst monthly performances, the MVP portfolio weights have been found in order to buy low and sell high some stocks.

Obviously, the choice to optimize the MVP and not the Sharpe ratio on the remaining 25% of the portfolio is given by the purpose of reducing the volatility of the new investment exposure.

## Overview of the strategy

The strategy adopted for rebalancing the portfolio is summarized below:

- 75% of the portfolio rebalanced maximizing the expected Sharpe ratio;
- 25% of the portfolio rebalanced applying the MVP on a selection of the worst monthly performance stocks listed in the S&P100 index.

For the MVP optimization 12 (11 new) stocks have been picked among a list of 32 companies screened with the Bloomberg function Equity Screening (EQS), selecting from the S&P100 all the negative performance of the last month.

## Worst S&P 100 monthly performers

The results of the equity screening are summarized below:

Biogen Inc., Intel, Amazon.com, Netflix, Adobe, Oracle Corporation, MasterCard, Nvidia, Gilead Sciences, IBM, United Parcel Service, Amgen, The Home Depot, American Tower Corp., Apple Inc., Lockheed Martin Corporation, Eli Lilly and Company, McDonald's, Microsoft Corp., PayPal, Johnson & Johnson, Salesforce.com, Thermo Fisher Scientific Inc., Procter & Gamble, Mondelez International, Facebook Inc., Union Pacific Corporation, NextEra Energy, Visa Inc., Bristol-Myers Squibb Co. and Wells Fargo & Co.

Furthermore, from the Sharpe ratio optimization we obtained a selection of 11 stocks which consists of closing 7 past positions and opening two new compared to the second round asset allocation.

The WIS' portfolio proposed for the next investment period (until December 8, 2020) is now wider since the overall amount has been increased from 15 to 23 stocks, with diversification benefits.

## Portfolio composition

Overview of the portfolio composition for the third round:

| Security | Symbol | Weight |
|---|---|---|
| Apple Inc. | AAPL | 7.5% |
| Abbott Laboratories | ABT | 7.5% |
| Amgen Inc. | AMGN | 0.59% |
| Amazon.com Inc. | AMZN | 7.5% |
| Bristol-Myers Squibb Co | BMY | 2.5% |
| Costco Wholesale Corporation | COST | 7.5% |
| Danaher Corporation | DHR | 7.5% |
| Gilead Sciences Inc. | GILD | 2.5% |
| Johnson & Johnson | JNJ | 2.5% |
| Eli Lilly and Company | LLY | 0.91% |
| Lockheed Martin Corporation | LMT | 0.78% |
| McDonald's Corp. | MCD | 2.5% |
| Mondelez International Inc. | MDLZ | 2.5% |
| Microsoft Corporation | MSFT | 7.5% |
| NextEra Energy, Inc. | NEE | 7.5% |
| Netflix Inc. | NFLX | 2.5% |
| NIKE Inc. | NKE | 6.59% |
| Procter & Gamble Co | PG | 2.5% |
| Paypal Holdings Inc. | PYPL | 7.5% |
| Target Corporation | TGT | 7.5% |
| Thermo Fisher Scientific Inc. | TMO | 2.5% |
| Union Pacific Corp | UNP | 1.13% |
| United Parcel Service | UPS | 2.5% |

As visible see from the Pie Chart below, the three most preponderant sectors in WIS' portfolio are the Health Care, Consumer Discretionary and Information Technology. These three sectors combined account for over half of the portfolio. However, also in the benchmark, even if with different weights, these three sectors are those that have the most important significance.
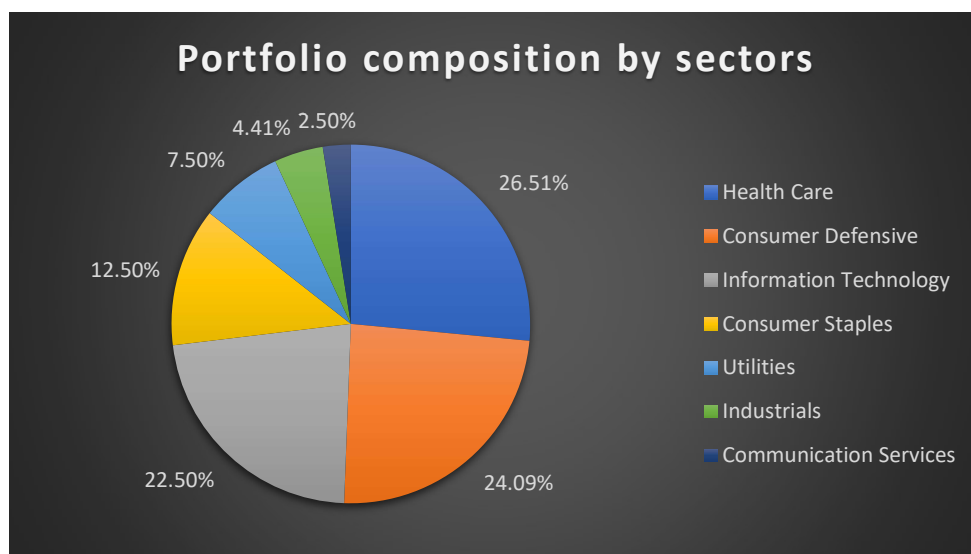
These strategies have been implemented and combined with the purpose of detecting those mispriced stocks among the S&P 100 due to overreactions of the markets on the information relative in particular to the Covid-19 further developments. The WIS' investment strategy for the previous time horizon has been unfortunately disturbed by the underperformance of the fund with respect to the benchmark (due to a not optimal rebalance) but also based on the correct forecasting relative to the S&P100 positive returns.

For the next investment period the WIS' Fund expects to overperform the benchmark again thanks to the re-introduction of the Sharpe Ratio optimization presented in the first part and to obtain some extra returns thanks to the Contrarian strategy.