



# GYRATIONS – April 2024

## Capital growth and income whilst hedging equity market risk

### Portfolio construction: Lower beta with alpha brings diversification benefits

**Gyrostat Risk Managed Equity Fund:** Classes A & B have downside protection always in place, regular income, with returns in rising and falling markets including a market crash.

These returns are non-correlated with the market providing portfolio diversification benefits such as lower risk, higher risk-adjusted returns, and reduced exposure to market shocks.

### Our investment philosophy: Diversification requires non correlated assets to be effective

Our DNA was formed by the lessons of the 1990s economic boom and subsequent 1997 Asian Financial Crisis, the internet boom and subsequent 2000 Tech crash, the early 2000s boom and subsequent 2007 Global Financial Crisis, and the challenges posed by the 2020 Covid market falls. These lessons were gained through experience in senior roles in industry, private equity, investment banking and funds management.

We have observed that investor psychology can change very quickly, and that large market falls of significant size and speed happen that are often not ‘predicted’. The idea that “in the long run” markets will recover offers little comfort for many investors, particularly pre-and post-retirees.

Investors who included non-correlated assets, which reliably increase in value on market falls, described as ‘hedged’ positions by financial practitioners, experienced better outcomes throughout the complete investment cycle due to their diversified portfolios. This is why we structure our portfolio with protection always in place – protection which reliably increases in value on market falls.

### General investment climate:

Reviewing the most recent data on valuations, liquidity and debt, and macro-economic data we find conflicting market views.

#### BIG PICTURE SUMMARY

##### Times are uncertain.

- We’re seeing high stock market valuations, however the market momentum remains bullish.
- Debt levels are historically high providing liquidity to drive momentum, however this elevates default risks in an economic downturn.
- The price of protection remains near historic lows despite rising geopolitical tensions. The risk remains of conflicts expanding to global trade ‘choke’ points reigniting inflation.
- Macro uncertainty over the timing of scale of interest rate cuts, the ‘stickiness’ of inflation, and stage of the economic cycle (late stage recession, or continued growth)



## **Our edge- taking advantage of the inherent fluctuations in stock prices**

Our investment strategy takes advantage of the inherent fluctuations in stock prices, which are influenced by investors as they interpret data and oscillate between greed and fear (and occasionally remain stable).

With our approach we do not need to engage in debates, it is the differing market predictions and general uncertainty that generates our returns, as these cause changes in stock prices and the price of risk. Our approach has lowest cost protection always in place which we identify through our proprietary software.

## **Portfolio construction – applying our strategy**

Many investors misunderstand what is required to structure an effective diversified portfolio and risk suffering large losses when everything falls in value. Diversification needs non-correlated assets to be effective. Structuring a portfolio with a variety of stocks and investment managers with returns correlated to the market as commonly practiced does not bring diversification benefits.

### **What is your ‘risk’ appetite?**

Psychologists have noted that loss aversion increases if the consequences of possible loss can be ruinous to your lifestyle. This is particularly true of many retirees as reflected in the concept of sequencing risk. Gyrostat has continued our 13 year track record of generating returns and income consistent with our guidance and investment objectives. These returns have been generated irrespective of stock price direction (ie: non-correlated returns) providing diversification benefits as a robust building block in your investment portfolio structure.

### **What are the capital losses drawdown exposures embedded in your portfolio?**

Gyrostat Class A performance compared with worst 5 quarters from the ASX accumulation index (since Fund inception December 2010).

Stock specific protection reliably increases in value on share price falls.

Period	ASX accumulation return	Gyrostat Class A return
Apr - Jun 2022	-11.90%	8.70%
Jan - Mar 2020	-23.10%	9.22%
Oct - Dec 2018	-8.24%	4.18%
Jul - Sep 2015	-6.58%	-0.26%
Jul - Sep 2011	-8.17%	1.29%

**How many assets in your portfolio reliably increase on market falls? (ie: non correlated diversified assets)**

### **Investment performance 31 March 2024**

Class A	1Y	2Y (PA)	3Y (PA)	5Y (PA)	SI (PA)
Return	4.65%	11.55%	7.63%	6.48%	4.89%
Beta XJT	-0.06	-0.16	-0.18	-0.22	-0.08



Class B	1Y	2Y (PA)	3Y (PA)
Return	8.67%	17.12%	6.95%
Beta XJT	0.03	-0.21	-0.22

### Summary:

Our biggest investment regrets are often our inactions, not our actions, particularly where the consequences of failing to act threaten your lifestyle as is the case with major market falls.

A more detailed analysis on portfolio construction:-

Ray Dalio

<https://www.youtube.com/watch?v=Nu4IHaSh7D4>

Mark Spitznagel

<https://www.youtube.com/watch?v=gGpt8VNpCww>

## GENERAL INVESTMENT CLIMATE

### Valuations:

We are seeing high stock market valuations with low buy and hold returns over the coming decade. CMG, a leading US analyst monitors a wide range of valuation metrics:

Factor	Start Date of Data	End Date of Data	Most Recent Value	Most Recent Title
Median Price to Earnings	03/31/1964	12/31/2023	26.1	Extremely Overvalued
Price to GAAP Earnings	03/31/1926	12/31/2023	24.6	Extremely Overvalued
Price to Shiller Earnings	12/31/1925	12/31/2022	27.9	Extremely Overvalued
Price to Shiller Operating Earnings	01/31/1995	12/31/2023	28.6	Moderately Overvalued
Price to Shiller Operating Earnings (GAAP Earnings Prior to 1994)	02/29/1936	12/31/2023	28.6	Extremely Overvalued
Total Market Value to Shiller Total NIPA Earnings	02/28/1957	12/31/2023	28.0	Extremely Overvalued
Total Market Value to Total NIPA Earnings	03/31/1952	12/31/2023	26.0	Extremely Overvalued
Price to Cash-Adjusted Earnings	12/31/1973	12/31/2023	21.6	Extremely Overvalued
Price to Operating Earnings	12/31/1984	12/31/2023	22.3	Extremely Overvalued
Price to Forward Earnings	02/28/1983	12/31/2023	19.3	Extremely Overvalued
Price to 4Y Trailing & 1Y Forward Earnings	02/29/1988	08/31/2023	23.6	Extremely Overvalued
Price to 1Y Trailing & 1Y Forward Earnings	02/28/1987	08/31/2023	20.4	Extremely Overvalued
Price to Sales	01/31/1972	12/31/2023	2.6	Extremely Overvalued
Price to Book	12/31/1925	12/31/2023	4.1	Extremely Overvalued
Price to Cash Flow	01/31/1967	11/30/2023	17.8	Extremely Overvalued
Dividend Yield	12/31/1925	12/31/2023	1.5	Extremely Overvalued

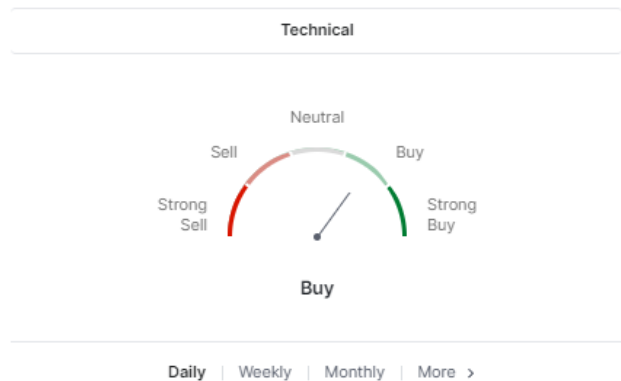
<https://www.cmgwealth.com/ri/on-my-radar-inverted-yield-curve/>



Despite these historically elevated valuations, stock market momentum remains in a bullish uptrend.



Prev. Close	7,817.3
Open	7,817.3
1-Year Change	7.35%
Volume	497,166,439
Average Volume (3m)	748,559,082
Day's Range	7,741.5 - 7,817.3
52 wk Range	6,751.3 - 7,910.5



<https://au.investing.com/indices/aus-200>







## Global Government Debt:

Global government debt is projected to hit \$97.1 trillion this year, a 40% increase since 2019. Australian Government Debt is \$ 875.9B, 0.9% of world total, debt to GDP 51.9%. This graphic shows global debt by country in 2023, based on projections from the International Monetary Fund (IMF).

During the COVID-19 pandemic, governments introduced significant stimulus. There was a surge in inflation and subsequent interest rate rises commenced in May 2022 rising from 0.10% to 4.35% in March 2024. However, this has exposed vulnerabilities as higher interest rates increase borrowing costs.

There remains a divergence of predictions on the sustainability of these debt levels, and the ability for Governments to service these debt levels, particularly if the inflation rate and interest rates remain higher for longer than forecast or a slowing economic environment.

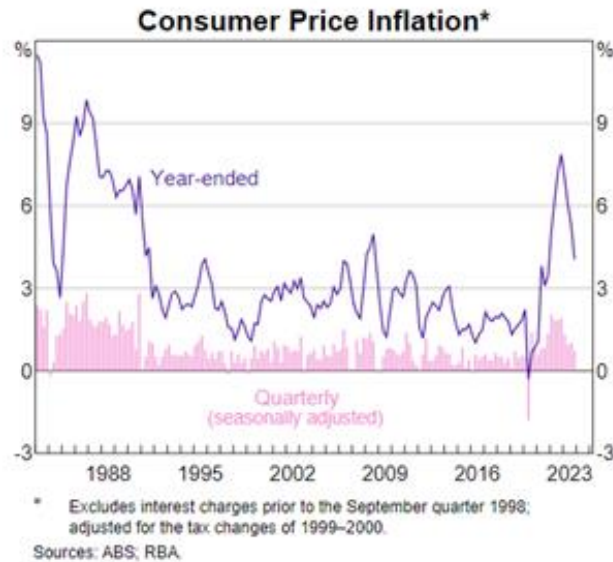
Country	↕ Gross Debt (B) ↕	↕ % of World Total ↕	↕ Debt to GDP ↕
 U.S.	\$33,228.9	34.2%	123.3%
 China	\$14,691.7	15.1%	83.0%
 Japan	\$10,797.2	11.1%	255.2%
 UK	\$3,468.7	3.6%	104.1%
 France	\$3,353.9	3.5%	110.0%
 Italy	\$3,141.4	3.2%	143.7%
 India	\$3,056.7	3.1%	81.9%
 Germany	\$2,919.3	3.0%	65.9%
 Canada	\$2,253.3	2.3%	106.4%
 Brazil	\$1,873.7	1.9%	88.1%
 World	\$97,129.8	100%	93.0%

<https://www.visualcapitalist.com/97-trillion-of-global-debt-in-2023/>



### **Inflation:**

There remains a divergence of views on future inflation levels, and the timing and scale of interest rate changes by Central Banks – often summarized as ‘data dependant’.



Those who consider inflation will remain higher for longer often highlight the inflation waves that occurred during the 1970s – where periods of falling inflation saw subsequent rises. The impacts of heightened geopolitical uncertainty impacting global trading ‘choke points’ is also often cited, along with the inflationary impact of stimulatory Government policies (as evidenced by the growing levels of Government indebtedness.)





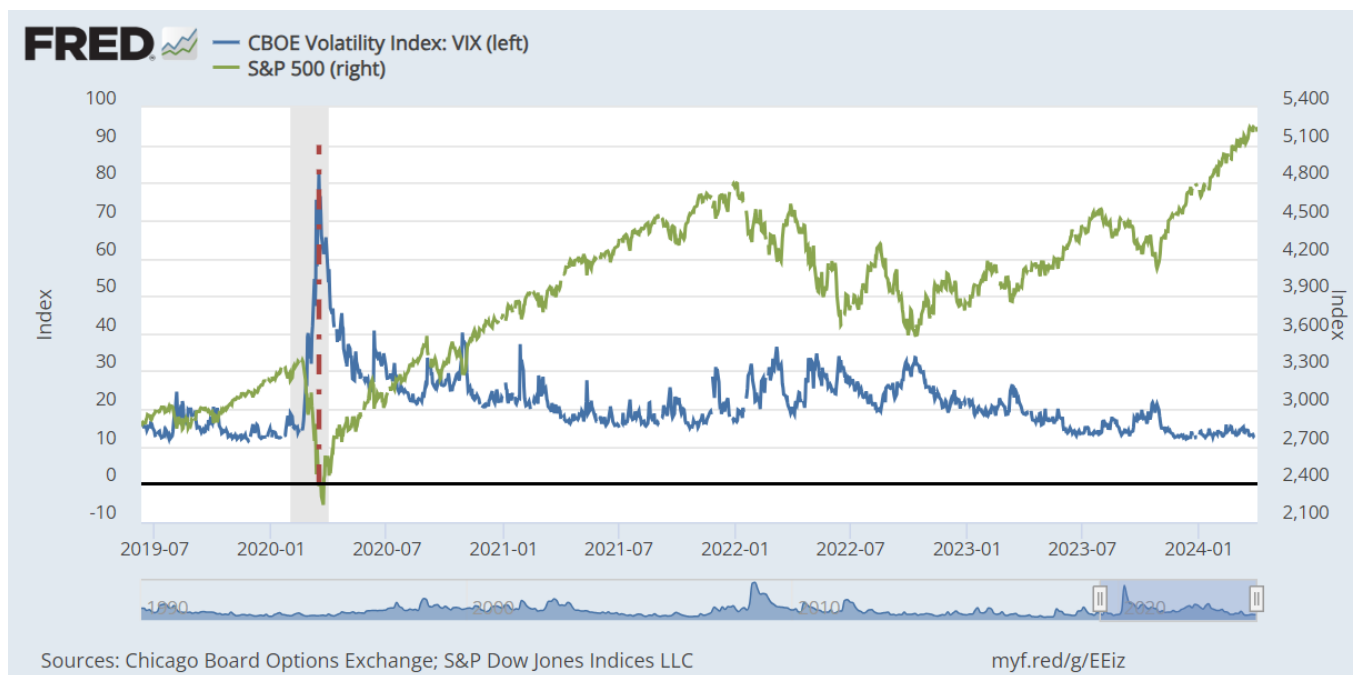
## Pricing of risk

The USA Federal Reserve Economic Data publishes the VIX volatility index. Derived from the index prices of SP500 options it provides a measure of market risk and investor sentiment.

Since October 2022 there has been a significant reduction in market volatility – significantly reducing the cost of protection. It is our expectation that volatility will increase as valuations, macro economic and geopolitical considerations result in more volatile conditions.

Federal Reserve Economic Data VIX (shown in blue) LH axis

S&P 500 (shown in green) RH axis



[https://fredblog.stlouisfed.org/2021/06/measuring-uncertainty-and-volatility-with-fred-data/?utm\\_source=series\\_page&utm\\_medium=related\\_content&utm\\_term=related\\_resources&utm\\_campaign=fredblog](https://fredblog.stlouisfed.org/2021/06/measuring-uncertainty-and-volatility-with-fred-data/?utm_source=series_page&utm_medium=related_content&utm_term=related_resources&utm_campaign=fredblog)

## FURTHER INFORMATION

<https://www.gyrostat.com.au/>

Performance reports:

<https://www.gyrostat.com.au/investment/performance/>



## Disclaimer

### Gyrostat Risk Managed Equity Fund (GRME Fund)

The responsible entity for the Gyrostat Risk Managed Equity Fund (ARSN 651 853 799) (**Fund**) is One Managed Investment Funds Limited ACN 117 400 987 AFSL 297042 (**OMIFL**). The investment manager for the Fund is Gyrostat Capital Management Advisers Pty Ltd (ACN 168 737 246), a duly authorised representative of Gyrostat Capital Management Pty Ltd (ACN 138 219 002) (AFSL 452917) (**GCM**).

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