

WITH THIS ISSUE

**EURO STARS: OVER 400
NEW INVESTMENT IDEAS**

FOR INVESTMENT SELECTION PROFESSIONALS

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THE €20 BILLION TALENT SCOUT

**Nordea's Eivind Lorgen is
searching for new partners**

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PENSION CHIEF:**
Leave your fund alone

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LEDUC:**
Why I ignore the
ratings agencies

REVEALED:
Kassin's contagion
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Selector's tool kit

A SECURE WAY TO TAP VISIONARY INVESTORS

The emergence of a new economic world order sits at the heart of Christophe Brochard's investment strategy. Here he reveals his system for identifying the managers who can withstand the short-term risks that go hand in hand with the long-term story

As a young philosophy student at university, I was fascinated by certain visionaries – those great men who anticipate major crises in highly turbulent times and instinctively know which will be the major forces of the future. The financial world has its own visionaries in the form of great investors, from the heyday of Warren Buffett to Mark Mobius today.

As a fund selector, I view my work as a continuation of this tradition. I believe the succession of crises we have faced over the past four years signals the irreversible emergence of a new economic world order. This transformation is characterised by a major shift in growth and consumption from developed economies to new emerging markets. This movement is at the heart of our long-term vision.

As a financial investor, I am faced with the following question: how do I manage the short-term risks involved in a long-term investment in these new markets?

To address this issue we have developed a unique method which focuses exclusively on the rapid expansion of emerging countries' domestic consumption.

First, we identify portfolio managers who share our long-term view of emerging markets. To avoid risks related to the varying reliability of accounting standards in some of these countries, we select asset managers that are either physically present in these markets or whose managers regularly visit the businesses they identify.

Rendering our investments secure

To preserve our capital we have developed a method by which 100% of our portfolio is either invested or secured – there is no in-between decision. For each of the funds selected, we have defined two graphical conditions, calculated daily, that we then weigh against continuous macroeconomic analysis.

Two graphical conditions

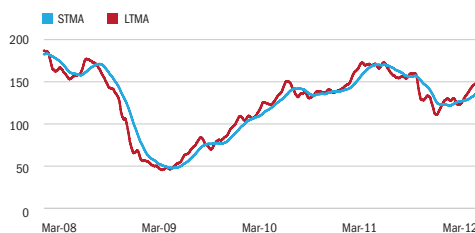
CONDITION 1:

Moving average crossovers

For each fund, we define a short-term moving average (STMA) and a long-term moving average (LTMA) adapted to its specific volatility.

In the following example, the short-term average is the average of the 10 previous net asset values of the fund. The long-term average is that of the last 50 values of the pioneering East Capital Russian fund.

Example of the calculation of condition 1 of the East Capital Russian Fund (in €) from 03/01/2008 to 07/03/2008



Should the short-term moving average be higher than the long-term, the trend is deemed upward and the first condition is considered met.

CONDITION 2:

Moving average applied to the long-term moving average

The first condition identifies the fund's short-term trend. However, it does not suffice as a guarantee against false entries on markets that are fundamentally downward-moving and particularly volatile. We have therefore added a second condition to identify the fund's fundamental trend.

We calculate a second moving average over the long-term moving average of each fund. Here, for example, we work out the average of the five previous values of the 50-day long-term moving average (the same as that of condition 1). Every day we then subtract from the last value of the 50-day long-term moving average the average of the five previous 50-day long-term moving averages. If the resulting value is higher than 0, the trend is deemed upward and the second condition is met. Should the value be lower than 0, the trend is considered downward.

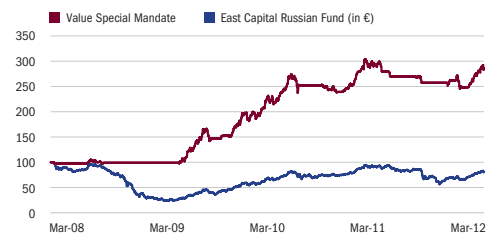
Example of the calculation of condition 2 of the East Capital Russian Fund (in €) from 03/01/2008 to 07/03/2008



The objective of this second criterion is to act upon the indications of condition 1 only when the fundamental trend of the fund (condition 2) is upward. This allows us to avoid false entries.

When these two conditions indicate an upward trend, we invest 100% of the allocated capital in the fund. If this is not the case, we secure 100% and wait until both conditions are met. The following graph is an example of the application of these criteria on the East Capital fund.

Example of the strict application of conditions 1 and 2 on the East Capital Russian Fund (in €) from 03/01/2008 to 07/03/2008



When we decide to make our portfolio secure, we isolate capital from the risks of stock markets and can make currency investments in a discretionary manner in the G3 currencies (US dollar, yen and euro). It can be opportune to hold US dollars or yen, for example, when certain market troubles lead Western banks to suddenly unwind their carry trade activities. This graph demonstrates that the majority of drops were avoided, even though graphic indicators alone cannot circumvent all false entries.

Hermeneutic use of graphical/fundamental analyses

In addition to calculating graphical indicators, we analyse global macroeconomic conditions. If, according to our graphs, we need to secure our portfolios, we try to establish if the downward trend revealed graphically is not contradicted by a profound macroeconomic conviction (for example, if we expect a rate drop in these countries).

We do not follow our graphical indicators if they are contradicted by a strong macroeconomic belief concerning these markets: in this case, we follow our macroeconomic conviction. If our macroeconomic conviction is not sufficiently strong, we simply follow our graphs.

This method of using only the contradiction between the fundamental analysis and our graphical indicators allows us to use graphical analyses to illuminate the grey areas of our fundamental overview and to enhance the graphical view by means of macroeconomics.

Conclusion

This investment process allows us to render the largest part of capital gains secure in the long term and throughout different financial cycles and to reinvest only when an upward trend that is not invalidated by our macroeconomic analysis is detected. This guarantees our clients' portfolios enjoy long-term exposure to the high-potential domestic consumption markets of emerging countries, while managing the risks linked to such a profound transformation of the global economy. ●

Christophe Brochard is a fund selector and founder of Brochard Finance

Got something to say on fund selection?
 Call Jesús Segarra Sobral
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Selector's tool kit

WORKSPACE: CHRISTOPHE BROCHARD, BROCHARD FINANCE

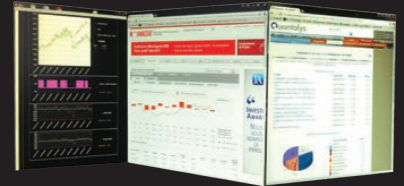
1 BOOK

'This is the second edition of the *Discours de la Méthode* by Descartes and an extremely rare piece of work. Philosophy was my first passion before getting into financial markets. "The limits of reason" is something every selector should bear in mind before investing.'



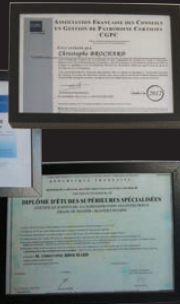
3 SOFTWARE

'I have built software in order to follow trends and use certain criteria of selection which are described in my method of investment on the opposite page.'



4 DIPLOMAS

'When I am not at my desk, I teach at the Faculty of Law in Strasbourg for the Wealth Management Master programme and have been doing so for four years.'



5 LIBRARY

'I recommend *Trading with DiNapoli Levels* by Joe DiNapoli as well as case studies by Marie-Hélène Broihanne on behavioural finance, decision-making and risks analysis.'



2 GUITARS

'I have played guitar since the age of 13. I mainly play jazz and improvise, which has proved a fantastic training for equity markets.'



Christophe Brochard: Moving in step with the inevitable shifts in global economic power