

AksjeNorge

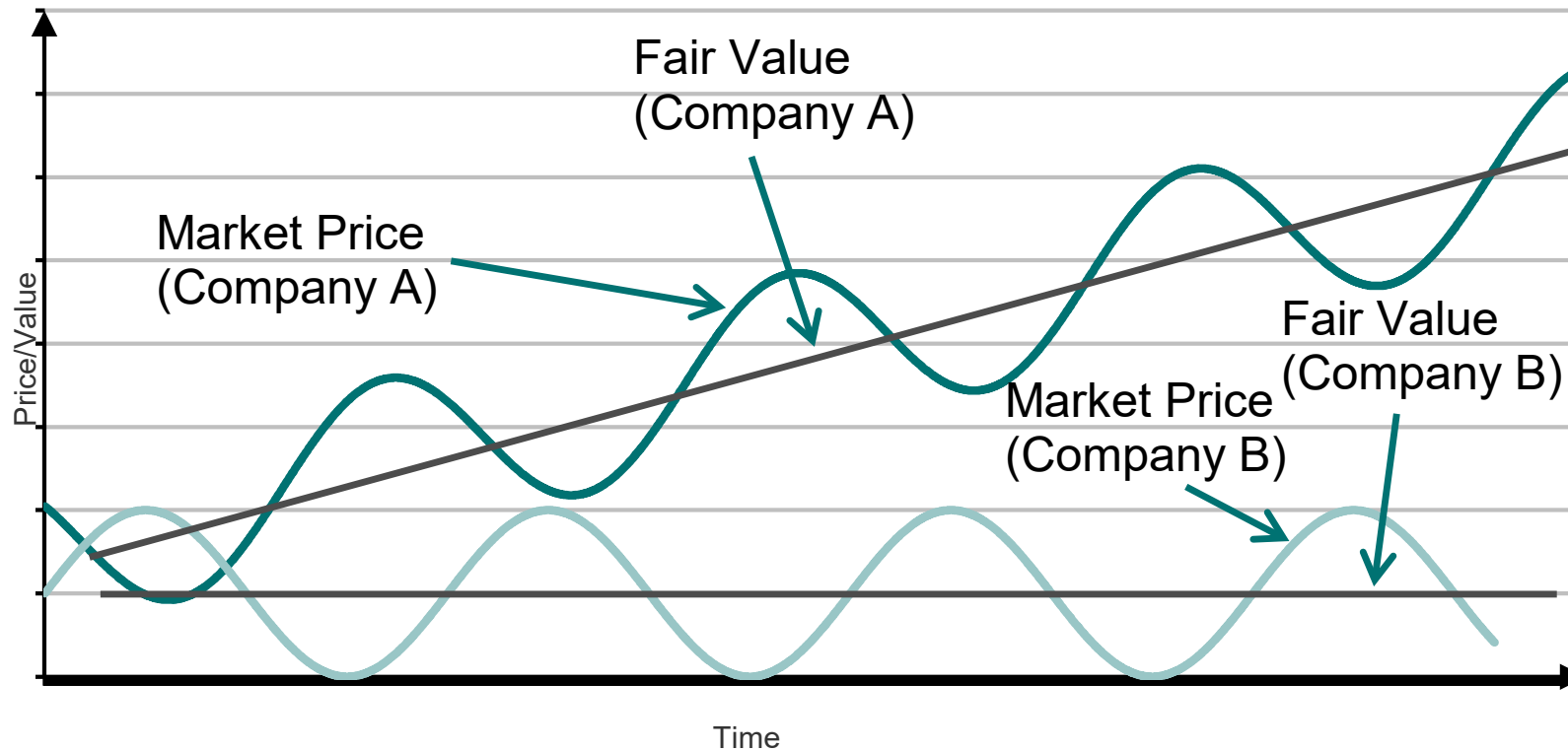
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Share price compared to fundamental fair value

- Share prices only approximate to fundamental fair value
- Investment time horizon determines the relative importance of fundamentals versus share price momentum in stock picking
 - A 'low-quality' company can be a 'good' stock in the short term and a 'good' company can be a 'bad' stock if the time horizon is too short

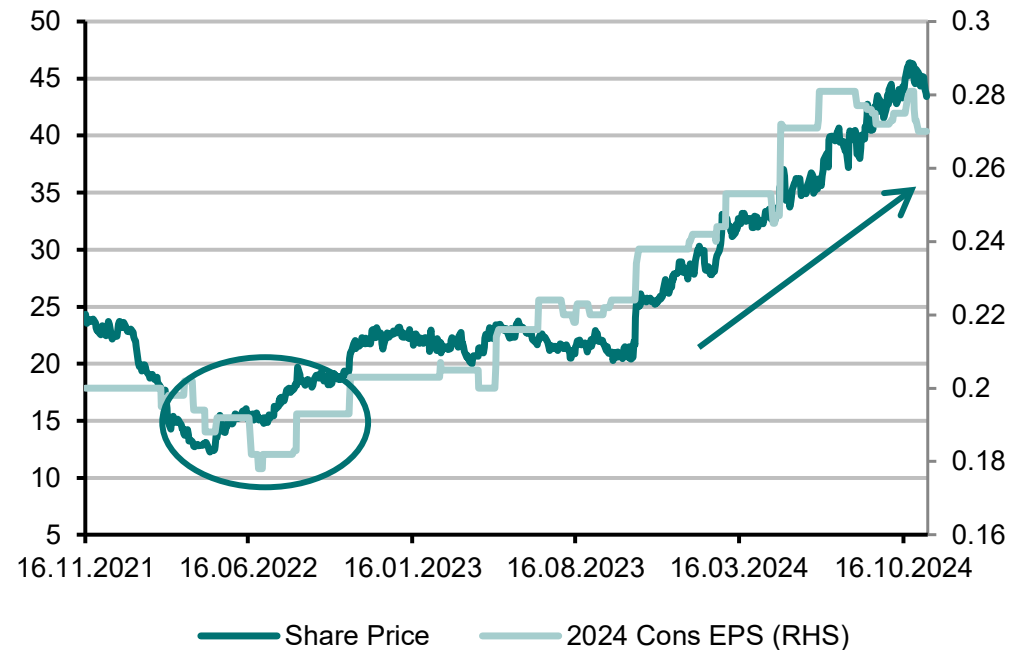
Fair value versus market price (illustration)



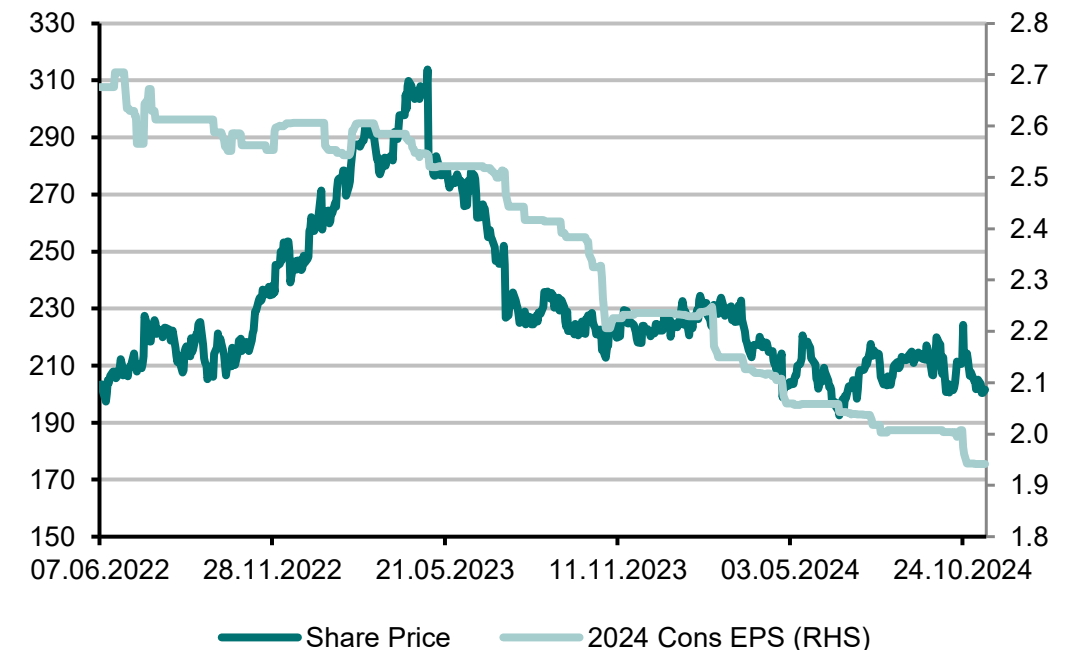
Look for price AND fundamental momentum for shorter-term trades

- Trying to time peaks and troughs is not recommended – look for cases that are already working (being early can be very expensive)
- Prices normally lead fundamentals (consensus estimates are a lagging indicator)
- Share price momentum without fundamental momentum can be prone to very sharp reversals

Elopak share price and consensus EPS



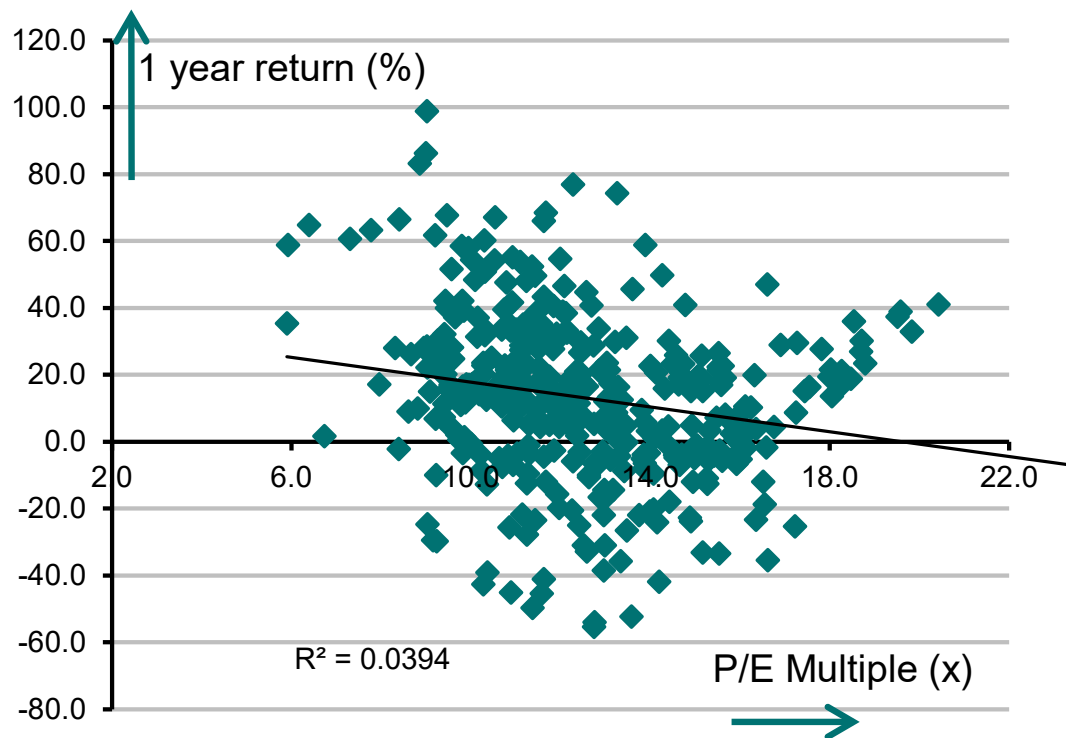
Tieto share price and consensus EPS



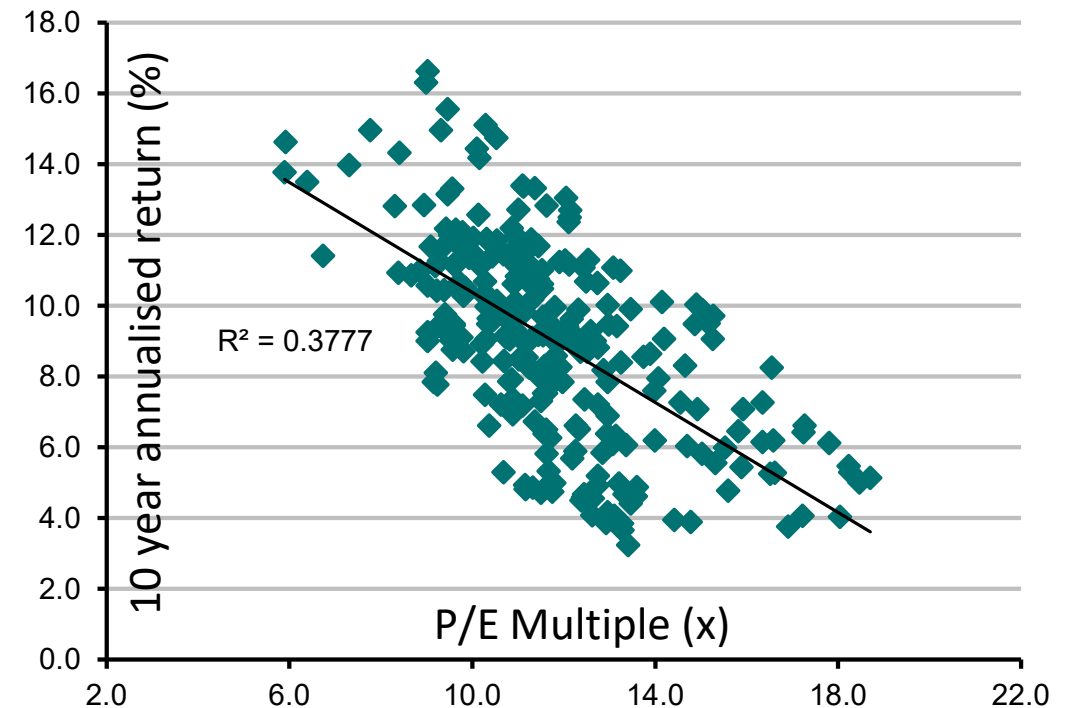
Calculating a P/E ratio does not give you an investment 'edge'

- For short time horizons, valuation has a very low predictive power for future returns (but tells you something about risk)
- The longer your time horizon, the more important valuation becomes

OSEBX P/E versus 1-year forward returns



OSEBX P/E versus 10-year forward returns



Risk management: 'Cut your losses and let your winners run' & Diversification

- Stop-loss – need to define stop-loss levels before entering the trade
 - Avoids bad decision-making due to loss aversion
 - e.g. if the shares decline 10% from your entry level cut half the position, another 5% down, cut the rest

- Markets over-react to good and bad news – trailing stop-losses can be a good way to determine when to exit winning trades
 - Portfolio outperformance is often driven by a few 'home runs' – keep winners until they stop working
 - e.g. wait until an outperforming stock declines 5% from its highs before starting to take profits (don't sell new highs)

- Risk management can be more important than stock-picking for profitable trading performance
 - A portfolio of 10 winners and 10 losers can be profitable if the losers have a maximum loss of 10% (i.e. use a stop-loss) but let the winners run (assuming there are a few that gain more than 10%)

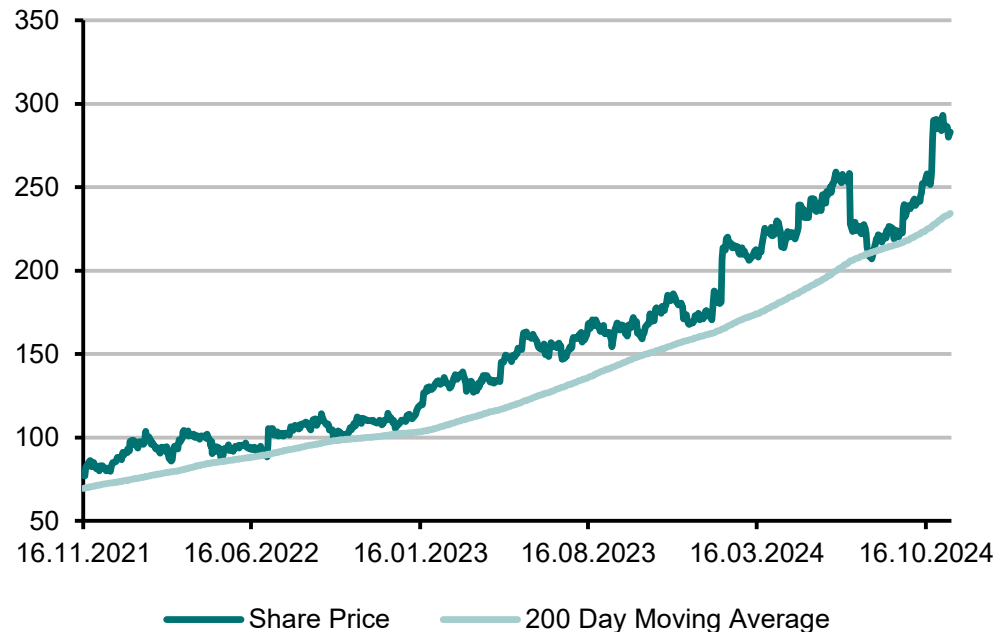
- Diversification (i): reduce the risks from bad luck

- Diversification (ii): avoid unintentional macro trades

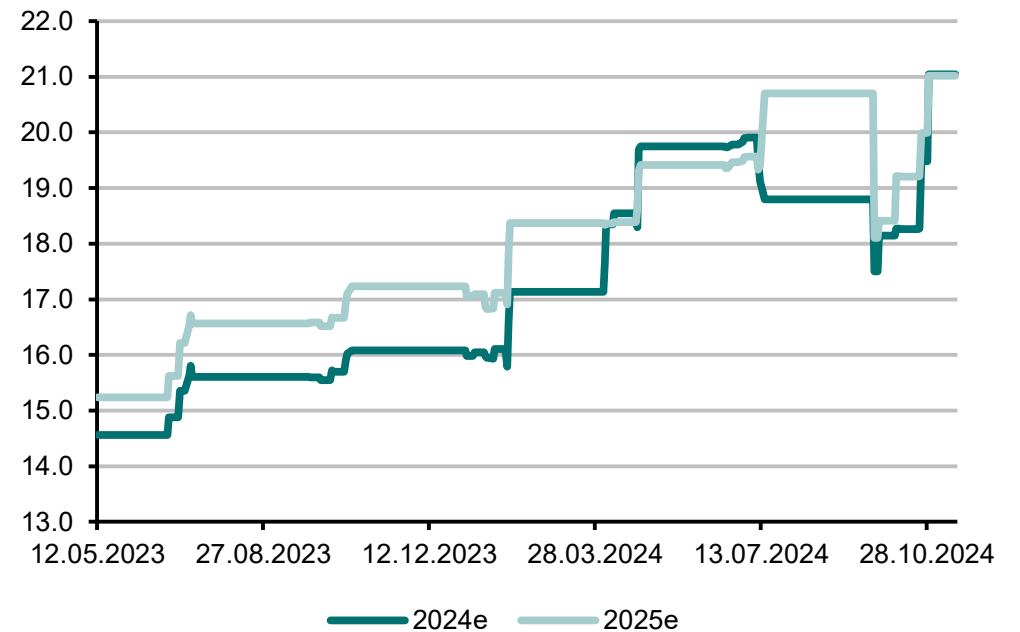
Example (I): Protector Forsikring

- Macro theme: Insurance sector benefits from strong pricing power which should provide more resilient profitability than for most other sectors
- Protector has room for profitable long-term growth as it is still a small niche operator focusing on corporates and the public sector
- Attractive valuation at 14x P/E and 4% dividend yield

Share price (NOK dividend-adjusted)



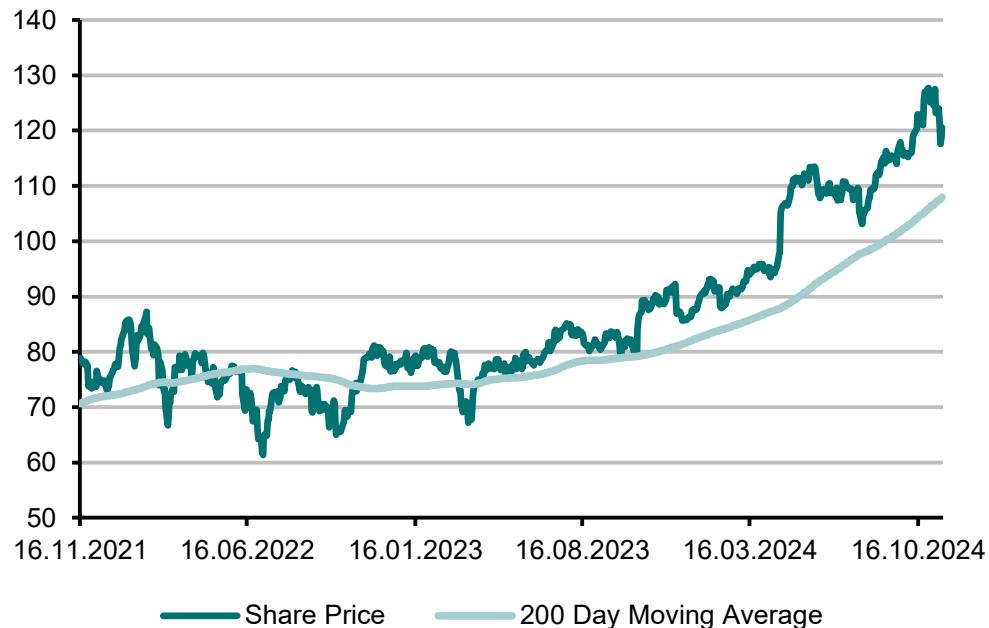
Consensus EPS (NOK)



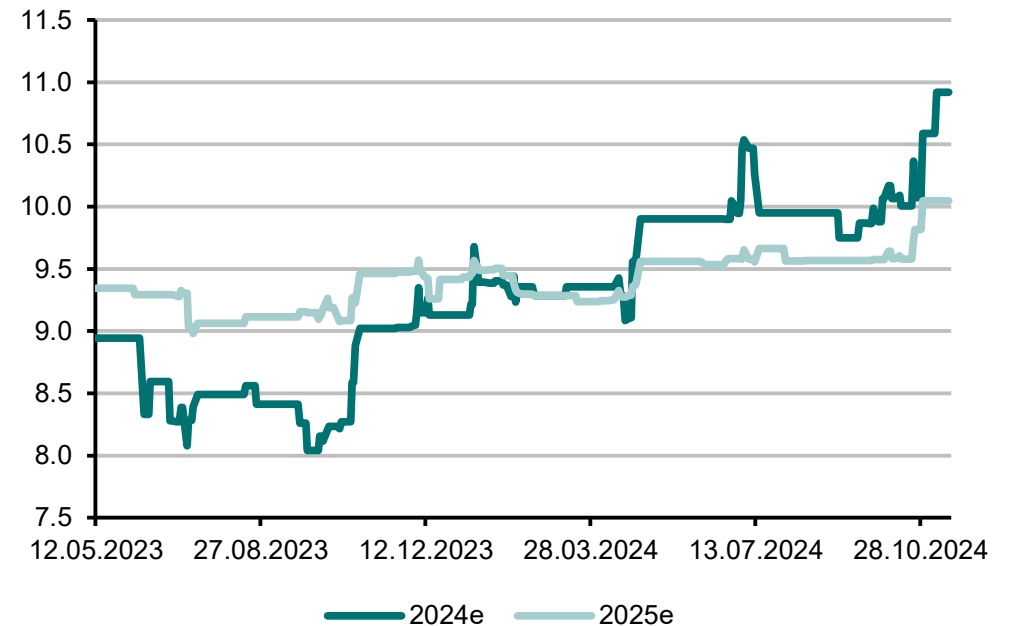
Example (II): Storebrand

- Macro theme: Structural growth from growing demand for pensions and savings products
- Transition from guaranteed products to fee-based products releases capital that can be paid out as dividends and buybacks
- Fee-based business is lower risk, supporting a higher valuation than historically

Share price (NOK dividend-adjusted)



Consensus EPS (NOK)



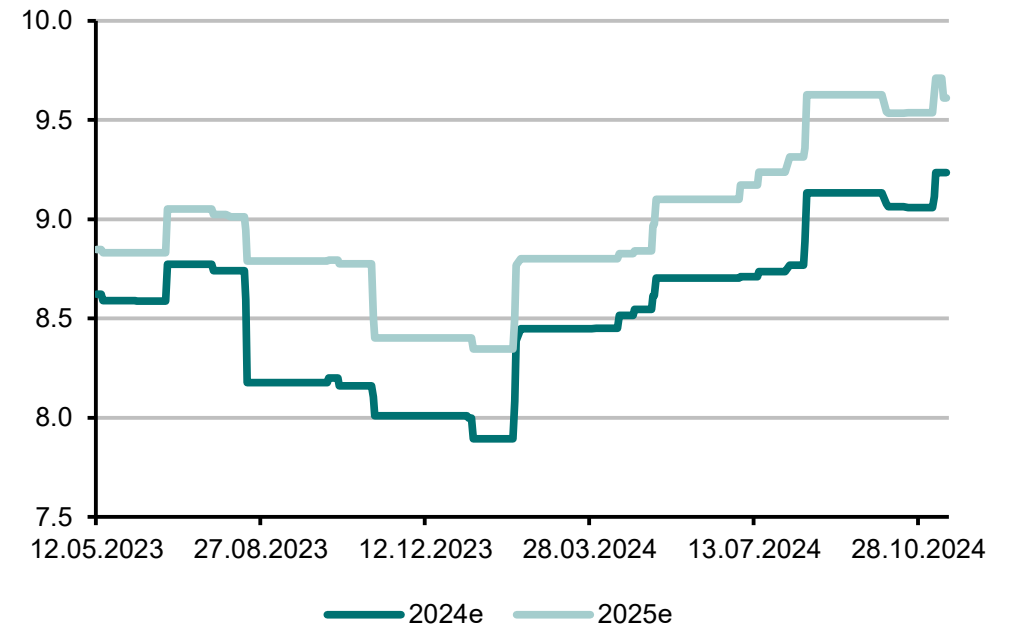
Example (III): Veidekke

- Macro theme: Pent-up demand for home building and structural growth from rehabilitating older buildings to meet EU energy efficiency requirements
- High-quality company with strong balance sheet, high return on equity and strong execution track record
- Attractive valuation with 7% dividend yield

Share price (NOK, dividend-adjusted)



Consensus EPS (USD)



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