Insights

Setting the Stage for a Decade of Strong Investment Returns

Current market volatility is creating once in a decade opportunities to buy into high quality stocks at much lower valuations.

Market volatility remains elevated, with ongoing concerns about inflation and weakness in the economy weighing on sentiment. Periods of weakness in markets typically punish speculators but can greatly reward the patient and long-term minded investor. When prices are falling, all else equal, the investment outlook for all investment opportunities has improved.

Financial markets today are full of opportunities and risks, with prices of everything coming down, offering investors a wide array of opportunities to 'buy the dip' across multiple asset classes and individual stocks.

Some of these are very risky propositions and should be avoided, where the lower price on offer does not necessarily mean investors should go anywhere near. Tesla stock is down 45% from its highs last year. Speculators are tempted to start buying Tesla stock at these now lower prices. We caution against 'catching a falling knife', as valuation levels still remain eye wateringly high relative to other auto companies and other more reasonably priced assets in the stock market. There are many other examples of stocks like this which have seen prices fall, but where valuations are still too high in our view.

Price declines alone do not great investments make.

What matters is price relative to underlying value and the cash flows the asset you are buying will generate.

Some asset prices are down and rightly so, they were too high. Investing in high quality businesses, with strong balance sheets able to continue growing through a recession and market downturn, with powerful long-term tailwinds to demand, this is where investors should now be focusing their energy.

At Dominion, this is exactly what we are doing. We are focussing our funds on investing in the highest quality, long-term structural winners across multiple industries. As prices have come down, we have been ramping up our investment exposures to take advantage of lower prices and set the funds up for the eventual recovery in prices.

The current market turmoil is creating a once in a generation opportunity to invest in high quality companies at their lowest valuations in more than a decade. As we exit the current market volatility and enter the next bull phase for markets, we see a very strong outlook for our investment returns over the next decade.

Portfolio Manager Comments

Christian Cole, CFA
Investment Manager of DGT Managed Fund

"This year has *been a challenging one! But in every crisis there is great opportunity and we are now very excited about the investment opportunities available to us following the correction in global equity markets. Valuation levels today for many of the highest quality businesses in the world are at their lowest levels in more than a decade, meanwhile the business outlook for many of these companies remains very strong. Investors should look through recession and market fears today and focus on weathering the current market turmoil through investments in high quality assets.*

It is precisely when most other market participants are fearful that the best investors are most active in buying. Warren Buffett famously said 'be greedy when others are fearful.' *He was right and that is what we are doing with the Fund. We are outperforming the market and outperforming our competition, our strategy is working. We are deploying investor capital to invest in those areas of markets where we think prices have declined too much because of market fear, offering us unique opportunities to invest. What is more, we are investing in long-term trends like healthcare, digital advertising, cloud computing, and renewable energy. These trends are too powerful to be stopped by any recession or bear market, and it is this long-term vision that makes us so optimistic about the return* potential of the Fund over the coming years!"

Frederick Baccanello, CFA
Investment Manager, DGT Ecommerce Fund

"Persistent inflation, central bank action and growth fears have contributed to the *worst first half market performance since 1970. The Dominion Ecommerce Fund has not been immune to this market volatility, as would be expected. However, the* fund's rigorous 'Growth At a Reasonable Price (GARP)' investment philosophy and *active risk management have allowed it to significantly outperform the technology sector.*

The Fund’s outperformance has been 15% points vs. Invesco NASDAQ Internet *Fund, 18% points vs. Global X Fintech Fund, and 10% points vs. Global X Ecommerce Fund in 2022. Further, our active management means our volatility (risk) is nearly half that of the group average for technology funds. This outperformance has been achieved not by trying to predict and trade macroeconomic sentiment but by following our core structural growth framework. As current uncertainty temporarily shortens investors time horizons, this presents opportunity for those prepared to look to the medium-term. High quality companies with high long-term growth are trading at cheap valuations. At the same time, the growth outlook remains very strong. Retail ecommerce is forecast to grow +60% through to 2026. The cloud computing industry should nearly double revenues over the same period.*

While we and the market cannot forecast where stocks are going over the next couple of months, the direction of travel over the next couple of years is increasingly clear - an increasingly digital world, and the companies driving this generational transformation are currently trading at historic discounts! In the land of low and scarce growth structural growth is king!”

Paolo Baccanello
Investment Manager, DGT Luxury Consumer Fund

“The first half of 2022 has proved challenging for most asset classes, *in particular* growth equity. Notwithstanding a focus on ‘Growth At a Reasonable Price (GARP)’, *DGT Luxury Consumer has not been spared from a broad based sell-down of equites. The fund closed the first half down 24% vs negative 26% for the MSCI Global Consumer Discretionary index, delivering relative outperformance during this difficult time.*

Rising interest rates which reduce the present value of future growth pose a challenge to growth equity only until such a time as rates find an equilibrium. They do not, however, ultimately, detract from the compounding benefits of sustainably and structurally growing wealth generation upon which we focus and which are the basis of our investment selection.

Inflation is a concern for all. For the companies we select, it is best met with the ability to make prices and not submit to them. On the demand side our portfolio has become ever more focused upon companies who provide products and services that more affluent consumers aspire or indulge in during tough times. We have also taken advantage of the current volatility to hone in on a wide range of differing luxury business models with constrained financial leverage and with demonstrably limited operating leverage to a premature cyclical downturn. Ceteris paribus, such actions should help recoup lost performance especially as it is precisely such characteristics which have made luxury successful across millennia!”

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