PVI – The Global Investment Newsletter

6th of May 2021

Stocks

Treasury Secretary Yellen's statements that US interest rates would have to rise in order to counteract a possible overheating of the economy caused a small sell-off in the Nasdaq. The sector rotation out of tech stocks towards cyclicals and "opening winners" supported the DAX and the DOW Jones.

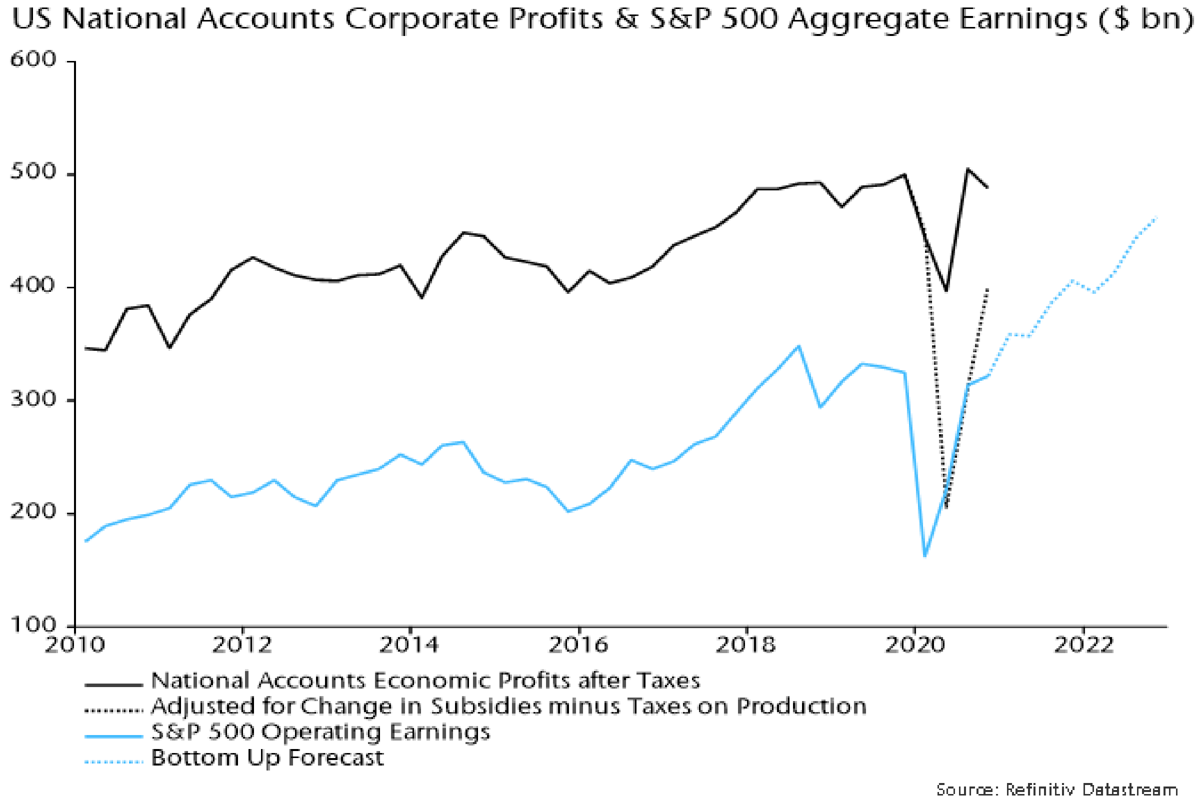
Chart: Nasdaq-Index

Source: finanzen.net

As mentioned again and again in the last stock market letters, the valuations are simply so high that a correction could be triggered from many sides. Should the economy actually overheat, the consequence would be a faster rise in interest rates - this would put a heavy strain on tech stocks in particular. However, we do not necessarily assume here that this scenario will develop linearly. We see this scenario developing more towards the end of 2021 or the beginning of 2022. Because the important money supply indicator suggests a relative slowdown in growth for the next 2-3 quarters. This could also surprise the market negatively.

The chart below shows how much a recovery in earnings has already been priced into the S&P 500. If the corona aid to companies is excluded (because it will no longer flow in 2022), company profits would now have to increase by 50% (from the base Q1 2021) in order to meet these consensus estimates. This seems very questionable to us. Any disappointment, whether from rising corporate taxes or a slowdown in the rate of growth as a result of the end of direct transfer payments to citizens, could send the market into a correction.

Chart: Earnings Estimates S&P 500



Source: moneymovesmarkets.com

While skeptical voices have been heard for some time, the basic tenor is still very positive. Therefore, an extended correction lasting several months, which could account for around up to 15% off the top, seems to be within the realms of possibility.

As early as March, when we recommended to “go short” on Plug-Power stock, we pointed out that the hydrogen sector was about to burst. What can happen with highly speculative stocks, in which many small and private investors in particular cavort, can now be seen in the sharply falling stock prices. As soon as the chart pictures break, the buyers withdraw and the stop / loss orders take effect. In addition, there are “momentum shorts” that borrow the stocks and sell them into the trend. When it comes to hydrogen values, investors should wait a long time before they can re-enter. In the long term, the hydrogen sector should have great potential, but the valuations are still too high even after stock price losses of 50%.

Chart Plug Power:

Source: bigcharts.com

We therefore recommend positioning your portfolios defensively and to hedge positions with put options. We keep our puts on the Nasdaq-100 in the sample depots.

The puts on Tesla (WKN: PF6LXU) recommended in the penultimate stock market letter will expire on May 21. Investors can keep these for longer (until shortly before expiry) because the option is so far in the money that there is no longer any loss of time value - the option therefore behaves like a comparable knock-out put. Speculative investors can bet that Tesla shares will fall by exchanging the put warrant for an open-end knock-out certificate:

Buy recommendation: Tesla knock-out put *(ISIN: DE000VQ4KAJ6, WKN: VQ4KAJ, price 18 euros, base price 880 USD, knock-out: 854 USD, issuer: Vontobel)*

> *Target price: 25–35 Eur, time horizon: a few months, stop: 5 Eur.*
>
> Risk: high

Precious metals

Precious metals have continued to be positive over the past few weeks. We foresee further price gains here in the coming months. The chart image should improve to the extent that more momentum investors (the vast majority on the stock market) are getting back into gold. Furthermore, India should also have the worst phase of the corona epidemic through to summer, so that gold buyers there should slowly come back into the market. We therefore remain in our positions and advise investors to keep the recommended gold and silver call options. Furthermore, the correction on the NASDAQ could also lead to a sharp correction in Bitcoin and other cryptocurrencies. It seems to us conceivable that there could then be more shifts in favor of precious metals from this side.

Gold and Silver Mining Stocks:

The sentiment in the mining sector is still very cautious. One can observe how the movements in the gold price are played in a leverage manner by some players in the gold miners ETFs. In-depth stock picking by institutional investors is not yet taking place. However, this could change as gold prices rise again towards USD 2000. We have seen something similar in the oil sector since the fall, when many of these collapsed stocks multiplied with the rise in oil prices. You should therefore not be discouraged by the (still) stagnating prices of the small gold and silver mines. The reported drill results from Wallbridge Mining, Gogold and Fortitude continue to be excellent. The stock prices hardly reacted here, however. However, we do not see this as a negative, but rather as a sign that the market is neglecting this sector. Such constellations often lead to a quick "discovery rally" in which the prices suddenly catch up with this good news as soon as the trigger is met by a rising gold price.

Fortitude Gold:
Fortitude has increased the monthly dividend to now $ 0.03 ($ 0.36 per year). This results in a dividend yield of 6.8%. This is very high in the gold mining sector and shows the market neglect of this stock. Fortitude Gold was spun off from Gold Resource Corp (GORO) as a spin-off and deliberately listed in the "pink sheets". The GORO management changed / stayed with Fortitude. It can be clearly assumed here that the Isabella Pearl mine is an excellent asset that has significantly more gold reserves than the specified 4 years. The management would hardly have completed this transaction if the lights were to go out here after 4 years. Rather, the surrounding zones contain a further 200,000 ounces of gold that was proven by Homestake Mining in 1989 through drilling. We are therefore assuming a mine life of at least 10 years. The upcoming up listing of the share on the NYSE should make more analysts aware of this potential and the share should also be discovered and investable by institutions (many institutions are excluded from pink sheet shares). The share should at least double; we consider the risk here to be moderate to medium.

Conservative Recommendations:

The pharmaceutical sector is very interesting for conservative investors who are looking for stable dividend income and steady price growth. These stocks were wrongly left behind by many investors in the last few quarters. Of course, some companies had some headwinds as a result of the Corona crisis (fewer patients in the hospitals, etc.). Still, the long-term growth trend driven by an aging population is clearly intact. The healthcare industry in the USA and Europe should be able to grow by 4-5% p.a. in the coming years. Many global pharmaceutical stocks are available for P / E ratios of 10-15 and also offer dividend yields of 2-4%. This means that it should be possible to achieve long-term buy and hold returns of around 7-10% p.a., which seems remarkable in the current low interest rate environment. Should a re-rating give these stocks higher P / E ratios (which would be perfectly justified), returns of over 10% p.a. could result. Since even large companies are often dependent on a few blockbusters, a basket approach makes the most sense to us. **A basket of stocks like Fresenius (WKN: 578560), Novartis (ISIN: CH0012005267), Sanofi (ISIN: FR0000120578), Merck (USA, ISIN: US58933Y1055), Pfizer (ISIN: US7170811035), AbbVie (ISIN: US00287Y1091) should be Develop very well in the long term and also be able to generate good dividends.**

Conservative Model Portfolio: (starting value on 01/13/2021: 100.000 Euro)*

Performance 2021: +3,37%*

15.314	**Euro ENAV Spa (entry price 3,58 Euro, now 3,82 Euro)**
15.879	**Euro China Mobile (entry price 47,6 HKD, now 50,0 HKD*)**
9.486	**Euro Barrick Gold (entry price 23,6 USD, now 23,1 USD)**
15.920	**Silver ETF (entry 19,88 Euro, now 21,1 Euro)**
15.387	**Gold Junior Miners ETF (entry 34,9 Euro, now 35,8 Euro)**
1.584	**Euro AT&T (entry 30 USD, now 32,0 USD)**
3.090	**Euro Verizon (entry 57 USD, now 59 USD)**
5.100	**Euro Nasdaq-100 Put-Optionen (entry 16,5 Euro, now 18,3)**
21.320	**Euro Cash**
102.470	**Euro Total Value as of 05/06/2021**

**Share price China Mobile Ex-Dividend (1,78 HKD) since 3rd of May*

Exposure through put option:

The Nasdaq put results in a short exposure of approx. 25% of the portfolio to the Nasdaq. Should the Nasdaq lose 10%, the portfolio would gain 2,5% and vice versa. This also serves as a safeguard.

In the conservative model portfolio, investments are presented which have a rather low-risk business and very strong balance sheets. In addition, stocks with high dividends are presented, since even the bond ETFs in the USA currently hardly yield any interest, or the risk of such an investment is even higher in the long term than a good selection of solid dividend stocks.

The expected returns will of course not be able to match the speculative portfolio. In general, we are satisfied with returns of 7-10% p.a. here, even more can be achieved with clever timing.

Speculative Model Portfolio: (starting value on 01/01/2020: 100.000 Euro)

Performance in 2020: +22,89%*

Performance year to date: +45,8%*

30.137 Euro Rafael Holdings (entry 24,2 USD, now 43,3 USD)

13.000 BeyondSpring (entry 10,1 USD, now 10,1 USD)

24.307 Euro Silver Call-Options (entry 6,5 Euro, now 7,90 Euro)

10.360 Euro Wallbridge Mining (entry 0,63 CAD, now 0,64 CAD)

9.842 Euro Troilus Gold (entry 1,09 CAD, now 1,10 CAD)

11.248 Euro Ely Gold (entry 1,05 CAD, now 1,18 CAD)

9.636 Fortitude Gold (entry 5,5 USD, now 5,3 USD)

11.964 Vizsla Silver (entry 1,85 CAD, now 2,17 CAD)

9.769 Discovery Silver (entry 2,37 CAD, now 2,27 CAD)

9.886 Gogold Resources (entry 2,60 CAD, now 2,52 CAD)

16.637 Euro Nasdaq-Put-Options (entry 16,5 Euro, now 18,3 Euro)

22.327 Euro Cash

179.113 Euro Total Value as of 05/06/2021

Exposure through the options:

The Nasdaq put results in a short exposure of approx. 50% of the portfolio to the Nasdaq. Should the Nasdaq lose 10%, the portfolio would gain 5% and vice versa.

The silver call results in a long exposure of approx. 40% of the portfolio to silver. Should silver rise 10%, the portfolio would gain 4% and vice versa..

In the speculative portfolio, stocks are presented that have very high potential. However, the risks are also high - so investors should understand that not every speculation has to be successful up in order to earn a good return.

* We base the portfolio on a simplified flat tax of 25% (calculated after positions are sold). The exchange rate changes are taken into account in the values, but not shown above (for reasons of clarity).