

Investment Commentary

A difficult month finished off a tough quarter which saw the Orchard Fund fall in two of the three months, but where the Fund still managed to record a return of 0.48%

The summer has been an extremely volatile one in the markets, with market movements and individual stock movements being affected by the lower volumes that are traditional at this time of the year. We have spoken before about the markets being bifurcated with the disparity between the winners and the losers being greater than ever.

Not only is there greater disparity between winners and losers but the gains in the market were very narrowly based. On the first trading day of the month, the S&P 500 rose almost 0.66%, yet despite this great start to the month, the advance/decline indicator, which measures the number of winners less the number of losers, showed a negative return of 37 points. This means that despite the market posting a sharp daily gain, over 53% of the members of the market fell in price.

Increasingly, the indices are being driven by a small number of stocks, characterised in the USA by the phrase "FAANG" denoting Facebook, Apple, Amazon, Netflix and Alphabet's Google. In the year to the end of September, two of those stocks, Netflix and Amazon had risen by more than 70%. During the same period, more than 10% of the market had fallen by 20%. Unfortunately, included in those losers were some of the more traditional companies which the Orchard Fund invests in.

We have written many times about the concept of Mr Market and the whims of the market. Sometimes, stocks move on real news which will have a real impact on earnings but often, the price of stocks moves further on perception and fears rather than reality. Indeed, it is often illuminating after the fact to look at the earnings history of a firm during period of extreme price volatility and question whether share prices and the underlying economic performance of a company are in any way related.

"Not only is there greater disparity between winners and losers but the gains in the market were very narrowly based. "

Whenever markets start to become more volatile, our first question is whether the moves are real or down to perception. At the moment, it is fair to say that it is a mixture of both but with economic growth slowing and trade sanctions being headline news, it is not unreasonable that markets are struggling to push significantly higher. It may well be that a period of sideways churn may be ahead, a scenario which could work quite well for the Orchard strategy.

Fund Facts

Launch Date

14 January 2003

Lead Fund Manager

Richard Harwood
MitoOptimal Jersey Ltd
(since inception)

Fund Structure

UCITS V

Domicile

Dublin

Currencies

GBP, USD, EUR, CHF

Administrator

CACEIS Ireland Ltd

Dividend Yield

Target 6.0%
2018 Est 6.18%

Dividend Policy

Distribution

Dealing Days

Daily

Fund AUM

£55.35m

Min Subscription

50,000 for individuals,
10,000 for platforms and
designated bodies

