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Stocks sell-off was 'over-reaction'

By Christopher Adams @chrisadamsNZ
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A slump in oil prices and fears about the health of economies such as the United States and China has helped drive volatility. Photo / AP

As local shares hit a new record high, a key message to come out of an Auckland investment conference is that markets over-reacted during the sell-off that smashed stocks around the world during the opening weeks of this year.

The S&P/NZX 50 Index finished at a fresh record of 6577.83 last night, 10.9 per cent above the low of 5933.96 it closed at on February 12.

Jean Keller, chief executive of Geneva-based fund manager Quaero Capital, yesterday told the Pie Funds Small Cap Conference there was a "complete disconnect" between what companies were actually saying during the New Year sell-off and how markets reacted. The volatility was driven by a range of pressures including a slump in oil prices, turbulence in Chinese equity markets and fears about the health of major economies such as the United States and China.

"[Investors] were saying, 'Oh my God, we're going to die'," said Keller, whose firm has more than $900 million under management. "But whereas in 2008 and 2011 the companies were telling us that things were actually quite difficult, this time companies were telling us that demand was picking up."

He said there were many macro economic problems in Europe but the companies Quaero invested in were seeing "gradual improvement".

This year's volatility had presented buying opportunities for his firm, Keller added.

"At Quaero Capital we're value managers - we like to find stocks that are cheap and are priced by the market below what we think is the intrinsic value. So times like this are actually wonderful for us because they throw up good opportunities."

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> Mark Sowerby, Blue Sky Alternative Investments

Mike Taylor, founder and chief executive of Auckland investment manager Pie Funds, which organised yesterday's event, said concern about the US entering a recession had been a big fear in markets.

Like Keller, he said the volatility had provided opportunities for his firm's funds.

"We have tried to take advantage of those where we can," said Taylor, whose firm has close to $300 million under management.

The conference also heard from Mark Sowerby, founder of Blue Sky Alternative Investments, a Brisbane-based, ASX-listed private equity, venture capital and hedge fund investor.

He said this year's turbulence highlighted that liquid investments such as stocks "are not a great place to be" at present.

"Liquid markets at the moment, I would argue, are giving you a lot of volatility for not a lot of reward and I think that's going to be the case for a long period of time," Sowerby said. "That's not just equities - it's currencies and commodities as well."

Drew Beja, of Massachusetts-based Granahan Investment Management, said investors should take time to assess their investment strategy rather than re-setting it in a panic during times of market strife.

"Go to Waiheke," he said.

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