

# 36 South Views

BY RICHARD "JERRY" HAWORTH



## **The life of the trapper**

We often talk about what we do using the analogy of a trapper.

We survey the landscape of the financial markets, noting where animals are moving, where they are going to drink (yield?), where their migration times and lines are, etc.

We then go down to the local general store (think Alaskan far north) and check out the price and quality of traps. Prices vary widely depending on whether most part-time trappers believe animals are likely to be abundant or scarce. Quality also varies between stainless steel, which can last 10 years, or cheap steel, which rusts in three months.

We prefer stainless steel; it lasts much longer and if you analyse it over a number of years, depending on your purchase price, it makes more economic sense. We also avoid the huge fluctuations in prices of the lesser quality traps as part timers come and go.

The ideal set-up time for us is just after a period when animals have been scarce for a few years, everybody believes animals are not coming anytime soon and hence the prices of traps are severely depressed.

We then buy stainless steel traps, designed to catch the animals we believe will wander into this area. We head out, place the traps and wait...

We now have the luxury of time. We can sit in the local bar and listen to everyone complaining that there are no animals: "they have gone north", "they died in a mass epidemic", "climate change" and "this time it is different and they aren't coming back". It may be true but the odds don't suggest that... It is probably just a longer cycle than we are hard wired to expect.

We don't however sit around and wait for something to happen. Landscapes, trap prices, animal movements and species type are always changing; general stores open and close. We need to be analysing the environment the whole time to ensure that when the stampede comes we can hit the lollapalooza – the best possible outcome – by correctly identifying the landscape, game trails, species expected and type of trap required.

Once the animals arrive, we start capitalising immediately as the previously set traps get sprung. Short termers wait for more confirmation that the animals are here to stay before they even think of trapping. They then tend to buy the lesser quality traps, which rust quickly, at expensive prices. The odds of making money are against them as they need to be very successful, very quickly in order to recover the price of the trap, let alone make any profit.

There comes a time where we can lift our stainless steel traps and sell them back to the general store at massively inflated prices as short termers are desperate to buy traps at any price to catch the animals which they assume are now here to stay.

Hence we trap both all kinds of species (men and mammoths)!

Our fund philosophy is similar. Options are like traps. They vary in price depending on the assumption of future volatility and price range, just as trap prices vary depending on the future assumption of animal movement.

We like to wait and buy long dated options when they are out of favour and inexpensive just like stainless steel traps. In the meantime we are continually assessing the financial landscape to determine where we expect market movement and volatility.

We eventually look to get set, with up to 20 themes diversified across 'terrain' or asset class, and then we wait.

That is the hard part...

We could be early; the price of options could fall further, making our purchases seem overpriced. The markets remain range bound and expectation of future volatility falls further. Bankers in bars talk about the permanent suppression of volatility by central banks, the fall in money velocity etc., as the reason why there is a permanent shift in expectations.

We know it might be true but the balance of probability lies with the fact that we are not hard wired for long (ish) cycles like volatility, hence it becomes counterintuitive. The longer an earthquake takes to come, the more people believe it will never happen. In the meantime the odds of it happening are increasing year after year.

And like all long cycles, when it does happen, the prices of traps, or earthquake insurance, or long dated option prices, go berserk.

## **DISCLAIMER**

36 South Capital Advisors LLP is authorised and regulated by the Financial Conduct Authority (FCA).

This document is for professional investors and qualifying investors only and no other person should rely upon the information contained within it. Prospective investors will be required to certify they are qualified investors upon application and certify their awareness of the risks involved in the investment and, in particular, the inherent risk of losing sums invested. Offering documentation and fund literature is only available upon request and not available on the 36 South Capital Advisors LLP's website. As part of the subscription process the fund administrators check the eligibility of investors.

Unless otherwise stated, the statements, views and opinions expressed in this document are those solely of 36 South Capital Advisors LLP.

An investment with 36 South Capital Advisors LLP will involve a significant degree of risk, which each prospective investor must carefully consider.

Past performance is not necessarily indicative of future results.

This document concerns certain investment strategies and does not purport to disclose details about any particular existing funds. This document is accordingly provided for informational purposes only and does not constitute investment advice. The information herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. Please consult independent tax, legal, accounting or other advisors in the course of assessing any strategies mentioned in this document.

This material is communicated in accordance with Article 14 (Investment Professionals), Article 21 (Certified high net worth individuals) and Article 22 (High net worth companies) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001, or pursuant to the permitted exemptions made available by the FCA in section 4.12 of its Conduct of Business Sourcebook.