



Yo-Yo Ma(rkets)

Stock market volatility is back.

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It's unclear exactly when the yo-yo was invented, but it seems to have been around since 400BC. There are yo-yos in the Metropolitan Museum of Art and the Anthropological Museum that respectively date back to the Ancient Greek and Mayan eras.

The first patent for a yo-yo was given to James L. Haven and Charles Hittrick, from Cincinnati, Ohio, in 1866, although it was Filipino businessman Pedro Flores who is credited with popularising it in the US in around the 1920s and 1930s.

They've certainly stood the test of time, and were a popular toy when I was growing up in the 1990s. Today, the word has become a verb of its own, and it's a phase that stock markets are very much going through now. After a strong bull run since late 2022, the S&P 500 is pretty much flat over the past six months, having bounced around in the 6,500 to 7,000 range since September.

There have been two causes of this: first, a slowing in bullishness of artificial intelligence and more recently the US's invasion of Iran. I should note here that it always feels trite to write an investment blog during times of war. The most important thing, of course, is the loss of life that inevitably comes with that.

Yet, for those of us in the West, conflict in the Middle East is consequential for other reasons, especially the price of oil – a key political talking point for obvious reasons.

That said, geopolitical conflicts are always interesting case studies, given the volatility they cause. Despite that, they often have little impact on the long-term trajectory of markets, aside from a few obvious exceptions.

Yo-yoing markets may have started to provide some buying opportunities, although at the time of writing the S&P 500 is just over 3% lower than its most recent record high, so I'm not quite jumping for joy at the moment. That said, Japan's Nikkei 225, the US small-cap Russell 2000 and the FTSE 100 are anywhere between 5% and 7.5% lower than their respective recent all-time highs.

Some investment trusts are down from their most recent highs, too, including **Allianz Technology Trust (ATT)**, **Scottish Mortgage (SMT)** and **Fidelity Emerging Markets (FEML)**. So, I was scanning my portfolio and my wishlist for some bargains when Tuesday (my regular, monthly investment date) came around.

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Idiosyncratic opportunities

I ended up mainly topping up existing positions. My portfolio is pretty unwieldy at the moment so I'm stopping introducing new positions unless they are buying opportunities I can't ignore.

The only one I decided to add this month was **HgCapital Trust (HGT)**, which is a private equity trust that invests heavily in software businesses. A swathe of software firms have been hit by the continued improvement of Anthropic's Claude family of large language models. In HGT's case, its largest holding Visma may have to put off an IPO that had been scheduled for Q1 thanks to the volatility we've seen, sending HGT's share price down by around a quarter and throwing up an interesting buying opportunity.

Another highly rated private equity trust that has fallen heavily is **3i Group (III)**, which I've been adding to in the past few months. Listed PE has been hard hit, but III's woes stem from weaker-than-expected results from its largest holding Action, which to me seemed an overreaction.



Otherwise, it's smaller companies funds and trusts that have piqued my interest. This is for both valuation and strategic reasons. Smaller companies remain underperformers in recent years relative to large caps, yet the small-cap premium suggests over long timeframes they should outperform, so it feels to me like a good time to be buying.

That small-cap premium is also a key reason for my strategic asset allocation, which is to be very much overweight smaller companies. In the UK, that premium has been 2.8% per year since 1955, according to Deutsche Numis. My SIPP has at least a 20-year time horizon, potentially longer – a span of time long enough for the small-cap premium to return and deliver good returns, in my view.

I've been using small-caps to add exposure to the US because I'm very underweight that particular country at the moment. The **VT De Lisle America** fund is one of my biggest holdings and now I'm building exposure to the **SPDR MSCI USA Small Cap Value Weighted ETF (USSC)** and the **Artemis US Smaller Companies** fund.

In the UK, **Rockwood Strategic (RKW)**, a seeming office favourite, fell to a discount and **Aberforth Smaller Companies (ASL)** has weakened, as has **European Smaller Companies Trust (ESCT)**, despite what have been strong long-term returns from each.

It's been a couple of decades since I last played with a yo-yo (in fairness, even when I was a kid I never particularly got in on the fad), but I'll certainly be keeping a beady eye on stock markets' yo-yoing in the hope it throws up some good buying opportunities in the coming months.

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