Börsen-Zeitung

"You should mentally write off 10 per cent of your assets!"

Dani Zulauf

Pirmin Hotz, reflecting on his nearly 40-year career, is convinced that equities will yield lower returns in the future. He still cannot and does not want to imagine a world without dividend-paying equities. He thinks little or nothing of government bonds, gold and Bitcoin.

BZ: Mr Hotz, it seems that Donald Trump did more good than harm to the stock market last year. Now he is back as President. What do you expect?

Donald Trump worries me more in political than in stock market terms. But clearly, Trump is a very unpredictable man, and uncertainty is bad for the market climate, especially since we have just had two outstanding years. I expect significantly larger price fluctuations in 2025.

BZ: How are you preparing?

Not at all. Our clients' assets consist firstly of solid stocks, secondly, far behind, good real estate and thirdly – to smooth out fluctuations – safe bonds. Depending on the market situation, we shift the weighting a little to boost performance as opportunities arise.

BZ: How does that work in practice?

For example, last year we sold some stocks for many clients and invested the realised profits in bonds. If there are setbacks in 2025, we will do the opposite – buy stocks, sell bonds.

BZ: A year ago, you explained to us why you do not make annual forecasts for equities. What is your long-term forecast?

I have been working as an asset manager for nearly 40 years and have achieved an average return with equities of slightly more than 9% per year for my clients over this entire period. I believe it will become more challenging in the future. I expect that the long-term average return of 7% to 9%, which the stock markets have yielded over the past hundred years, will decline to an average of about 6% to 7% per year.

BZ: Why do you expect that?

I believe that globally low interest rates will remain at a lower level for a longer period of time. This also suppresses the risk premiums that can be earned with equities.

BZ: But at the moment we are moving further downwards on the interest rate curve. Shouldn't stock markets gain additional momentum from this?

That is the doctrine. But there is no evidence for it. A weak, inverse relationship between the development of interest rates and stock markets can indeed be empirically demonstrated. But just think of the dot-com bubble: between 2001 and 2003, central banks drastically cut interest rates. But it took a very long time for stock markets to bottom out.

BZ: What happens to the dollar if key interest rates continue to fall?

The dollar is clearly overvalued, at least compared to the franc, and will have to adjust to purchasing power parity over the long term. Everyone has rushed into the dollar in recent years. Many hedge funds have temporarily borrowed large amounts in the low-yielding yen and purchased higher-yielding dollar assets with the money. Such carry trades will sooner or later be overridden by the principle that where there are higher interest rates to be earned, higher inflation must be accepted. And fundamentally, countries with higher inflation also have weaker currencies.

BZ: You also invest your clients' money in bonds. How do you view the issue of global debt when buying government bonds, for instance?

Government debt is a major concern for us, particularly American debt. In 2023 the US budget deficit was 6.3%, despite a well-oiled economy. This cannot end well. But other industrialised nations such as Japan, Italy and France are also in need of restructuring. I can no longer buy bonds from such countries in good conscience.

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BZ: Will we emerge unscathed?

No. At some point, taxpayers will have to shoulder these mountains of debt. And even the companies will not emerge unscathed from the next debt crisis. I tell my clients they should mentally write off 10% of their assets as a contribution to a global debt restructuring at some point in the future. I think every pension fund and also every private investor should calculate this way.

BZ: What about gold?

Gold is not a good alternative to stocks under these conditions either. Despite the great year gold had in 2024, the returns on it have no chance in comparison to stocks over the long term. I agree with the American financial publisher Jim Grant, who says: "Gold is an investment in monetary chaos." Such an investment can be made, but I would only allocate a very marginal part, perhaps 2%, of total assets to it.

BZ: So you think that stocks will also perform above average over the next 50 years. What makes you so sure?

I expect a world that I wish for myself and my descendants. If you believe share prices won't rise enough over the long term to compensate investors for their risk, then the market-driven world we live in now will come to an end. Perhaps then we will live in a state where there is no private ownership. That is a dreadful notion for me that I don't want to place any bets on.

BZ: Would that also answer the obligatory question about Bitcoin?

Exactly. Gold, which at least has special physical properties as a precious metal and therefore also industrial uses, is a better investment by far. For me, Bitcoin is effectively the largest Ponzi scheme of all time.

BZ: What did you earn for your clients with stocks in 2024?

It was 14%, despite the disappointing performance of some core positions like Nestlé, the Swatch Group and Bayer. I am very satisfied with this result, especially when one considers that our stock portfolios are much better diversified than the MSCI World Stock Index.

BZ: Bayer is probably your biggest problem. Why have you stayed with them?

Yes, Bayer is our most challenging case. Actually, class action lawsuits would be a reason for us to exit. But we have stayed the course because the assessment of Round-up, the Monsanto fertiliser that triggered all the lawsuits, is somewhat controversial. Environmental agencies say Round-up is not harmful to health if used correctly. But the courts hold opposing positions. We still believe that the position of the environmental agencies will eventually prevail in the courts. However, the matter could easily go against us. But my ambition as an asset manager is also to swim against the tide, to behave countercyclically. I see that the company is still performing well operationally and has a healthy core.

PIRMIN HOTZ

Swiss citizen Pirmin Hotz, 64, has been working as an independent asset manager for almost 40 years. In 2021, he wrote a successful book on investment strategies entitled «On the Greed, Fear and Herd Instincts of Investors» (Über die Gier, die Angst und den Herdentrieb der Anleger).