# Algunas veces los índices de referencia nos confunden y esta es una de ellas

*At a time when the gap between the real and financial economies is one of the biggest differences ever seen, investors do not understand the reason for the differences in profitability between their portfolios and those highs of the indices that we hear every day in the news . The market structure and the benchmark indices that we usually follow must be corrected because otherwise we end up comparing pears with apples just because the skin of both is not rough. In this article I introduce something that is not new, but where we should focus our gaze more usually if we want to understand the sea in which we sail.*

By Miguel Ángel Temprano
CEO Orfeo Capital

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We are experiencing an unprecedented rise in international stock markets. Above all, without paragon for the radical discrepancy between the real economy and the “financial economy”. This is creating a gap that already has dimensions of a great sinkhole, as the cover of The Economist showed a few dates ago. Well or at least these is what they tell us. In this article we will see that this is true, but like most truths, only partially true.

Investors see that the indices rise as if there were no tomorrow and they do not understand why their portfolios do not have a similar behavior, without stopping to think that the problem may not be in their portfolios, but in the benchmark indices with which they are compared .

Let's see what has happened so far this year. The S&P500 has not only recovered everything lost, but day after day it beats its historical record, taking a net gain for the year of 6%, and we all know that this is due to one thing only, to overbought of the technological ones.

But, although we all know them, we all stay at that, without even minimally reaching the next level of analysis, which is nothing more than assessing the weight that these technological values have in the index, that is, in the weighting that they have the same in the index.

Building a portfolio, be it a diversified fund or a private one, basically consists of three things: choosing the securities in which to invest, which is usually called stock picking; determine the weight range of each value and finally determine the entry or exit criteria in the value. The latter, that is, the entry and exit criteria are usually determined by valuation criteria, generally technical or fundamental, specific to each manager or investor; the second, that is, the weight of each security in the portfolio is usually in a very narrow range, the limits of which are generally close to the result of dividing the total amount to invest by the number of securities in which to do so; and the first is undoubtedly the most complicated and in which management success tends to lie, especially in trending markets.

And why do we do these? By a simple and straightforward diversification criterion. Now, we compare ourselves with indices where these weights are not only not equal, but as a security is rewarded with a revaluation its weight in the index increases, that is, its weight increases. So hypothetically we could find a bull market, if we look at the index, but where most of the values are bearish. Difficult, but not impossible, it's just math.

So why do we compare ourselves to weighted indices, if we do not weight the weights of the securities in our portfolios in the same way? By doing this we are distorting the comparison and therefore the “Benchmark”. And this now hurts many portfolios, but other times the opposite happens, and sometimes it is as unfair and uncertain as others.

So what should we compare ourselves to? Well, with unweighted indices. Indices that exclusively measure the price without taking into account its capitalization.

Well, in the following chart we see a comparison of the S&P500 (weighted and unweighted). And curiously what the chart tells us is that the market as a whole has not risen as it seems it has, but rather so far this year it has fallen by 4.12%.

euro. Thus, for any average European investor, the valuation of the currency is critical, so we must adjust the value of the index to either the price of the currency or, failing that, to the cost of hedging it, discovering that the situation in That going on in the year has only made it steadily worse since the beginning of the year.

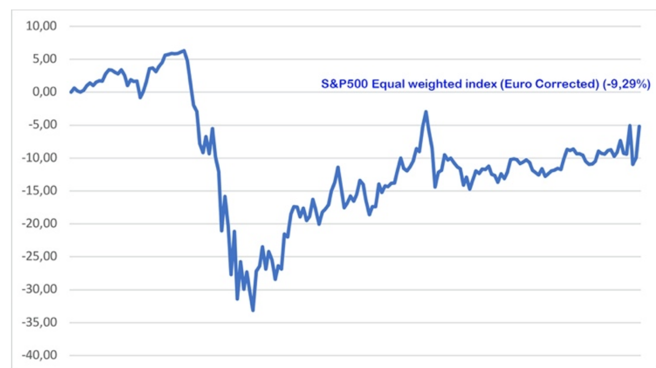
In reality, when we analyze the prices one by one, we see that of the 500 stocks that make up the S&P500, only 213 stocks are positive so far this year, that is, 42.6% of the total, while the rest is more 57% of the values are negative so far this year.

Unless we maintain an absolute technological position, a situation only typical of a thematic fund and of course very far from a typical diversification strategy of a multi-sector fund or a typical investor portfolio, our expectation of profit in the year is certainly not promising .

True? Things look different like this. And furthermore, do any of the readers believe that a bubble of dis-communal size is not really being created in these types of values? With which, not only do we compare ourselves wrongly, but we also compare ourselves against something that very few people believe reflects its real value and therefore with an exaggerated assumption of risk.

But let's get into another curious dichotomy. The European investor uses the Euro as its reference currency. Very few investors, in fact only the very large fortunes can have long-lasting positions in dollars, that is, for periods between 7 and 10 years without caring about the valuation against the

We can see in the following chart that the unweighted index and with the currency difference has contributed a negative result in the year of more than 9%. And I already anticipate that the same thing, obviously without currency




correction, happens if we do the exercise with the Euro Stock 50, where the unweighted index has fallen 13% so far this year

It is not my intention to justify any investment strategy or management. In this way I want to put the investor's eye on a very exact way of how to see a situation that, as I said at the beginning of the article, is not always the same as it is painted.