

AA-rated Guzmán de Lazaro thinks volatility is his friend

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By Philip Haddon, European Funds Reporter

Bestinvester's Alvaro Guzmán de Lazaro, whose new hedge fund will launch this month, is embracing market volatility as a chance to pick up undervalued stocks.

The Spanish AA-rated manager runs a global equity fund, a Spanish equity fund, and a European equity fund with Francisco García Paramés, at the Madrid-based boutique.

'Volatility is our friend, not our enemy,' says Guzmán de Lazaro. 'When we know what things are worth, we can take profits from movements in the market.'

He cites the UK retailer Debenhams, his biggest single holding in the UK, as an example of the sort of stock he is putting his faith in.

'Debenhams is trading at five times earnings. This is a ridiculous price really, but when there is doom and gloom no one listens,' he says. 'The management is sensible and the cash flow is there. There could be a huge pay off.'

A renowned value manager, Guzmán de Lazaro is convinced Debenhams is trading at a fraction of its real price.

'If someone offers you a new top-of-the-range BMW worth £50,000 for just £40,000 then you think it is a bargain,' Guzmán de Lazaro says. 'If they offer it to you for just £10,000 then you think there is something wrong with it, so you get an expert to take a look at it.'

So you have to be as sure about Debenhams as the car expert is about the value of the BMW - and we are. This is how volatility works. We see no reason why Debenhams will not recover.'

In Spain, the stock prices of construction companies have dipped sharply with some falling as much as 40%. As result, de Lazaro admits he has bought a small position in Spain's largest property firm Sacyr.

Another large Spanish stock he is invested in is Telefonica, the telecoms group. He claims it is still undervalued and is yet to reach the target price they set when they bought it 18 months ago.

Generally in the Spanish market, Guzmán de Lazaro is invested in non-cyclical and export-oriented stocks.

His funds were undamaged by a summer dip in stock markets. 'This downturn came when we were fully invested, and we emerged unscathed. Our price to earnings ratio before the crash was 9.5 times, now it is 7.7 times,' he says.

In constructing his portfolios, the Bestinvest manager insists macro factors are of no interest to him

'Carrying macro views is excess baggage,' he says. 'I have no views on oil prices, government deficits and things like that. I'm just finding well managed undervalued companies.'

Around 85% of his global portfolio is invested in western Europe, with particularly large French and Dutch positions.

'In Western Europe some stocks are well undervalued, but then again some are well over valued,' he says. 'Solar energy stocks, for example, are radically overvalued.'

He is highly sceptical about the value of green stocks.

'First of all I am agnostic on whether the world is dying or not,' Guzmán de Lazaro says. 'This is a political thing- it gets votes. We tend to prefer companies who have earned their money through the market, not through politics. I'm not investing in solar companies at 30 times earnings.'

Guzmán de Lazaro is AA rated in Spain for his risk adjusted performance with the Bestinver Internacional, Bestinfond and Bestinver Bolsa funds.

A new hedge fund is also getting launched for Paramés and him this month, which will be called Bestinver Hedge Value. It will be a concentrated version of the boutique's flagship fund, Bestinfond, which will contain between just 5-20 of the duo's best ideas.

'If our very best ideas are better than our average ideas then this fund has to perform, Guzmán de Lazaro says.

The new fund will charge a management fee of 2%, coupled with a performance fee of 50% on the amount it outperforms Bestinfond. The manager does not foresee taking any short positions in it but may use some leveraging.

His three year total returns with Bestinfond has propelled Guzmán de Lazaro to 2nd place out of 171 managers in the Europe wide manager rankings in the equity eurozone sector. ([http://www.citywire-fmi.com/CFI/Home.aspx?](http://www.citywire-fmi.com/CFI/Home.aspx?CitywireClassGroupCode=FMIMLT&AnalysisCode=1048abcd36&RankModeIID=8&RatingCitywireClassSchemeID=17)

[CitywireClassGroupCode=FMIMLT&AnalysisCode=1048abcd36&RankModeIID=8&RatingCitywireClassSchemeID=17](http://www.citywire-fmi.com/CFI/Home.aspx?CitywireClassGroupCode=FMIMLT&AnalysisCode=1048abcd36&RankModeIID=8&RatingCitywireClassSchemeID=17))