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HOW TO LOSE MONEY BY BUYING CHEAP DURING CRISES

The current logic in the capital markets is that now is a once-in-lifetime opportunity to buy cheap. Well, not quite, even the specialists don't get it right.

Let us do this in two steps; (all prices, index levels etc are as per 29 April 2020)

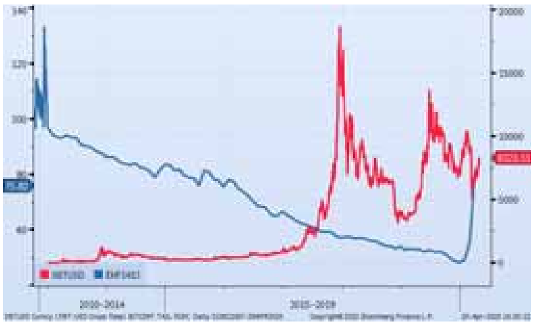
Step 1: Look at the graph

Look at the graph of the performance of hedge funds which are dedicated to buy cheap in crises. For nearly 8 years, 2012 to start of 2020 they only lost money, not anywhere near compensated by their recent rise. Ditto for the Bitcoin whose volatility since 2017 would have made it quite difficult to time a “buy cheap” event, even including the recent market crashes. Moral of the tale. If you can time the distress you can make money, but then you should be able to time all other “normal” times and not just the distress and also make money.

Step 2: some simple approximate numerical examples (NB as per 29/4/20)

The CBOE Eureka Hedge Tail Risk Indexis an equally weighted index that is designed to provide a broad measure of the performance of underlying hedge funds that specifically seek to achieve capital appreciation during periods of extreme market stress.

The chart shows the CBOE Eureka Hedge Tail Risk Index(EHFI435 blue) & **Bitcoin in USD**(red) 2008-2020
Bloomberg
The index is base weighted at 100 in 2007.If you had bought USD 1,000 of these funds at their index peak in Sept.2011 at about 132, and after their steep rise during the current crisis reaching about 76, you would have made a loss of about 42.5% leaving you with USD 575 of your original capital. Only if you had persevered with nearly eight years of continuous losses (2012-19) you could have made a 58.0% gain had you got out at the bottom (about 48.0) and then back again at the end of 2019 and held it till now (76.0).
But your overall loss of this “wait- get out -and then get in again” would have cost you a loss of nearly 67% (buy at the peak, 132.0 and sell at the bottom48.0) for a gain of 58.0%, buy at the bottom and then sell now. And all this assuming always that you had timed all this perfectly.
Investment in **Bitcoin**would not have fared any better in the rush to “sure things!” Having bought at the peak of USD 18,570 in Dec. 2017 the current loss at USD 8,740 would be 53.0%. Only buying at the recent bottom of USD   5051 and selling now at USD 8,740 would have a made a 73.0 % gain, assuming once again that the investor went through a similar period of waiting from end of 2017 to now, sold at a loss of 72.0 % and then bought again at the low price of USD 5,051 and sold at USD 8,740 to materialize a paper gain of 73.0 %. By sheer chance this yields a zero percent net gain.It must be noted that all these examples do not use the absolute sums of comparative gains and losses but only the percentages which will , of course, reflect different absolute sums of gains/losses.
All this might appear a little convoluted and contrived but this is not unlike the statistical tricks used to show gains, but not losses, in investments by assuming convenient entrance and exit points. Here we stick to the simple “buy and hold” assumption, and then buy at low and sell once prices have risen. And all this being totally dependent on near perfect timing.
Conclusion: There is no such thing as “buy cheap in distress and then sell”. All there is is market timing and the evidence for this in the context of distress is from uncertain to downright poor



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