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Thesis says technical factors vital

Technical factors will remain important in fund selection as market volatility continues, according to the multi-manager team at Thesis Asset Management. Steven Richards, associate director at Thesis and manager of its fund-of-funds range, said technical considerations such as automatic sell-offs had driven investment trusts in particular after the Lehmans collapse. 'A lot of private client managers were fire-selling these assets in November and December of last year,' he said. 'But if risk appetite does return, hopefully some of these holdings will go to the average investment trust discount of 10 per cent. That's why we never gave up.' Mr Richards's Multi-Asset fund still has a 30 per cent exposure to investment trusts.

As a result of discounts widening, his fund was fourth-quartile in the last quarter of 2008 and first-quartile in the first quarter of this year. It is now second-quartile over the year to date.

Overall, he said the investment trust industry had not suffered any permanently debilitating blows. Some market makers had stopped dealing investment trusts, he said, but others such as Dexion Capital had stepped into their place.

Another key technical factor, Mr Richards observed, would be market timing, which managers have tipped as a path to returns if markets remain flat.

He gave the example of the recent long rally in equities, which was heralded when the average value of the FTSE 100 over the preceding 60 days started to exceed the value of the FTSE 100 over the preceding 180 days, a common technical 'buy' signal.

Just before the rally, he moved out of a long/short UK equity fund into a long-only UK equity vehicle, maximising his returns.

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