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'Brace yourself for high volatility', warns top Italian equity manager

Eugenio Montesano

Italy's recovery is afoot and on a steady pace but investors will still be confronted with high volatility in 2014, Italian equities manager Luigi Degrada told Citywire Global.

The Citywire AAA-rated manager, who runs the €238 million Banca Fideuram's Fonditalia Equity Italy fund, said although he is moderately optimistic about the outlook of the Italian economy for next year, his country is still undergoing a series of changes that are keeping it in a delicate position.

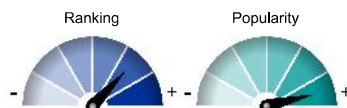
'Because the market has grown so much, we are now going through a phase of stabilisation and possible turbulence, so I expect volatility to linger, probably fuelled by the country's political wavering.'

'I am therefore reducing the risk of the portfolio, with an eye to what will happen in the coming weeks.'

Reducing financials and the importance of AQR

One of the principal portfolio changes Degrada's made to the Fonditalia Equity Italy fund is reduce exposure to financials as he now expects price consolidation as a result of the recent rally in Italian banks.

The manager also pointed out how the Asset Quality Review (AQR) and the stress tests looming ahead for European banks represent one of the key reasons behind his cautious approach.



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'I still like financials, but I also expect greater selectivity within the Italian banking sector, so with AQR in the pipeline I'm employing a much more prudent approach by being defensively selective.'

Looking at other sectors, Degrada said another key characteristic of the Fonditalia Equity Italy is the fund's strong focus on small caps, in order to find quality shares at appealing prices.

'We have also invested in a series of quality small-cap companies which were underestimated and have grown a lot in the past few years.

Examples of this are Save (airports of Venice), Poltrona Frau, ERG, Cairo Editore, TXT E-Solutions, B&C Speakers.'

Behind the big value call in European equities

Degrada also commented on international investors' recent surge of interest in eurozone peripheral equities, which has seen several stocks 'sell like hot cakes' on the Italian market in recent times.

'Some media equities, for example, have doubled in price or have gained between 50-60%, starting from extreme situations of having almost no market.'

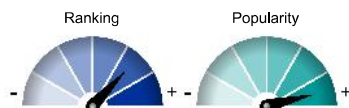
As a result of the big value call in European equities that is stabilising the Italian market, Degrada said, it is now more difficult to find stories of extreme undervaluation.

However, Degrada says he is equipped to deal with this type of environment.

'If, on the one hand, there are fewer opportunities to be exploited at this time, we find that within a normalised market we can focus again on an efficient stock picking process, which gives the

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opportunity to derive better value within sectors.'

'Personally, I would not trade between a stable environment and one of rampant, almost uncontrollable volatility,' concluded Degrada.

The Fonditalia Equity Italy fund returned 17.02% over the three years to the end of October 2013.

This compares to a fall of 2.65% by its Citywire benchmark, the Comit Globale R, over the same period.

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