MAERKI BAUMANN & CO. AG

PRIVATBANK

Stability meets growth

Geopolitical tensions, rising oil prices and abrupt price fluctuations have recently once again reminded investors just how quickly the market environment can change. A defensive growth approach aims to make equity portfolios more resilient, not by sacrificing growth, but through the targeted selection of stable, high-quality companies.

The impact of geopolitical crises on the equity markets is generally not long-lasting. In the short term, however, such events can trigger marked volatility, as recently demonstrated by the escalation in the Middle East this year. For many investors, situations like these mark the point at which ordinary price fluctuations turn into genuine concern. As losses mount, the desire for greater stability within an equity portfolio tends to increase. It is precisely during such phases that the true robustness of a portfolio becomes apparent. As long as markets are rising, focus is primarily placed on returns. When volatility spikes, however, attention turns to a different question: how can losses be limited without sacrificing long-term growth potential?

This is exactly where a defensive growth approach comes in. It combines the search for stable, high-quality companies with the objective of continuing to participate in equity market growth during rising markets. While losses cannot be avoided completely with this approach, the aim is rather to cushion market downturns and bring stability to an equity portfolio during unsettled times.

The defensive growth approach deliberately differs from purely return-driven strategies that are often associated with elevated risks. The investment focus is placed on high-quality companies that exhibit sustainable profitability, stable growth and clear competitive advantages. Just one quarter of all equities meet the quality criteria and are included in the Maerki Baumann investment universe. The objective is to ensure greater stability within the portfolio. Particularly in times of heightened geopolitical tensions, this resilience is a crucial success factor. In this way, risks can be diversified in a targeted manner and wealth can be preserved while still allowing for long-term investment opportunities to be captured.

Security over return

But how does a defensive growth approach work? The guiding principle is simple: security over return. Throughout the entire market cycle, the primary focus is not placed on maximising returns, but rather on managing risks in a controlled manner.

This can be achieved through the targeted selection of equities that perform relatively stably during market downturns while at the same time also participating in rising markets. During strong recovery phases, for example in the aftermath of a significant market correction, such securities often lag the broader market somewhat. However, this is acceptable if they previously lost significantly less during weaker market phases. For long-term performance, limiting losses is crucial: the greater the decline in a portfolio's value, the greater the subsequent recovery has to be to make up for that decline. Many investors are therefore more willing to accept a moderate underperformance during strong market phases than substantial losses during turbulent periods.

Finding equities that are resilient on the downside while exhibiting strong growth potential on the upside is no simple task. Such "hidden gems" are rare: as early as the initial quantitative selection stage, around three-quarters of the equities within an investment universe are eliminated. A fundamental analysis further narrows the selection.

Stability is essential

Stability is the defining characteristic of defensive growth equities. Focus is placed on high-quality companies that exhibit sustainable profitability and stable growth in terms of revenues and earnings. High-quality companies are market leaders with long-term, stable business models and strong management teams. The dividend does not necessarily have to be high, but it should be stable or growing, even during difficult phases. Companies should also be innovative and prepared to leverage new technologies.

Such companies can be found across all sectors. Market capitalisation plays only a secondary role here: both blue chips and small- and mid-cap stocks can possess the required qualities. Examples in Switzerland range from medium-sized companies and cantonal banks to insurance firms.

In addition to a disciplined selection process, a successful defensive growth approach also requires stringent risk management. The objective is not to minimise risks indiscriminately, but rather to manage them in a targeted fashion with regard to the risk-return profile. A significant underperformance by individual securities relative to the benchmark can represent a risk trigger, as can an excessive concentration within a portfolio. Positions that have appreciated strongly can be returned to an appropriate weighing through regular rebalancing. This helps to keep the portfolio balanced without losing sight of its long-term growth potential.

The midfielder

A defensive growth approach can be implemented not only at a global scale, but also with a regional focus. Depending on the market outlook and individual preferences, targeted regional tilts can be incorporated. Within a broader equity portfolio, a defensive growth approach is especially well suited as a stable core building block. Its weighting can be adjusted through active management in line with the prevailing market environment and complemented by more defensive components as well as more growth-oriented segments. Using a football analogy, defensive growth thus plays the role of a midfielder. The approach stabilises the game, combining defence and attack and ensuring that a portfolio remains capable of performing when it comes under pressure. This results in a less nerve-racking equity strategy that demonstrates resilience during turbulent periods while continuing to participate in growth potential during constructive market phases.

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