'Only invest in stocks that are fire resistant like sequoias'

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'A large forest fire isn't bad. Everything burns and then a fresh, healthy forest reemerges. The primeval Sequoia can endure such a disaster. The same is true for stocks. An investor must be prepared for calamity on a regular basis and only invest in stocks that are as resilient as Sequoias.'

Martien van Winden, founder and manager of Investment fund Hoofbosch, established in 2006, does not mind a stock market crisis – independent from the corona virus. 'My thesis', he says in a conversation with Fondsnieuws, 'is that you should only invest in Sequoias. Those are a handful of companies spread-out throughout the world that have been paying dividends for 50 to 100 years. Some of them, think Nestlé and L'Oréal , even experienced the Spanish flu.'

These are companies he calls "consumer defensives", which also thrive in times of crisis. Think of the food manufacturer General Mills, which produces dog food, and cannot keep up with demand. No discounts. Consumers pay full price for it.'

According to Van Winden, the same is true of Nestlé. When the Chinese began hoarding at the outbreak of the coronavirus, they bought baby food from Nestlé. Their coffee was also in high demand and Maggi was sold out.

The CEO of L'Oreal, recently told Le Monde that, 'from a business point of view," he is "not impressed by the current crisis." There is no reason for me to adjust our long-term outlook," said Jean-Paul Agon .

The "consumer defensive" stocks of which Van Winden is fan of have remained unprecedentedly solid throughout this stock market crash: Givaudan, which makes fragrances and flavorings, is up 3 percent year to date, Nestlé gained 2 percent and General Mills is even 10 percent higher than it was at the beginning of the year.

Van Winden has only 18 stocks in his portfolio. In the doomsday month of March, his portfolio lost 6 percent; on a year- to- date basis that is now 12 percent. A few companies in his portfolio have been harshly punished for various reasons: Johnson & Johnson, the pharmaceutical company has lost 12 percent, due, in part, to multiple lawsuits and Royal Shell, which has lost 50 percent.

'There has been a lot of criticism of pharmaceutical companies, but one day of the corona crisis taught us that we cannot do without them -- not even for a day. A vaccine must be developed with lightning speed. This will require substantial development money. For example, Roche spends $ 10 billion annually for research & development. In the wake of the corona crisis, we will no longer hear critiques of those pharmaceutical companies.'

Van Winden hastens to distinguish himself from companies he calls 'medicine farmers' who buy patents for medicines that cure rare disorders and then charge exorbitant prices for them. "These are criminals who are guilty of serious criminal behavior."

But that is different from what is happening to Johnson & Johnson now among other things, the suspected inclusion of asbestos in their talcum powder. As many as 100,000 lawsuits have been brought against the company by attorneys in the United States looking to cash in on it. Van Winden thinks Johnson & Johnson, which increases its dividend every year, will be able to weather the storm. The company has 20 billion in cash.

According to him, the same applies to Royal Shell. The group is being punished because of the price war between Saudi Arabia and Russia, the corona crisis and the environmental movement that has made pension funds no longer want to include oil companies in their portfolios.

Van Winden responds laconically, or perhaps, realistically: 'This fuss will go away sometime. The world really cannot yet do without oil. Moreover, Shell is increasingly transforming from an oil to a gas company. In the longer term it will become an electricity company. 'Shell is now the cheapest stock in the AEX, with a dividend yield of 16 percent." According to Van Winden, 'A company that pays dividends for 50 to 100 years without reducing it -- that says everything about that company. The rest is less important.'

Hoofbosch's founder believes that the portfolio he has put together, which Morningstar has awarded five stars, could double in value in the coming years.

An interesting thing about Hoofbosch's portfolio is that Van Winden only wants to invest in 'sustainable productive assets', mainly in Switzerland, the US and the Netherlands. He does not care about the currency. He does care whether or not a company has its production facilities in the same country where their sales are -- such as Procter & Gamble . That way they never suffer from trade barriers or distribution problems, as is currently the case.

Van Winden adheres to simple rules: he does not want to hold cash with banks and therefore invests his cash position in Swiss and Dutch government bonds -- virtually the only two countries in the world that have never gone bankrupt. Besides financials, he also does not want to invest in technology or in emerging markets.

Finally, is the end in sight? The former Robeco investor answers that question: 'All crises that I have studied have one thing in common. You can always link the top of the market to an event or a series of events, but not the bottom. You can only explain that afterwards. The stock market usually recovers much faster than the economy. '

Boom & bust periods go faster and become more intense. 'So much has happened in the past 35 years. In 1987, the light went out in the world; since then we have had two Gulf wars, the crisis in South America, Asia, the internet hype, 9/11, SARS and the credit crisis. But, in spite of all those crises - big and small - solid stocks, the Sequoias of the markets, have thrived. In fact, if we include dividend reinvestment, their value has multiplied fifty-fold during that period.'

This article comes from the editors of Fondsnieuws, a journalistic platform for professionals working in the investment industry.

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