Tor Svelland's hedge fund has a return of 45 per cent this year and he still sees opportunities: - It's going to explode

Tor Svelland's hedge fund has delivered the best return in the Nordics over the past five years. He believes that the time when passive management gives good returns is over.

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- Owning Apple, Microsoft and Amazon has been a megatrend, but now it's over. Now you have to be much more selective, says hedge fund manager Tor Svelland.

45 percent return. That is the conclusion so far this year for Tor Svelland's hedge fund Svelland Capital, which has approximately NOK 1.6 billion under management. The fund mainly invests in shares and futures contracts related to shipping and raw materials.

In October and November, the fund gained nine and five percent respectively. According to Hedge Nordic, Svelland Capital is the Nordic hedge fund that has done the best this year - and the last five years taken together.

In July, Svelland pointed to the shipping companies that transport oil and liquefied natural gas (LNG) as the big opportunities on Oslo Børs - a prediction that has been right. Svelland still believes there is more to do in LNG, but now he also highlights dry cargo as an attractive investment.

Svelland also sees higher prices for both oil and aluminium. Svelland sees perhaps the biggest opportunity in copper, where he believes the price could rise by around 50 per cent.

- Everyone must have electrification and electrical things, but no one must extract the raw materials needed for this. It is an absolutely extreme mismatch, and we are only becoming more and more people on earth. Betting against copper is a very dangerous trade. It will explode, says Svelland.

Sees higher oil prices

Svelland has been more moderate in his estimates than many other experts, but he is among those who have stated that the tight oil market has called for an oil price of up to $130 in the second half of 2022, without that having become a reality.

Tor Svelland

Age: 55

Position: Owner and investment director of the Oslo- and London-based hedge fund Svelland Capital, which he started in 2017. As of December 2022, the fund has around NOK 1.6 billion under management.

Worked as a shipbroker at the start of his career in the 90s, and was previously head of commodities at brokerage Pareto Securities.

From 2014–2016, Svelland worked at Trafigura, one of the world's largest commodity trading houses. Before that, he worked for four years as a trader at the American investment bank Goldman Sachs.

From August 2020 to August 2021, Svelland was chief executive of John Fredriksen's management company Seatankers management Company, with responsibility for an extensive restructuring.

More

One of the reasons is that algorithm-managed funds that trade based on trends, so-called CTA funds, have pulled the price of oil sharply down in periods. This despite the fact that underlying conditions in the market have not changed very much, according to Svelland.

- It also has a lot to do with the fact that China has not imported that much, combined with recession fears and that people have done what they can to avoid buying expensive oil. At the same time, oil stocks have been drawn on, but stocks are now historically low, he says.

With a possible re-opening in China, the EU's ban on the import of Russian oil that is transported by sea, as well as low oil stocks, Svelland believes that there are many reasons for oil prices to rise significantly from current levels.

Before the weekend, the G7 countries and Australia also decided to impose a price cap on Russian oil of $60 a barrel , a price cap the Kremlin has said it will not accept. Svelland is unsure how well the price cap will work in practice, but is clear on one thing:

- This really provokes the Russians. They are going to sit back and withdraw oil from the market, which will send oil prices even higher.

"Irresponsible"

Svelland has recently attended investor conferences in Zurich and Barcelona. He says that his industry colleagues and himself are becoming increasingly convinced that it will no longer be a success formula to just put the money into index funds and hope that the big American technology companies will make you rich.

Mary Erdoes, head of the US bank JPMorgan's asset management business, recently stated that it has never been easier to find excess returns in various assets. Erdoes believes it is "irresponsible" to be passive now, referring to the major shifts in monetary policy, energy security and geopolitics.

- Being a passive investor who believes in technology and invests in the Nasdaq index, or someone who believes in the world economy and invests in the S&P 500 index, that form of investment alone is less attractive. Now it is active management that applies, says Svelland.

Hedge funds are "hyperactive" funds that use advanced and complicated financial instruments to neutralize risk. They can bet on price falls (shorting) and in theory should therefore be able to make money even in falling markets.

However, it is not automatic that hedge funds succeed in this: Hedge Nordic's benchmark index, which measures the development of Nordic hedge funds, has fallen by almost seven percent this year. In comparison, Oslo Børs is almost unchanged.

- How do you explain that?

- In recent years, many people have called themselves hedge funds, but they have really just done exactly the same as everyone else. They have bought technology and sat on it. They have not taken an active approach, says Svelland.

Should hope for an increase

Investor Peter Hermanrud goes against Svelland's recommendation to seek out active funds. He believes the smartest thing for the average investor to do is to invest steadily in global index funds for maximum diversification.

- I am convinced that in the long enough term it is better to have the money in shares than in the bank, and for most people index funds will be the best alternative, as they have lower costs and give a better expected return, says Hermanrud.

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Investor Peter Hermanrud

One should always hope for an upturn, says investor Peter Hermanrud. (Photo: Gunnar Lier)

There was no shortage of warnings that the US stock market was expensive at the start of 2022, which was often tried to be explained by the fact that interest rates were so low that there was no real alternative. This is no longer the case.

- It is true that the market was expensive, but I really think that the vast majority of people should just hope that the market will go up all the time. In hindsight, it is easy to see that the market would fall - but that is only in hindsight, says Hermanrud.

- Going down more

Even if the sharp rise in interest rates really begins to affect the economy, Svelland does not think it will be enough to curb the demand for oil and other important raw materials to such an extent that it leads to a price crash. Thus, there is no reason to have a severe fear of heights on the Oslo Stock Exchange.

- We are now entering a recession in Europe, but not in the US. We can have a mild recession there, but with the situation we have in terms of supply and demand, we need a severe recession to get a real downturn, says Svelland.

Hermanrud notes that Oslo Børs looks cheap, if you look at the price measured against expected earnings next year, so-called price/earnings (P/E). He is nevertheless skeptical.

- I think earnings will fall more than the market thinks, since we are steering towards an economic downturn that could be severe. It also comes after a period where the market has been quite good, and then I think the odds are a little bad, says Hermanrud.(Terms)