Luxury Watches Portfolio - Backtest

All data, projections and opinions are current as of the date of this report and are subject to change.

Background

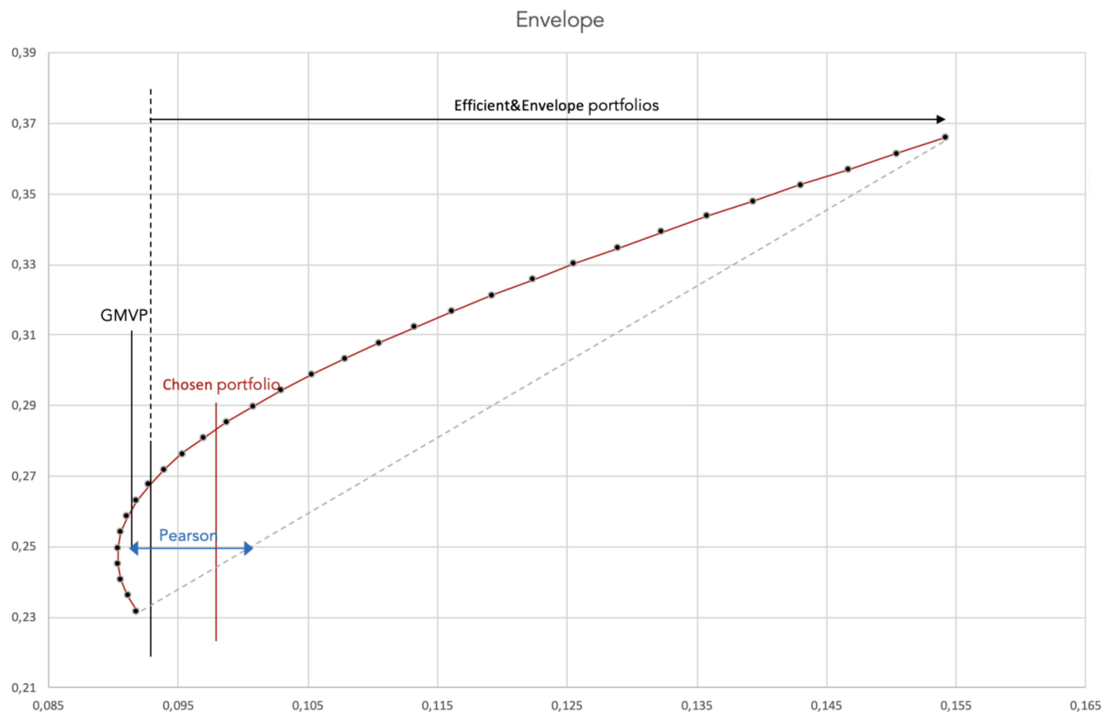
The proposed study represents the backtest of a buy-and-hold strategy, based on historical secondary market prices [EOM]. It follows that the results presented are the result of the simple revaluation effect of the references included in the portfolio, and therefore not fully generalizable to our business model, which focuses instead on tarding. In fact, this simulation does not capture the leverage effect obtained through asset rotation and the liquidity flow generated (and guaranteed) by current operations.

In any case, we believe it constitutes a useful and intelligible tool for appreciating the characteristics of the underlying and related market.

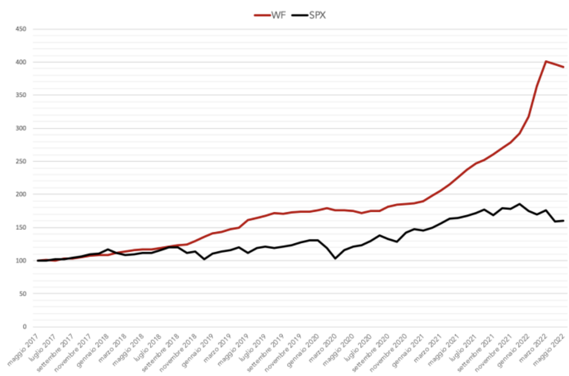
Commentary

Starting with a basket of references and their monthly quotes over 5 years, continuous returns (thus arriving at a more conservative underestimate) and their standard deviations were determined; these metrics were then annualized. A variance/covariance matrix was then constructed, an essential step in arriving at the best asset allocation. [Figure 1].

Next, through the optimization method and the inclusion of a risk-free financial instrument (t-bill), the efficient frontier of the watch portfolios was constructed, from which one was selected. Specifically, the one with annual expected return of 28.090% and standard deviation of 9.695%.



Given the weights of such a portfolio, the performance of that portfolio over the reference period was plotted and then compared (graphically and quantitatively) with the performance of a stock index, in our case, the S&P500. [Figure 2]



	Watch PTF	SPX	Tbill
Average ret	28,090%	10,894%	0,230%
Std deviation	9,695%	16,484%	
CAPM			
Beta	-0,0599	1,0000	
(std err)	0,0774		
Alpha	0,0240		
(std err)	0,0037		
R-squared	0,0102		
Performance evaluation			
Sharpe ratio	2,8736	0,6469	
Alpha (CAPM)	0,0240		
Std. err	0,0037		

Figure 2

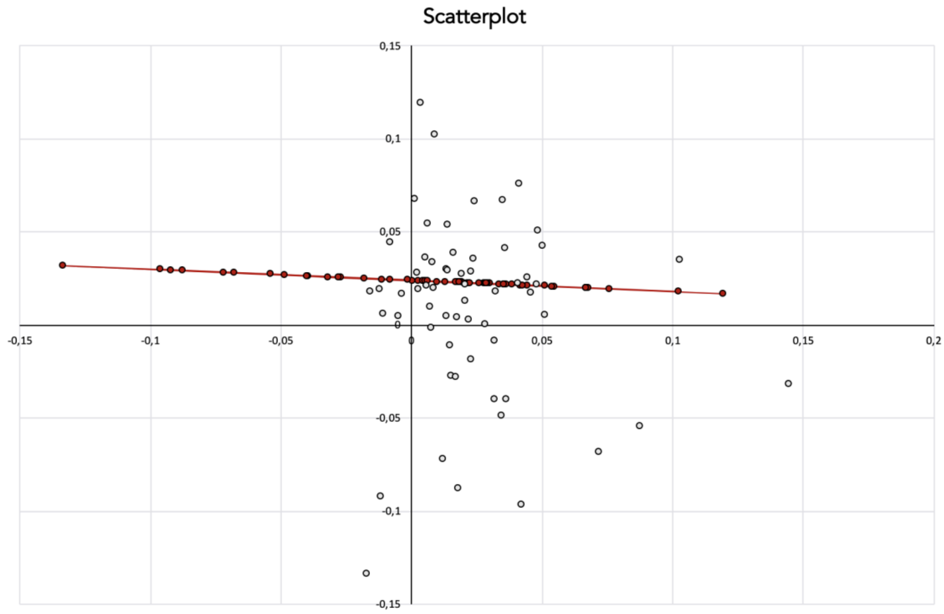
Figure 3

From the proposed table, it can be seen that the watch portfolio offers a significantly higher expected annual return than that ticked off by the stock index, against a smaller standard deviation and virtually no drawdown.

In contrast, compared to the Capital Asset Pricing Model (CAPM) metrics, an appreciable Beta close to zero (slightly negative) stands out. This coefficient measures the sensitivity of a financial instrument return conditional on changes occurring in the market portfolio (magnification factor) and coincides with the slope of the regression line; the latter is characterized by a positive alpha (the intercept). While the Beta coefficient measures the ability of a security to vary with the market (systematic risk), the Alpha coefficient expresses the ability of a security to vary independently of the market (specific and diversifiable risk). A positive alpha indicator signals that the stock is capable of independently generating upside. [Figures 2, 3, 4]

These peculiarities result in a portfolio that is decorrelated to listed markets and well-diversified (the standard deviation of the portfolio is lower than the weighted sum of the standard deviations of its component instruments), as can be inferred from the graphical representation of Pearson's coefficient. [Figure 1]

Never before has it been more crucial to be decorrelative of the madness that permeates the financial markets...



The same conclusions are then corroborated by the proposed linear regression, from which it is concluded by reading the R Square coefficient that the movements of the luxury watches portfolio are in no way explained by the movements of the listed financial market. [Figure 5]

Regression Statistics	
Multiple R	0,10106664
R Square	0,01021446
Adjusted R Square	-0,0068508
Standard Error	0,02830409
Observations	60

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0,00047951	0,0004795	0,598552856	0,442272731
Residual	58	0,04646505	0,0008011		
Total	59	0,04694456			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	0,02395236	0,00372106	6,43698041	2,568E-08	0,01650386	0,0314009	0,01650386	0,031400863
X Variable 1	-0,0599094	0,07743611	-0,773662	0,4422727	-0,2149146	0,0950958	-0,21491459	0,095095839

Figure 5

In conclusion, the product presented is one of the best solutions to reconcile the preferences of any mean-variance investor.

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