

Dear Clients,

Anyone who knows or has followed the history of Donald Trump in broad brush strokes can hardly claim to be surprised. His mentor at a young age was Roy Cohn, his father's lawyer. Fred Trump amassed a considerable fortune as a property developer in New York. What is remarkable is how his son manages to play with the world as if it were a puppet show.

Roy Cohn enthusiastically represented mobsters in court and willingly allowed himself to be bought by gangsters. He also represented the Trumps in legal disputes and gave young Donald three pieces of advice that continue to shape the life of the sitting American President today. First: "Never admit that you are wrong, even if you are clearly guilty." Second: "Always attack your critics aggressively and strike back instead of going on the defensive." Third: "Never show weakness, but demonstrate strength and dominance – whatever the cost."

"I'm not interested in the law, I want the name of the judge."

[Roy Cohn, American lawyer and advisor to Fred Trump \(1927–1986\)](#)

Donald Trump has internalised Roy Cohn's advice and implemented it to perfection over the course of his life – in his business world as well as in politics. One might say that these attributes are nothing new in heads of state, as we know that the majority of the world's countries are ruled by dictators. The 'only' new thing is that Trump has managed to become dictator, or at least would-be dictator, in one of the most respected democracies in the world, the United States of America.

"Dictators don't create dictatorships, the herds do."

[Georges Bernanos, French writer \(1888–1948\)](#)

Trump fired Erika McEntarfer, Commissioner of the Bureau of Labor Statistics (BLS), at the beginning of August for presenting labour market data that did not suit his taste. "We need accurate job numbers. I have instructed my team to fire the Biden-appointed commissioner immediately," Trump announced on his Truth Social platform, claiming that the published data was "a total fraud". In the spring, Trump had frenetically celebrated the labour market data released by the same BLS head. McEntarfer's successor is Erwin J. Antoni, a confidant of the President. Trump doubled down on Truth Social: "Our economy is thriving, and E.J. will make sure the numbers released are HONEST and ACCURATE." The crude twisting of the truth by the 'most honest' man on the planet might also be summarised as follows: don't trust any statistics that you haven't faked yourself.

"This is the kind of thing you would only expect in a banana republic."

[Janet Yellen, former U.S. Secretary of the Treasury and Chair of the Federal Reserve, interview with the New York Times, 3 August 2025](#)

Trump is synonymous with power, self-promotion, egomania and chaos. This was on show in April last year when he spooked the global capital markets with his announcement of a unilateral and haphazard tariff regime. But he was then forced to retreat, as so often with his announcements and threats. This browbeating and backpedalling by Trump earned him his very own stock market acronym, the TACO trade: “Trump Always Chickens Out”. Trump is the personification of unpredictability for politicians, investors and countless people around the world.

“The longer I live, the more I am convinced that this planet is being used by other planets as an insane asylum.”

George Bernard Shaw, Irish playwright, politician, satirist and winner of the Nobel Prize for Literature (1856–1950)

A pleasing year on the equity market, despite chaos and uncertainty

Back in January, who would have bet on a positive stock market year, knowing that the U.S. president would dictate tariffs to his partner countries on a scale last seen in the world a century ago? Hardly anyone. A more likely prediction would have been a crash. And although it did not materialise, the capital markets still experienced some very turbulent times over the course of the year. Aside from the insane tariff regime, the long-running war in Ukraine, the Gaza conflict and the U.S. attack on Iran’s nuclear facilities negatively affected the markets over the course of the last twelve months. The saying that ‘political stock markets have short legs’ proved once again to be true. On 2 April – the self-proclaimed ‘Liberation Day’ – Trump surprisingly announced a tariff regime that would ravage the global economy. The shock waves sent the global equity markets into a short-lived tailspin, but the slump was not sustainable and the market soon started to recover. History repeated itself on Friday, 1 August. Trump signed an executive order with sweeping

tariff hikes on imports from around 66 countries, which were slated to come into force from 7 August 2025. Market experts predicted nothing short of an equity market crash of between 10 and 15 per cent for Monday, 4 August. It failed to materialise – to the befuddlement of countless analysts and gurus. Although the markets started with losses of 1 to 2 per cent, they had been recouped by the end of the same day. It is perfectly understandable to us why our clients often ask for our opinion on the impact of Trump’s erratic policies on the capital markets. But from an investor’s perspective, it is largely a waste of time to concern ourselves with farcical politicians.

“The stupidity of governments should never be underestimated.”

Helmut Schmidt, former German Chancellor (1918–2015)

It is doubtful whether Trump’s policy will ultimately be to the benefit of American citizens in the face of all these conflicts. One sign that the land of unlimited opportunity (and impossibility) has already been damaged is the U.S. dollar, which has experienced a massive erosion in value and confidence over the past twelve months. In the first half of the year, the dollar lost more than at any time since 1973, when then President Richard Nixon abolished the fixed exchange rate system that had shaped the post-War era. From the viewpoint of a Swiss or German investor, the seemingly attractive returns presented by the MSCI World Index and the U.S. S&P 500 Index – until the end of November at least – are therefore largely a mirage.

“I am amazed at how much astonishment Trump is causing in Europe: we already knew him from his first term of office.”

Ignazio Cassis, Swiss Federal Councillor and Foreign Minister

The NZZ newspaper headlined in its issue of 9 July 2025: “Trump’s tariff policy plunges German exporters into crisis – exports are at their lowest level for over three years.” This sobering economic outlook contrasts with the astonishing performance of the German DAX Performance Index, which had advanced by around 20 per cent by the end of November. The DAX was indeed the real high-flyer among the Western equity markets last year. The outstanding performance of the German equity market is primarily driven by the brilliant development of the defence company Rheinmetall and the strong performance of the Deutsche Bank and Commerzbank stocks. Rheinmetall has achieved a fourteen-fold increase in its share price since the outbreak of war in Ukraine. It is surprising to note that defence stocks have not only become socially acceptable, but have even mutated into a trend segment. ESG (Environmental, Social, Governance) or sustainable investing was the dominant theme in the investment business just a few years ago. Since the war in Ukraine and Trump’s presidency, ESG has receded into the background and disappeared into oblivion for many financial institutions and their clients. Our esteemed clients are aware of our preference for a comprehensively sustainable world, but that we have consistently adopted a realistic and fact-based stance concerning the impact of sustainable investments – and this has not changed. At the same time, we have always been cautious of or even opposed to buying equities in defence companies. So while we were confronted with the question of “Are you doing enough in the area of sustainable investments?” just a few years ago, we are today more likely to hear “Why don’t I have any Rheinmetall in my portfolio?”. We have our difficulties with this ‘back and forth’ policy. A steady rather than a fickle approach to this complex topic matters deeply to us – and this applies equally to investments in major bank equities. Having been the equity market’s problem children for many years, they have recently experienced a resurgence. We will carefully monitor further developments. But we will remain cautious as long as international banking groups find themselves confronted with regular lawsuits and fines.

“No advance is as difficult as the return to reason.”

Bertolt Brecht, German writer (1898–1956)

At the end of November, we were very satisfied with the performance on behalf of our clients, even though a few individual securities left us disappointed. We are also aware that the performance achieved for our German clients has not kept pace with that of the DAX over the past two years. This is the price of the internationally well-diversified portfolio policy that we have consistently maintained. Unlike many of our competitors, we do not abandon our principles just because there has been another change in fashion. After all, we are absolutely convinced that we will again experience years in which German investors will be relieved to know that their portfolios are internationally diversified. We have experienced this many times in the past. It was the U.S. equity market that outperformed and outshone everything in 2024, and the German market in 2025. One market is always the best – but no-one can know in advance which one it will be in the year ahead.

Artificial intelligence (AI) – A technology conquers the world

The Chinese AI start-up DeepSeek caused the equities of American AI technology companies led by Nvidia to plummet at the end of January last year. Influential tech investor Marc Andreessen took to the social media platform X to call DeepSeek “one of the most amazing breakthroughs I’ve ever witnessed.” It was the ‘Sputnik moment’ for AI, Andreessen wrote, referring to 1957, when the Soviet Union sent Sputnik-1, the world’s first satellite, into orbit. The fear spread around the world that even with its very low development costs, DeepSeek might work more efficiently than models by the established American AI providers. These fears have since proved unfounded, and the major U.S. tech companies centred around Meta, Microsoft and Nvidia are enjoying phenomenal growth in revenues and profits. However, the DeepSeek case laid bare the fragility associated with the high valuations of certain tech equities.

“AI might bring such fundamental change to our economy that the high investments in this technology and the eye-catching equity valuations will turn out to be entirely justified. This is not my personal belief, but I’ve been wrong so often in the past that I no longer place much stock in my own opinion.”

Markus Städeli, economics editor of the NZZ am Sonntag, 16 November 2025

The western ‘The Magnificent Seven’ by John Sturges dates back to 1960. The film tells the story of seven gunslingers who defend their Mexican village against a vastly superior horde of bandits. Four of the seven heroes die, despite defeating the bandits. Today, the Magnificent Seven are the equities of the famous companies Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. In his article entitled ‘The Magnificent Seven are out of step’ from 28 August, CH-Media business journalist Daniel Zulauf asks whether the fate of the gunslingers might sooner or later befall one or a few of today’s equity market ‘heroes’. Indeed, the Magnificent Seven are no longer a homogeneous group. Car manufacturer Tesla, for instance, is grappling with a number of problems, while Meta, Microsoft and Nvidia are breaking records. Nvidia is the absolute high-flyer, which we ‘unfortunately’ do not hold in our equity universe. The equity is very highly valued and the company is heavily dependent on how Meta and Microsoft invest in AI. The two groups are responsible for around 40 per cent of Nvidia’s total revenue, which makes the company vulnerable. Chinese clients account for another 13 per cent of the revenues generated by the graphics processor and chip manufacturer. The political risks there are above average.

“There is nothing so disturbing to one’s well-being and judgement as to see a friend get rich.”

Charles Kindleberger and Robert Aliber in “Manias, Panics and Crashes: A History of Financial Crises”, Springer Verlag, 2023

A study published by researchers at the Massachusetts Institute of Technology (MIT) in the U.S. shows that the AI sector cannot achieve unlimited growth, either. The scientists found that 95 per cent of all AI pilot projects launched by companies fail. Many managers seemingly rely on the wrong strategies and implement AI software that is difficult to integrate into operational processes. Some experts are also concerned about mutual investments between AI giants. OpenAI buys computing power from Oracle and graphics processors from Nvidia. For its part, the world’s largest chip manufacturer has announced an investment of USD 100 billion in OpenAI. Almost at the same time, OpenAI announced it had placed an order worth billions with AMD, Nvidia’s biggest competitor. Interdependence within one’s own ecosystem is naturally fraught with risk.

“Don’t succumb to greed. Remain aware that we are most likely dealing with a bubble.”

Mark Dittli, economics editor of the online newspaper the market, 17 October 2025

In his Big Picture, the respected journalist from the market, Mark Dittli, uses the example of Microsoft to provide an impressive illustration of how the company’s equities have developed since the turn of the millennium. Unlike many other companies, the tech group was not a figment of the imagination during the dotcom bubble of the late 1990s, but rather “an established, highly profitable group with a monopoly-like market position.” The bubble burst in March 2000 and the U.S. economy fell briefly into recession. Meanwhile,

though, Microsoft managed to increase its profits year after year as if nothing had happened. “Microsoft even weathered the financial crisis of 2008/09 with ease,” writes Dittli, pointing out that the software company increased its earnings per share almost eightfold between 1999 and 2012. But what happened to Microsoft’s share price during this period? You might be astonished: from 2000 onwards, the share occasionally lost more than 75 per cent of its value and took many years to return to its previous heights. During this phase, the price/earnings ratio of Microsoft shares fell from over 70 to below 10, as investors turned away from tech equities, preferring instead to benefit from the boom in commodity stocks. So what conclusion can we draw from this? It is conceivable that the AI boom will continue for years to come and that the leading companies will successfully increase their profits. Nevertheless, the prices of equities might drop significantly in the context of a valuation correction, meaning that shareholders would have to endure a prolonged dry spell despite positive company figures.

“Investing in the index exposes you to a concentration risk that is without historical precedent for broadly diversified investors.”

Jim Bianco, American founder of the analysis company Bianco Research, Chicago

Technology stocks have an enormously high weighting in the U.S. indices, which has been built up pro-cyclically in the recent past. This harbours considerable risks. We will, of course, continue to invest in leading AI companies such as Alphabet and Microsoft, as well as suppliers such as ASML. Standing on the sidelines and missing out on huge opportunities in a changing world is not a smart option – but we will always invest with controlled risks.

Headwinds for quality-oriented value investors

At the time of writing, the performance of Hotz compares favourably with our competitors and the global market index MSCI World. However, the spread among asset managers is extremely high. Anyone who held a significant proportion of gold or a high proportion of technology stocks in their portfolio in the past year comes out on top. The five shares Alphabet, Amazon, Apple, Microsoft and Nvidia alone represent a weighting of over 30 per cent in the American S&P-500 index. It has been six decades since we last witnessed this level of concentration. This is a challenging environment for conservative and broadly diversified investors. For once, Berkshire Hathaway, the investment company owned by the legendary 95-year-old Warren Buffett, is facing considerable headwinds. Since the Oracle of Omaha announced his withdrawal at the beginning of May, his investment vehicle has lagged considerably behind the broad-based index. Moreover, Swiss and German investors will suffer a significant dollar loss.

Swiss small & mid caps have shown a disappointing performance over recent years. Having previously benefited greatly from a risk premium in this share category, some companies in the sector have increasingly turned out to be ‘problem children’. In response, we will gradually reduce the segment of equities with low market capitalisation and limited liquidity.

Temporary headwinds can be overcome, even if they are unpleasant. History teaches us that abandoning a strategy with a proven track record of success in favour of a pro-cyclic switch to fashionable, hot and highly valued equities is unwise. Let’s not forget that in both the 9/11 new economy crisis from 2001 to 2003 and the financial crisis from 2007 to 2009, as well as in 2022, when global interest rates rose sharply and exchange prices fell, our returns exceeded those of the relevant benchmarks and many of our competitors by 8 to 10 percentage points. Excesses are temporary and it is only a matter of time before the mood shifts and euphoria gives way to sober reflection. We will stick to our conservative strategy.

Nestlé – from bond alternative to high-risk investment?

There is no doubt that Nestlé is grappling with some issues. Among other things, the food group is suffering from weak growth, fluctuation on the Executive Board, disappointing acquisitions in the healthcare sector and general pressure on margins. Let's not forget that Nestlé reached a high of around CHF 127 at the end of 2021. Negative interest rates prevailed on the bond markets in the wake of the coronavirus crisis, prompting many investors seeking an alternative to bonds to buy Nestlé shares, which are viewed as conservative and offer a dividend yield of around 2.4 per cent. At the time, we took a critical stance to this trend, as Nestlé stock is ultimately not an infallible bet, but rather an equity with opportunities and risks. Since reaching its high, the share has lost more than 40 per cent of its value and is now viewed by some analysts as a risky stock that a few are advising to sell. We believe this opinion is exaggerated. With a share price of CHF 80, the dividend yield alone is 3.8 per cent. Annual profit should continue to reach around CHF 10 billion. In our view, it is only a matter of time before Nestlé is again viewed favourably by investors.

“The intelligent investor should not make the mistake of buying a stock because its price rose or selling because its price fell.”

Benjamin Graham, American mentor of investment legend Warren Buffett, in his book “The Intelligent Investor” (1894–1976)

On 12 and 13 June, we will be celebrating our 40th anniversary with our value-oriented asset management company in St. Gallen, where our story began in 1986. Despite – or perhaps thanks to – our 40 years of capital market experience, we occasionally feel as though we have become rooted in our old ways. While the prices of privately mined cryptocurrencies – which have no intrinsic value whatsoever – are skyrocketing, companies such as Nestlé suffering a temporary bout of

weakness are being left behind. It goes without saying that this will not prompt us to switch allegiances and embrace the beliefs of the digital devotees.

Out of private equity

Several cantonal and regional banks in Switzerland have been holding detailed talks with leading private equity providers for some time. The aim is to make this illiquid and often opaque asset class – which is extremely lucrative with regard to its fee structures – attractive to medium-sized and smaller clients. Until now, private market investments were only accessible to institutional investors such as pension funds or insurance companies and very wealthy private clients. For some time now, the private equity sector has been offering specific, semi-liquid funds known as ‘ever-greens’ in order to attract a wider audience. The question is: does this really make sense for investors?

“I don't currently see any systemic risks in the non-banking sector, but the potential is there. Many areas such as private equity and private debt have never experienced a real interest rate cycle. We do not know how resilient to crisis they actually are.”

Augustin Carstens, former Managing Director of the Basel-based Bank for International Settlements (BIS) and long-time senior executive at the International Monetary Fund (IMF)

The mercilessly frank article “Pension funds want out of private equity” was published in the Handelszeitung newspaper on 18 September. Stephan Bereuter, Chief Investment Officer and Head of Asset Management at the pension fund of the Migros retail group, is quoted as saying: “We are not making any new investments in private equity and are allowing the last positions to expire.” The largest Swiss pension funds, the Swiss Federal Pension Fund Publica and the BVK Pension Fund

of the Canton of Zurich, also eschew investments – or have divested any holdings – in private equity due to a lack of transparency and excessively high fees. The Nestlé pension fund is reportedly examining a reduction in this asset class as well.

“A large part of the return goes to the manager, but the investor bears the financial risk.”

Dominique Gilgen, Head Private Markets at the Federal Pension Fund Publica

Romano Gruber, Managing Director of the consulting firm PPCmetrics, confirms that pension funds are becoming increasingly critical of private equity: “There are clients who are considering or implementing a reduction as part of their investment strategy review.” In fact, an analysis by PPCmetrics indicates that the total fees for private equity constructs amount to around 6 per cent annually. It is obvious that with such exorbitant fees, little is left over for the clients. Private equity companies are keen to refer to the so-called IRR (Internal Rate of Return) in their return figures and claim that they achieve annual returns of 10 to 25 per cent. In December 2024, Ludovic Phalippou, Professor of Finance at the prestigious University of Oxford, published the article “The Tyranny of IRR: A Reality Check on Private Market Returns”. The academic, who literally describes IRR calculations as “bullshit”, used the article to demystify private equity returns. Viewed in the sober light of day, the net annual returns of private equity are lower than those of listed shares.

“It is fascinating that so many people are happy with an over-reported performance that doesn’t reflect reality. The consultants are happy, the pension fund managers are happy and

the trustees are happy. Everyone is happy and the only ones who should be unhappy are the beneficiaries.”

Ludovic Phalippou, Professor of Finance at the University of Oxford

Finanz und Wirtschaft reported in July that the private equity provider Partners Group is unable to offload its involvement in the energy service provider Techem. Apparently it is a ‘shelf warmer’. After all sales efforts had failed miserably, Partners Group is reported to have simply – as if by magic – moved the investment from its private equity division to its infrastructure division. Only a cynic would see something fishy in this. Techem is not an isolated case. The markdowns on many companies acquired by private equity firms reach up to 30 per cent of their acquisition value. According to the rating agency Moody’s, around 17 per cent of private equity-owned companies went bankrupt between 2022 and 2024 – double the number of ‘normal’ businesses. It is astonishing that the private equity crisis has come at a time when the economy appears almost carefree. The question is: are private equity providers seeking to solve their current problems at the expense of ‘stupid’ private investors? And what would befall the sector if a change in economic mood were to occur?

“I have been in the private equity industry for 30 years and have seen a number of crises, such as the burst of the dotcom bubble in 2001 and the major financial crisis in 2008. But what we are currently experiencing is certainly the sector’s most protracted and profound crisis.”

Daniel Flaig, Managing Partner of private equity provider Capvis, business magazine Bilanz, August 2025

The UBS House View, Investor's Guide issue from last July has the captivating title "Measures in the midst of uncertainty". The only remaining major Swiss bank uses the article to address the question "What is the right allocation in alternative investments?". UBS recommends that its clients allocate 20 to 40 per cent to the private markets and 8 to 12 per cent to hedge funds. You know our opinion on these high-margin and opaque products: the only people who can issue this kind of recommendation are those who centre their efforts on their own bonus instead of the interests of their clients.

America's debt is becoming a global problem

The global acceleration in sovereign debt concerns us even more than geopolitical tensions. Although we are neither in a recession nor an economic slowdown, governments are spending money far beyond their means – seemingly without any care for austerity.

"I, however, place economy among the first and most important republican virtues, and public debt as the greatest of the dangers to be feared."

Thomas Jefferson, one of the founding fathers and former President of the United States of America (1743–1826)

Japan has long led the world in terms of debt, whose level has now reached an astronomical 240 per cent of gross domestic product (GDP). The Land of the Rising Sun is continuing to groan under the real estate and equity market collapse that came hard on the heels of an unprecedented boom in the late 1980s. Trailing Japan are the notoriously indebted Greece and Italy with figures of 155 and 135 per cent, respectively. France has a debt level of 116 per cent and has, on 16 occasions in the last 18 years, exceeded the permitted Maastricht deficit cap of 3 per cent. Indeed, the budget deficit seems likely to have reached almost 6 per cent of GDP last year. The interest rate risk premiums on French government bonds have risen alarmingly as

a result. Germany, with 64 per cent, and Switzerland, with 38 per cent, are the choirboys in regard to total debt. What makes this inglorious 'world ranking' particularly concerning is the fact that the United States of America is advancing to the top of the table in leaps and bounds – with its debt already exceeding 120 per cent of GDP. Published in 2010, the renowned American economists Carmen Reinhart and Kenneth Rogoff use the paper "Growth in a Time of Debt" to propose the rather controversial thesis that a threshold of 90 per cent is dangerous territory and that government debt has a negative impact on economic growth.

"A deficit means you have less of a thing than if you actually had nothing at all."

Karl Farkas, Austrian actor, cabaret artist and author (1893–1971)

With his self-proclaimed "Big Beautiful Bill", the confrontational U.S. President Donald Trump made an election promise that includes lower taxes, higher defence spending, better border protection and more deportations. The promise is risky, perhaps even irresponsible, because America's spending spree is built on credit. It is therefore reasonable to assume that last year, the debt level grew by another USD 2,000 billion or an incredible 7 per cent of GDP. The fact that this has become possible in a buoyant economic climate only makes matters worse.

"Politicians like to spend money. It is much easier to accumulate debt than to reduce it."

Carmen Reinhart, American professor at the University of Harvard and former chief economist at the World Bank, NZZ, 17 June 2025

U.S. debt totalled USD 1 trillion in 1980. This sum has since grown to USD 36 trillion. Since the turn of the

millennium, liabilities have skyrocketed from 55 per cent of GDP to over 120 per cent of economic output, meaning that Americans spend USD 1,200 billion a year on interest payments alone – over USD 3 billion a day. Before the Covid crisis, U.S. paid just USD 1 billion per day in interest service. According to Carmen Reinhart, debt servicing already accounts for 12 per cent of the U.S. budget – by far the highest proportion among Western countries. It is therefore no coincidence that in May last year, Moody's became the third influential rating agency after Standard & Poor's (2011) and Fitch (2023) to withdraw the USA's top rating and downgrade its creditworthiness.

“The mother of all debt crises could materialise some time this decade or next.”

Nouriel Roubini, American economist and professor at New York University

The USA's notorious twin deficit – the combination of a government deficit at home and a current account deficit with other countries because imports exceed exports – is unsustainable in the long term. There is a lurking risk of a 'Liz Truss shock'. Let's not forget that when the then British Prime Minister announced tax cuts in 2022, interest rates on bonds exploded uncontrollably on the capital market. Overnight, investors lost confidence in the UK's creditworthiness, forcing Liz Truss to resign shortly after taking office. Something similar happened with U.S. interest rates when Donald Trump announced his bizarre tariff plans in April last year. The prices of credit default swaps on treasury bonds shot up, forcing Trump to shelve his plans due to pressure from the capital markets. Just how sensitively the capital markets respond to statements made by politicians was demonstrated once more in early July in the British parliament. During a speech by Prime Minister Keir Starmer, the cameras panned to his Chancellor of the Exchequer Rachel Reeves, who favours a sound budget and sustainable public finances

and was in tears for fear of her imminent sacking. UK bond prices collapsed instantaneously – foreshadowing a repeat of the 'Liz Truss shock'. These two examples demonstrate the fragile responses of capital markets when investor confidence collapses – and the case of Greece in 2012 was no different. Ray Dalio, founder of the world's largest hedge fund Bridgewater Associates, puts it in a nutshell when he says: “We should be afraid of the bond market.”

“I used to think that if reincarnation were true, I would want to come back as president, pope or a baseball star. But now I would like to be reborn as a bond market: the bond market can intimidate anyone.”

James Carville, American political scientist and advisor to former U.S. President Bill Clinton

What are conceivable long-term scenarios for the USA to escape this fraught situation? The obvious solution would be austerity measures and benefit cuts. Experience has shown that these projects ultimately fail due to the unwillingness of politicians to follow through on their flowery campaign promises. And once a decision has been reached to spend money, it is difficult to reverse. It is far easier to use financial repression to ease the strain on the budget. This is achieved by firing up the printing presses to create cheap money and artificially low interest rates. The inevitable hikes in inflation cause the real value of the debt to shrink and reduce the purchasing power of citizens. This is tantamount to gradual public expropriation. From this perspective, inflation acts like a stealth tax. Americans have long-standing experience in the deployment of financial repression. Although the country's debt level reached a record 120 per cent at the end of the Second World War, it had fallen to 35 per cent by 1980. During this time, bondholders systematically lost money in real terms. In times of financial repression, investors

can protect themselves most efficiently with real value investments, which primarily include equities. This will remain unchanged going forward.

“The dollar is our currency, but it’s your problem.”

John Connally (1917–1993), former U.S. Secretary of the Treasury, at a crisis meeting in Rome in November 1971

The Japanese central bank (BoJ) has been pursuing financial repression for around three decades with interest rates that are far below inflation. Its aim is to protect the dramatically indebted state apparatus – a nightmare for savers who face a dramatic devaluation of the yen. Jerome Powell, Chair of the U.S. Federal Reserve, will step down from office in May 2026. For his part, Donald Trump is likely to exploit an accommodating successor at the helm of the Fed to pursue the goal of gradually devaluing the U.S. dollar. The vast trade surplus held by foreign creditors – from Japan and China first and foremost – would then be worth less. Basically, this race to devalue began last year with the loss of confidence in the dollar.

“By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.”

John Maynard Keynes, British economist, politician and mathematician (1883–1946)

At some point, the United States of America will have to consider debt restructuring programmes if it continues to run up debt at the current rate – for example by extending the terms of its obligations. One scenario – albeit one whose ramifications we would be loath even to envisage – is a credit default by the world’s most powerful economy. A bankruptcy of the U.S. government would have a devastating impact on the stability of

global financial markets – the demise of a major international bank would be a piece of cake in comparison.

“Partial bankruptcy is therefore unavoidable. The only question is when it will be implemented.”

Tobias Straumann, Swiss economic historian and professor at the University of Zurich (his statement referred to highly indebted countries in general)

There are two factors that embolden us to believe it will not come to that. Firstly, the economic power of the USA: the world’s largest and strongest economic power accounts for around a quarter of the global gross domestic product. Numerous companies that are among the world’s champions, particularly in the technology sector, are based in the United States of America. This inspires confidence among creditors that the USA can carry an above-average debt burden. The country will be able to tackle and solve the problems if the capital markets force a response. Adding to this is the fact that the USA has managed to establish the American dollar as the world’s reserve currency to this day, despite many critical voices. From today’s perspective, it is hard to imagine that this will change in the foreseeable future.

“Market rebellion can lead to the currency’s abrupt devaluation. A dollar crash is possible.”

Carmen Reinhart, American professor at the University of Harvard and former chief economist at the World Bank, NZZ, 17 June 2025

Secondly, the vast fortunes of the American super-rich: published annually by the insurance company Allianz, the Global Wealth Report indicates that the average per capita net assets of Americans will be around CHF 300,000 at the end of 2024 – after deducting private debt. That is unrivalled. With average net assets of

around CHF 250,000, Switzerland is ‘only’ in second place. The USA is home to more billionaires than any other country. With this in mind, it is reasonable to take a closer look. The U.S. government is around USD 36 trillion in debt. By contrast, the combined wealth of American citizens is estimated at USD 180 trillion. After deducting private liabilities consisting largely of mortgages, this results in net assets of around USD 160 trillion. In other words: the country would be debt-free if Americans were to transfer just under a quarter of their assets to the state as a ‘reorganisation tax’. This is merely a mind game, but sooner or later the wealthy will not be able to escape plugging government deficits in the form of higher taxes. In the end, the painful recovery of the U.S. national budget will likely be fuelled by a combination of various measures.

Stablecoins as saviours of ailing public finances?

Politicians have never been at a loss when it comes to generating creative ideas to fool the public into believing that they have the right recipe for curbing national debt. The latest idea comes, unsurprisingly, from U.S. President Donald Trump. His self-proclaimed Genius Act is intended to establish a legal framework to promote the establishment of stablecoins as private, digital currencies. Stablecoins are pegged to a currency such as the dollar and replicate it one-to-one. But they are controversial due to their use in shady deals and money laundering. Issuers of stablecoins mainly turn to short or long-term government bonds (Treasury bills and bonds) to hedge their digital currencies. The best-known stablecoin is Tether. The Genius Act is intended to trigger a “revolution in the financial market” and reduce the U.S. national deficit. With all due respect, it is hard to understand how this is supposed to work if one draws on simple common sense. How on earth are debts supposed to evaporate simply by creating an additional ‘asset’?

“The stablecoin sector is not well regulated, and the fact that you have to call something stable in name says a lot.”

Augustin Carstens, outgoing Managing Director of the Basel-based Bank for International Settlements (BIS) and long-standing senior executive at the International Monetary Fund (IMF), interview in the NZZ, 1 July 2025

The protagonists are likely hoping that the increased purchase of American government bonds to collateralise the stablecoins might reduce interest rates and, as a result, the debt burden. It is doubtful that this magic trick will work. Rather than ingenious, it seems to be a dangerous concoction of arrogance and insanity. To be fair, it is important to note that stablecoins may well have a future as a digital and state-sanctioned means of payment. The EU, for example, intends to issue a centrally controlled stablecoin via the European Central Bank. It would then compete with the activities of private issuers.

Donald Trump transformed from Saul into Paul when it came to cryptocurrencies and launched his own coin early last year as a ‘genius way’ to boost his personal fortune – at the expense of many fans who incurred considerable losses. He has invited the most loyal fans with the largest number of Trump coins to a private dinner. This is how politics currently works in the United States of America.

“Ultimately, this is a kind of Ponzi scheme in which a small number of people earn considerable profits at the expense of those who enter the crypto market later on.”

Marcel Fratzscher, President of the German Institute for Economic Research (DIW)

Oliver Kahn, former star goalkeeper of FC Bayern Munich and the German national football team, was the guest of honour at the 13th Münchner Vermögenstag (Munich Wealth Day) organised by V-Bank (where many of our German clients hold their securities accounts) on 27 June. He held a talk entitled “New investment opportunities with tokenised securities using the example of growth capital for football clubs.” Sounds exciting. Who knows, perhaps the former German football god will soon be nominated for the next Nobel Prize for Economics – on the same stage as Donald Trump, who has his eyes set on the Nobel Peace Prize.

Gold as an alternative to the dollar?

Gold has been experiencing a veritable boom for around three years. From the beginning of January 2023 to the end of November 2025, the yellow metal gained an outstanding 102.5 per cent cumulatively in the Swiss franc reference currency. In comparison, Swiss equities (Swiss Performance Index SPI) rose by 28.5 per cent and Swiss bonds (Swiss Bond Index SBI) by 14.1 per cent. In view of the global challenges, the rampant national debt of the USA and the ludicrous policies of its incumbent president, investors are increasingly eyeing gold as an alternative to the U.S. dollar.

“The fame of some contemporaries is linked to the stupidity of their admirers.”

Heiner Geissler, German lawyer and CDU politician (1930–2017)

Gold purchases by central banks have risen sharply, especially since Russia launched its war of aggression against Ukraine. This is due in particular to the fact that the G7 states, led by the USA, froze Russia’s foreign currency reserves after the outbreak of war. Some monetary authorities subsequently realised that their own reserves, which are primarily held in U.S. dollars, could be used as geopolitical leverage. It is therefore not surprising that the central banks of China in particular, but also those of India, Poland and Turkey, are increasingly involved

in buying gold. The precious metal is held to protect against crises.

It is worth noting that the sharp rise in the price of gold has been accompanied by a simultaneous increase in real interest rates on U.S. Treasury bonds. In the past, the price of gold regularly tended to weaken when real interest rates rose, as this increased the attractiveness of fixed-interest securities. This emphasises that the gold bull market of recent years differs from previous patterns and is built on a solid foundation.

We firmly believe that gold definitely has its place in an investor’s overall assets. And there are good reasons for this. For a long time, gold played an important role in the monetary policy of the international community. Foreign exchange reserves were tied to gold until the abolition of Bretton Woods. Gold plays an important role in the jewellery industry as well and is therefore an economic factor. Unlike cryptocurrencies, which people can simply whip out of a hat or a digital network in any quantity, gold is also limited as a raw material, despite all the attempts by alchemists who used all kinds of chemical processes to produce gold in the Middle Ages.

Erwin Heri, Professor of Finance at the University of Basel, uses his Fintool video from 16 May 2025 to chart the long-term return on the most important investments for the period from 1800 to 2024. While gold yielded an annual return of 0.7 per cent on a real, inflation-adjusted basis and in the reference currency USD, bonds yielded 3.2 per cent and equities even 7.0 per cent annually. These are monumental differences. Viewed in the very long term, the return on gold was therefore not significantly higher than inflation.

“Gold is dug out of the earth somewhere in the world. Then we melt it down, dig a new hole, fill it up again and pay people to guard it. Anyone watching us from Mars would be scratching their head.”

Warren Buffett, legendary American investor and the Oracle of Omaha, Nebraska

To be fair, gold was fixed at USD 35 until 1971 and the dollar was pegged to this price. It has only been exposed to free market fluctuations since Bretton Woods came to an end. Following the abolition of the gold standard, gold rose sharply in value before entering a protracted slump, only to start to return resurgent in the wake of the financial crisis and after the outbreak of the war in Ukraine. A fair long-term comparison between equities and gold therefore covers the period from 1971 to 2025, during which gold was exposed to free market forces. The comparison then looks like this: while gold has gained 5.7 per cent annually in nominal terms (3.5 per cent in real terms) over the entire period of around 55 years in the Swiss franc as reference currency, Swiss equities have achieved a plus of 7.8 per cent annually (5.6 per cent in real terms). Gold undoubtedly has its place in the investment world. But it is important to avoid overestimating the long-term return on gold, which is why we would keep its share in total assets rather small. In summary, we believe that gold is the better bitcoin, but equities remain the better gold in the long term.

Swiss investors do not need foreign currency bonds

It makes little sense to invest in higher-yielding foreign currency bonds from the perspective of a hard currency country like Switzerland. Corresponding currency losses wipe out more than just the interest rate advantage abroad, as the British professors Elroy Dimson (Cambridge University), Paul Marsh and Mike Staunton (both at the London Business School) impressively demonstrate in their UBS-published Global Investment Returns Yearbook. Accordingly, Swiss bonds generated the highest real return in a global comparison between 1900 and 2024, at 2.2 per cent annually adjusted for inflation. Although nominal interest rates in Switzerland are systematically among the lowest in an international comparison, real yields are the highest. This is due to the different inflation and currency trends in the various countries. Because inflation is notoriously low in Switzerland and the Swiss franc is the world's hardest currency, the currency-adjusted yields

on Swiss bonds are higher in the long term than in any other country in the world. It follows, therefore, that Swiss investors do not need foreign currency bonds to diversify their portfolio. On the contrary: foreign currency bonds unnecessarily exacerbate the fluctuation risks of a securities portfolio and lead to higher tax burdens for private investors due to the greater interest income, which is subject to taxation in Switzerland, although currency losses cannot be deducted for tax purposes.

“I don’t want to be a greedy banker any more” – the Credit Suisse Tuna Bond Scandal

Do you remember the Credit Suisse Tuna Bond Scandal? In 2013, the defunct major Swiss bank extended a loan of USD 1.3 billion to the southern African country of Mozambique. The aim was to enable the government to purchase a tuna fishing fleet in order to create jobs and growth through fishing. Andrew Pearse, a native of New Zealand, was responsible for this deal at Credit Suisse. The deal turned out to be a monumental case of corruption in which ministers, secret service agents and CS bankers – most notably Pearse himself – were bribed. Several hundred million dollars seeped through obscure channels and into the pockets of the fraudsters. Although the designer of the fleet was on a Credit Suisse blacklist and was known as a ‘master of kickback’, Pearse dictated only these words to his CS colleagues: “Just get him out of the picture.” The bank’s compliance department was apparently duped easily into rubber stamping the loan. With an interest rate of 9 per cent, the people in charge probably placed greater stock in the potential earnings than the risks. This is astonishing, as Transparency International rates the risk of corruption in Mozambique as ‘very high’.

“I now want to prove that even a formerly greedy, immoral banker is capable of doing good.”

Andrew Pearse, convicted fraudster and former Credit Suisse manager

The story ended in disaster for Credit Suisse, pleading guilty to money laundering. The bottom line for them was a loss of USD 1 billion. The loan also turned into a nightmare for Mozambique. The country slipped into national bankruptcy, while the tuna fleet in the port of Maputo is rusting away unused. And what happened to fraudster Andrew Pearce, who was banned for life from working in the financial industry by the UK Financial Conduct Authority (FCA)? According to media reports, he works from Monday to Thursday at his clearance company Waste Not Group, disposing of old sofas. On Friday, he makes himself useful at the Foodcycle street kitchen in Wolverton, near London, where he peels carrots and serves hot vegetable soup to the homeless. What a happy ending to the dismal story of a corrupt banker: at least the customers at his alleyway kitchen can expect decency and morals from Andrew Pearce.

Tax challenges

We are regularly approached by clients with questions about tax issues. They relate to various aspects of Swiss or foreign taxes, for instance “Do I have to pay tax if I give shares or a property in Switzerland to my daughter living in France?” or “How high is my exemption for U.S. estate tax?”

“Everything you say should be true.
But not everything that is true should
be said.”

Voltaire, French philosopher and writer (1694–1778)

Often these questions are complex and require specialists, as the answers may be completely different depending on the family situation and domicile of the giver, testator or beneficiary. Moreover, the amount and the tax laws applicable in the various countries significantly influence the relevant calculations. True to the old adage “Cobbler, stick to your last”, we are very aware of the areas in which we are your specialists. These include all questions relating to your investments. But we also know which topics we would

prefer to leave in the hands of other specialists. So we recommend that you consult competent experts if you have any questions about tax issues such as the complex U.S. estate tax.

Communication with our clients

Individual clients occasionally ask us why, in times of equity market crisis, we do not communicate proactively and promptly about current events around the world and specifically about the financial markets. The question is absolutely justified, especially as a fair number of our competitors do precisely that. Over the years and decades, we have discussed this topic on various occasions in our management bodies and have always come to the clear conclusion that we do not want to go down that path. So what are our reasons?

“There are some who gain from their
wealth only the fear of losing it.”

Antoine de Rivarol, French writer (1753–1801)

It gets hectic on the capital markets in times of stock market crisis. Things often come thick and fast on a weekly or even daily basis. A good example is the setback on the equity markets that took place last April. The surprise announcement of arbitrary tariffs by U.S. President Donald Trump sent stock and bond markets plummeting around the world. Of course we could have commented on and evaluated these events in a letter to our clients. But how would you, our esteemed clients, have benefited – which is all that matters to us? Very little: under pressure from rising interest rates – a massive burden for the already heavily indebted U.S. government – Trump capitulated just a few days later and put the announced tariffs on ice, allowing the markets to recover quickly. The information we might have sent to our clients just a few days earlier would then have been obsolete, and most likely we would have felt compelled to follow up with another assessment just a week after our first. In extreme cases – and they are not at all uncommon in stock market crises – this would have

prompted us to send you numerous informative letters inside of just a few weeks. In our view, this approach makes no sense, as it fuels even more uncertainty and hectic responses.

“What Trump does and says is completely meaningless for an investor with an eye on the long term and global diversification.”

Markus Städeli, economics editor at NZZ am Sonntag, 1 November 2025

We are asset managers who think and act in the long term. Short and medium-term forecasts or short-term trading are anathema to us. Strong nerves, a steady hand and discipline are particularly important in stock market crises. And these things are only possible if you refuse to allow market turbulence to drive you crazy. Basically, we believe that this is the most important advice in any stock market crisis: adhere to the long-term investment concept and, whenever possible, take advantage of countercyclical opportunities – like in April last year! When a slump occurs on the equity markets, it is the primary task of our portfolio managers, adopting a systematic and countercyclical approach, to buy shares for new clients whose portfolios are being built up. Countercyclical rebalancing is performed for clients with fully invested portfolios. This involves selling some high-performing securities to take profits, while making additional purchases of securities that have tended to be weak. The same applies at the sector level. In addition, during periods of weakness, equities are bought in mixed portfolios at the expense of bonds – and vice versa in bull markets. Anyone who believes in the importance of acting with haste in turbulent times is mistaken. Hectic and often ill-considered trading usually costs returns. In our experience, it does not matter in the long term which client portfolios are managed a little earlier or later in hectic times. Given that we, like all experts, do not have a crystal ball and cannot predict the short-term development of the mar-

kets, it is ultimately pure chance whether we buy or sell lower or higher in individual cases.

Our team’s focus during stock market slumps is on the consistent implementation of our countercyclical investment philosophy. So it doesn’t mean that we are inactive if you fail to hear from us in turbulent times. On the contrary: we are busy keeping our hands steady and doing exactly what we promised you. This is much more beneficial in the long term than having to deal with irrational decisions made by powerful politicians or attempting to engage in short-term timing. Sooner or later, this is doomed to fail. Those who try anyway will generally – spooked by negative headlines – adopt a pro-cyclic approach and sell their equities at inopportune times. We have experienced this time and again in the almost 40 years of our existence. Those who succumb to nerves in turbulent times choose inauspicious moments to sell and often at rock-bottom prices.

“We will reduce drug prices by 100 per cent, in some cases even by 300 per cent or more.”

Donald Trump, President of the United States of America – announced at the end of September, his statement overturns simple mathematical principles that are irrefutable for over 99 per cent of humanity

We will continue to inform our clients every six months about global investment activity and our position on the financial markets. Of course, you are also welcome to ask us or your customer advisor for an assessment at any time. We are always at your disposal. In essence, though, our response in phases of market crisis will always be and remain the same: keep calm, steady your nerves, block out the noise of the capital markets and politics as much as possible and, where possible, suppress the herd instinct and seize countercyclical opportunities to buy equities or rebalance your equity allocation.

For the New Year 2026, we wish you and your loved ones all the best, and above all, good health. We would like to thank you for the trust you have placed in us and look forward to working with you in the future.

With kind regards, on behalf of the entire "Hotz Team".
Yours,



Dr. Pirmin Hotz



When two people argue about Bitcoin

Interview by Damien Martin

Crypto duel: Opinions continue to differ on cryptocurrency. “Finanz und Wirtschaft” has pitted a critic against a supporter in a debate.

The slating of Bitcoin in this newspaper by Pirmin Hotz, founder of Dr. Pirmin Hotz Vermögensverwaltung, has made big waves. Among others, Stefan Höchle, Head Investment Strategy at Digital Asset Solutions, responded directly to Hotz’s arguments in his reply.

Both articles and the comments received in response show that the need for discussion remains great. Finanz und Wirtschaft has therefore invited both experts to a direct, verbal exchange of blows.

Let’s start with a simple question: What is Bitcoin for you, Mr Hotz?

Pirmin Hotz: Bitcoin was originally a digital currency that failed miserably as a means of payment. I live in the so-called Crypto Valley in the canton of Zug and don’t

know anyone who has ever paid with crypto. Because it failed so spectacularly, it has now degenerated into a mere object of speculation.

That doesn’t quite correspond to your view, Mr Höchle?

Stefan Höchle: No, for me Bitcoin is of course more than pure speculation. It is important to understand Bitcoin and not just look at the price of Bitcoin. Of course, the price is speculative, but if you look at the concept of Bitcoin, it is a new, decentralised monetary infrastructure. This has made it possible for the first time to transfer not only information but also value via the Internet without an intermediary. Unlike gold, equities or fiat, this system is fundamentally resistant to censorship, cannot be confiscated and has no counterparty risk – that is a fundamental difference. And it was on this network that the digital currency Bitcoin was founded.



Stefan Höchle (left) and Pirmin Hotz (right) disagree. While one emphasises the technology behind the currency, the other compares the digital asset to cow dung.

FINANZ und WIRTSCHAFT

But you agree with Mr Hotz that Bitcoin has not fulfilled its original purpose as a means of payment?

Höchle: No, I don't agree with him there either. On the one hand, fiat money should be a unit of account, accepted as a means of payment and serve as a store of value. The dominant function of Bitcoin was the store of value. Especially in countries with high inflation or capital restrictions, people actively use Bitcoin to protect their purchasing power.

Value is held in asset classes. Is Bitcoin one of these?

Hotz: I learned at school that asset classes have a background. Shares are equity securities in companies that produce something and create added value. The shareholder receives dividends as compensation for their risk and benefits from a long-term capital gain. When you buy property, you receive rental income. I see absolutely nothing behind Bitcoin. It is based solely on the principle of faith and hope. The technology behind it may be

interesting, but I don't get a share of it with a Bitcoin. In other words: the intrinsic value of a Bitcoin is de facto zero, so the value of all Bitcoin is also zero.

Mr Höchle, you are shaking your head. What do you say to that?

Höchle: I am repeating myself, but Bitcoin is not only a currency, but also a network that enables value storage and transfer without an intermediary. This concept would have no intrinsic value if the network is not adapted. Equating a decentralised, monetary network with equities is like comparing apples with oranges. That falls short. Based on market capitalisation, the market currently values the Bitcoin network at \$2.3 trillion. In addition, around 400,000 transactions totalling around \$50 billion take place on the network every day. Mr Hotz negates all this when he says that it has no intrinsic value.

“There is a whole ecosystem around Bitcoin that is constantly evolving.”

Stefan Höchle, Head Investment Strategy, Digital Asset Solutions



And then there is performance, which is also an important factor for an asset class.

Höchle: That's right, and there is no better asset in the world that has performed at an average annualised return (CAGR) of around 80% over the past ten years – and that's without the extreme rise years from the early days in the cent range.

Hotz: If you analyse the equity market – in my view the most attractive asset class in the long term – then you arrive at an average return of around 8%, which is likely to continue to be generated. Then Bitcoin comes along at 80% and makes equities look downright pathetic. That alone should be enough to recognise that Bitcoin is a hype without substance.

You, Mr Hotz, have already compared Bitcoin with the tulip bubble. Bitcoin has survived several bear markets. Isn't the comparison a bit far-fetched?

Hotz: No, it's actually even worse. A bubble is an overvaluation of a value. With Bitcoin, however, there is no valuation at all. There is simply no such thing as a fair price. In the case of Nestlé, for example, analysts can say that the fair price is somewhere around CHF 80 per share. Nobody would come up with the idea of saying that the fair price is CHF 10 million, but that's what happened with Bitcoin. Suddenly it has risen from 0.8 cents to \$100,000.

Höchle: It wasn't sudden. After all, it took 17 years.

Hotz: For me, 17 years is a blip in history.

And yet we can no longer speak of a new phenomenon.

Hotz: That's right, it's been working for a few years now. This is comparable to a sect or a religion. If the Bitcoin sect continues to succeed in increasing its believers and spreading, then I do not rule out a price of \$20 million per Bitcoin. With social media and the countless influencers, the herd instinct works so well that there is practically no limit.

Höchle: Perhaps we should differentiate between the different types of bubbles. There are certainly bubbles that arise without fundamental drivers. After they burst, nobody talks about them any more. But then there are bubbles where price expectations have simply become irrational. After the dotcom bubble burst, the Internet and the resulting multinational corporations such as Alphabet continued to exist. The same applies to Bitcoin. In the bear markets, the share price corrected by up to 90%. If there were no fundamental value behind Bitcoin, it would be history today. But it has always recovered – and that is due to the network behind the coin, which Mr Hotz is so keen to ignore.

What do you say to the accusation that it is simply a community of faith?

Höchle: We are talking here about a digital asset with a market capitalisation of \$2.3 trillion, which has now been taken up in the institutional environment and in which investments are being made across a broad front – from private investors to companies and governments.



There is an entire ecosystem around Bitcoin that is constantly evolving. The world's largest asset managers are including Bitcoin in their allocations. To dismiss this as a sect is very simplistic and of course wrong.

Mr Hotz, you have to admit: Bitcoin has arrived at the centre of the financial market.

Hotz: The financial industry has always been brutal at making money. Wherever money can be made, it will be made. A few years ago, Larry Fink, the head of BlackRock, described cryptocurrencies as a means of money laundering. Today, his company earns millions from fees on the Bitcoin ETF. In Switzerland, even PostFinance, a traditional retail bank, has joined in. You have to realise that. Behind this is the Fomo effect – Fear of Missing Out – on the one hand and the pressure to earn money on the other.

Mr Höchle, the fact that institutions like BlackRock are jumping on the bandwagon probably really has to do with the fact that they want a slice of the cake.

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Höchle: Mr Hotz acts as if these companies are being forced to participate. The free market is driven by supply and demand. The demand is there, so the supply is also being built up. When he refers to Larry Fink, it must be said that a certain learning process took place here and it took a while to understand what Bitcoin represents. This understanding is ultimately decisive.

“The financial industry has always been ruthless at making money.”

Pirmin Hotz, Gründer, Dr. Pirmin Hotz Vermögensverwaltung

Then Mr Hotz simply doesn't understand it?

Höchle: I believe that...

Hotz: You are allowed to say no.

Höchle: What is not fully understood is what a monetary infrastructure with adoption represents, the value of which is determined by the free market. This is simply more difficult to capture than, for example, a company that can be evaluated using profit figures. And yes: to a certain extent, the demand for Bitcoin also has to do with faith, as Mr Hotz says. But this also applies to other long-established asset classes such as gold.

The current use of gold as a store of value is in fact also largely based on social consensus, Mr Hotz.

Hotz: I'm not a big fan of gold. However, in addition to its use in the jewellery industry, it is a potential opportunity to diversify the portfolio. Unlike cryptocurrencies, gold is truly limited in this world and cannot be replicated. The code of the Bitcoin network could be copied at any time and a new Bitcoin launched.

Höchle: The Bitcoin code is indeed freely accessible and several attempts have been made to launch a copy. Each time, however, this attempt has failed resoundingly, because the Bitcoin network has been widely adopted and this wide adoption is what makes it unique. In contrast to gold, it is also very clear how many Bitcoins the maximum total is limited to. The question with gold is how much of it there really is in the world. The transparency of scarcity is therefore much higher with Bitcoin.

So Bitcoin is a suitable portfolio component?

Höchle: Absolutely. Bitcoin has proven itself as an inflation hedge and, as mentioned, has delivered excellent returns. In addition, Bitcoin shows a correlation to the global money supply M2 – which, in addition to cash, also takes into account short-term assets created by central banks, most of which flow into assets – of around 80%. This high correlation shows that Bitcoin is by no means fluctuating irrationally, but is clearly reacting to monetary expansion – as a digital counter-proposal to structurally devaluing fiat currencies. All these points show that Bitcoin fulfils exactly what it promises and that it is a good addition to a portfolio.

Speaking of correlation: the correlation between Bitcoin and other asset classes certainly shows diversification potential, doesn't it, Mr Hotz?

Hotz: If you simply use correlation as a diversification factor, you can also invest in stamps, vintage cars or cow dung for all I care. All these things also have a deep correlation with other asset classes. Incidentally, during Covid we were able to observe how Bitcoin halved in value within two days. So I vehemently doubt whether Bitcoin can prove itself as a means of diversification in a crisis.

Höchle: Nobody claims that Bitcoin is not volatile. But this is also due to the age of the asset. Both returns and volatility will decrease over time. This is a normal process that could also be observed with Amazon shares.

Hotz: But Amazon has evolved over the years. A Bitcoin in 2025 is exactly the same Bitcoin as in 2008.

Höchle: It's a shame that you haven't understood that yet. Bitcoin and the network behind it have changed massively.

Hotz: But a Bitcoin is still a Bitcoin and Amazon has become a completely different company.

But an Amazon share is still an Amazon share, Mr Hotz.

Hotz: That's true, but what's behind it has changed. Amazon has increased its revenue and profits tenfold.

FINANZ^{und} WIRTSCHAFT

And Mr Höchle argues that the Bitcoin network has also changed.

Hotz: But as the holder of a Bitcoin, I have nothing to gain from this.

Höchle: Yes, you do – and what you gain is the 80% annual performance over the last ten years.

A performance of 80% sounds good. Are you going to buy a Bitcoin now, Mr Hotz?

Hotz: Certainly not in this life.

Mr Höchle, will you be selling your holdings?

Höchle: Definitely not.

Opinion

The bomb in the portfolios

Pirmin Hotz

While experienced investors pursue a clear objective with structured products, private investors are often unable to clearly assess the risks.

Which investor can claim to know and be able to explain how “range target profit forwards” or “conditional target redemption forwards” work? There are probably very few, because experience shows that even among professional money managers, only a minority understand these products – many of them thanks to their specialised mathematical knowledge.

UBS’s wealthy clients have recently been the victims of such structured currency derivatives. By buying the above products, they are betting that the US dollar will move within a certain range. If this is the case, attractive returns await, although the amount is limited.

If, on the other hand, the dollar breaks through a predetermined reference rate, there is a risk of losses that can amount to several times the maximum achievable gains. Buyers’ risks are asymmetrically distributed, and it requires expertise to understand the potential gains and losses from all the possible price movements the dollar can take during the life of the product.

To make matters worse, the risks associated with certain products are leveraged and a margin call can be triggered. After US President Donald Trump announced a new tariff regime on 2 April, the dollar depreciated rapidly and broke through the lower reference rate of the structured products, causing owners to suffer devastating losses in some cases.

Where the products make sense

UBS clients subsequently claimed that they had not been adequately informed by their bankers about risks, leverage and the obligation to make additional contributions. Apparently, the bank also sold such products to inexperienced customers, which is why it is at least partially liable for the losses incurred.

Well understood and correctly applied, structured products have their uses. Thus, a Swiss industrial company can use a customised construct to make a targeted commitment to buy dollars at potentially lower

exchange rates in order to pay for its future imports from the USA and at the same time generate additional income. Experienced investors use structured products to supplement their portfolios in specific market situations. Barrier Reverse Convertibles (BRC), which offer attractive rates of return, are particularly popular. Buyers of these products expect the prices of selected shares to move sideways, slightly higher or lower. If prices fall more sharply, BRCs offer the possibility of adding shares to the portfolio at lower prices via the built-in short put option.

One problem with BRC products, which are usually based on several shares, is that they function according to the worst-of principle. If the price falls below the barrier, the security with the worst price performance is delivered at maturity. The consequences are often underestimated by investors.

This is because many structured products contain the same or similar underlying assets, so that cluster risks arise in the portfolios during a bear market and when the price falls below the “knock-out barrier”. This had a devastating effect on the German payment service provider Wirecard.

The former “wunderkind” of the German Stock Exchange was a coveted object in the structured product sector due to its brilliant and volatile share price performance. There were 167 barrier products listed in Switzerland that used Wirecard as their underlying benchmark. When the company collapsed spectacularly in 2020 and filed for insolvency, numerous investors were left rubbing their eyes, as the barrier was broken in all structured products. As repayment, they received de facto worthless Wirecard shares.

In strong bear markets, structured products can potentially become fire accelerants in securities portfolios if several similar or even identical securities are flushed into a portfolio – this is the antithesis of the highly praised diversification in investments.

BRCs are often sold by banks as “yield optimisation products”. The example of Wirecard shows how misleading this term is. While the profit is limited to

an above-average interest payment, a total loss of the structured product can occur in the event of the bankruptcy of a single share.

Many banks list structured products under the heading of “bonds”. This is confusing, because the risk of loss in bear markets is comparable with that of equities. If the necessary expert knowledge in dealing with structured securities is lacking, a supposedly conservative portfolio can mutate into a risky junk equity portfolio almost overnight during a significant stock market correction.

“Banks are aggressively selling high-margin structured products to their clients.”

This happened during the financial crisis, when banks such as UBS fell like dominoes and their shares ended up in the portfolios of structured product holders with losses sometimes amounting to over 80%. In some cases, portfolios containing structured products resulted in higher risks or losses than if they had been invested in a pure but well-diversified equity portfolio.

Practice shows that securities portfolios containing structured products are difficult to assess in terms of the risks taken. Depending on the type of product and the market situation, they may be closer to bonds or equities. The counterparty risk that structured product holders often take should also not be underestimated.

If the issuing bank goes bankrupt, the product falls into a black hole – as happened with the American bank Lehman during the financial crisis. The investment legend Warren Buffett describes this nightmare as follows: “Only when the tide goes out do you realise who has been swimming naked.”

Pressure to sell and conflict of interest

Anyone who buys shares has an investment horizon of at least eight to ten years. Buyers of structured products, by contrast, place bets for one year and trust themselves to make a market forecast for one, two or three shares over this short period.

Whether this makes sense from a portfolio strategy perspective is questionable at best. Another major drawback is the high cost of structured products, which is usually around 2%. This may be attractive for the product artists, but in the end it comes at the expense of the investors.

Some banks are aggressively selling high-margin structured products to their customers and regularly draw up internal lists of the most successful sellers of these products. This is offensive and leads to conflicts of interest for employees.

At the same time, banks protect themselves by enclosing extensive “instruction leaflets with risks and side effects” in the sales prospectus. But who has the time and inclination to read them? The “packaging artists” at the banks themselves should know how great the risks are of galloping off with structured products.

During the financial crisis, structured products such as ABS (asset-backed security), CDO (collateralised debt obligation) and MBS (mortgage-backed security) became their undoing. At the time, they allowed themselves to be outwitted by their own highly complex risk models and literally lost the overview. The average investor is definitely overwhelmed by the complexity of structured products and should keep his hands off them.

PIRMIN HOTZ is the founder and owner of Dr. Pirmin Hotz Vermögensverwaltungen, based in Baar, Switzerland.



Unfair taxation of capital withdrawals from pension plans

Thomas Hauser

The Federal Council wants to eliminate alleged “advantages” gained by withdrawing pension capital; in doing so, it is making a fundamental error and creating false incentives.

The federal government is short of cash, which is why a group of experts has also sought additional taxation options. The expert group’s proposals also include adjusting the taxation of capital withdrawals from pension plans. It is incomprehensible in many respects that the bourgeoisdominated Federal Council has adopted this proposal. On the one hand, there is a fundamental error because there are no advantages to withdrawing pension capital today – as will be shown below. On the other hand, legal certainty is being violated and false incentives are being created.

“In fact, this ex-post change in taxation corresponds to an expropriation.”

The legal uncertainty that has been accepted is disturbing. While pensions are guaranteed, the Federal Council wants to change the rules of the game for those who take care of their own retirement provision. The effect of higher taxation of money already paid into the pension system is the same as that of a reduction in pensions; the pension plan of individuals with personal responsibility no longer works – and it is virtually impossible to make corrections. In fact, this ex-post change in taxation corresponds to an expropriation.

There are two sides to the false incentive effect: Firstly, for many, drawing a pension is becoming more attractive; for pension funds, however, capital withdrawals are not unattractive because they reduce current obligations and longevity risks. Secondly, it makes the personally managed pension via pillar 3a or purchases into the second pillar to close pension gaps less attractive. In view of the known demographic development, this false incentive is madness.

The fundamental error mentioned above is that the Federal Council is pretending to eliminate existing advantages for the «rich» by closing the «tax loophole» of lower tax rates on capital withdrawals from pension plans. In future, capital withdrawals are to be taxed at higher rates instead of at a special rate. In the vast majority of cases, there are neither significant advantages nor is it a tax loophole. This will be demonstrated using a realistic example: A person living in Zurich has pension fund assets of CHF 1,200,000 at the age of 65, but no other taxable assets. The pension fund has a conversion rate of 5%, which together with the Swiss state pension (AHV) results in a pension of just under CHF 92,000. Over 20 years up to the age of 85, this leads to a tax burden on pension income of around CHF 260,000.

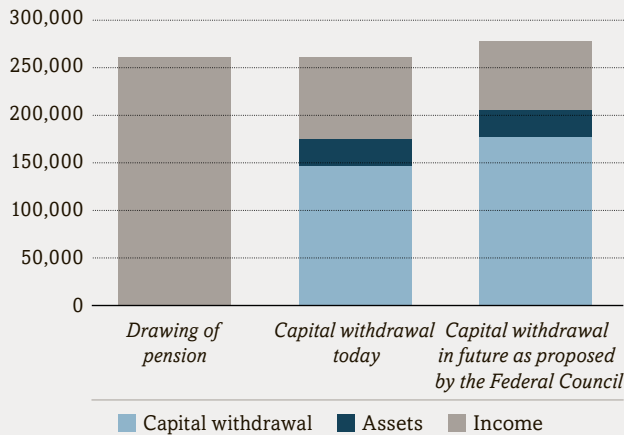
If the entire pension capital is now withdrawn and the same income of just under CHF 92,000 is to be available, the situation is as follows: a tax of around CHF 147,000 is payable on the capital withdrawal. The remaining capital is invested in a mixed portfolio, which yields an average net return of 3.9%¹. Of this, 2.3% is taxable income and 1.6% is taxfree capital gains. In order to achieve the target income, the investment income and a portion of the assets will be used in addition to the Swiss state pension (AHV). In addition to the income tax on the investment income and the Swiss state pension (AHV), the person now also pays a recurring wealth tax and the one-off tax on the capital withdrawal. The current taxes over 20 years total around CHF 113,000. Only at first glance does the tax burden appear to be an advantage over drawing a pension. That is because if the tax on the capital withdrawal is included, the total tax burden is around CHF 260,000 and is exactly the same as it would be with the drawing of the pension. Today, there can be no question of preferential treatment in the case of capital withdrawals.

If the taxation of capital withdrawals proposed by the Federal Council is applied in future, there will

¹ Assumptions: Share of 65% equities with a return of 7%, share of 35% bonds with a return of 1%, asset management costs of 1%; the portfolio allocation corresponds to the risk of Swiss pension funds, which on average have a real value share of 60% to 65%



Tax burden for drawing a pension versus capital withdrawal



Taxes on:	Drawing of pension	Capital withdrawal today	Capital withdrawal in future as proposed by the Federal Council
Capital withdrawal		147,000	177,000
Assets		29,000	27,000
Income	260,000	84,000	74,000
Total tax burden from age 65 to 85	260,000	260,000	278,000

be unequal treatment to the detriment of those who bear the full pension risk themselves through capital withdrawals: in the case of capital withdrawals, around CHF 177,000 of the CHF 1,200,000 must be paid to the state. As a result, the remaining assets and the income generated on them are lower, meaning that more assets have to be utilised. This means that the remaining assets will fall to CHF 448,000 after 20 years, while CHF 494,000 will remain with the current preferential capital withdrawal. The total tax burden from the one-off tax on capital withdrawals and recurring wealth and income taxes amounts to CHF 278,000 and would therefore be CHF 18,000 higher than today. The tax burden would then be 7% higher than the burden when drawing a pension. The effect is even more pronounced with higher amounts of pension assets.

Should the independent pension be penalised in this way? In contrast to the Federal Council's proposal, the special rate for capital withdrawals would even have to be reduced in some cases if the drawing of a pension and personally managed capital withdrawals are to be treated equally for tax purposes. If there is one thing that should be optimised with capital withdrawals, it is this: every person who makes a capital withdrawal should have to officially confirm that supplementary benefits and social assistance will be waived in the event of financial failure. That is real personal responsibility!

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Opinion

Seven Myths of Asset Management

Thomas Hauser

The professionalisation of institutional investment has led to the emergence of an entire ‘consulting industry’ over recent years, which itself has introduced certain asset management practices into the marketplace. Are they examples of ‘best practices’ or simply myths?

Myth no. 1: Benchmarking the implementation of the investment strategy is pivotal

Using benchmarks to ensure that the investment implementation is closely monitored is an important part of monitoring, especially when it comes to ensuring that deviations – be they positive or negative – are plausible and understood. An asset manager who consistently underperforms according to the benchmark index for implementing the specified strategy will inevitably be replaced.

However, periodic strategic reviews should actually take precedence over implementation monitoring. As with asset managers, it is essential to distinguish good consultants from their less effective colleagues. The following example clearly illustrates that choosing the right strategy is more important than perfectly implementing a suboptimal one.

Two pension funds with identical risk capacity adopted a new strategy in 2004 and have left it unchanged

over the years. While the Traditional Pension Fund shuns alternative investments, the Progressive Fund has allocated 15% of its portfolio to them. The Progressive Pension Fund incurs significantly higher implementation costs of 0.6% due to the alternative investments, while the Traditional Pension Fund remains at a lower level of 0.15%.¹

After more than twenty years, the controller is pleased to note in his analysis that, after costs, the Progressive Pension Fund has outperformed the market by 0.1 percentage points p.a.; the Board of Trustees celebrates the result. The mood at the Traditional Pension Fund is quite different and there are complaints of an annual underperformance of 0.1 percentage points. But this muted response is unjustified, as the Traditional Pension Fund has in fact pursued a superior strategy, which more than compensates for the suboptimal implementation!

Asset classes	PK progressive	PK traditional
Liquidity	0%	0%
Bonds CHF	35%	35%
Total nominal values	35%	35%
Equities	35%	45%
Equities Switzerland	12%	15%
Foreign Equities	23%	30%
Real Estate Switzerland (2/3 directly, 1/3 indirectly)	15%	20%
Alternative Investments	15%	0%
Raw materials	5%	0%
Hedge funds	5%	0%
Private equity	5%	0%
Total real assets	65%	65%
Total	100%	100%

Key figures	PK progressive	PK traditional
Volatility of the strategy p.a.	6,76%	6,72%
Return of the strategy p.a.	4,47%	4,87%
Outperformance/underperformance p.a.	0,10%	-0,10%
Portfolio net returns p.a.	4,57%	4,77%

Excluding inflows and outflows, the original assets of CHF 100 million in the Progressive Pension Fund have grown to just under CHF 256 million, while the Traditional Pension Fund has increased by CHF 16 million or

6%. It is better to choose the right route than to navigate the wrong one perfectly! Interestingly, however, institutional investors rarely apply the same rigour to strategic reviews as they do to monitoring implementation.

Myth no. 2: Passive investing reduces the cost of asset management

It is a fact that asset management costs for traditional investments have fallen in recent years. Another fact is that the average costs of 'indexed' investments are lower than those for actively managed mandates. Over the past decade, the share of these more favourable index investments in the total assets held by Swiss pension funds has increased from 22% to 31%.²

It seems logical, therefore, that pension funds should have experienced a decrease in their overall asset management costs as well. But the situation on the ground is actually rather mixed: While a study by the consulting firm c-alm reports a reduction in costs – from 0.56% in 2011 to 0.48% in 2019 – PPCmetrics, another consultancy, finds that asset management costs remained unchanged between 2014 and 2023.³ Interestingly, the

latter found no correlation between asset management costs and fund size across a total asset range of CHF 5 million to CHF 40 billion. These findings are also confirmed by the latest figures.⁴

So what are the reasons? Paradoxically, the indexing of core holdings such as equities and bonds has led many institutional investors to add more active – and often very costly – satellite investments such as infrastructure, commodities, hedge funds and private equity. This has effectively offset the cost savings achieved in core holdings. On average, asset management costs amount to 0.66% for strategies including alternative investments, and 0.31% for those without.⁵ It follows, therefore, that cost reductions stem not from indexing but from foregoing alternative investments.

Myth no. 3: Passive investing reduces the risks

It is true that indexed investing reduces the relative risk. This means that the investment outcome is almost identical to the return of the chosen benchmark. Undoubtedly this is convenient for everyone involved, as 'the market' is responsible for the outcome and no one has to make decisions that might lead to exposure. But the absolute risk – potential asset fluctuations or even losses – can only be managed with active decisions on the selected strategy, benchmark and portfolio structure.

One example: An investor who decides to track equities passively must adhere to the capitalisation

weights of a global stock index. This means that Switzerland would have a weighting of around 2% and the United States over 70%. The latter was still around 50% just a few years ago.

The somewhat higher risk associated with indexed investment solutions arises from their inherently procyclical nature. This may produce concentration risks: Sectors such as technology at the end of the 1990s and today, or countries such as Japan in the late 1980s and the USA today, can take on weightings that contradict the principles of diversification.

The same applies to bonds. The average maturity of

the market

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the Swiss Bond Index has increased by 40% since 2009 as a result of low interest rates. Passive investors have

therefore accepted the issuers' maturity decisions – and with them, a higher level of interest rate risk.

Myth no. 4: Additional asset classes improve diversification

The number of asset classes has increased sharply since the turn of the millennium. Still reeling from the painful experiences of the dotcom bubble and the financial crisis, investors were primarily seeking more 'stable' investments. At the same time, providers were forced to develop new offerings in response to shrinking margins in traditional investments. The marketing claim is that alternative investments such as private equity, infrastructure, hedge funds or commodities, in particular, enhance diversification, as they represent 'alternative risk premia' with differing cycles.

An analysis based on the allocations of the average Swiss pension fund⁶ is as enlightening as it is sobering. When the 10% allocation to alternative investments is reassigned to CHF bonds and Swiss equities, twenty years of data show that the resulting return and risk are virtually identical to those of a portfolio including

alternative investments. It becomes clear that variants without alternative investments are more efficient (see table below).

In illiquid assets such as private equity or directly held real estate, the fluctuations merely appear lower because there are no continuously observable market prices. The risks of economic loss are therefore not smaller; most alternative investments are subject to the same economic cycles. Traditional, liquid, transparent and therefore more favourable asset classes can be used to build more efficient portfolios in the long term.

Although a certain degree of diversification is required, it is not expedient to 'blindly' embrace every conceivable asset class. What matters most is that the asset classes included show a return track record supported by publicly available data.

Reflection over twenty years	<i>Allocation of the average pension fund with alternative investments</i>	<i>Allocation without alternative investments same return</i>	<i>Allocation without alternative investments same risk</i>
Number of asset classes	12,0	6,0	6,0
Yield p.a. (in %)	4,5	4,5	4,8
Volatility p.a. (in %)	6,1	5,7	6,1
Worst month (in %)	-8,2	-7,0	-7,1
Best month (in %)	5,8	4,5	4,9

Myth no. 5: Balanced mandates are no longer 'state of the art'

Asset class mandates – that is, individual mandates for Swiss equities, global equities and CHF bonds – are often awarded on the grounds that this allows a specialist to be appointed for each asset class. In practice, however, balanced mandates – where the mixed mandate covers all the asset classes included in the investment strategy – continue to play an important role for pension funds with total assets of up to CHF 1 billion.⁷

There are good reasons for this significance, as mixed mandates offer numerous advantages:

- When working with mixed mandates, all asset managers within a pension foundation implement the same strategy, making them directly comparable.
- Because the total volume in mixed mandates is spread over fewer mandates than in asset class mandates, they tend to be larger and thus generate a significant cost advantage thanks to the degressive fee structure.

- Moreover, the smaller number of mixed mandates compared with asset class mandates results in lower costs for manager searches and controlling. Only a cynic would draw the opposite conclusion: the preference for asset class mandates might also be due to the opportunities for consultants to earn additional income.
- Asset managers also enjoy greater flexibility through the ability to control cash weightings.

Moreover, mixed mandates can be used for live benchmarking in very large pension foundations that primarily hold asset class mandates: Is the sum of the specialised asset class mandates actually more effective than implementing the strategy through a mixed mandate?

Size of the pension fund	Proportion of mixed mandates in total assets
< 50 million CHF	24%
50 to 100 million CHF	52%
100 to 500 million CHF	42%
500 to 1000 million CHF	34%
1 to 5 billion CHF	17%
> 5 billion CHF	5%

Myth no. 6: The use of investment consultants leads to better investment results

Investment consultants assist pension funds, foundations and companies in choosing their strategy, style (active or indexed investing) and implementation – particularly in selecting asset managers. 73% of pension funds use strategy consultants.⁸ Investment consultants standardise processes, thereby eliminating the most extreme outliers. This helps to prevent disastrous out-comes caused by poor strategies, implementation approaches or asset managers. However, this also comes at the cost of preventing the best results.

From the consultant’s perspective, it is rational to ‘centre’ investment results as a way of safeguarding their reputation. Ultimately, consultants tend to favour a more passive investment style: they may miss opportunities, but will also prevent any disasters. A presentation by the consulting firm PPCmetrics on five-year returns achieved by managers of Swiss equity mandates reveals some interesting insights.⁹

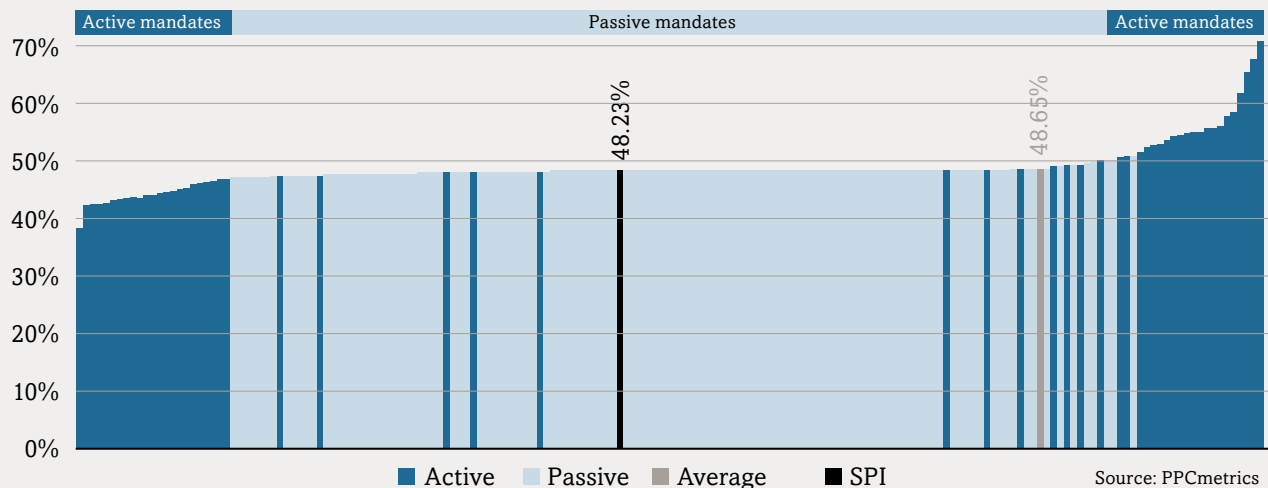
It turns out that active mandates produce both the worst and the best outcomes, while passive mandates cluster around the middle – mirroring the consultants’ own preferences.

An investment committee or investor who recognises consultants’ tendency to aim for the centre – yet is reluctant to forgo excellent investment solutions and asset managers – must engage actively in the tendering (manager search) and selection process, and clearly define their objectives. For example, it is hardly helpful when tender questionnaires ask about the number of office locations but fail to enquire about paid searches or ongoing legal proceedings. In addition, face-to-face interviews and obtaining references are very time-consuming, but indispensable in the quest for excellence. Merely completing standardised questionnaires is not enough if you want more than just the run-of-the-mill.

The consultancy industry – whether in finance or other sectors – inevitably maintains a certain level of complexity, even when simplification would be possible. After all, complexity creates dependency and dependency translates into future revenues. With this in mind, an investment committee or investor should always prefer simple solutions – thus saving money in the long term and improving investment results.

PPCmetrics Peer Group: Cumulative absolute return

Measurement period: 01/01/2019–12/31/2023



Myth no. 7: Active managers are traders – back and forth empties pockets

There is little doubt that a fair proportion of active managers massively overestimate their own forecasting skills. This often results in excessively active behaviour. Trading in this way inevitably drives up costs, but far less reliably delivers successful returns. The well-documented conclusion is that most active managers fail to add value.¹⁰ Back-and-forth trading empties pockets – a real problem when asset managers or banks earn revenue from trading turnover, as this creates clear disincentives. And the second issue that arises in practice is procyclicality: chasing after the trend empties your pockets as well.

However, if active management is understood as risk management and counter-cyclical control, it can indeed add value over the long term. But if active management is perceived as risk management and countercyclical control, it can definitely yield added value in the long term. Ultimately, it is about making active decisions concerning the portfolio structure: What bond duration is acceptable, what is the maximum proportion of sectors or countries, and are there any weighting limits at the security level? This helps to avoid excessive trading, concentration risks and overly procyclical portfolio developments.

The fact that excessive changes generate unnecessary costs at the stock selection level applies equally to the selection of asset managers. Investors must therefore state unequivocally which characteristics an active manager should possess. Once they have made their selection

carefully and with conviction, they must also allow the manager sufficient time. A two-year period, for example, is too short for a performance assessment. Without exercising the necessary patience, the selection of an asset manager can easily lead to short-sighted actions that incur unnecessary costs. Or to paraphrase Benjamin Graham: “Patience is the investor’s greatest virtue”.

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Opinion

The ticking time bomb in the financial markets

Pirmin Hotz

While investors have become accustomed to wars and Trump's chaotic tariffs, a much greater danger is growing: global government debt is reaching stratospheric levels. Why this development is even more perilous than all the current headlines.

While investors have become accustomed to wars and Trump's chaotic tariffs, a much greater danger is growing: global government debt is reaching stratospheric levels. Why this development is even more perilous than all the current headlines.

Anyone following daily headlines will inevitably conclude that the war in Ukraine, the Gaza conflict and the tariff policy of the United States of America are the biggest problems affecting the world. Despite the human suffering, the impact of these trouble spots on the financial markets seems surprisingly modest.

Investors have long since grown used to the warfare, and the initial panic exhibited by investors at the announcement of the erratic tariff regime by US President Donald Trump has subsided as well. One might even contend that investors are no longer inclined to take the would-be dictator seriously.

Government debt soars

A telling indication of this was Friday, 1 August, when the Swiss stock exchanges were closed for the holiday. When Trump signed an executive order with sweeping tariff increases on imports from 68 countries and the EU, many analysts predicted that the Swiss stock market would plummet by 10 to 15% on the following Monday.

But this collapse in prices did not occur. Swiss equities closed at around the previous day's level, despite the imposition of punitive 39% tariffs. Investors evidently believe that dealing with irrational politicians is a waste of time.

Global government debt is a potentially far greater burden that is likely to weigh heavily on the financial markets. As if tomorrow would indeed never come, politicians of all persuasions are outdoing one another with their reckless spending policies.

Japan leads the world in spending, and its debt has now reached an astronomical level at 240% of gross domestic product (GDP). Europe has become accustomed to breaching the Maastricht criteria, which stipulate a maximum deficit of 3% and a debt ceiling of 60% of GDP. French debt is currently at 116% and Italy's at 135%.

The USA – whose debt stands at 120% and continues its steep upward trajectory – is increasingly becoming the chief source of concern. The fact that the Americans are running alarming annual deficits of 7% during a period of economic boom makes matters even worse.

Americans experienced their own version of a 'Liz Truss shock' when Trump announced his tariff plans in April. The prices of credit default swaps on treasury bonds shot up, prompting the president to shelve his plans.

Interest rates on long-term bonds have risen significantly in recent years, not just in the USA, but also in Japan, the UK and France, indicating shaken investor confidence.

As the European sovereign debt crisis aptly demonstrated over ten years ago, the unholy union between states, banks and insurance companies has become a ticking time bomb.

“A sustained period of loose monetary policy leads to asset bubbles and irrational excesses in the financial markets.”

The financial institutions have immense holdings of 'risk-free' government bonds on their books. But when rating agencies downgrade the creditworthiness of securities, their equity evaporates rapidly.

Independence of central banks at risk

Japan is a prime example of how states with excessive debt simply cannot afford high interest rates. The country has been keeping interest rates artificially low

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for many years. This has led to a massive devaluation of the yen and to risky, speculative transactions with cheap money (carry trades).

For his part, Trump is doing everything he can to force the Fed into cutting interest rates sharply in order to devalue the dollar and ease the burden on the national budget.

So far, Fed Chair Jerome Powell has stood his ground in the face of this pressure. However, it is foreseeable that his successor in May 2026 will seek to win Trump's approval, which might lead to accelerated cuts in interest rates.

Under pressure from governments, the central banks of highly indebted countries quite simply have no choice but to rely on financial repression to keep interest rates down and to push them below inflation – to the detriment of savers who, in real terms, experience gradual expropriation.

Central banks increasingly face the dilemma of mounting government debt and the need to maintain low interest rates. The independence of central banks from politics is at risk.

A protracted period of loose monetary policy leads to asset bubbles and irrational excesses on the financial markets. It is fuelling a boom in assets such as Bitcoin – which is not actually productive capital, has no intrinsic value and yields neither dividends nor interest.

Other speculative trends include meme coins such as Dogecoin or Shiba Inu, whose existence is based solely on the speculative frenzy of avaricious investors. Social media communities use cheap money to drive up the prices of investments that are often illiquid and easy to manipulate.

Excesses are also evident in the booming AI sector and certain tech stocks. The boom in gold, silver and platinum prices would barely have been possible without a loose monetary policy, nor would the boom in risky private market bonds (private debt).

This is reminiscent of the “junk bond king” Michael Milken, who rose to Wall Street fame during the 1980s with high-yield bonds – before the entire structure collapsed.

There are again signs from the United States that another crisis may be brewing, where the regional

banks Zions and Western Alliance and the bankruptcy of two billion-euro suppliers to the automotive industry, First Brands and Tricolor, are causing uncertainty.

The moment of truth

Property prices are also soaring in many countries around the world. The Swiss mortgage volume of over 130% relative to GDP is a world record.

A significant rise in interest rates and, as a result, a property crisis like the one in the early 1990s, when residential and commercial properties in Switzerland lost between 30 and 50% of their value, would likely cause trouble for many lending banks and not just for numerous homeowners.

The moment of truth will come when the economy experiences a downturn, companies' earnings fall and businesses therefore owe less tax. When this moment comes, interest rates will already be too low to permit further cuts.

Similarly, governments will hardly be able to launch additional stimulus programmes due to the perilous state of the public coffers and the gradual erosion of investor confidence in government bonds.

The symbiosis of irresponsible fiscal policy and notoriously loose monetary policy is the mother of all bubbles and crises. It is a balancing act on a razor's edge.

“Despite numerous bear phases, Swiss equities delivered an attractive annual return of 7.7% over the past hundred years.”

Investors are faced with the question of whether to sell their equities for fear of a crisis and a stock market crash. This is not advisable for two reasons.

Firstly, equities offer better protection against crises than deposits with governments and banks, which have often collapsed in major crises. Despite numerous bear markets, Swiss equities have generated

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attractive annual returns of 7.7% in nominal terms and 5.6% in real terms over the last hundred years.

Secondly, the timing of crises cannot be predicted. The downfall of CS was triggered by a “harmless” tweet posted by an Australian journalist, while Greece – a country of no global significance – lit the fire that led to the eurozone crisis.

Not even the gods – at best perhaps the notorious prophets of doom – know which spark will trigger the next crisis and when it will happen.

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