

Activist Hedge Funds Were Taken For A Roller Coaster Ride In Insurance Stocks. Now You Can Take Advantage of Their Misfortune

Sep 9, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

Isaac Bashevis Singer, Nobel Prize laureate in literature said: "A story to me means a plot where there is some surprise. Because that is how life is - full of surprises".

The same holds true in investing, because companies, markets, and economy by their very nature are social processes. And when there are humans involved, there will always be surprises.

Over the past six months, activist hedge funds Elliott Management and Third Point were taken for a roller coaster ride in insurance stocks.

Both funds disclosed investments at the end of February 2020: Elliott Management [took](#) an approximately 3% position in shares of Dutch company NN Group NV while Third Point [disclosed](#) an almost 5% shareholding in British Prudential plc.

Almost immediately covid-19 events unfolded with full force. Shares of NN Group fell 54% and reached a low of EUR 20.09 on March 19th, 2020 while Prudential plc declined by about 50% during the same period. Since then shares rebounded nicely but still lower by 12% and 20% respectively from where they were trading at the time of disclosures.

But something in this picture was missing.

David Bohm, an American scientist who has been described as one of the most significant theoretical physicists of the 20th century, once explained this:

“A good picture is not only an integral whole, but even more, it achieves this wholeness by expressing something having universal significance. In other words, while it is something specific, particular, limited in its existence, etc., its relationships to its parts are rich enough and of the right character to suggest the universe and its relationships to its parts. Thus, it is “universal” in the sense that somehow its structure reflects that of the universe. In other words, it makes a kind of “world in itself”.

I believe that the picture with these insurance companies became more integral and whole last week when Belgian insurer Ageas disclosed that it was [approached](#) by an investment group with a potential buyout offer.

Activist investors' theses for these companies are not too complicated: NN Group has an attractive dividend yield and free cash flow generation profile while Prudential plc according to Third Point, could unlock shareholder value by certain initiatives including the separation of its US operations. Prudential did, in fact [proceed](#) with this plan and is preparing an IPO or separation of Jackson National, its US business.

You do not need to have alternative data sources which are popular nowadays or be a quantitative analyst with a PhD in Math. And you do not even need to read a 67-page presentation by Elliott Management on NN Group NV.

What you need is the ability to see the story and see the big picture.