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MAGAZINE

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WELCOME

Dear Reader,

We are approaching the end of the tax year, the time when we're faced with the delights of getting our financial house in order. For many of us, this will revolve around two popular tax wrappers – ISAs and SIPPs. In order to explain the finer points of both, we have two very distinguished guests in this month's issue of Master Investor Magazine.

The first has been named one of Fortune magazine's 'World's 50 Greatest Leaders' and the Financial Times' 2017 'Person of the Year'. She was also appointed a Dame in the Queen's 2017 Birthday Honours list. She is none other than Helena Morrissey DBE, Head of Personal Investing at Legal & General Investment Management. Don't miss her article on page 10.

The second has yet to be formally recognised for his services to the financial services industry, but I'm sure that will come in due course. Alan Steel, founder of Alan Steel Asset Management, uncovered the Equitable Life scandal way before the regulators even had an inkling as to what was going on. You can read my interview with Alan on page 28.

Of course, many readers will remember that Alan took to the main stage of the Master Investor Show back in 2016. This year's show is almost upon us, and we have another cracking line-up of speakers and exhibitors to whet your investing appetite. You'll also be able to meet some of the team behind this publication, so make sure to come over to the Master Investor Magazine stand for a chat.

With the show just two months away, now's the time to secure your ticket if you haven't already. I'm pleased say that I can offer readers a complimentary ticket using the discount code M219 – just use the code when checking out here.

Best regards,

James Faulkner
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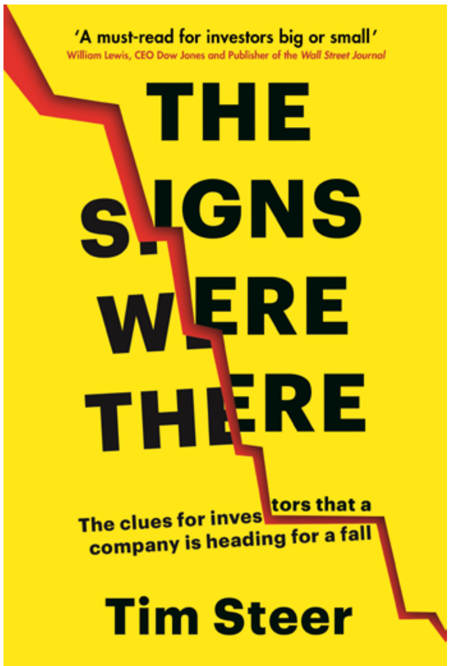

BY JIM MELLON

MELLON ON THE MARKETS

I have learned from my mistakes and I am sure I can repeat them exactly.

- Peter Cook

Thank God for snow on the ground here in Brussels, as I write this dutiful missive and tuck into my waffle. I really was beginning to worry that there would be no winter and that we Europeans were heading the way of my friends in Australia – who are frying, seriously, and in genuinely life-threatening heatwaves.

And yet, in an era of undoubted climate change, energy policy in Europe remains cack-handed. Germany still clings to lignite, a form of dirty brown coal that accounts for nearly half of its energy generation. This is partly due to the suspension of nuclear power in the country and also the power of the mining unions in the East. It is absolutely bonkers that Europe's economic powerhouse (and now, possibly, ex-powerhouse!) is still using the techniques of the industrial revolution to produce its energy. On top of that, Germans pay excessive energy bills, due to the offsetting of massive investments in green energy, some of which are already obsolete and certainly ill thought out. Germany is no good at *grands projets.*

And in the UK, the situation isn't much better. Withdrawal of subsidies for green energy has meant a slowdown in investment in the wind and solar that the UK is well suited to (sometimes), and a cancellation of tidal wave projects. The suspension

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of work on Japanese funded nuclear plants is another blow, and this at a time when, in my opinion, nuclear, now safe and totally clean, should be a key part of our industrial strategy.

France, meanwhile, though not normally thought of as a leader in sensible economic thinking, generates about 80% of its power from nuclear and people seem quite happy with that. Yes, nuclear is initially expensive, and the clean-up after a plant is decommissioned is expensive also, but overall the guarantee of energy security, the safety and the lack of any emissions surely make it worthwhile.

Melting snow, melting valuations

As the Belgian snow melts, so do valuations in stock markets. It is of course the case that stock markets and other financial markets tend to herald or presage events. In the case of stock markets, which have been generally off the boil around the world since October of last year, prescience in falling values has been shown up in the delayed statistics which underline the reasons why.

One, central banks have generally been dialling back their monetary support to asset prices, and (in the case of the Bank of England and the Federal Reserve) actually shrinking their bloated balance sheets. This is good news, in the sense that it moves financial markets, at least in the US and the UK into a phase of normalisation. But it does have dramatic effects on overpriced markets, notably housing and stock markets, and this is now being seen, as values erode.

Second, it makes share buybacks – such a key feature of the outperformance of US equity markets in recent years – more expensive and less attractive, particularly as the withdrawal of monetary easing has an effect on real economic growth

"BEAR MARKETS – AND WE ARE NOW IN ONE – RARELY END IN ANYTHING OTHER THAN A DRAMATIC SELL OFF AND WE HAVEN'T HAD THAT YET. IT IS GOING TO COME, BUT NOT FOR A WHILE."

and therefore on earnings. As I have warned before, earnings are now also being impacted by the tight labour market which is leading to cost-push pressures and a diminution of industrial and services margins.

Plus, you have the slowdown (surely inevitable!) in China and the trade war engineered by Trump, whether you agree with him or not.

Of course, the European Central Bank (ECB) is still relatively accommodative, and with the remarkable slowdown in the eurozone (who would have thought that the UK would be the standout major economy in Europe?!), with industrial production collapsing and sentiment eroding – and with banks still not fixed – the ECB will surely retain a dovish stance.

The Bank of Japan, bless it, keeps on pumping money into an economy that doesn't respond with any increase in inflation, despite rising real wages. In a way, Japan (the most attractive of major markets, though the UK runs a close second) is becoming increasingly statist, with the government (through the Bank of Japan and the Ministry of Finance) owning huge swathes of equity and of course, most of its own debt. How they get out of this monetary mess, other than just using write-offs, is beyond me.

So, markets have been falling, though in a pretty volatile way. My lesson from years of both bitter and sweet experiences in markets is that once this starts it goes a lot further than you can imagine. So it is today. If the FANG (Facebook, Amazon, Netflix, Google) stocks look relatively cheap now, they will get cheaper. If the S&P looks like it has reverted to the mean, the mean is going to be something else when it eventually bottoms.

Keep some powder dry

Bear markets – and we are now in one – rarely end in anything other than a dramatic sell off and we haven't had that yet. It is going to come, but not for a while.

And yet – in a world of diminishing cash returns (bonds have risen once again) – there are attractive dividend-yielding stocks out there.

"THE OMENS ARE THAT MRS MAY WILL PROBABLY GET HER DEAL – WITH SOME NUDGING BY THE EU – THROUGH PARLIAMENT, AND THAT WILL PROPEL GBP A BIT FURTHER."

Victor Hill, who is a top analyst and man, thinks that UK banks are to be avoided. I am not so sure. I think **Lloyds (LON:LLOY)**, with a good dividend yield, is worth tucking away. Yes, banks such as **Metro (LON:MTRO)** (what exactly is the point of Metro?) are so much froth, but the big behemoths like Lloyds or even **HSBC (LON:HSBA)**, which offers an excellent exposure to Asia, are surely worth considering at what must be very depressed levels.

Gordon Bell / Shutterstock.com

Don't touch European banks though, as there is still too much uncertainty as to whether or not they have properly resolved their capital positions.

So overall, the message is to retain dry powder. And that begs the question – in which currency? My nap for the year was sterling against almost anything, but particularly the euro, and that is working out. My call on gold and silver seems to be happening and a slice through $1,300 on gold and $18 on silver is close – really close!

As for bonds, I was right last year but they have clawed back recently. It is certainly the case that though interest rates may rise, they will only do so gently, but negative-rate bonds are still nuts, 10-year gilts at 1.5 per cent are ridiculous – and should be avoided big time.

Italian government bonds, having collapsed and then risen like the phoenix, are now once again shortable. I believe that the eurozone is about to go through another crisis. European elections coming up in May will surely lead to more populists and flag waving. It will not be a pretty time.

Meantime, the omens are that Mrs May will probably get her deal – with some nudging by the EU – through parliament, and that will propel GBP a bit further.

I won't get political here, but I will say that people on both sides of the argument should hang their heads in shame. And especially those who proposed that the UK would crash and burn after the vote, and then kept on going to the top of the mountain and crying wolf again and again. Europe is and always has been the problem. I know what I would do if I had any influence, but political action is a foolish move in a fever-tree economy and my opinions from now on will be confined to how to make money.

Oh, and how to live longer and healthier! On that subject, I am off to the Caribbean for two days this weekend to proselytise on that very topic, and then to the great A360 conference organized by my chum Peter Diamandis in Los Angeles.

Buy, sell, buy – it can wait a while!

Happy Hunting!

Jim Mellon

About Jim

Jim is an entrepreneur with a flair for identifying emerging global trends enabling him to build a worldwide business empire. He is amongst the top 10% in the "Sunday Times Rich List" (Britain's equivalent to the Forbes list). He is often described as the British Warren Buffett and he predicted the Credit Crunch of 2007-08 in a book entitled *Wake Up! Survive and Prosper in the Coming Economic Turmoil*. Jim followed this with *The Top 10 Investments for the Next 10 Years* (2008) and subsequently *Cracking the Code* (2012), *Fast Forward* (2014) and, most recently, *Juvenescence* (2017). His monthly "Mellon on the Markets" column in Master Investor Magazine has gained him cult status among investors. He holds a master's degree in Politics, Philosophy and Economics from Oxford University. He is on the Board of Trustees of the Buck Institute in California, a trustee of the Biogerontology Institute, and a Fellow of Oriel College, Oxford.

BY HELENA MORRISSEY DBE

BACK TO BASICS

WHY SIMPLE INVESTMENT STRATEGIES SHOULDN'T BE SNIFFED AT

Helena Morrissey DBE, Head of Personal Investing at Legal & General, explains why SIPPs and ISAs are an oft-overlooked but powerful combination for anyone looking to do more with their money.

"Life is really simple, but we insist on making it complicated."

- Confucius

When it comes to money, nothing really seems simple. For a start, each of us has our own 'money story' that can make our finances *feel* complicated and emotionally charged. Our attitudes towards money have been influenced by experiences over our whole lives – starting in childhood. We may find money worrying, daunting or boring – symbolic of many of our hang-ups – and those emotions will inevitably affect our financial decision-making. It's not just a rational matter.

Alongside this challenge, we're also bombarded by a deluge of information about what we *should* be doing – and frankly no one likes being nagged. Simplicity is neither a feature of the financial services industry as a whole, nor synonymous with the approach of so many personal investment companies (with so much confusion right from the start, when they describe themselves as 'platforms' or 'providers'). From share dealing and index funds, to alternative investments, things seem complicated by design.

"LEGAL & GENERAL RECENTLY CONDUCTED A SURVEY WITH MUMSNET AND GRANSNET USERS AND FOUND THAT 40% *WANT* TO INVEST BUT AREN'T SURE HOW."

Many of us end up paralysed by the combination of too much choice, jargon and our own ambivalence or concerns – even when we know that's not the long-term solution to making the most of our money and preparing for the future. Legal & General recently conducted a survey with Mumsnet and Gransnet users and found that 40% *want* to invest but aren't sure how.[1]

It's hardly surprising that women tend to be much more financially vulnerable than men in the UK. On average, at the age of 65, a British woman will have a pension pot just one fifth of the size (not one fifth less than) her male peer – and if she's divorced, a measly sum of just £9,000 in her total pension[2]. It's not just down to the gender pay gap; the gender investment gap plays a big part too.

"Save on your savings"

So what's the answer for those very many of us who just want a straightforward, manageable way of growing our money and sheltering our hard-saved cash from unnecessary tax?

It's time for the industry to stop focusing on the latest product or investment fad and instead to work much harder to help individuals who want to build a nest egg and make their savings go that bit further. The basics are getting lost in the noise.

"LIKE ANY OTHER GOOD HABIT, STARTING SMALL, DOING IT REGULARLY – BUT STARTING NOW RATHER THAN PUTTING IT OFF UNTIL AN ELUSIVE POINT IN THE FUTURE – IS THE WAY TO CREATE LONG-TERM RESULTS AND TO WEATHER VOLATILE EPISODES."

Our first port of call should be to make the most of the tax incentives provided by the government around investing: that way you can 'save on your savings'. Stocks and shares ISAs and pensions offer tax benefits and access to some of the most straightforward funds in the market, with clear costs and charges. Increasingly, the technology to get invested is simple too.

The acronyms can make things more complicated than they really are. A 'SIPP', for example, is simply a Self-Invested Personal Pension, which can be a good bet for those who are happy to make their own decisions about how their pension is invested.

In other respects, SIPPs work like any other personal pension product. You can add money into your personal pension when you can afford it. After you've paid in your cash, the government pays in the tax relief (for a basic rate tax payer), equivalent to a 25% top up. Once your money is in the SIPP, any growth in the value of your investments is free from capital gains tax. (As with other financial services, the benefits and rules may change and are dependent on your own tax position.)

While personal pensions – and the tax breaks – are there to help us save and invest specifically for our retirement, ISAs (Individual Savings Accounts) are more of a general savings and investment vehicle and a fantastic additional weapon in our savings arsenal. We each have a tax-free ISA allowance, currently £20,000, which allows us to invest up to that much each year. You can also invest much smaller amounts; at Legal & General, minimum ISA contributions stand at £20 per month and £100 lump sum.

Although you can access the money in your Stocks and Shares ISAs at any time (unlike a pension which is locked in until you're at least 55), they are still intended for the medium and long term – at least a five-year horizon – and if used appropriately can help our money to grow by investing across a wide range of companies or types of investment, rather than sitting in low interest deposit accounts at the mercy of inflation.

What about the risks?

But what about the risks? Right now, in particular, shouldn't we wait for the political uncertainty to pass before we get invested? One thing I learnt quickly as a professional fund manager was that the scary newspaper headlines are often already factored in to asset prices. One of the most important drivers of successful long-term investing is to steel yourself not to follow the herd – or to panic!

One way of managing the risk is to invest small sums regularly – it's difficult to time the exact right moment but if we wait for the 'bottom' we might miss out completely. If you want to take a little at a time from your cash savings, you've got the option to do so. Like any other good habit, starting small, doing it regularly – but starting now rather than putting it off until an elusive point in the future – is the way to create long-term results and to weather volatile episodes.

When it comes to building an investment portfolio, ISAs are a great way to start getting comfortable with the concept. Like most areas of life, once you start, it's much easier to develop a good grasp of the concepts involved. You can buy one fund, or several, in a bid to create a balanced collection of investments that either achieve growth on the cash you invested or provide an income.

Many fund managers also offer multi-asset funds, which essentially do the portfolio construction for you, taking the burden of decision making away. These types of funds allow you to invest in multiple different asset classes, sectors and even geographies, spreading the risk without having to make the individual asset allocation decisions yourself.

At Legal & General, our Multi-Index range – our selection of multi-asset funds – are positioned as the investment option where 'we do it for you'. Available at varying levels of risk, the fund management team invest the range of funds in lots of different things. Our Multi-Asset team also adopt a tactical asset allocation, meaning they actively adjust and rebalance the investments in the fund as developments unfold, in pursuit of better risk-adjusted returns (the amount of profit you can expect to make given the level of risk). This is opposed to a strategic asset allocation approach, where the asset class allocation is only adjusted periodically. Tactical, active allocation is really hard to stay on top of if you're trying to fit investing into a busy daily life and reach certain savings goals.

SIPPs and ISAs – a powerful combination

If you're already invested or are seeking ways to shelter your savings from tax, ISAs and Self-Invested Personal Pensions can make for a powerful combination. ISA money is paid in net (from your take home pay) but is free of tax thereafter. For your SIPP meanwhile, you can pay your money in gross (before you're taxed), but you are taxed on anything you withdraw from your SIPP, at your marginal tax rate (which could be lower in retirement than your core earnings years).

You can also pay much more into your SIPP than into your ISA each year, so having both can help increase your saving power while you still have access to cash if you need it via your ISA. You receive a total £60,000 a year in tax free allowance by using both a SIPP and an ISA together.

Although the possibility may be slim for many, for those who are at risk of nearing the lifetime allowance of £1m (the amount you can draw down from your pension without incurring a tax charge, which increases to £1.03m in the 2019/2020 tax year), using an ISA as a tax-efficient overflow for your pension can be useful.

Although rather morbid, it's worth noting that most SIPPs are not subject to inheritance tax (dependent on how scheme benefits are set up). A spouse or partner can also absorb the tax-free allowance of a late partner in addition to their own ISA allowance. So ensuring your investment strategy includes both a pension and an ISA can make for efficient estate planning too.

> **"USING AN ISA AS A TAX-EFFICIENT OVERFLOW FOR YOUR PENSION CAN BE USEFUL."**

Although I've mentioned a few different products here, at the heart of a combined SIPP/ISA investment strategy is the absence of complication. It's a minimum input, maximum output approach using high-street products that everyone is entitled to invest in and can access. What's more, your SIPP and ISA savings can help you achieve access to potential market returns without having to do all the heavy lifting yourself, and avoid unnecessary tax. It's a no brainer, one that Confucius would be proud of. The only thing left to do is to get started.

Please remember the value of your investments and any income from them can fall as well as rise and is not guaranteed.

About Helena

Helena is well known for her work on gender equality. She founded the 30% Club, a campaign for more gender-balanced boards in 2010. Since then, the representation of women on FTSE100 boards has risen from 12.5% to 30.7% and there are now ten 30% Clubs throughout the world.

Helena was CEO of Newton Investment Management for fifteen years, taking its assets under management from £20bn to £50bn. She joined Legal and General Investment Management in 2017, leading a new drive to engage the nation to invest more, with a particular focus on improving women's financial wellbeing.

Helena has been named one of Fortune magazine's World's 50 Greatest Leaders, the Financial Times' 2017 'Person of the Year' and recipient of Lloyds Bank 'Outstanding Contribution to Business' National Award in 2018. She was appointed a Dame in the Queen's 2017 Birthday Honours list.

Helena is a Philosophy graduate (Cambridge) and a Fellow of the London Business School.

1 **Survey of 1,000 UK Mumsnet users between 15 June and 29 June 2018. The data not weighted. https://www.legalandgeneral.com/investments/newsroom/press-release-mumsnet-partnership-final.pdf**
2 **Chartered Insurance Institute, Deficit by a thousand cuts. https://www.cii.co.uk/news-items/2018/october/deficit-by-a-thousand-cuts-news**

BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

3 SMALL-CAP BARGAINS FOR YOUR SIPP OR ISA

"*...in this world nothing can be said to be certain, except death and taxes.*" So said Benjamin Franklin. But while meeting the Grim Reaper might be an inevitable occasion, there are a number of ways investors can keep the taxman off their well-earned wonga.

Perhaps the most popular way is to take advantage of the generous £20,000 annual allowance which Phil Hammond lets savers and investors put into one of several types of Individual Savings Accounts, more commonly known as ISAs. According to government stats, around 10.8 million Adult ISA accounts were subscribed to in 2017-18 for a total value of £69 billion. The figures also show that the average subscription per Stocks & Shares ISA for the financial year was £10,124. That means investors as a whole (personal income aside) are missing out on around half of their tax free allowance.

SIPPs, meanwhile, are a flexible way to effectively manage your own pension fund. The related tax benefits for basic-rate taxpayers see your SIPP provider able to claim back 20% of your contributions from the government and add it to your pot – in effect £800 becomes £1,000, with the annual allowance being £40,000. Higher and additional-rate taxpayers can claim back a further 20% or 25% respectively. Yet, as with ISAs, much of the annual allowance goes unused.

On that note, and with the April tax year end looming, this month I have chosen three stocks which look like a good bet to tuck away for the long-term in your SIPP or ISA, with all having low valuations, good levels of dividends and a solid recent track record.

S&U

Small-cap stalwart **S&U (LON:SUS)** has seen its shares fall by around 25% since reaching an all-time high in May last year. Wider economic concerns have been the main driver of the fall. But with the business currently having record levels of customers, along with well-funded growth plans, I believe now is an opportune time to stick this stock in your long-term buy and hold portfolio.

The company is a specialist finance provider which has a history going back to 1938. Founded by Clifford Coombs (and still run by his descendant, the charismatic Anthony Coombs), S&U has delivered significant returns to shareholders during its history. On a capital basis, since bottoming out at 242.5p at the start of 2009, the shares are up by 750%. On the income side, from 1988 the dividend has been maintained or increased every year for 30 years. It was held flat during the financial crisis but has since resumed its annual rise every year since 2010.

Motoring on

In 2015, the business was fundamentally changed after the decision

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was made to sell home credit business Loansathome4u, for £82 million. Investors benefited from a special dividend of 125p per share from the sale, with management looking to deploy capital in faster growing areas.

Core to the business now is Grimsby based motor finance business Advantage. Founded by the group in 1999, the division, via a network of UK motor dealers, is a leading supplier of specialist finance facilities that help customers to buy new and used personal vehicles such as cars, vans, motorbikes and caravans. Advantage operates in the non-prime section of the market, with finance being provided to consumers via hire purchase contracts.

In the last financial year (to 31st January 2018), Advantage posted another record set of numbers, with new transactions up by 22% to 24,500 and live customer numbers up by 26% to 54,000. The loan book was up by 30% at £251.2 million, driving revenues up by 30% to £78.9 million and pre-tax profits up by 20% to £30.2 million. A record 860,000 applications were received by Advantage during the year but less than 3% were accepted, reflecting the firm's strict attitude to lending.

The second line to the business is Aspen Bridging, which was launched as a pilot in early 2017 and has since grown steadily in the property bridging loan market. These loans are typically higher cost, secured short-term loans, designed to help people complete the purchase of a property before selling their existing home. The average loan size is £380,000 over terms of up to 12 months for customers who are generally smaller refurbishers and developers. Here, S&U is looking to take advantage of a market which, according to research by industry player West One Loans, reached a high of £6 billion in annualised lending by the end of Q2 last year and is growing rapidly.

Steady & unmoved

After interims to July reported pre-tax profits up by 17% to £16.7 million, early December saw investors treated to a positive update covering trading since the half-year end. The headline news was that full-year results are expected to be broadly in line with expectations, despite the economic and political uncertainty being witnessed.

On the Motor Finance side of the business, while recent months have seen a slowdown in the wider UK motor industry, the impact on the used car finance market in which S&U operates has been less marked. New loan agreements in the year to date fell by 7% to 18,710, with tightened under-writing procedures and an increase in competitive pressure also being contributing factors to the slippage. These were still the second highest volumes in Advantage's history by a comfortable margin. The total customer base now stands at 59,000, with net receivables at £267 million, both figures being at record levels.

> **"THE SHARES ARE NOW LOOKING VERY CHEAP IN MY VIEW."**

Meanwhile, over at Aspen Bridging, good progress is being seen, with the loan book now reaching £18 million of net receivables after the business ended its 15 month pilot. This year the firm is looking to increase its total investment in Aspen to c.£30 million, with further funding dependent on Aspen's requirements and performance.

On the funding side it was noted that the firm has become more cash generative, with the current committed banking facilities of £135 million expected to provide "ample and sensible headroom" for planned growth.

Solid & undervalued

S&U is a sensibly run and conservative business but one which still has attractive growth prospects for investors. Following the recent price fall the shares are now looking very cheap in my view, trading on a multiple of just 9.9 times historic earnings. Assuming last year's dividend of 105p per share is maintained, then the yield is a very attractive 5.1%. Analysts at Edison have a £28 valuation on the shares, which implies 36% upside from here.

NORCROS

This next company also has an excellent track record as a public company, but only if you ignore the two years prior to 2009. **Norcros (LON:NXR)** is a UK and South Africa based supplier of high quality bathroom and kitchen products which listed in July 2007 at the equivalent of 780p per share (after considering a 10 for 1 in 2015). However, the shares sunk to 40p just before Christmas 2008 as the effects of the global recession took hold. But after posting a £10 million loss for the 2010 financial year, things have only got better, with the shares now changing hands for almost five times their nadir worth.

Miles and miles of kitchen tiles

Norcros's core market in the last financial year was the UK, with around two-thirds of revenues coming from the country. Here the company operates under seven brands including: Triton – the market leader in the manufacture and marketing of showers, Vado – A leading manufacturer and supplier of taps, mixer showers, bathroom accessories & valves, and Johnson Tiles – a leading manufacturer and supplier of ceramic tiles.

The UK business was significantly expanded in 2017 following the £60 million acquisition of Merlyn Industries, a designer and distributor of mid- to high-end branded shower enclosures. The deal added c.£31 million of annual revenues to the group as well as a number of well-established and market leading brands to the existing portfolio. Since the deal completed, Merlyn is said to be trading strongly and in line with expectations, with the business being fully integrated.

In South Africa, Norcros operates under three brands: Tile Africa – a chain of retail stores focused on ceramic & porcelain tiles and associated products such as sanitary ware, showers & adhesives; Johnson Tiles South Africa – a manufacturer of ceramic and porcelain tiles; and TAL – a manufacturer of ceramic and building adhesives.

Sinking no more

For 2018 Norcross demonstrated the progress made since the recession, reporting its ninth consecutive year of growth. Revenues for the year to March were up by 10.7% at £300.1 million, with underlying pre-tax profits rising by 14.8% to £26.3 million. Underlying net cash flow from operations was strong at £17.5 million, even after £2.5 million of pension contributions (see more below).

Interims to September showed further growth with sales up 12.1% at £162.6 million, underlying pre-tax profits up by 23.5% at £14.2 million, with the interim dividend hiked by 7.7% to 2.8p

per share. This was driven by organic revenue growth of 4.4%, along with the contribution from the acquired Merlyn business.

As a small caveat, there are two points to note about the Norcros balance sheet. First, net debt stood at £53.5 million as at the interim period end, up from £20.8 million 12 months earlier after the company took on more borrowings to finance the Merlyn deal. Second, the deficit relating to the firm's UK defined benefit pension scheme stood at £28.8 million as at the same date. However, this was down from £48 million as at 31st March, primarily due to a 0.3% increase in the discount rate (which lowers forecast liabilities). Notably, both interest payments and pension obligations are both well covered by underlying cash flow.

In mid-January, the group released a pleasing statement saying that it has continued to trade in line with expectations in both the UK and South Africa, despite a challenging environment, since the interims were announced in November. Alongside this Norcros revealed that it has agreed to buy South African firm House of Plumbing for up to £12.1 million, subject to regulatory approval. In the 2018 financial year the business made revenues of £22.1 million and a pre-tax profit of £1.9 million, with the deal expected to be earnings enhancing immediately.

Make some brass

Last year's market troubles have seen Norcros shares fall from a peak of 230p in June to the current 196.75p. That's despite all trading updates since then reporting that the numbers have been in line with expectations. As a result I believe that now looks like a good time to get on board.

On last year's underlying earnings, the shares currently trade on a multiple of just 6.7 times and yield a useful 4% – the intention is to continue a progressive yet prudent dividend policy. I'm not the only one who thinks the shares look cheap, with analysts at Canaccord Genuity having a 360p target.

"THE SHARES CURRENTLY TRADE ON A MULTIPLE OF JUST 6.7 TIMES AND YIELD A USEFUL 4%."

NORTHERN BEAR

For my final company we move down the market cap scale but up even further north than Grimsby. Based in the North-East of England, mainly around Newcastle and Gateshead, is **Northern Bear (LON:NTBR)**, the owner of eleven companies which provide a range of specialist building and related support services. These include roofing, solar panel installations, asbestos management and drone surveys. Clients include local authorities, housing associations, NHS trusts, universities, construction companies and national house builders.

Like Norcros, Northern Bear hit some trouble during the financial crisis but has since recovered and gone on to deliver excellent returns to shareholders. Prior to 2009, the firm had a rather aggressive buy-and-build growth strategy, acquiring 12 businesses within 16 months of joining AIM in December 2006. But this came to an abrupt end after the building sector experienced trading conditions which the then CEO called, "the worst experienced in recent memory". With profits falling and net debt having risen to over £10 million, the company began to focus on repairing the balance sheet by disposing of underperforming businesses, paying off debt and cancelling the dividend.

Fast forward to 2019 and the business is now making record profits, increasing the dividend, is pretty much debt free on a net basis and has even gone back on the acquisition trail. That progress has been reflected in the shares rising from their 2012 low of 8.25p to the current 75p – that's a gain of 809% over seven years.

Geordie jumpers

The 2018 results demonstrated the progress made over the years, with revenues from continuing operations up by 18% at £53.6 million and pre-tax profits up by 9% at £2.6 million. Net debt was £0.8 million at the period end, with management's confidence reflected in a 20% rise in the final dividend to 3p per share along with a 1p special dividend. These numbers contrasted markedly with 2010 when a £1.36 million loss was posted, net debt stood at c.£9 million and there was no dividend. Northern Bear also made its first acquisition in almost ten years during the period, buying interiors and fit-out business H Peel & Sons for up to £2.9 million.

More recent interims for the six months to September showed revenues up by a modest 5% at £28.6 million but net profits rose by a more pronounced 21% to £1.29 million as margins improved. The clear highlight of the period was a £1.95 million net cash inflow from operations, which management called "outstanding", leaving net debt at just £0.3 million.

On the outlook, management said that the company continues to hold a high level of committed orders, with trading in the second half of the year expected to be very good. It was also noted that acquisitions of established specialist building services businesses, with a consistent track record of profitability and cash generation, continue to be sought.

Angel of the North

Northern Bear currently has no forecasts on the market but the interim results and guidance suggest to that net profits of around £2.5 million (and earnings of c.13.5p per share) look likely for the full year to March 2019. At the current share price, this values the business on an earnings multiple of just 5.6 times. On the income side, the company has stated that it expects to continue with its policy of paying a final dividend only (no interim dividend). If, like the last financial year, the pay-out ratio is c.24% of earnings we are looking at a payment of around 3.25p per share, which equates to a yield of 4.3%.

While the price looks good there are a few minor issues investors should be aware of. Northern Bear is pretty quiet

on the stock exchange announcements front, typically only publishing its interim and full year accounts and a couple of trading updates every year. But if last year is anything to go by, we might see an update in early February, which could be a catalyst for a share price rise.

Also, it has been argued that the low valuation could tempt management to take the business private. But the company has traded at much lower earnings multiples in the past, so this is looking increasingly unlikely. We should remember that this is a cyclical stock, with the shares having fallen significantly following the economic crash of 2008/09. In addition, with a market cap of just £13.9 million the shares are relatively illiquid.

All things considered, I believe applying a valuation of 8 times expected 2019 earnings to the shares would not be an unreasonable way to set a target price. That would equal 108p, implying 44% upside.

About Richard

Richard Gill is an investment analyst with over a decade's experience of analysing small/mid cap equities. He is the Head of Research at Align Research. Richard qualified with the Chartered Financial Analyst (CFA) designation in 2012 and was awarded PLUS Markets Financial Writer of the Year at the 2008 PLUS Awards. He has been a judge at the Small Cap Awards from 2013 to 2017.

BY FILIPE R. COSTA

THE MACRO INVESTOR

SIPP DIY

HOW TO BUILD YOUR OWN PENSION SCHEME WITH ETFs

"Don't look for the needle in the haystack. Just buy the haystack!"

- John C. Bogle,
The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns

Do it yourself

Managing a portfolio of assets is a tough task that most savers avoid. They instead prefer to hand the task to a fund manager that can do it for them. The lack of enough market data, technical knowledge, scale, and of course time, all contribute to separate the act of saving from the act of investing. It is one thing to put money aside every month; it is another thing entirely to choose the best assets that money can buy.

But, with the proliferation of tools and information, today's investors have access to everything they need to assemble an inexpensive portfolio to help them pay for a comfortable retirement someday in the future. Unlike short-term speculation, which requires skill and *magic*, long-term investment may instead focus on mirroring the performance of the market, while keeping risk under control. Instead of actively managing a portfolio of assets in an attempt to beat the market, an investor may opt for a more passive index investment strategy that proxies the performance of an index.

In the era of zero interest rates and quantitative easing, investors have quickly rotated their investments from bonds to stocks. But pension funds are having a nightmare, as they're usually bound by a set of rules that prevent them from going *all-equity.* They have been carrying 'safe' bonds that hardly cover the cost of inflation. But savers willing to go the extra mile can now complement their conventional pension schemes with a self-invested personal pension (SIPP), which adds flexibility to the saving discipline.

What is a SIPP?

Unlike traditional pension schemes, a SIPP relies on your own investment decisions. While some providers may offer you advice or even allow you to select from pre-set portfolios, there's no one but yourself to blame if, in the end, something goes wrong with the investment. This means that a SIPP isn't for everyone and that it requires discipline, time commitment, and financial knowledge. At the same time, for less experienced investors, it can still complement another conventional pension plan. If all this is well understood, a SIPP is a great instrument through which to save money for retirement. Additionally, it allows savers to reduce

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> **“FOR THE SAKE OF BUILDING A SOUND BUT STILL MANAGEABLE SIPP PORTFOLIO, I BELIEVE THAT AN INDIVIDUAL INVESTOR SHOULD CONCENTRATE ON INDEX INVESTING, AS OPPOSED TO INVESTING IN INDIVIDUAL SHARES.”**

their tax burden, as it benefits from tax allowances.

There are two types of SIPPs. A low-cost SIPP can be implemented with just £5,000 and relies heavily on the saver. That means you will have to take most investment decisions by yourself. A full SIPP requires more funds, but usually comes with more options and advice from the provider.

In general, apart from being a pension scheme, a SIPP is like every other investment. There is a wide range of assets that can be purchased, which include unit trusts, open-ended investment companies, shares, ETFs, investment trusts, gilts, corporate bonds, money market funds and commercial property. For an individual investor managing his own funds, the offer may be overwhelming and make it difficult to decide. Because of this, and for the sake of building a sound but still manageable SIPP portfolio, I believe that an individual investor should concentrate on index investing, as opposed to investing in individual shares. For that goal, ETFs really do come in handy, especially at a time when there is an ETF for almost every theme and investment topic.

When building a portfolio, there are several options, including pre-built portfolios that some providers offer. But, as DIY investors, we'll be using something called layers, otherwise known as factors. For more information about factor investing, you may want to check out Master Investor Magazine December 2018 Issue 45 p. 22-29. The idea is to build a portfolio of equities based on factors instead of asset classes.

The key factors for an individual investor

Stocks have several hidden characteristics that explain their returns. Academics along with the investment industry have identified a few that seem to be common to all stocks. Some stocks have more exposure to a particular factor than others, but every factor helps explain the return of all stocks. The most common factor is the market. When we hear the word beta, it usually refers to a stock's exposure (or sensitivity) to the market. We can expand on the idea and think about betas for each factor. The most important factors are as follows:

Market

This is the key driver of stock returns. Stocks move together because they react to the market as a whole. The market captures key economic, political, and social events like interest rate hikes, government spending decisions, presidential elections, and legislation. As a reaction to market events, some stocks rise, others decline, some rise or fall more than others, but all are influenced by the market factor.

Value

The value factor captures the returns from assets that are priced below their fundamental value. Value stocks are usually out of favour and therefore exhibit low price ratios and other valuation metrics.

Size

The size factor refers to the returns in excess of market returns that tend to accrue over time to small capitalisations. The size factor helps to explain why a portfolio of smaller capitalisations may provide better returns over time when compared with the broad market.

Momentum

There is a positive feedback effect in the market that pushes higher what is already rising. This is known as momentum. The momentum factor helps to explain why stocks that have outperformed the market in the recent past tend to exhibit strong returns going forward.

Quality

The quality factor looks for companies that exhibit good fundamentals in the form of high return on equity, stable year-on-year earnings growth, a good and stable track record of dividend payment and low financial leverage. The quality factor helps to explain why companies with high quality may outperform other investments.

Volatility

Historically, it has been shown that stocks with low volatility have declined less than the broad market during downturns. Over long time-frames, which is usually the case with a pension scheme, the low volatility factor usually pays off well. In general, stocks with very high volatility offer higher returns but at the cost of more than proportional risk.

Other factors

The discussion around risk factors doesn't end here, but I believe the above six factors are more than enough to base a portfolio on. After identifying these, we want to find proxies for them, without using complex techniques. We want to build a DIY portfolio.

Box 1 – Key Characteristics of Exchange-Traded Funds (ETFs)

- Easy to trade – ETFs are bought and sold like any other shares.
- Liquid – Most ETF products are highly liquid.
- Cheap – ETFs provide access to a portfolio of assets as if it were just a single transaction. They don't incur stamp duty and they carry low expense ratios.
- Simple – With just one single trade, an investor can invest in a bond portfolio, a stock index, a portfolio of commodities, or even a factor.
- Scope – They provide exposure to most countries, regions, sectors, and asset classes.
- Diversification – A portfolio of just two or three different ETFs may be enough to provide the diversification required.
- No counterparty risk – ETFs usually trade close to NAV, as price reflects the value of the assets they hold (net asset value).
- Transparent – ETFs closely mirror the performance of the proxy they follow (with the inverse and leveraged ETFs being an exception).
- ISA and SIPP – Can be held within wrappers to shield them from income and capital gains tax.

Choosing the factor components for the SIPP

In order to build the portfolio, we need proxies for each factor. For this goal, we will use iShares ETFs provided by Blackrock. Investors have several other options available. We're just using these ETFs for simplicity reasons and because Blackrock provides a large range of products covering the factors we need.

To track the broad market:

- **iShares Core S&P Total U.S. Stock Market ETF (ITOT)**
- **iShares Core MSCI Total International Stock ETF (IXUS)**

The aim is to add to our portfolio a significant number of shares that could represent the global market. We want to cover equities around the world and

"WITH TWO SIMPLE OPERATIONS, WE COVERED MORE THAN 7,000 EQUITIES WORLDWIDE. MANAGING THESE EQUITIES COSTS BETWEEN £3 AND £10 PER £10,000 INVESTED PER YEAR. AN INVESTOR COULD NEVER GET SUCH A BROAD EXPOSURE SO CHEAPLY BY SELECTING INDIVIDUAL STOCKS."

in as much different sectors as possible. We want equities both from developed markets and emerging markets. The ITOT ETF covers more than 3,500 equities but it's confined to the US market. To extend our exposure internationally, we need the IXUS ETF.

With two simple operations, we covered more than 7,000 equities worldwide. Managing these equities costs between £3 and £10 per £10,000 invested per year. An investor could never get such a broad exposure so cheaply by selecting individual stocks.

To track the minimum volatility factor:

- **iShares Edge MSCI Min Vol Global ETF (ACWV)**

This ETF invests in developed and emerging markets across the globe (including the US) with a tilt towards less volatile stocks. Holdings include companies like McDonalds, Pepsico, and NTT Docomo. This ETF allows us to track the volatility factor, which gains relevance at a later stage of the expansion phase of the business cycle.

To track the value factor:

- **iShares Edge MSCI Intl Value Factor ETF (IVLU)**
- **iShares Edge MSCI USA Value Factor ETF (VLUE)**

The value factor tracks stocks with lower valuations based on their fundamentals. These stocks tend to outperform the market when investors turn more risk-averse and review their prospects. The unloved companies then turn more favourable, as they appear undervalued. In general, at the early stages of the recession phase of the business cycle, this factor becomes more interesting.

To track the momentum factor:

- **iShares Edge MSCI Intl Momentum Factor ETF (IMTM)**
- **iShares Edge MSCI USA Momentum Factor ETF (MTUM)**

The key goal here is to hold a selection of global stocks that are outperforming the market. The IMTM ETF invests in mid to large capitalisation international stocks that exhibit a higher momentum than the others. In particular, when the market is rising this factor is an excellent play. For investors trying to time the market, the exposure to this particular factor should be reduced towards the late phase of the business cycle and increased when the economy enters a solid expansion phase.

The MTUM ETF complements the momentum factor with US stocks, which aren't covered by the IMTM ETF.

To track the size factor:

- **iShares Edge MSCI Intl Size Factor ETF (ISZE)**
- **iShares Edge MSCI USA Size Factor ETF (SIZE)**

The size factor is aimed at covering the lower capitalisations. But due to liquidity limitations, ETFs can't invest in very small capitalisations. As can be read on the ISZE prospectus, the ETF provides "exposure to large- and mid-cap developed-market international stocks with a tilt towards the smaller, lower risk stocks". Thus, we're talking about a small tilt and not exactly a pure factor.

To cover both the US and international stocks, investors need the two ETFs above.

To track the quality factor:

- **iShares Edge MSCI Intl Quality Factor ETF (IQLT)**
- **iShares Edge MSCI USA Quality Factor ETF (QUAL)**

This factor tends to perform well near the late phase of the business cycle, when investors become more risk-averse. The two ETFs presented above complement each other because QUAL covers only US companies.

A few issues to consider

Building a portfolio using ETFs is easy, cheap and a modular task. In the particular case of factor investing, it allows an investor to easily increase or decrease exposure to the most prevalent factors at each point in time.

Still, and as mentioned in the Master Investor Magazine December 2018 Issue 45 p. 22-29, building factors through ETF investing has its own drawbacks. A company like Blackrock is too large to really build ETF factors that are completely tilted towards some factor. Think on the size factor for example. Blackrock is unable to invest millions in a very small capitalisation stock.

Another problem with ETFs is that companies like Blackrock don't like to diverge by too much from the market. That would be risky in terms of their own reputation. They prefer to start with the broad market, and to then tilt the holdings towards some investment theme.

The above points are irrelevant for diversification purposes but are important in terms of pure factor exposure. In theory, each factor should be independent from all others, because each factor is an independent source of variation for returns. In practice, it means the correlation between factors should be low at most. But, if we look at the correlation between factors, we see that, if we mix them together, we may end up with a portfolio of assets that is not as independent as predicted in theory. Let's start by looking at the factors for the US market in table 1.

Table 1 – Correlation Matrix US

Correlation matrix

	ITOT_Market_US	MTUM_Momentum_US	QUAL_Quality_US	SIZE_Size_US	VLUE_Value_US	ACWV_Volatility_Global
ITOT_Market_US	1.0	0.9	1.0	0.7	0.9	0.9
MTUM_Momentum_US	0.9	1.0	0.9	0.7	0.8	0.8
QUAL_Quality_US	1.0	0.9	1.0	0.7	0.9	0.9
SIZE_Size_US	0.7	0.7	0.7	1.0	0.8	0.7
VLUE_Value_US	0.9	0.8	0.9	0.8	1.0	0.8
ACWV_Volatility_Global	0.9	0.8	0.9	0.7	0.8	1.0

Table 2 – Correlation Matrix International

Correlation matrix

	IXUS_Market_Intl	IMTM_Momentum_Intl	IQLT_Quality_Intl	ISZE_Size_Intl	IVLU_Value_intl	ACWV_Volatility_Global
IXUS_Market_Intl	1.0	0.6	0.6	0.1	0.6	0.8
IMTM_Momentum_Intl	0.6	1.0	0.4	0.2	0.4	0.5
IQLT_Quality_Intl	0.6	0.4	1.0	0.2	0.4	0.5
ISZE_Size_Intl	0.1	0.2	0.2	1.0	0.1	0.2
IVLU_Value_intl	0.6	0.4	0.4	0.1	1.0	0.4
ACWV_Volatility_Global	0.8	0.5	0.5	0.2	0.4	1.0

The correlation between the factors is high in almost every case. An investor choosing only ETFs for the US market will not get much of a boost above the broad market.

But, interestingly, when we compare the correlations among international factors, the scenario changes drastically.

The correlation between the factors is now low, as it should always be.

Building the SIPP

It's time to add the above ETFs to the SIPP portfolio. There are several different ways of optimising the weights each ETF should carry, including the traditional mean-variance technique that is part of almost every textbook about portfolio management.

But, because each of our ETFs is already well diversified and because many of our readers aren't portfolio managers, we're opting for a simple technique that makes it not only possible for anyone to decide on weights but also to change the portfolio composition from time to time.

In order to build a global pension portfolio, we're going to go through four steps:

Firstly, there are two dimensions to consider. We have six factors and two regions. Let's start with something like an equal weighting. We attribute one point to each factor, for a total of six points. Each factor should then represent one sixth of the total portfolio. The same reasoning applies to regions. We start by attributing one point for each region, so that each represents one half of the portfolio.

Secondly, we adjust weightings. The US region is certainly smaller than the rest of the world. Let's adjust for this by increasing points on the international region, giving it three in total, instead of one. The resulting new proportions are now one fourth for the US and three fourths for the rest of the world. Regarding factors, we want to give more weight to the prevailing factors. As we are currently in a very late stage of the expansion phase of the business cycle, at a point that investors are revising projections downwards, we identify quality, value and volatility as prevailing factors for the upcoming months. In accordance with such a reading, let's attribute one extra point to each of these factors. After this adjustment, the factors market, momentum and size will get a share of one ninth while volatility, value and quality will get a share of two ninths in the final portfolio (see table 3).

Table 3 – Portfolio Weights

Factor	Points	Weight (%)
Market	1	11.11%
Volatility	**2**	22.22%
Value	**2**	22.22%
Momentum	1	11.11%
Size	1	11.11%
Quality	**2**	22.22%
	9	100.00%

Region	Points	Weight (%)
US	1	25.00%
Intl	3	75.00%
	4	100.00%

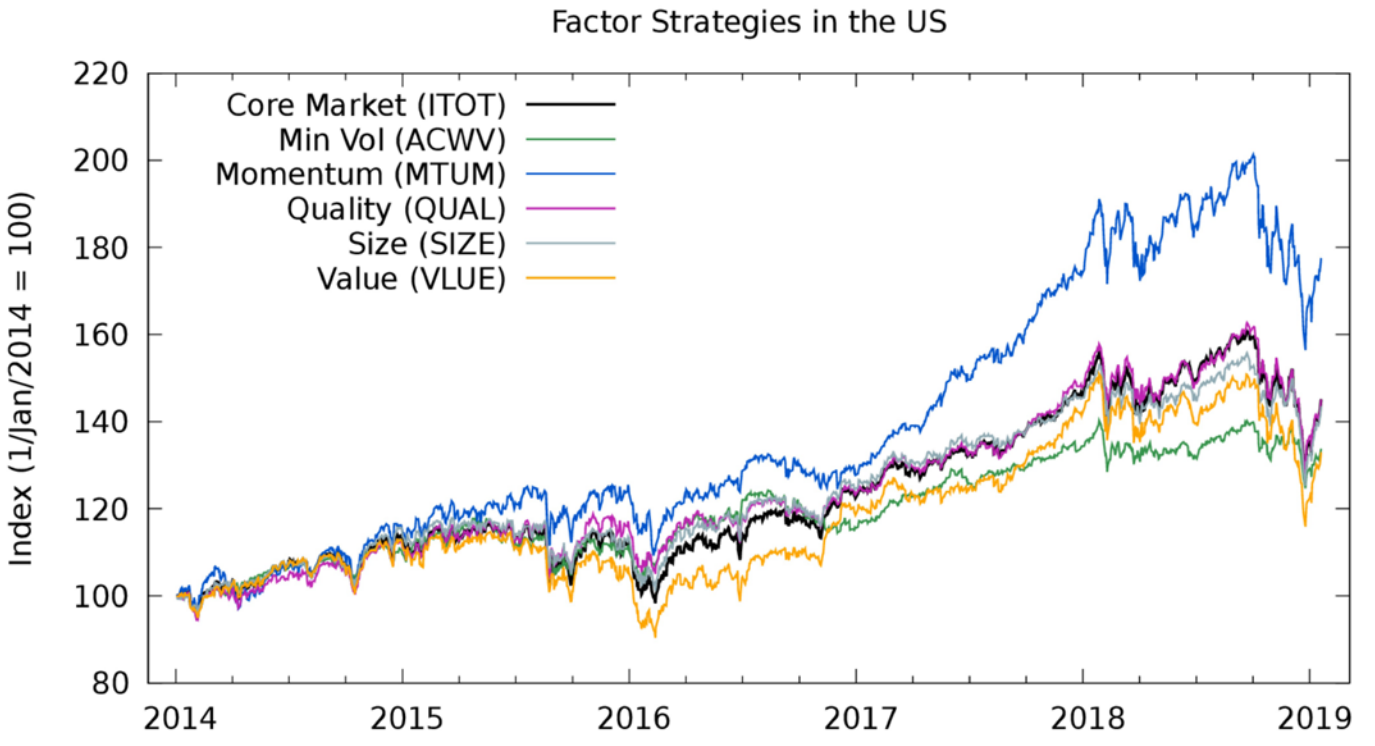
Thirdly, we set everything together and build the final SIPP portfolio. The market factor gets a share of 11.11%. Because we have two ETFs representing the market (one for the US and the other international), and considering the proportions previously determined, the ITOT ETF will enter with a proportion of 2.78% and the IXUS ETF with a proportion of 8.33%. The volatility factor gets a weight of 22.22%. As the ACWV ETF represents global volatility, we don't need to split this weight among US and international ETFs here. The rest of the portfolio is built in a similar fashion. The final portfolio holdings are shown in table 4.

Fourthly, we add more funds and rebalance from time to time. As savers put aside more money every month, new money would have to be invested. Buying 11 different ETFs each month may be difficult, in particular if the amount available to invest is relatively small. A solution for this is to use the money to buy only ETFs in the prevailing factors. Additionally, the business cycle changes and then the portfolio weights need to be rebalanced. A solution is to check the prevailing factors every three or four months. If the economy changes dramatically, then we rebalance the factors, re-attributing points in the way described above and buying and selling accordingly. If not, we may keep everything as it is.

An additional note must be made about bonds. Many of the readers

Table 4 – SIPP Portfolio (Factor Investing)

Ticker	ETF	Weight (%)
ITOT	iShares Core S&P Total U.S. Stock Market	2.78%
IXUS	iShares Core MSCI Total International Stock	8.33%
ACWV	iShares Edge MSCI Min Vol Global	22.22%
IVLU	iShares Edge MSCI Intl Value Factor	16.67%
VLUE	iShares Edge MSCI USA Value Factor	5.56%
IMTM	iShares Edge MSCI Intl Momentum Factor	8.33%
MTUM	iShares Edge MSCI USA Momentum Factor	2.78%
ISZE	iShares Edge MSCI Intl Size Factor	8.33%
SIZE	iShares Edge MSCI USA Size Factor	2.78%
IQLT	iShares Edge MSCI Intl Quality Factor	16.67%
QUAL	iShares Edge MSCI USA Quality Factor	5.56%
		100.00%



may be thinking about the lack of fixed income in the above portfolio. But it is relatively easy to add a bond layer to the analysis. The decision on the exact proportion between stocks and bonds may be taken independently of the equity analysis. For an investor with £100,000 and willing to build a 70-30 stock/bond portfolio, the above analysis applies on £70,000. The remaining funds should target bonds. There are ETF options for this too. One simple option would be to buy a global government bond fund like the **iShares International Treasury Bond ETF (IGOV)** and a global corporate bond ETF like the **iShares Core International Aggregate Bond ETF (IAGG).**

Final comments

Factor strategies are particularly well suited to a pension scheme because these strategies need time to perform well and pension schemes usually last for decades. Research shows that following a multi-factor strategy is better than investing in the broad market alone, but there can be periods of severe underperformance because factors are highly correlated with the business cycle. From the perspective of a pension fund lasting decades, these periods of underperformance aren't overly problematic. Still, investors may use a points system like the one presented to increase/decrease exposure to certain factors from time to time.

"RESEARCH SHOWS THAT FOLLOWING A MULTI-FACTOR STRATEGY IS BETTER THAN INVESTING IN THE BROAD MARKET ALONE."

About Filipe

Filipe has been a contributor to Master Investor since the earliest years. His specialisation is monetary policy, macro issues and behavioural finance where he allies the practical experience of several years of trading with academic credentials. Filipe in fact teaches courses on Financial Markets and Monetary Economics at the University of Oporto Faculty of Economics, helping traders maximise profits and better manage risk.

BY JAMES FAULKNER

SHARPE MINDS

NULLIUS IN VERBA

AN INTERVIEW WITH ALAN STEEL OF ALAN STEEL ASSET MANAGEMENT

As one of the UK's best-loved Independent Financial Advisers (IFA), Alan Steel knows a thing or two about managing money. As you'd expect of a Scotsman, he's also famously outspoken and is not one to pull any punches. Our Editor, James Faulkner, caught up with him to talk pensions, ISAs and all things investment.

James Faulkner: As the owner-manager of a successful IFA firm, you have a finger on the financial pulse of the nation. Are Brits getting better or worse at managing their money?

Alan Steel: *I started giving independent financial advice in January 1973, so I've seen a lot of change over the last 46 years – in terms of financial products, tax laws, levels and exemptions, inflation rates, interest rates, pension laws, regulatory regimes, economics, and asset investments. But one thing remains ever constant. The vast majority of adults in the UK continue to be confused when it comes to money matters, continue to make big financial mistakes, allow their emotions to get in the way, and far too few reach their later years in a state of comfortable financial independence.*

I recall a survey around 1976 which established that only 4% of retirees reckoned they'd done the best they could in terms of planning for retirement. And only the other day another such survey came to the same conclusion. Only 1 in 25! Forty-two years later – no progress. Shocking.

JF: You rose to fame when you successfully identified the Equitable Life scandal. Since then, we've had George Osborne's "Pensions Freedom" reforms, which have led some to fall prey to some unscrupulous outfits that persuade them to transfer their pensions into some very questionable schemes. Are there any other disasters out there waiting to happen?

AS: *This allowed them to mis-sell for years, with an obsession on creating new business at any cost. After we disclosed the truth in April 1997, the only parties to pay attention were Equitable Life and their lawyers. Having managed to shut us up with bully-boy threats, they continued to mis-sell for another three years, destroying the retirement plans of thousands, most of whom have not been recompensed by successive governments and regulators.*

There's an old Latin warning – caveat emptor *– which relates to buying financial products and which translates as*

"IT'S PLAIN TO SEE THAT TOO MANY ADVISERS SEE THE CHANCE TO POCKET EXTRA CHARGES FOR DOING NOTHING."

"buyer beware". Sadly, right now there's never been a better time to pay heed to that advice.

A lot of column inches are taken up with "pension scammers" and "questionable investments" (like parking spaces in the Sahara, or apartments in far flung islands). But what's much worse is the fact that the bulk of the billions of pounds flowing out of cautiously managed final salary pension schemes have been directed by regulated advisers into funds run by legitimate long-established UK financial institutions, on the back of reports to the investors that often are misleading regarding risks on investment returns and longevity issues.

With ridiculous up-front charges and a continuing 1% annual charge to the advisers – on top of other management and admin fees – and the members possibly taking out income that is unstainable over the long haul, all it needs is for a couple of years of falling stock markets together with rising interest rates to decimate these defined benefit transfer values. When this happens I shudder to think of the compensation levels sought, and the impact it will have on the industry. It will be the worst financial scandal by far.

That aside, I'm also concerned that those investors rushing headlong into UK Index trackers because they're cheap will also find themselves cheated. Apart from the fact that the FTSE 100, or FTSE All Share has been a poor place to be these last 20 years, it's plain to see that too many advisers see the chance to pocket extra charges for doing nothing. For example, by sticking client money into "cheap trackers" then adding on platform costs of say 0.35% and a windfall for themselves in the form of a 1% annual "management" fee on top. What's being managed exactly? I'd reckon the proverbial will eventually hit the fan. And it won't be nice.

"I SHUDDER TO THINK OF THE COMPENSATION LEVELS SOUGHT, AND THE IMPACT IT WILL HAVE ON THE INDUSTRY. IT WILL BE THE WORST FINANCIAL SCANDAL BY FAR."

JF: Despite the downside of "Pensions Freedom", I presume you're in favour of the greater flexibility when it comes to pensions? Are there any particular characteristics of the new system that our readers might not be aware of and might be able to benefit from?

AS: *We have always said – and still believe – that there should have been a guaranteed level of pension income required for every investor, before any balance of fund could go into "flexible drawdown". Then there would have been a protection against what's going on.*

We are only in favour of flexible drawdown for those investors approaching retirement who either are experienced investors or who have substantial other savings (usually the same people). This whole area is so complex that those contemplating heading into Freedom, or Freedoom, *as we prefer to call it, should sit down with advisers who really do understand what's what and who do care about their reputation.*

It is not a binary choice. There are ways you can mix and match to protect against risks and minimise taxes. There are dangers in old type plans, not to mention little-known methods of minimising taxes at 75. Complex issues like these don't fit with much-publicised Freedoms.

JF: With the end of the tax year almost upon us, where should our priorities lie when topping up our ISAs and pensions? Obviously, a lot of this depends on someone's own individual circumstances, but are there any rules of thumb we can apply when prioritising our investments into the two big tax wrappers?

AS: *In 1957 Professor C N Parkinson published* The Parkinson Laws. *In it he said that the UK tax system was designed to tax income when we're living and capital when we die. And, therefore, he reckoned the role of a tax planner was to show you how to reverse them – i.e. create only capital when you're alive and leave only income when you die. If you do, you won't pay tax! Magic.*

However, if you think about it, HMRC would much prefer that you earn as much taxable income as possible in order that they can tax as much as possible at

the top rate of income tax, with the hope that you also invest in assets (property/ shares etc.) so as to be liable to inheritance tax (IHT) as well.

Despite the bad press, and attempts by successive chancellors of the exchequer supported by HMRC, pension plans make a great deal of sense in amassing wealth and avoiding tax. You get a mark-up in year one, thanks to HMRC, of up to almost 82%, the total is invested in a tax wrapper completely free of CGT, reinvested income avoids high rates of income tax, a quarter can be paid out tax free when you approach retirement years, and significant freedoms from IHT are available on death. What's not to like? Charges? They are no different than those applying to ISAs, investment and unit trusts etc.

ISAs of course don't attract tax relief, but they avoid CGT too, and are very useful in providing an income free of personal tax. Pension plans and ISAs make a great partnership for savers with patience wishing to create tax effective levels of income in their later years. Those lucky enough to have surplus funds available may wish also to benefit from the significant annual CGT tax exemptions using portfolios of shares, or mutual funds like investment/unit trusts.

As to which funds to use, that depends on what age you are and what risks you're prepared to take. Again, this is an area where it's best to work with professionals who have your best interests at heart, but I'd say the most underrated equity-type investments that help round out peaks and troughs of stock-market cycles are "equity income funds". A selection of the best performers over the last 10 to 20 years are likely to continue to excel.

JF: **What are the biggest mistakes people make when planning for their financial future? And how can they avoid them?**

AS: *They listen too much to the doomsayers in the media. Bad news sells. And with the internet and 24-hour news vying for our attention, you can be assured that bad news has increased umpteen-fold.*

Secondly there's the problem of a lack of perspective that's common. Plenty of time "to worry about that". I call it Broccoli and Chocolate. We all know brocolli's better for us but, hey, chocolate's much more fun. Plenty of time. Except there isn't. The earlier you learn to defer instant gratification the better. Compound interest, said Albert Einstein, is the greatest discovery of mankind.

And the easiest way to understand why is to learn the Rule of 72. So you have surplus money in deposit, and your return is 0.5% after tax. Divide that into 72 and you get 144. That's 144 years to double your money, ignoring inflation. Aargghh!

"PENSION PLANS MAKE A GREAT DEAL OF SENSE IN AMASSING WEALTH AND AVOIDING TAX."

Find out how to earn, say, 8% with no tax, and you're doubling your savings every nine years. Achieve that return inside a pension plan with additional tax relief mark-up and it's faster still. Be prepared to take risk over longer periods, adding in reinvested income, or backing small cap funds, and the doubling will happen faster still.

The hardest thing of all is not to get emotionally involved. Our brains were designed thousands of years ago to cope with the dangers of life then. We have a panic button which springs to life at perceived danger. When stock markets fall or recessions are predicted, we panic-sell. In our office we have a simple message on the wall in our client rooms. It says "Greed/Buy, Fear/Sell, Repeat Until Broke". For those who recognise these words, please go and find a trusted adviser to stand between you and your emotions.

JF: **My generation are notoriously unprepared when it comes to catering for their retirement and general financial well-being. What needs to change in order to make millennials take better care of their finances?**

AS: *I've lost count of the number of times I've seen this said. Let me assure you that having been involved in independent financial advice since January 1973 and having advised thousands of folks from those my own age, to their mums and dads and grandparents, it's always been the same. Thanks to the lack of perspective, or Broccoli and Chocolate – call it human nature – the tendency is for us to say we want to retire at 50 or 55. But we wake up to the enormity of the goal too late, usually around our early 40s.*

So the answer is simple. Go and sit down with an experienced and recommended IFA, who will help you set your financial goals, and show you how to achieve them, revisiting your plans every year, kicking ass along the way.

JF: **But it's not just the millennials that are unprepared. According to PensionBee, the average pension pot in the UK is just £21,441. That's not going to go very far at all in retirement. Will auto-enrolment make a difference to Britain's pension crisis, or are many of us simply doomed to work longer and retire on worse terms than previous generations?**

AS: *Auto-enrolment has to make a difference, but it won't bridge the gap. Interestingly if £21,441 is the average private pension pot today with that generation having lived through the best 50 odd*

"I HAVE NO DOUBT THAT THOSE INVESTORS WHO EMBRACE RISK WILL BE THE ONES IN FUTURE WHO ENJOY A FRUITFUL RETIREMENT."

years in financial history, it's hard to imagine it can get worse for your generation.

There is a choice. Go on moaning about how bad things are, go on spending on stuff you could do without, go on preferring chocolate, and any money left just stick in deposit because you believe the Bah Humbugs. Or be determined to be different.

There are two distinct periods in your adult life: one where you are in production, creating income; and the second where you stop creating income from work and you're in consumption mode. The quality of your life in the latter part will depend entirely on the decisions you made in the first phase. Simple.

JF: At Alan Steel Asset Management (ASAM) you try to identify secular trends and then put your clients in funds where you believe the manager has an edge. Which trends do you think will shape the world in 2019 and beyond, and can you point our readers towards any funds that you believe might be worth a look?

AS: *If I've learned anything over my 46 years as an IFA and the previous four or so spent failing in my attempt to be an actuary, it's that no matter what "problems" and "bearish predictions" are around, it's not a good idea to bet against the ability of the human race to find answers and create real progress. George Bernard Shaw said something similar.*

We will always have cycles, business cycles, stock market cycles, interest rate cycles etc. But life will go on.

Despite Trump and Brexit, to name but two "worries", I have no doubt that those investors who embrace risk will be the ones in future who enjoy a fruitful retirement. With the incredible rate of progress in tackling health issues as folks live longer, I'd say healthcare is a sector well worth following. Elsewhere, despite the China tariff worries, it seems to me that businesses selling goods and services to greater Asia will outperform. Meanwhile, for those with patience and prepared to disconnect their cerebral panic buttons, smaller company funds, both here and overseas, are oversold right now, yet over most rolling 10-year periods they outperform their bigger cousins. I'd back that sector to do well.

And finally, be aware that when we do have another recession/bear market, each one in history has been a time of opportunity, not a time to run to "safety" screaming. Next time will be no different, despite what the doomsayers say.

JF: Isn't one of the biggest problems with pensions (and ISAs?) that they're vulnerable to meddling from the government. Wouldn't a Corbyn government be likely to tax ISAs and slash pensions tax relief? In which case all bets are off?

AS: *They said this before Blair came to power. And you couldn't have had a more incompetent government than those in the early 1970s when inflation got to 26% per annum, income taxes to 98%, Estate Duty rates to 75%. Savers were crushed by taxes and the government had to go cap in hand to the IMF. If we can survive that we can survive anything. There's no point in not taking advantage of current opportunities just in case somebody in future is a baddie.*

JF: As you say, too many people are distracted by the "noise" that's created by the mainstream media, which focuses almost exclusively on the risks and threats to your prosperity. Given that we're exposed to constant bombardment from social media and 24-hour news, how can investors chart a course over the long term without getting distracted by Brexit or Trump's trade war or whatever else is in store for us further down the line?

AS: *Stop reading "shock horror" headlines in newspapers or websites that are only interested in catching your eye. Don't watch Bad News at Ten. And apply* nullius in verba *– take nobody's word for it!*

There are funds out there that don't settle for average but which spend enormous time and resource finding excellent global or smaller companies worth investing in. Businesses who thrive whatever the political landscape. Investment Trusts and some Unit Trust (OIEC) managers have been proven over time to succeed with this approach. I highly recommend their process and contrarian stance. It's low-taxed Broccoli. And good for your wealth.

About James

Our Editorial Director, James Faulkner, began investing in the stock market in his early teens. With over a decade of experience covering the stock market under his belt, he has also been a judge at the Small Cap Awards, and is an Associate of the Chartered Institute for Securities & Investment.

BY DAVID JONES

CHART NAVIGATOR

USING CHARTS TO SIGNAL WHEN TO SELL

Most articles on investing or trading tend to focus on where to get in. This can take various guises – whether it is how to spot value, a trend reversal or a market breaking out to new highs. Of course, this is important – but ultimately what decides on the size of your profit or loss is where you get out. It is very easy to become almost wedded to our investment decisions if they continue to move in our favour. But usually no share moves in the same direction forever, so the prudent investor has a strategy for getting out when things change.

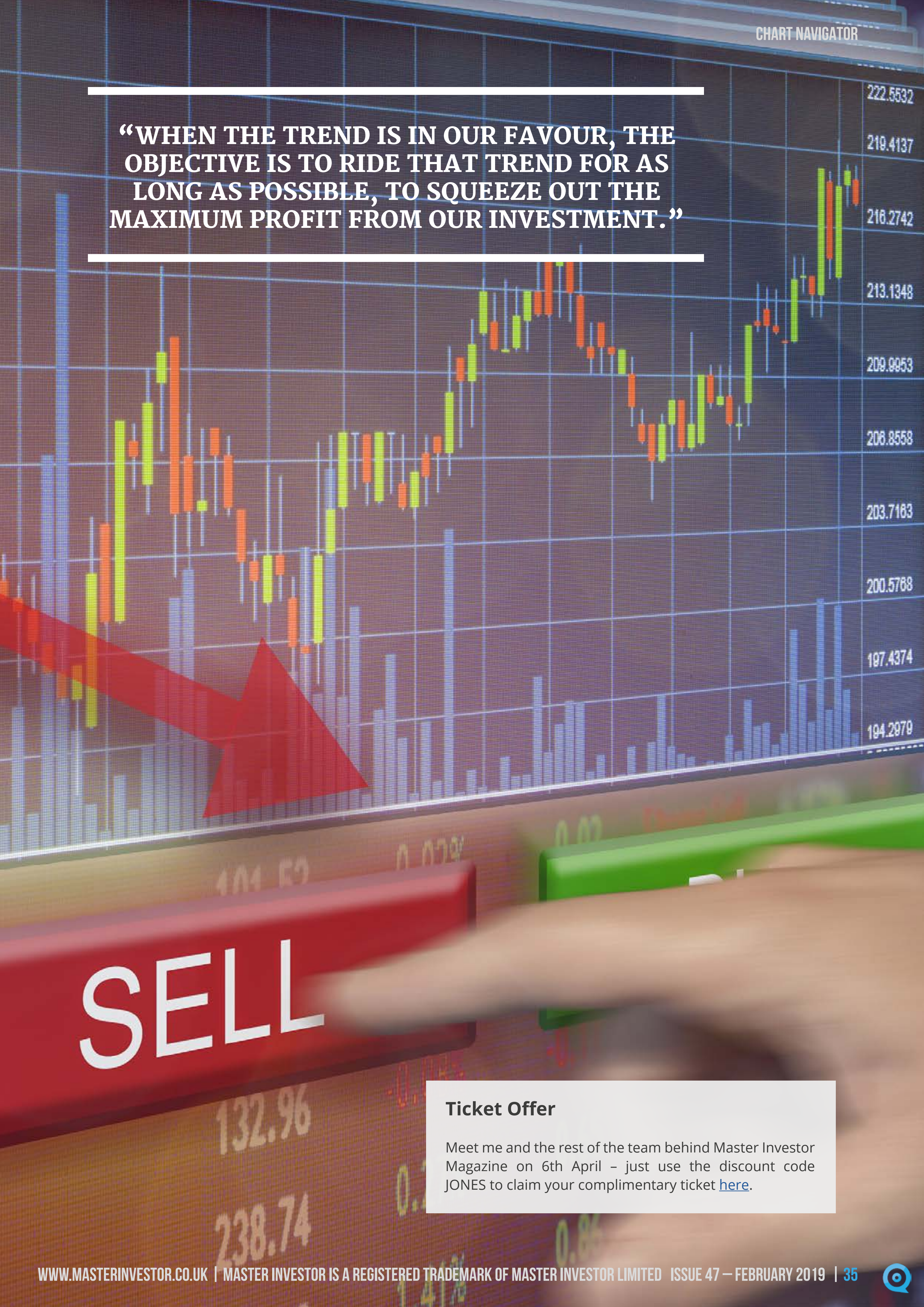
Given the slides seen in stock markets since last summer, we could be set for quite a volatile 2019, where plenty of previous star performers continue to struggle. So this month I thought it would be interesting to look at a few chart and technical analysis-based signals that could suggest it is time to cash in our chips.

The change in trend

If we have bought into a share and it is showing a profit, then we must clearly be the right side of the trend. If we are buying low in the hope of selling higher, then the trend has to go up for us to show a profit. Trends can carry on for many years. Just look at the broad stock market trends at the moment. US indices hit fresh all-time highs in 2018 – and this was a trend that started at the end of the financial crisis in 2009. When the trend is in our favour, the objective is to ride that trend for as long as possible, to squeeze out the maximum profit from our investment.

But trends do change – market sentiment shifts, and we need to be aware of that when it comes to our own portfolio. The easiest way of tracking this is by using a trend line. Let's take a look at one of my personal favourite examples of a long-term trend in a share price.

> **"WHEN THE TREND IS IN OUR FAVOUR, THE OBJECTIVE IS TO RIDE THAT TREND FOR AS LONG AS POSSIBLE, TO SQUEEZE OUT THE MAXIMUM PROFIT FROM OUR INVESTMENT."**



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British American Tobacco Chart: 2003 – 2009

The right-hand side of the chart is the summer of 2009. The share price had already risen from the 700p area in 2004 but that trend was still up leaving **British American Tobacco (LON:BATS)** trading at 1,700p five years later. From a simple trend following point of view, the assumption was that the trend would continue – until it did not any more. It always seems obvious to say something like that – but it's the truth. Trends can run much further and much longer than we expect them to. An investor in British American Tobacco in 2009 would feel comfortable about hanging onto the shares, as there was nothing to suggest that the trend had changed. But as previously mentioned things do change – and good investments fall out of favour. Let's bring the chart up to date.

Eventually the British American Tobacco share price hit an all-time high of 5,600p in June 2017. That longer-term trend was still valid – but from 2009 the price accelerated, so that is why I have drawn a sharper-angled trend line on the chart. That shorter-term trend line was broken in March 2018 as the share fell back to the 4,000p mark. The trend line from 2003 eventually broke at 3,000p in November 2018. Either way, longer term sentiment had clearly shifted against BATS.

Now, personally, if a share I was holding had hit 5,600p, I would not be too happy to wait and watch it fall all the way back to 3,000p before deciding to get out. That's where I think the sharper trend line comes into play here. I would have wanted to be out a long time before that 15-year trend line broke, otherwise I am just giving up far too much profit, assuming I have held for many years. The trend line approach is not perfect (what is?) but it is worth paying attention to when it comes to aiding the decision about whether it is time to cash in our profits.

> **"A PRICE MOVE BELOW A MOVING AVERAGE CAN SUGGEST THAT SENTIMENT IS CHANGING."**

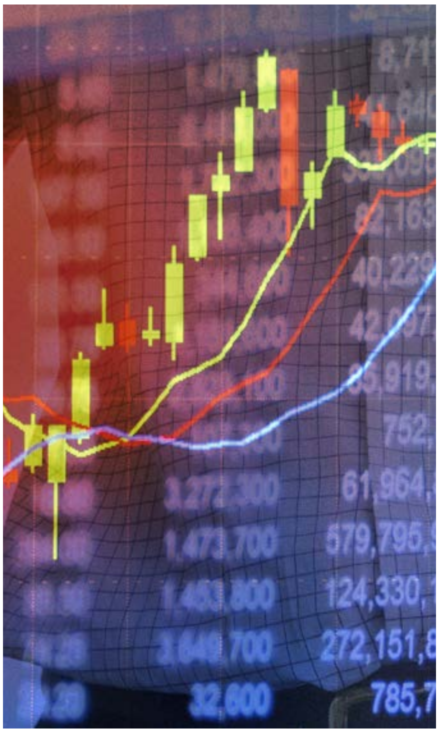
A more objective approach: the moving average

I have titled this a "more objective" approach – but that doesn't necessarily mean it is better. It's a variation of the trend line tactic – but again, a price move below a moving average can suggest that sentiment is changing.

A moving average is a really simple calculation. For example, a 200-day moving average simply totals up the last 200 days' closing prices, divides by 200 and comes up with an average value. This is repeated every day and the line gets plotted on the chart. A rising moving average means that the average price is obviously increasing; the market is in an uptrend. Many will use a fall below the moving average as a sign that trend is changing.

Popular moving averages in the stock market are 200-day and 50-day. Once again there is no perfect answer here as to which is the "correct" value to

British American Tobacco Chart: 2003 – 2019



US S&P500 index: 2009 – 2019

use. A shorter moving average like a 50-day will get you out of a falling share quicker – but will be more susceptible to false signals with market volatility. A 200-day moving average will keep you in for the long haul – but will get you out later when a trend finally changes. Let's take a look at an example.

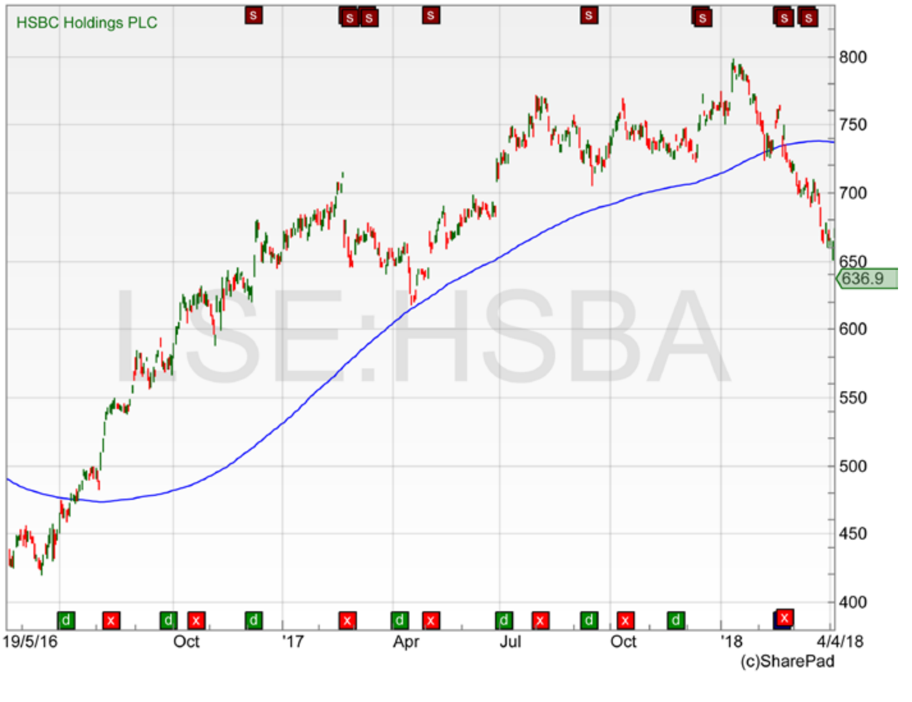
Assuming our investor bought into the shares around the 400p mark in the summer of 2016, the **HSBC (LON:HSBA)** share price did not fall below the 200-day moving average, the blue line on the chart, until February 2018 when its share price was around 720p.

None of these approaches are perfect – but investors should have a strategy for getting out when sentiment changes. Profits built up over years - but not yet realised - can disappear very quickly if a share falls out of favour.

To wrap up this section, let's take a look at the broader US stock market index, the S&P500, with a trend line and 200-day moving average applied.

I think this is a really interesting longer-term view. It starts off from the low set at the bottom of the financial crisis bear market (666 for conspiracy theory fans....). It can be seen that even though US stocks had a torrid time towards the end of 2018, the sell-off did not take out that longer-term trend line. The moving average *had* been broken a few times – but the move below in October last year was the first time the index had broken the 200-day moving average since the summer of 2016. That big trend is still up – but if we saw US indices move below last year's low it does start to look as if the ten-year trend is finally in trouble. I think we have some interesting months ahead for stock markets.

HSBC May 2016 – April 2018 with 200-day moving average



"THAT BIG TREND IS STILL UP – BUT IF WE SAW US INDICES MOVE BELOW LAST YEAR'S LOW IT DOES START TO LOOK AS IF THE TEN-YEAR TREND IS FINALLY IN TROUBLE."

Chart of the month

Given that this month is all about trends and moving averages, I thought it would make sense to find a share in the FTSE350 that is still positive based on both of these approaches.

A G Barr

Investors in **A G Barr (LON:BAG)** have been impressively immune to the market volatility that the rest of us have experienced in recent months. Since the beginning of 2017, its share price is up by more than 50%. It ended last year at an all-time high and for now at least the recent trend looks to be intact.

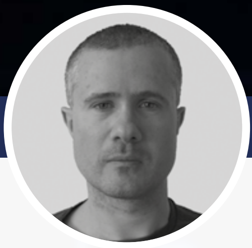
The performance of the soft drinks brand behind Irn-Bru is interesting for a couple of reasons. As mentioned, it has done an admiral job of sidestepping the volatility. But it is also above the 200-day moving average and the trend line – and at the moment these are coming in at a fairly tight zone on the share price chart. At the beginning of 2019 the trend line was sitting right on the 700p level and the 200-day moving average is at 725p. So a longer-term investor in the company has an obvious area to watch if sentiment changes. If the price slid below 700p then both the moving average and the trend line would be broken and sentiment could well be on the turn. It will be an interesting share to watch in 2019 to see if it can continue to defy the broader market worries.

AG Barr September 2016 to 2019

Tana888 / Shutterstock.com

About David

David Jones qualified as a technical analyst in 1995 and started his City career as a currency analyst. He then went on to work for trading companies CMC Markets and IG Group as Chief Market Strategist. Since leaving the industry in 2013 he has been a presenter on BBC Radio 5 Live's Wake up to Money programme and the Chartist for Shares magazine. He is an active trader and private investor.



BY ANDREW LATTO

FUNDS & TRUSTS IN FOCUS

GLOBAL FUNDS FOR 2019

Political and economic uncertainty continues to grip the United Kingdom. One way to set these worries aside is to invest in global funds, with fund manager Simon Edelsten having described global equities as "the safest place to be". Global investing also provides access to the widest possible range of opportunities.

In making the case for global investing, fund manager Simon Edelsten has stated that:

> *"You can pick the best stocks in the world, and because you have a huge pool of opportunity you should be able to set your hurdle very high in terms of the growth, or balance of growth against caution that you want."*

A fund with a global investment mandate can invest in world-class companies like LVMH, Alphabet, Apple, Facebook and Amadeus IT Group. A fund that can only invest in UK listed companies will be constrained by what is available in the UK.

This may result in compromises. Paris-listed LVMH, for example, may be a better bet in the luxury goods sector than Burberry. Madrid-listed Inditex (owner of Zara) may be a better bet in the retail sector than Next or Marks & Spencer.

Global funds in the UK

Some of the best performing funds available to UK investors have global investment mandates. Examples include **Fundsmith Equity Fund, Lindsell Train Global** and **Scottish Mortgage Investment Trust (LON:SMT).**

"SOME OF THE BEST PERFORMING FUNDS AVAILABLE TO UK INVESTORS HAVE GLOBAL INVESTMENT MANDATES."

The oldest surviving UK collective vehicle, **F&C Investment Trust (LON:FCIT)**, started life just over 150 years ago in March 1868. The fund initially invested in emerging market government bonds.

The largest positions in F&C Investment Trust today are Amazon, Microsoft, UnitedHealth and Anthem. There must be something to investing globally if F&C Investment Trust is still going strong after 150 years.

Risk

A common argument against global investing is that it involves greater risk. This is due to currency volatility and a lack of familiarity with foreign companies. If we live in the UK the

"THE CASE FOR GLOBAL INVESTING IS PARTICULARLY STRONG GIVEN THE RELATIVELY LOW QUALITY OF THE UK EQUITY MARKET."

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Meet me and the rest of the team behind Master Investor Magazine on 6th April – just use the discount code LATTO to claim your complimentary ticket here.

"A LOGICAL APPROACH IS FOR PASSIVE INVESTMENT VEHICLES TO BE THE DEFAULT INVESTMENT OPTION. HIGHER COST ACTIVE FUNDS ARE ONLY WORTHWHILE IF THEY HAVE A GOOD CHANCE OF OUTPERFORMING THE ALTERNATIVE PASSIVE FUND."

logic is that we should only invest in UK companies.

However, investing overseas reduces risk by lowering our exposure to a single country. If the UK economy and the stock market tank it will result in a double-whammy for a UK-based investor.

F&C Investment Trust spread its country-specific risk when it started in 1868 by investing in a range of countries. Only Spanish government bonds defaulted while the rest of the portfolio performed well.

To quote the great investor Sir John Templeton: *"In my 45-year career as an investment counsellor, humility did show me the need for worldwide diversification to reduce risk."*

Home country bias

If global investing makes sense, the obvious question is why don't more of us do it? Buying overseas shares directly is expensive. Foreign exchange costs start at around 1% and dividends can be subject to a withholding tax.

Investment funds offer an inexpensive and efficient way to buy into global markets. Exchange Traded Funds that invest in the S&P 500, for example, have ongoing charges that start at only 0.07%.

A risk factor that can deter investors is the potential for foreign currencies to decline in value. While this can have an impact, it is also the case that UK companies are increasingly impacted by exchange rate changes.

A lack of familiarity is also put forward as a reason to avoid investing in companies listed overseas. The reality is that we are often more familiar with foreign companies like Apple and Amazon than with UK listed companies.

To quote the founder of Fundsmith, Terry Smith: *"Why anyone would want to limit their investment choices to the UK economy is beyond my comprehension, even if they are UK domiciled."*

Three global fund mandates

In a Financial Times article, Terry Smith put forward three global mandates: large cap, small cap and emerging markets. This was based on a 2010 paper by MSCI called "The 'new classic' equity allocation".

Small companies and emerging market stocks have investment liquidity constraints. They are also buffeted by macro and individual stock risk to a greater extent than large companies.

A good starting point when investing globally is therefore funds that invest in developed-world large-cap (i.e. blue chip) stocks. These include established companies that have leading positions in their sectors.

Three fund categories

We can also put investment funds into three main categories: 1) passive funds; 2) open-end active funds; 3) closed-end active funds. Open-end funds include unit trusts and OEICs while closed-end funds include Investment Trusts.

A logical approach is for passive investment vehicles to be the default investment option. Higher cost active funds are only worthwhile if they have a good chance of outperforming the alternative passive fund.

Developed-world large-cap passive funds

iShares MSCI World ETF (SWDA) is a passive fund investing in large cap developed market companies. The ongoing charge is 0.2% and its status as an accumulation fund means that dividends are reinvested.

The biggest exposure in the ETF is the USA at 61% of assets, Japan is 8.6% of assets and the UK is 6% of assets. The largest sector exposure is to banks at 11.8% of assets while drug manufacturers are 9.9% of assets.

With 61% of the MSCI World ETF in US equities, an alternative is to invest directly in a US passive fund. **iShares S&P 500 ETF (CSP1)** invests in the 500 largest US companies and has an ongoing charge of 0.07%.

Technology is the largest sector with software and Internet companies accounting for 18% of total assets. The largest US companies are multinationals and include Microsoft, Apple, Amazon, Facebook, Alphabet and Johnson & Johnson.

Developed-world large-cap active funds

There are two high profile active open-end funds that invest on a global basis: Fundsmith Equity Fund and Lindsell Train Global Equity Fund. They both seek to build a concentrated portfolio of high-quality companies.

The mantra of quality investors is to look for businesses they can own forever. These tend to be companies with sustainable competitive positions and stable demand. Portfolio turnover and trading costs tend to be very low.

Fundsmith Equity Fund was launched on 1 November 2010 and currently has £16 billion under management. The institutional fund class, accessible through platforms, has a 0.95% ongoing charge and the fund currently has 28 holdings.

Lindsell Train Global Fund launched in March 2011 and currently has £5 billion under management. The B Class of the fund has an ongoing charge of 0.72% and currently has 29 holdings.

Turning to closed-end funds and **Scottish Mortgage IT (LON:SMT)** is the UK's largest investment trust with a market value of £7 billion. While the fund is dominated by its largest holdings, it owns stakes in 97 different companies.

Scottish Mortgage has done well by making successful investments in the global technology sector. At the end of 2018 Amazon was 9.3% of the fund, Tesla was 7% and Chinese Internet stocks were 15.2% of assets.

Seven and five-year performance (sterling terms)

The iShares MSCI World ETF (SWDA) has delivered a total return of 127% over the last seven years. However, the iShares S&P 500 ETF (CSP1) is up 175% over seven years with this highlighting the outperformance of US equities.

The Fundsmith Equity Fund has delivered a 230% return over seven years while Lindsell Train Global is up 239%. Investing in quality companies has proven its worth despite overall markets performing well.

Quality focused funds tend to prove their worth when equity markets experience weakness. The outperformance of Fundsmith Equity Fund and Lindsell Train Global during a bull market is therefore impressive.

"THE FUNDSMITH EQUITY FUND HAS DELIVERED A 230% RETURN OVER SEVEN YEARS WHILE LINDSELL TRAIN GLOBAL IS UP 239%."

Fund total return to 18th January 2019

	iShares World ETF (SWDA)	Fundsmith Equity Fund	Lindsell Train Global	Scottish Mortgage IT
AUM	£12 billion	£16 billion	£5 billion	£7 billion
Charge	0.2%	0.95%	0.72%	0.37%
Total return				
7 Yrs	127%	230%	239%	291%
5 Yrs	71%	137%	134%	133%

Source: SharePad

Scottish Mortgage Investment Trust (SMT) has beaten all of its rivals with a 291% total return over 7 years. The investment trust is, however, behind both Fundsmith Equity Fund and Lindsell Train Global over the last five years.

Scottish Mortgage Investment Trust has done well on the back of its exposure to technology companies. Whether the performance is sustainable is open to question given the relatively high valuation multiples of Amazon and Tesla.

How does the UK equity market stack up?

The UK FTSE All-Share TR (Total Return) index has clocked up a gain of 67% over the last seven years. This compares to a 127% increase for the iShares MSCI World ETF (SWDA).

Whether global markets will continue to outperform the UK equity market is the million-dollar question. The UK equity market is also heavily skewed towards low return mature sectors such as banking, mining, oil & gas and real estate.

By contrast the US equity market, the main driver of global equities, is heavily skewed towards high return sectors with solid growth prospects. This makes it likely that global markets will outperform the UK market over the long term.

Active funds that invest in global markets are therefore likely to outperform

FUND OF THE MONTH: LINDSELL TRAIN GLOBAL EQUITY FUND

Lindsell Train Global Equity Fund's objective is to "achieve capital and income growth over the long term." The fund focuses on "those businesses with truly sustainable models and/or established resonant brands."

This means investing in companies "demonstrating long-term durability in cash and profit generation." The approach is to build a concentrated portfolio of global equities that are listed in developed countries.

At the end of 2018, 34.6% of the assets under management were in US stocks, 33.6% was in UK stocks and 20.6% was in Japanese stocks. The consumer staples sector was the largest exposure at 44.9% of total assets.

The three largest holdings at the end of 2018 were Unilever, Diageo and Heineken. The Japanese listed personal care and cosmetics groups Kao Corp and Shiseido are also top ten holdings in the fund.

The Communication Services sector was 21.8% of assets at the end of 2018 and Information Technology was 10.6% of assets. Financials accounted for 9.7% of assets with positions including PayPal and the London Stock Exchange.

Lindsell Train Global Equity appears to get less attention than the **Fundsmith Equity Fund** and the **Scottish Mortgage Investment Trust.** The other funds have no exposure to Japan and are not as heavily exposed to consumer staples.

Lindsell Train Global Equity has occasionally made a number of conviction driven bottom-up stock calls. World Wrestling Entertainment is a good example with the share price up over 300% since the start of 2017.

Fundsmith, by contrast, seeks to invest in companies that "have already won." Most Lindsell Train Global holdings are established businesses and include Walt Disney, PepsiCo, Mondelez, Intuit, EBay, Dr Pepper Snapple and Brown-Forman.

Fund Facts

Name:	Lindsell Train Global Equity (SEDOL: B3NS4D2)
Type:	Open End Investment Company (OEIC)
IA Sector:	Global
Total Assets:	£5.2 billion
Launch Date:	March 2011
Current Yield:	0.702%
Ongoing Charges:	0.72% (B Class)
Website:	www.lindselltrain.com

Lindsell Train's best ideas

In my view, the Lindsell Train Global Equity Fund can also be thought of as a "best ideas" fund for the Lindsell Train group. The fund appears to borrow the best ideas from the Japanese and UK funds that fund manager also runs.

If this is the case, we would expect the global fund to outperform the other funds run by Lindsell Train. Over a seven-year period Lindsell Train Global has delivered a 239% total return.

This compares to a 221% return on the Japanese Fund (in yen terms) and a 158% return for the UK open-end fund. The Finsbury Growth & Income Trust (run by Lindsell Train) has achieved a 155% return over seven years.

The Lindsell Train's Global Fund leads the pack

	Lindsell Train Global	Lindsell Train Japan	Lindsell Train UK Equity	Finsbury Income & Growth
7 year total return	239%	221%	158%	155%

Lindsell Train Global Fund has therefore outperformed the other three funds run by the group. This supports the argument that global funds deliver stronger results over the long term.

There is, however, one Lindsell Train fund that has beaten the rest: The Lindsell Train Investment Trust. However, this is because 46% of the value of the investment trust is accounted for by its shareholding in Lindsell Train Limited.

active funds that invest in UK listed companies. UK mid and small-cap stocks are a possible exception if there are enough opportunities for stock pickers.

Return on equity

Financial ratios support the argument that global markets will outperform the UK All-Share TR index. Return on equity (ROE) is a key driver of returns with it representing the after-tax return earned on shareholder capital.

A high ROE can indicate potential to invest in growth while a low ROE makes reinvestment less worthwhile. The below data is from Vanguard and shows the ROE on the FTSE 100 at 10.9% versus 13.9% for the Developed World ETF.

This is clearly in large part to the high ROE on US stocks with the S&P 500 ROE at 16.3%. The figures are even starker given that the ROE for the UK is boosted by the financial leverage in the UK's relatively large banking sector.

In the latest investor letter from Terry Smith, covering 2018, he states that: *"The S&P 500...includes more quality companies than any other index."*

	FTSE 100 ETF	FTSE Developed World ETF	S&P 500 ETF
Return on equity	10.9%	13.9%	16.3%

Source: Vanguard data

Summary

The oldest UK collective fund, F&C Investment Trust (FCIT), started by investing globally and is still going strong. The case for global investing is particularly strong given the relatively low quality of the UK equity market.

International investing can be daunting but it is easy to achieve through investment funds. Funds offer instant diversification and ETFs trade on stock exchanges alongside stocks.

Two passive fund options are iShares World ETF (SWDA) and the iShares S&P 500 ETF (CSP1). Picking a country fund may not appear to be consistent with global investing but US companies are increasingly global in nature.

The Scottish Mortgage Investment Trust has performed well over the last seven years. With this in large part due to a sector bet on technology, it is not clear if the recent performance is sustainable.

Funds that focus on quality companies may be better placed to hold their own as the US equity bull market starts to wane. Lindsell Train Global Equity and Fundsmith Equity Fund are two possible options.

About Andrew

Andrew Latto, CFA is an independent analyst who writes for Cube.investments. He recently founded www.FundHunter.co, which is set to launch soon. Fundhunter uses asset allocation (where is best to invest) and fund selection (active and passive). Andrew previously worked for an investment manager and a research company.

BY JOHN KINGHAM

DIVIDEND HUNTER

N BROWN

DISSECTING A DIVIDEND CUTTER

During 2018, my investment portfolio suffered more dividend cuts than I would have liked. As an occasional high yield investor I realise that dividend cuts come with the territory, but seeing three out of thirty holdings cut their dividend was more than a little annoying. To reduce the odds of seeing future dividend cuts, I have been looking at some alternative measures of quality and value. I'd like to outline some of my early thoughts here, using N Brown (LON:BWNG) (which I own and which announced a 50% dividend cut in its recent interim results) as a case study.

The review will be based around a handful of Buffett-like questions which cover some key aspects of dividend investing:

1) Does the company have a simple and understandable business model?

N Brown is a clothing retailer focused on niche markets (size 20+ and age 50+) which are not well-served by high street stores. It has long had a home shopping business model, where customers can order clothing from home (using paper catalogues in the good old days, but more commonly using the company's websites today). Customers can also pay in instalments and return goods easily.

The company makes a profit from a mixture of margin on the clothes it sells and from interest charged on the monthly payment plans that many customers use.

This is not a terribly complicated business, so yes, I think N Brown does have a reasonably simple and understandable business model.

2) Does the company have a successful operating history?

There are lots of different factors that make a company 'successful' and I don't have the space here to cover all the ones I look at, so I'll focus on earnings growth, dividend cover and profitability.

When I bought N Brown in 2014, I measured its growth by looking at the growth of its revenues, normalised earnings and dividends. I used normalised earnings (which are cal-

> **"NORMALISED EARNINGS OFTEN PROVIDE AN OVERLY ROSY AND POTENTIALLY MISLEADING PICTURE."**

culated by various data providers such as Morningstar or SharePad) because they strip out one-off or 'exceptional' income or expense items in an attempt to show the 'underlying' earnings of the company's core business. In theory that makes sense, but over the years I've found that normalised earnings are often consistently higher than reported earnings and free cash flows (i.e. spare cash generated by a company).

In N Brown's case, its normalised earnings have declined very slightly from a peak of around 28p per share in 2011-2013 to around 23p per share over the last couple of years. Over ten years, its normalised earnings have only declined from 24p to 23p; not exactly a great result, but hardly an obvious sign of an impending dividend cut.

However, the picture given by reported earnings is entirely different, with a far more dramatic decline from around 24p a decade ago to just 4.4p in 2018. And it wasn't as if 2018 was a one-off bad year. N Browns' *reported* earnings have declined at a steadily increasing pace every year since 2012. This is a much clearer sign of a company in serious trouble.

Turning to dividend cover, the company's normalised earnings covered the dividend comfortably in every one of the last ten years, making the dividend appear safe. But reported earnings barely covered the dividend in 2017 and were significantly below the dividend in 2018. So again, reported earnings were giving a clear 'red flag' about the dividend's safety at least a year or two ahead of the cut.

In term of free cash flows per share, the picture is even worse, with average free cash flows of barely more than 3p per year over the last few years compared to an average dividend of 14p, and negative free cash flows in 2016 and 2018. In other words, the company hadn't generated enough free cash to pay the dividend for several years and the difference was being made up with additional debt.

So why were normalised earnings so bad at conveying the company's decline over the last few years? The answer is that they excluded 'exceptional' costs which were deemed to be unrelated to the company's core business. These excluded expenses included store closures, reorganisation costs, legal and professional fees relating to an ongoing VAT case with HMRC, as well as expenses relating to mis-sold PPI and other insurance products.

While it may be helpful to exclude these items in order to gain a better view of a company's core business (selling clothing in this case), I now think completely ignoring these 'exceptional' expenses is a mistake.

That's why one of my strategy updates will be to shift my attention away from normalised earnings per share and towards reported earnings and free cash flows, both of which I think are more useful measures of dividend safety.

Switching from normalised earnings to reported earnings also impacts my view of N Brown's profitability, which is another key measure of corporate success.

Historically, I've measured profitability by looking at a company's ten-year average net return on capital employed (net ROCE). Net ROCE shows the returns generated by a company relative to the amount of money (capital) raised from shareholders and debt holders (net ROCE is calculated as net profits divided by the sum of shareholder equity and total borrowings).

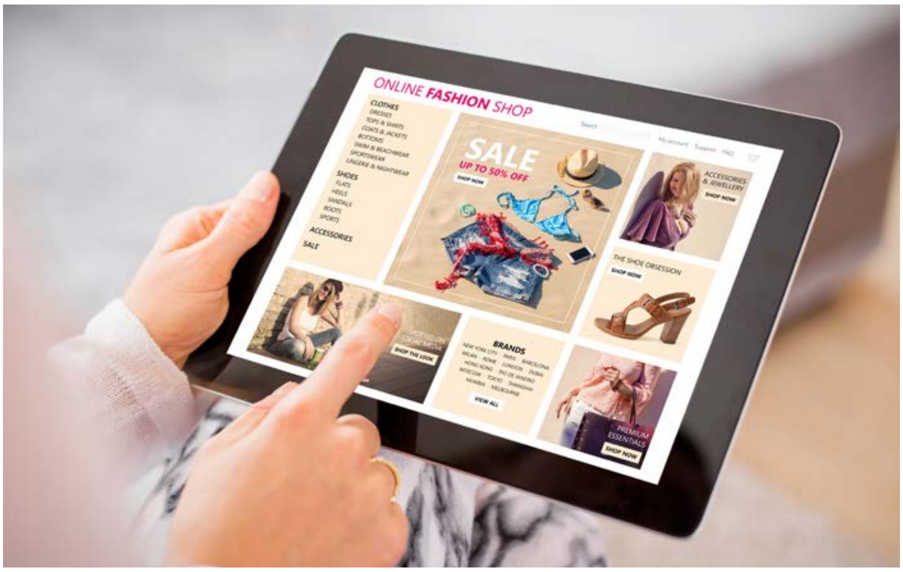
When averaged over ten years, N Brown's net ROCE is 9.6%. That's slightly below the 10% average for dividend-paying UK-listed companies on my stock screen.

However, that 9.6% is what N Brown produced in terms of normalised earnings and, as I now realise, normalised earnings often provide an overly rosy and potentially misleading picture. Switching to reported net returns on capital employed sees N Brown's average return decline to 8.4%, which is comfortably below the 10% average for UK-listed dividend payers. So in terms of returns on capital raised from shareholders and debtholders, N Brown has been decidedly below average.

This is relevant to the dividend because companies that cannot produce competitive rates of return on capital are unlikely to have any sort of durable competitive advantage (or economic moat), and as such they are potential fodder for stronger competitors.

With hindsight, I think I should also have been looking at return on sales (i.e. profit margins) as well as return on capital. The reason is that companies with thin profit margins are sensitive to downward pressure on sales prices from customers, or upward pressure on input prices from suppliers. With thin profit margins, there is no margin of safety to soak up increasing expense costs or declining sales prices. This makes thin profit margin companies potentially volatile and fragile, neither of which is good if you're after reliable dividends.

Turning back to N Brown, its ten-year average normalised net return on sales (net margin) is 8.7% while its reported net margin is just 7.6%. There are companies out there with much thinner profit margins (supermarkets and energy suppliers are two that spring to mind), but most successful clothing re-



> **"ITS TRADITIONAL BUSINESS IS A DEAD MAN WALKING AND THE RAPID DECLINE OF THAT BUSINESS IS THE MAIN REASON FOR THE COMPANY'S RECENT STRUGGLES."**

tailers (such as Next or Burberry, both of which I own) have double digit profit margins as well as double digit returns on capital.

So did N Brown have a successful operating history? I would say no. I'd say it was a mediocre one at best – and in more recent years, even that may be too kind.

3) Does the company have a consistent operating history?

By consistent I mean did the company produce its track record of growth and profitability (neither of which, in this case, is particularly impressive) by applying essentially the same business model? This is relevant to the dividend because companies that must change direction or transform themselves are much more likely to cut their dividend due to falling profits and/or internal demands for cash that outweigh the external demand for dividends.

Here's a quick summary of what N Brown has been up to these past ten years or so:

Historically, N Brown was a catalogue home shopping business. Its customers would sign-up and then receive a new catalogue every three or six months or so. They would browse through the catalogue from the comfort of their home and then order (say) a shirt or three, perhaps in a couple of different colours and sizes. Having done that, they could then try on the clothing when it arrived, choose the item they preferred, return the rest and then pay for the chosen shirt on a monthly basis, rather than up front.

For N Brown's core market of size 20+ and age 50+ customers, this was an excellent proposition. It meant they didn't have to trudge around high street stores where most clothes are for young skinny people. And it meant they could try on lots of different clothes in the comfort of their own home without having to pay for any of them in advance, and then only pay monthly on the items they eventually chose.

In the pre-internet era, this business model was very successful, and I can remember ordering many things from the somewhat similar Littlewoods catalogue in the 1980s. But somewhere in the mid-1990s this business model started to look obsolete.

Where once the idea of shopping for clothing from home was a niche activity, it became ubiquitous thanks to the Web. And the idea of buying lots of items, returning whatever you don't want and paying for the rest on a monthly basis is also now ubiquitous, thanks to credit cards and local parcel pickup and collect services.

Put simply, N Brown is a classic buggy whip manufacturer. Its traditional business is a dead man walking and the rapid decline of that business is the main reason for the company's recent struggles.

For many years now, N Brown has been working through an extensive transformation project. This project is, unsurprisingly, intended to move the company away from its historic catalogue business and towards being an online-first business where, unfortunately, most of N Brown's legacy brands have no competitive advantages whatsoever.

So no, I don't think N Brown has a consistent operating history. Instead, its recent history is one of transformation from a once successful but now obsolete business model to a new business model with low barriers to entry and fierce competition. This need to transform its business model is the main reason why the company has now cut its dividend.

4) Does the business have favourable long-term prospects?

As you might have guessed from my answer to the previous question, N Brown's traditional business does not have favourable long-term prospects. In fact, I would be surprised if its catalogue business even exists ten years from now.

But that doesn't mean N Brown's future is entirely bleak. The company has one saving grace, which is its 'power brands' portfolio. These are Simply Be, JD Williams and Jacamo, and between them these three brands have continued to grow while the rest of the company's brands have declined.

With these three brands now generating almost 60% of the company's product revenues (up from about 50% in 2015) the company has now finally, and very sensibly, decided to stop propping-up its offline catalogue business and focus almost entirely on its online-first power brands.

Another positive is the fact that N Brown has closed all its (relatively few) high street stores, which puts it one step ahead of many other clothing retailers which are struggling with too many physical outlets in an age of mobile internet shopping and same day delivery.

"THE COMPANY HAS ONE SAVING GRACE, WHICH IS ITS 'POWER BRANDS' PORTFOLIO."

Overall then, I'll go out on a limb and say that N Brown's power brands do have the potential for favourable long-term prospects, but it has a very difficult five or so years ahead as it winds down its legacy business.

5) Was the business available at an attractive price?

I bought N Brown in 2014 for 347p per share and with a dividend yield of 4.2%. That's a decent dividend yield, but following the recent dividend cut the shares have fallen to just 89p; so no, with hindsight I don't think I paid an attractive price.

Other than N Brown's declining reported earnings and relatively weak profitability, I think my biggest error was not being sufficiently wary about the company's ongoing transformation. As Buffett has said, turnarounds seldom turn, and it's much easier to make money when companies don't have to solve massively difficult business problems, such as transforming from an offline catalogue business to an online-first retailer.

So what about today's price of 89p? This price is incredibly low relative to the company's historic earnings and dividend payments, and it only makes sense if you think very bad things are about to happen.

That could mean the suspension of the dividend, as and when the new CEO arrives (the old CEO departed during 2018); or it could be a rights issue to pay down the company's debts, which have ballooned to almost half a billion pounds in recent years; or it could mean a split of the company's clothing and finance businesses in order to satisfy HMRC's recent demand that N Brown pay more VAT (due to the different VAT rates applied to clothing and financial products). Or it could be all of those and more.

My hunch is that the current price is extremely low, but with so much uncertainty and difficulty ahead, this isn't a company I would want to invest in today.

Reported earnings, net margins, transformations and debt

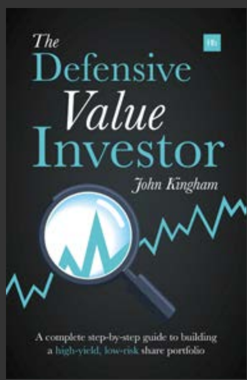
In summary then, N Brown has taught me to focus on reported rather than normalised or adjusted earnings; to measure return on sales (profit margins) as well as return on capital; to avoid companies going through life-or-death transformations; and to be wary of companies where debts are ballooning to dangerous levels.

About John

John Kingham is the managing editor of UK Value Investor, the investment newsletter for defensive value investors which he began publishing in 2011. With a professional background in insurance software analysis, John's approach to high yield, low risk investing is based on the Benjamin Graham tradition of being systematic and fact-based, rather than speculative.

John is also the author of *The Defensive Value Investor: A Complete Step-By-Step Guide to Building a High Yield, Low Risk Share Portfolio*.

His website can be found at: www.ukvalueinvestor.com.



BY DAVID JONES

FORENSIC FOREX

WHY THE POUND COULD BE THE SURPRISE WINNER IN 2019

As 2019 gets underway, the thoughts of investors and politicians have once again turned to what Brexit could mean for the UK economy. In the two and a half years since the referendum to leave the EU was held, it does feel as if an awful lot of time has been wasted. Parliamentary activity around Brexit in January 2019 has the feel of a school kid who has been procrastinating on getting that end of term project started – only to realise that the deadline is hurtling ever closer at break-neck pace.

It seems futile to spend anytime commenting on the political situation surrounding Brexit – given the disarray in Parliament, any cogent opinion could well be out of date before we get to the end of the paragraph. Instead, let's focus on the important stuff – how is the pound doing?

Why Isn't the pound in freefall?

The casual observer could be forgiven for thinking that these must be dire times for the UK economy – and more precisely, the country's currency. Nobody liked the Brexit proposal; Prime Minister Theresa May suffered a record defeat; no party seems to have a solution that is going to win widespread acceptance amongst the population. So surely the pound must be getting clobbered? Not so.

The pound/US dollar rate (GBP/USD) is admittedly hardly setting the world on fire – but it is not plunging either. Towards the end of January, it was trading at the same level - 1.2900 - where it had been at the end of August 2018. Indeed, after a wobble at the start of the year, January saw GBP/USD hit is best levels for a couple of months – and all of this despite the ongoing pantomime in the House of Commons.

On the face of it this really does not make much sense. The UK looks set to leave the European Union with no deal in place. What does this mean for the economy after 29th March?

GBP/USD 6 Month Chart

"AT THE MOMENT, ANYTHING BUT A NO-DEAL BREXIT WOULD ARGUABLY BE VIEWED AS A BETTER OPTION BY FINANCIAL MARKETS."

Ticket Offer

Meet me and the rest of the team behind Master Investor Magazine on 6th April – just use the discount code JONES to claim your complimentary ticket here.

EUR/ GBP 6 Month Chart

> **"FOR NOW, AT LEAST, THE MOMENTUM REMAINS BEHIND THE POUND."**

No one is really too sure, and depending on who you ask you will get a range of answers. So we appear to have uncertainty – and we all know that is one thing that financial markets are not a fan of.

The uncertainty is the one certainty

"The uncertainty is the one certainty" is admittedly something of a convoluted line, and perhaps more suited to a self-improvement book. But the one thing that financial markets *do* know from all of the information that is out there at the moment, is that the absolute worst-case scenario is known and that is a "No-Deal" Brexit. I think this known fact is helping to put a floor underneath the financial market's pessimism for the pound's fortunes.

The vote to leave the EU was always going to hit the pound. The night before the referendum, GBP/USD was trading at 1.5000, so it came into this year already 13% lower than back then. Don't forget that markets are always forward looking and there is always the consideration that the bad news has been "discounted" into the price. I think this is what we could be seeing with the pound's relatively strong start to this year.

At the moment, anything but a no-deal Brexit would arguably be viewed as a better option by financial markets. Extend Article 50? Great – more time to try and sort things out. A second referendum? Wonderful – another delay. And perhaps the financial markets' nirvana of Brexit not happening – that would put a rocket under the pound!

We can't rule out an unforeseen shock rocking markets ahead of the end of March deadline, but given what we currently know, and how markets are taking it in their stride, the line of least resistance for GBP/USD could well remain up.

But isn't it different when it comes to the euro?

If we take the US dollar out of the equation, does the outlook look negative for the pound? The euro/pound (EUR/GBP) exchange rate is the logical next market to examine.

The past 12 months have been choppy but ultimately directionless for the pound versus its nearest financial neighbour. EUR/GBP has oscillated between 0.91 at the top end and 0.86 as a base. Clearly, one of the explanations for the lack of direction from either side is that Brexit does not just affect the UK economy. The continental European economy is also gripped by this uncertainty. And, of course, European countries have problems of their own – just in January we learnt that Germany, traditionally seen as the industrial powerhouse of Europe, saw its economy grow at its slowest rate since 2013. There is a real risk that some of these European countries will slip into recession this year, and the Brexit uncertainty is not doing them any favours.

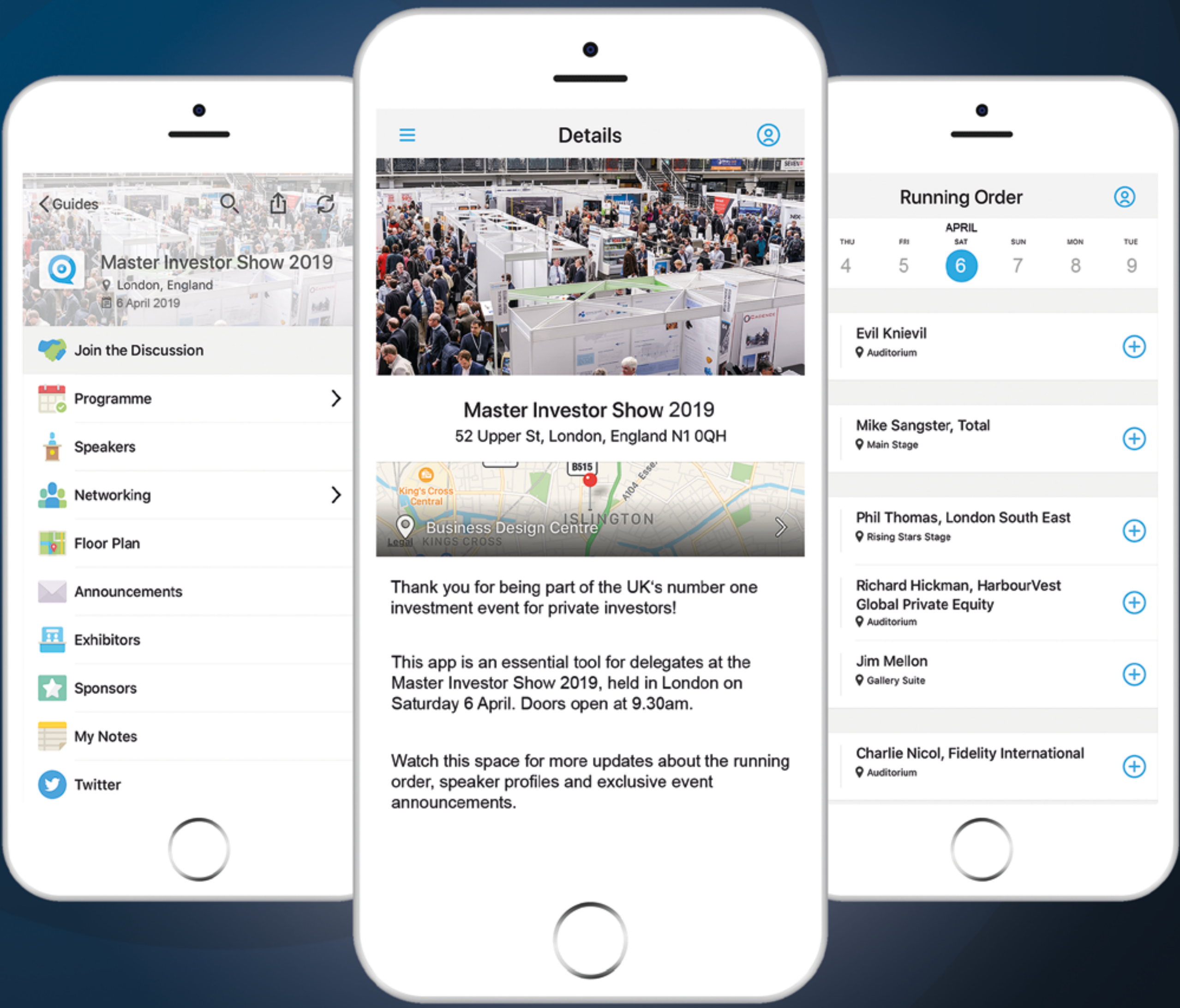
More pound gains to come?

I think the short answer to this is that further rises look likely – perhaps particularly against the US dollar. The Americans have their own problems of course – the ongoing discussions regarding trade wars, the US government shut-down and a feeling that perhaps the last six months' rally in the US dollar has gone far enough for now. Let's not get too carried away and expect to see the GBP/USD rate up at 1.5000 anytime soon. But a run back to the September highs around 1.3300 does not seem too over ambitious.

Of course, it is not a market for the faint hearted. It is being driven more than ever by political machinations and even though at the moment it looks like we know the worst Brexit outcome, let's not underestimate the politicians' skill at delivering a really negative surprise in the next few weeks! But for now, at least, the momentum remains behind the pound and the next couple of months will be fascinating as we run up to the date the UK is expected to leave the EU.

About David

David Jones qualified as a technical analyst in 1995 and started his City career as a currency analyst. He then went on to work for trading companies CMC Markets and IG Group as Chief Market Strategist. Since leaving the industry in 2013 he has been a presenter on BBC Radio 5 Live's Wake up to Money programme and the Chartist for Shares magazine. He is an active trader and private investor.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BY ROBERT STEPHENS, CFA

STOCKS IN FOCUS

NEXT

BUCKING THE TREND IN RETAIL

Buying shares in a UK-focused retail company may seem like a bad idea at the moment. The UK is, after all, experiencing a period of significant economic turbulence as the Brexit process continues. It seems to be causing consumer confidence to remain weak, which could be a recurring theme over the short term. This could put further pressure on retailers at a time when there are already significant threats facing the structure of the industry. Shoppers are increasingly favouring online opportunities over bricks-and-mortar stores, and this trend could lead to store closures and painful transitions for high street companies. With business rates also favouring online-only operators, the outlook for retailers with a physical presence in the UK seems to be tough.

As ever, though, higher risks could mean significant long-term rewards for those companies that are able to adapt to a changing retail industry. One company which seems to be able to do that is **Next (LON:NXT)**. It has a track record of outperforming its industry peers during periods where operating conditions are tough. It aims to change various parts of its business model through investment, with it seeking to improve its online capabilities alongside the development of a more efficient supply chain. It is also becoming increasingly innovative in terms of its customer offering, and in developing its appeal to a growing leisure segment as consumer tastes continue to change.

With the company having a low valuation and yet offering medium-term growth prospects, it could have investment potential within what remains an uncertain wider retail industry.

Uncertain outlook for retail

While wage growth is comfortably ahead of inflation, consumer confidence has steadily worsened in the last few months. According to the GfK consumer confidence index, it has declined from minus 7 in August 2018 to minus 14 in December 2018. This is its lowest level in five years, and shows that consumers are concerned about the prospects for the economy, as well as their own financial circumstances. This has resulted in a number of retailers reporting lacklustre sales and profit growth in recent months. Even though wage growth is comfortably ahead of inflation, consumers seem to be avoiding unnecessary expenditure where possible, and focusing on lower-priced options where they are available.

Weak consumer confidence could continue over the near term, with Brexit still to come. Additionally,

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the sector is facing structural changes which Next and its peers have found somewhat challenging to overcome. Improvements in technology have meant that online retailing is rapidly growing at the expense of bricks-and-mortar retailers. This trend is showing no sign of slowing, with the proportion of total UK retail sales conducted online rising to 22% in November 2018, from 6% in November 2008. There is expected to be further growth over the medium term, which means that bricks-and-mortar retailers will need to invest in order to adapt to changing consumer tastes.

High street retailers such as Next are also at a disadvantage compared to their online-only peers when it comes to business rates. They are charged against the value of a property. Since a high street store with high footfall will be worth more than a warehouse in an out-of-town location that is used to fulfil online orders, bricks-and-mortars stores are likely to have higher costs than their online-only rivals. This could mean that their margins are squeezed versus the wider sector, or that they are forced to pass on higher costs to consumers. This could damage sales growth and profitability over the medium term, since the government does not appear to be inclined to change the rules on business rates in the near future.

Changing business in a volatile sector

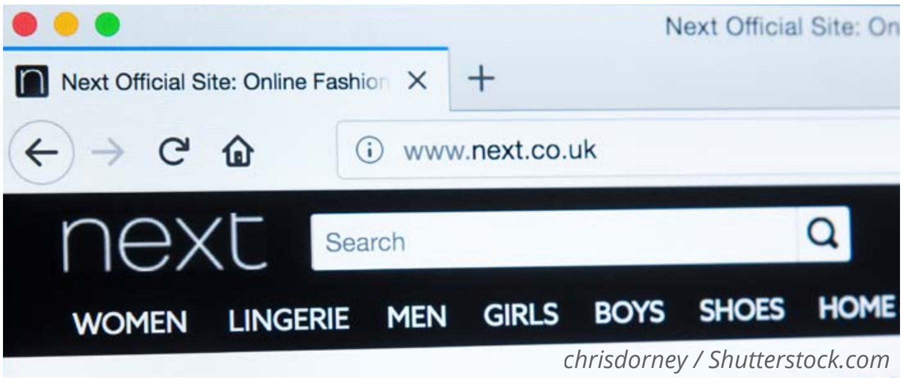
While operating conditions are expected to remain tough for the retail sector, Next has a track record of outperforming its peers. For example, following the financial crisis, it was able to deliver seven successive years of earnings per share growth through to 2016. This occurred during a period when consumer confidence was mostly weak, and consumer disposable incomes were declining in real terms for substantial periods of time. The company seems to have a high degree of customer loyalty. This could provide it with a competitive advantage versus peers that helps to offset possible weakness in the retail industry.

The company is also seeking to become increasingly innovative in order to adapt to changing consumer tastes. It has identified that the amount spent by consumers on clothing is growing at a slower pace than it is for leisure areas. For example, in 2017, consumer spending on women's clothing fell by 2.9%, while spending on men's clothing moved 4.1% higher. In contrast, spending at restaurants grew by 12%, and entertainment spending increased by 10.3%. In response, the company is seeking to introduce restaurants, cafes and other concessions to its stores that generate additional revenue and increased footfall.

Next is increasing investment in its online capabilities. In the 2018 financial year, it spent an additional £11 million on software and IT and marketing professionals. This has helped to improve its online offering – while a new mobile site, a faster checkout and other marginal gains have helped to boost the customer experience. The company's omnichannel capabilities have been enhanced through features such as store-to-store ordering and transfers. This will maximise its store network and integrate its physical stores more closely with its online operation. The cost of transferring stock between stores is relatively low, and provides greater flexibility for consumers who are becoming increasingly demanding in terms of where, when and how they can shop at their favourite retailers.

"NEXT HAS A TRACK RECORD OF OUTPERFORMING ITS PEERS."

As well as aiming to generate higher growth, Next is also seeking to reduce costs. This is not being done to the detriment of its product quality or customer service levels. Rather, it aims to operate more efficiently and smarter through changes such as right-sizing its delivery fleet in response to lower volumes, and using improved technology when replenishing products from its stock room. It also seeks to achieve improved lease terms on its physical stores. In the 2018 financial year, for instance, it renewed 19 leases in total, with the average reduction in rental costs being 28%.



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"NEXT IS INCREASING INVESTMENT IN ITS ONLINE CAPABILITIES."

From income stalwart to capital growth prospect

With the retail sector being relatively unpopular among investors, it is perhaps unsurprising that Next's shares trade on a low price-earnings multiple. They have a P/E ratio of 11, which suggests that they offer a large margin of safety. The company, in spite of the risks facing the retail industry, is forecast to post a rise in earnings per share of 4% in the current financial year and in the next financial year. Given the uncertainty which is likely to be present during that time, it provides further evidence that Next is able to outperform many of its peers during challenging operating conditions. It also highlights the difference that the implementation of its strategy is expected to make.

The company's dividend yield of 3.5% is around 100 basis points below the FTSE 100's yield. While in previous years it has paid a special dividend, it now intends to use excess capital for share buybacks. As a result, its income opportunities may be somewhat limited compared to some of its index peers, with its appeal being focused on capital growth potential.

Potential rewards in a challenging sector

The prospects for retailers are likely to remain challenging over the short run. Consumer confidence may continue to be weak, with the Brexit process having the potential to cause uncertainty in future months. Alongside this, the retail sector is experiencing a period of significant change. Online shopping is becoming more popular, and this trend could even increase if technology continues to improve. Online-only operators may enjoy a competitive advantage from lower business rates, which could make the task of evolving a business model from physical stores to online operations more challenging.

Next, though, seems to have a wider economic moat than many of its sector peers. The company has a strong track record of outperforming the wider sector during challenging periods. It is also making major changes to its business model as it seeks to adapt to evolving customer tastes. The investment it is making in its online capabilities and supply chain may boost its omnichannel offering, thereby increasing its customer appeal. Innovation and a shift towards the provision of leisure-related services could also enhance its financial prospects. Cost reduction may do likewise, with the company focused on maintaining high levels of customer service as it seeks to become more efficient.

Since the stock has a relatively low P/E ratio and earnings growth which is perhaps stronger than may be expected given the operating outlook, it could offer investment appeal. Clearly, there are significant risks facing the business in the short run which could lead to a declining share price for a period of time. In the long run, though, the strategy being pursued by the business and its track record of outperformance may catalyse its stock price. As a result, it may offer improving rewards within what could prove to be a challenging period for the wider sector.

About Robert

Robert Stephens, CFA, is an Equity Analyst who runs his own research company. He has been investing for over 15 years and owns a wide range of shares. Notable influences on his investment style include Warren Buffett, Ben Graham and Jim Slater. Robert has written for a variety of publications including The Daily Telegraph, What Investment and Citywire.

BY ALEX CROOKE

BANKING ON DIVERSIFICATION

With a number of headwinds facing markets in 2019, it can be hard to see the wood for the trees. Alex Crooke, Fund Manager of The Bankers Investment Trust – a Janus Henderson managed investment trust – explains how his team approaches the complexities of global stock markets.

As we start 2019 there are plenty of reasons for investors to be cautious, as ever, but more often than not the situation turns out less gloomy than we are led to believe.

Talks of a global recession are cropping up more and more, not least because it's been 10 years since the global financial crisis. We're not convinced at **The Bankers Investment Trust (LON:BNKR)** that a global recession is imminent because conditions are very different from just before the last downturn in 2008.

Causes for concern

It's fair to say there are a number of significant forces at play that could have meaningful consequences for markets. Here in the UK, the country's exit from the EU has already affected both the exchange rate of the Pound and local equities. Brexit has fogged the country's corporate landscape as it prepares for life outside Europe's political and economic union and the pessimism towards UK equities is unprecedented.

Across the Atlantic, the US has enjoyed a long-running bull market, buoyed early last year by President Trump's corporate tax cuts. Those cuts were significant in scale and raised plenty of eyebrows when considered in the context of the country's eye-watering national debt of more than $20 trillion.

President Trump's campaign to renegotiate trade tariffs has also been hogging the headlines. The so-called 'trade war' with China has brought about political tensions between the world's two largest economies that are certainly not helpful in stimulating global trade.

> **"AS WE START 2019 THERE ARE PLENTY OF REASONS FOR INVESTORS TO BE CAUTIOUS, AS EVER, BUT MORE OFTEN THAN NOT THE SITUATION TURNS OUT LESS GLOOMY THAN WE ARE LED TO BELIEVE."**

Beyond these headlines there are other very important considerations for investors, such as the reversal of quantitative easing measures by major central banks around the world – so-called quantitative tightening; as well as the ongoing and hastening influence of disruptive technology on established business models; and the disparate fiscal policies between developed nations.

It is important to be mindful of these factors, but it would be a mistake to become too bearish too early, and in our opinion the classic indicators of an impending global recession are not present.

For example, it is hard currently to see the signs of excess that typically precede global economic recessions. Bank lending to corporates and consumers has not risen sharply, takeover activity is muted and corporate capital expenditure is only just beginning to recover. Inflation isn't rampant and interest rates remain low, all of which are contradictory to the classic indicators of a looming global recession.

But stock markets have fallen sharply over the course of 2018, with many

entering bear market territory in reaction to fears of an imminent economic slow-down. Is the market set back setting up an opportunity for value investors?

Should we beware the bear?

A bear market, whereby share prices fall at least 20% from their highs is more common than many think. Europe has arguably been in a bear market for most of 2018 and there is little question China has been in bear market territory since early February. For active stock-pickers like ourselves, a bear market provides an opportunity to get ahead of the market by buying strong businesses at attractive valuations, with a focus on longer term outperformance. A degree of volatility is normal in equity markets as they are discounting mechanisms for investors' views of future returns.

The US market is one of the few to buck the trend, albeit December's fall puts it closer to bear market levels. The major US stock market indices hit 10-year highs in 2018 but the correction over the last quarter is a sign that valuations may have peaked. That isn't necessarily a bad thing. When prices come down, opportunities arise and value-driven opportunities return to the market.

Horses for courses

The enormous advantage for The Bankers Investment Trust is that the management team is unbound by geography, sector, market capitalisation or style. That means the portfolio can be designed to cherry-pick the best companies around the world to meet our objectives, which are to beat the FTSE World Index and achieve annual dividend growth greater than the rate of UK inflation.

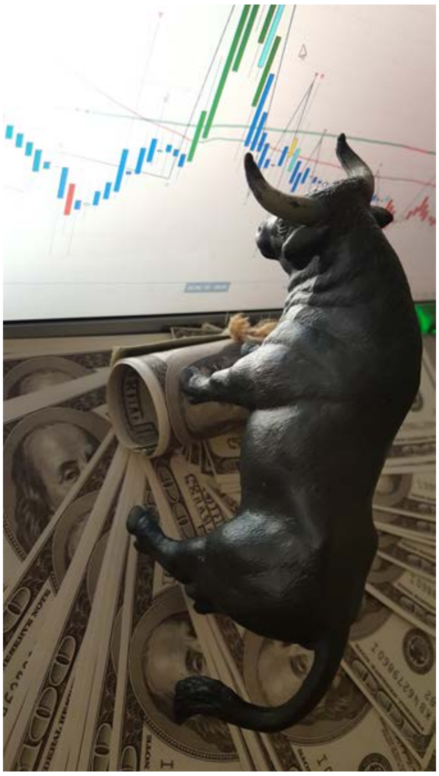
The largest geographical exposure within the portfolio is to North American equities (c.30%). As already stated, the long running US bull market has been fantastic for growth stocks, which the Trust has been a beneficiary of with holdings like **Microsoft (NASDAQ:MSFT)**, and **Netflix (NASDAQ:NFLX)** – diverse companies but both delivering strong growth in customer numbers. This sleeve also contains many innovative companies in the cross-hairs of important socioeconomic trends, like **MasterCard (NYSE:MA)** and **American Express (NYSE:AXP)** in the transition to cash-less payments; and **CVS Health Corp (NYSE:CVS)** in the growing direct-to-consumer healthcare market.

The next largest geographical weighting is the UK (25%), to which we have carefully trimmed our exposure in the past 12 months or so. The bulk of the investments in the UK are towards the global corporates that happen to be listed in London. The UK may be out of favour with investors, but there remains a strong dividend-paying culture, which is a vital component of the Trust's portfolio. Whatever happens with Brexit, there are some UK companies that we believe will continue to perform and provide that all-important income for the Trust, such as beverage conglomerate **Diageo (LON:DGE)** and pharma giant **GlaxoSmithKline (LON:GSK)**, to name but a few.

Europe (16%), the Pacific region (14%) and Japan (12%) each provide something slightly different. European equities may have disappointed in 2018, but earnings here have been solid and the region's dividend-paying track-record is attractive. We think there may be some interesting opportunities here in 2019 – particularly if US investors decide to seek cheaper shares outside their home market.

The China sleeve accounts for around 6% of the total portfolio and is an interesting region for us. Since the end of 2017, Chinese equities have been heading deeper into value territory when measured on price-to-earnings metrics but corporate earnings have held up remarkedly well. Our focus has been on domestically exposed consumer related companies rather than the exporters that have been caught out by Trump's trade negotiations. Over the medium term we still expect China to deliver higher growth than more developed markets.

There is a strong growth story across Asia with domestic companies eating into the market share of Western brands that have traditionally been market leaders in the region. We are seeing this in smartphones and even food and beverage brands. Negative sentiment may have dragged valua-



Glossary

Bull market: A financial market in which the prices of *securities* are rising, especially over a long time. The opposite of a *bear market.*

Bear market: A financial market in which the prices of *securities* are falling. A generally accepted definition is a fall of 20% or more in an *index* over at least a two-month period. The opposite of a *bull market.*

Volatility: The rate and extent at which the price of a *portfolio, security* or *index*, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. It is used as a measure of the riskiness of an investment.

"THE ENORMOUS ADVANTAGE FOR THE BANKERS INVESTMENT TRUST IS THAT THE MANAGEMENT TEAM IS UNBOUND BY GEOGRAPHY, SECTOR, MARKET CAPITALISATION OR STYLE."

tions down, but we think more Asian companies will become global market leaders in the next 10 years, so it's an important part of the Trust's long-term strategy.

Cautiously optimistic

This geographic diversification and balance between income and growth-oriented strategies provides the Trust with a great balance. This is only possible with a management team containing regional experts, each with different expertise and styles.

While it appears difficult to forecast political events with any conviction, the state of the global economy is not broken. Confidence is currently low, but this is a good starting point to make investments, especially as valuations are now below their long term averages. We are being careful in taking on new positions, but are increasingly seeing opportunities that attract us and that we feel will deliver excellent long term returns.

About Alex

Alex Crooke is Co-Head of Equities – EMEA and Asia Pacific at Janus Henderson Investors, a position he has held since 2018. Alex is responsible for equities in the EMEA and APAC regions and is a Portfolio Manager for The Bankers Investment Trust, a position he has held since 2003. In addition, he is a member of the Janus Henderson Executive Committee. Previously, he was head of Global Equity Income and Specialist Equities Teams from 2013. Alex began his investment career with Equitable Life Assurance Society in 1990 as a US investment analyst. Alex holds a BSc degree (Hons) in physics and astrophysics from Manchester University. He is an associate member of the Society of Investment Professionals (ASIP) and has 29 years of financial industry experience.

Risk Warning

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The information in this article does not qualify as an investment recommendation.

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BY VICTOR HILL

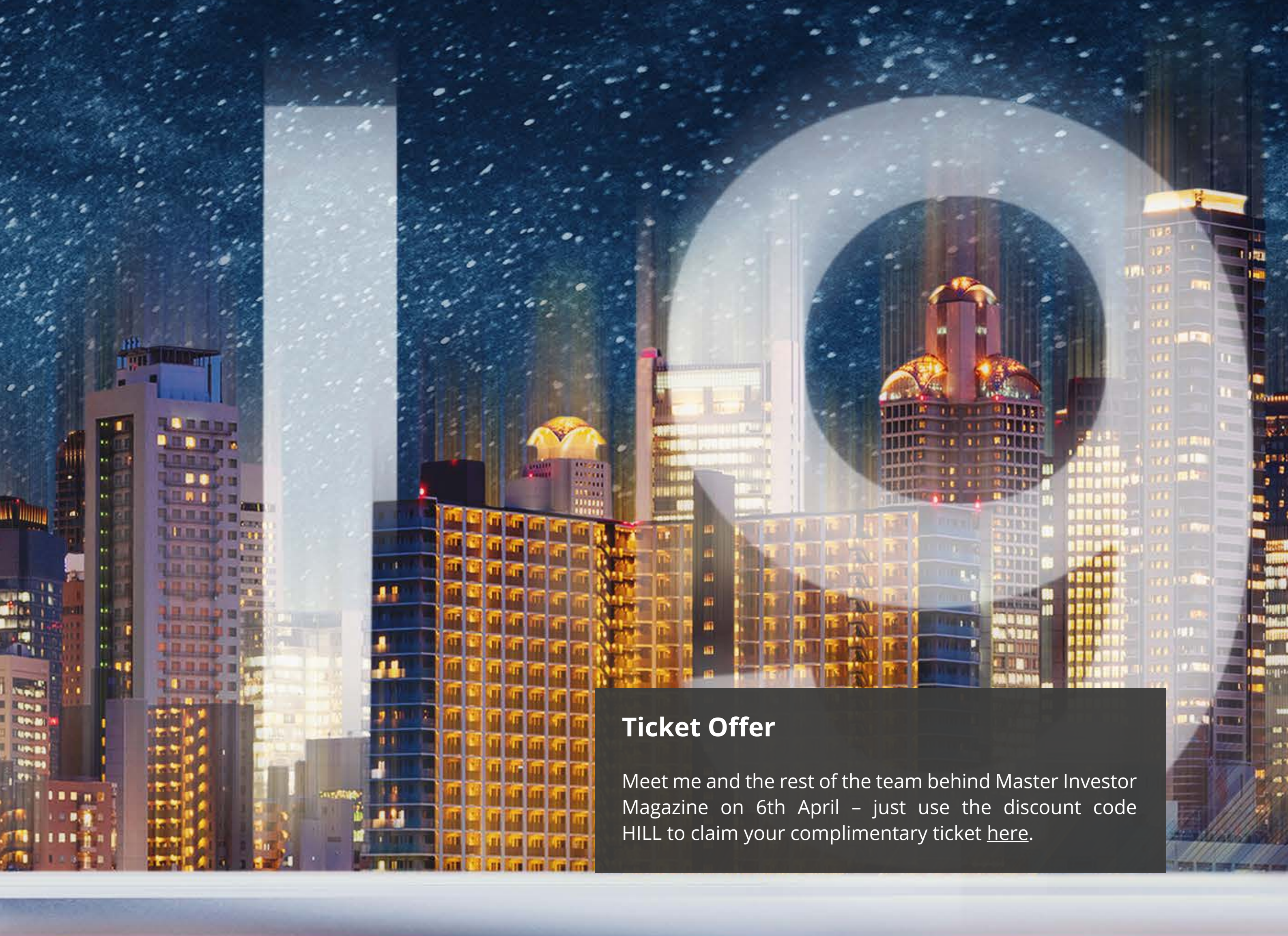
OPPORTUNITIES IN FOCUS

2019: A NEW INVESTMENT LANDSCAPE

Investors entered January 2019 with a bit of a Christmas hangover after the worst December for markets in living memory. Not surprisingly, the outlook for 2019 in the early days of the year did not look great. But by mid-January the outlook had brightened somewhat. I am therefore glad that I did not offer a survey of the 2019 investment landscape in the January edition of this magazine – in any case, we had to shine a light on the Brexit miasma (which is still unfolding as I write).

The world is set for an economic slowdown in 2019. The OECD predicts that the global economy will grow by 3.5 percent this year as compared to 3.7 percent last year. That does not sound like much of a slowdown but it is happening against a hazardous backdrop. In the last week of December and the first week of January some very salient themes for this year came into focus. Some have called them *the Four Horsemen of the Apocalypse.* They are: the reversal of quantitative easing (QE) by means of quantitative tightening (QT); rising interest rates, led by the US Federal Reserve; a persistently volatile oil price; and the retreat of globalisation.

In the first month of this year there were two competing views of how 2019 would pan out. One view was that these malign forces would bring to an end a decade of expansion. The other was that there will most likely be a gentle slowdown without any great mishap. Which was the more probable?



Ticket Offer

Meet me and the rest of the team behind Master Investor Magazine on 6th April – just use the discount code HILL to claim your complimentary ticket here.

"THE IMF AND THE OECD FORECAST MODERATE GROWTH FOR 2019 BUT THE NEAR-INVERTED YIELD CURVE IN THE UNITED STATES SUGGESTS THAT THE MONEY MEN FORESEE A RECESSION."

The hangover

2018 was a great year for growth but, in the end, the worst year for equities since 2008 – and other asset classes did not fare much better. After the December market rout most equity markets opened 2019 nervously. In the US market – which accounts for about 40 percent of global market capitalisation – the S&P 500's forward price-earnings ratio was at its lowest point for four years. By reference to another metric – the P/E to growth ratio – US stocks had not been as cheap since the financial crisis of 2008-09.

The IMF and the OECD forecast moderate growth for 2019 but the near-inverted yield curve in the United States suggests that the money men foresee a recession (defined as two consecutive quarters of negative growth) looming. When markets eschew long-term instruments in favour of short-term ones, causing the yield curve to flatten, that indicates that there may be trouble ahead. US manufacturing failed to grow in December, beset by the twin headwinds of weaker global demand and a stronger dollar.

A poll of top economists conducted by Bloomberg at the beginning of this year determined that the probability of recession within the next 12 months was 20 percent for the US and 16.5 percent for the eurozone. UBS's internal recession risk model, which uses data from 120 recessions in 40 countries over the last 40 years, concluded that the risk of recession this year was moderate. In late January then, with the advantage of hindsight, the December sell-off looks overdone.

On the other hand, a survey of CFOs conducted by Duke University just before Christmas showed that almost half expected a recession to begin before the end of 2019. If firms act in accordance with such expectations then they stop hiring new staff, placing new orders and initiating new investment projects. In that way the expectation of recession can become a self-fulfilling prophecy.

There are significant potential risks on the downside. One of those is that the US-China trade war will end badly – Chinese growth is already slowing and the country's heavy corporate debt burden is a cause for concern. Another is that the oil price will continue to be volatile. Another is that the US Federal reserve will increase rates too quickly. Then there is the little matter of Italy and the deep structural flaws within the eurozone. Overall, there is much that could go wrong.

Towards Quantitative Tightening (QT)

It had to happen sometime. The money taps are being turned off – at last. Bond purchases by the European Central bank (ECB) have fallen from a peak of €80 billion a month two years ago to zero in January. This comes at a time when new credit formation is al-

> **"2019 WILL BE THE FIRST YEAR SINCE THE FINANCIAL CRISIS THAT BANKS WILL BE TAKING MONEY OUT OF THE ECONOMY."**

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ready slowing sharply. The result is to reinvigorate the forces of deflation and to undermine the fiscal position of the weaker eurozone states. High debt-to-GDP levels plus restrictions on deficit levels will inhibit governments such as that in Italy from embarking on a sustained countercyclical fiscal stimulus.

The real issue here is that the long period of QE had no precedent – and therefore suddenly reversing QE has no precedent either. Central banks pumped liquidity into the economy first to stave off a threatened systemic banking crisis, and then to stimulate demand and kick-start growth. Whether QE was entirely successful in that aim is debateable. It certainly had the effect of inflating asset prices (good news for the rich though not necessarily for the not-rich).

What is sobering, however, is that if QE can stimulate growth QT can have the reverse effect – it could, just possibly, strangle growth altogether. The analogy of drug dependency has become a cliché of late. The US and then the eurozone economies became hooked on cheap, abundant money to get their highs. When that cheap money runs out, so the argument goes, they will suffer withdrawal symptoms...

2019 will be the first year since the financial crisis that banks will be taking money out of the economy with QT. QT is essentially a passive process. In QE central banks buy bonds (both government and corporate) in the open market with invented money, holding them on their balance sheets. When those bonds mature, borrowers repay their face value and the asset ceases to exist on the central bank's balance sheet – while the corresponding monetary liability disappears in a puff of smoke. So, in order to engage in QT, all central banks have to do is to stop doing QE! I know this all sounds very weird to non-economists – but there we are.

One place where the prospect of QT is already having an impact is in the credit markets. High-yield spreads, which can be an indicator of an imminent downturn, have surged to a two-year high. The leveraged loan market – which finances, amongst other things, private equity buyouts – completely seized up in December.

Rising interest rates

The US Federal Reserve raised rates five times in 2018. At the beginning of January it seemed that Federal Reserve Chairman Jerome (Jay) Powell was intent on continuing the process of raising US rates little by little but remorselessly back towards historically more "normal" levels – much to Mr Trump's chagrin. And the futures markets were expecting at least two more rate hikes in 2019. Just before Christmas, Mr Powell said that the policy to shrink the balance sheet of the US central bank by $50 billion every month was "on autopilot".

But then, in the second week of January the mood changed. Mr Powell made an emollient speech in which he signalled that the Fed may wish to re-think – though he indicated that policy could change quickly if need be. He said that the Fed wouldn't hesitate to suspend QT if that threatened to damage the economy. It was evident that the Fed had begun to worry that an overly hasty contraction of liquidity could do more harm than good. In response, the S&P 500 gained nearly 3.5 percent in a few hours.

The real question for investors is whether Mr Powell has undergone a Damascene conversion – or whether he has just lost his nerve for now. If the markets believe the former, then the dollar rally is probably over and a weaker dollar may be on the cards. Supposedly, Japanese investors are beginning to unwind some of their $2 trillion portfolio of currency hedges. They are sitting on falling assets which, having hit their strike prices, must be liquidated. That may account for uncommon volatility in the value of the yen during the first half of January.

Mr Trump's fiscal stimulus which passed through Congress one year ago came very late in the economic cycle. Jobs numbers have been very positive. On the other hand, when rates rise, lending margins tend to rise too, making a double-whammy for highly indebted companies. In 2019 we can expect the default rate to rise – further harming bank profits.

A volatile oil price

In August last year the price of Brent crude hit $85 yet in December it dipped below $50 per barrel. It has ticked up a bit in January – but the lesson of the last year is that changes in sentiment in the oil market driven by geopolitical concerns weigh more than the fundamentals of demand and supply for fuel. Changes in that sentiment have caused the price of oil to be particularly volatile over the last 12 months.

Global demand for oil this year is proving difficult to predict. The world consumed on average a record 100 million barrels of crude oil per day in 2018. Stockpiles of unused crude are building up in storage depots around the world. Inventories have been building for at least the last four months to a total of 2.9 billion barrels according to the Paris based International Energy Agency (IEA) – well above their five-year average. It seems that the slowdown in global growth is already bearing down on oil consumption.

On the supply, side OPEC and its allies, principally Russia, (which collectively account for about 40 percent of global production) have had to cut output by a combined 1.2 million barrels a day in January. Saudi Arabia, the world's largest exporter, needs oil prices of above $80 per barrel to balance its books. Having used its currency reserves to support its domestic economy, the Kingdom's financial resources are diminishing. Despite a strategy of diversifying away from oil the Saudi economy is still fundamentally a one trick pony.

US oil production is set to exceed $12 million barrels per day in 2019 despite lower oil prices. The number of drilling permits issued – an indicator of likely future activity – were at the highest level since 2013 at the end of December. Some industry analysts, however, have questioned the resilience of US oil producers given the falling oil price.

"IT SEEMS THAT THE SLOWDOWN IN GLOBAL GROWTH IS ALREADY BEARING DOWN ON OIL CONSUMPTION."

Frame China / Shutterstock.com

> **"CHINA IS NO LONGER THE *WUNDERKIND* OF ECONOMIC GROWTH."**

Many are highly leveraged and face rising operating costs. If current soft prices persist, some of them will get into trouble.

Disruption to supply is a risk on the periphery. Venezuela's oil industry, which has suffered from violent anti-government protests, is in crisis. The Venezuelan oil minister, Manuel Quevedo, a military man, is set to take over OPEC's rotating presidency this month. Venezuela pumped 1.17 million barrels per day last November – down 630,000 barrels per day on the previous year. Libya is another country where chaotic politics is inhibiting production. Further disruption in these countries could give the oil price the lift that so many producer states need.

Globalisation in retreat

The main fear amongst mainstream economists is that the US-China trade war will become a model for similar trade disputes elsewhere. There is also concern that foreign direct investment (FDI) will slow as countries, America in the vanguard, repatriate production capacity and finance. Protectionism could spread – Brazil's President Bolsonaro might be about to do a Trump to protect indigenous producers.

There are lot of assumptions in the model of global trade applied by mainstream economists – some of which are questionable. They believe that tariffs *always* reduce collective GDP in the medium-term. I'll explain soon why, in my view, some fears about the retreat of globalisation are misplaced. The problem is that the economists who preach from pulpits within the World Bank and the IMF believe in an extreme form of the theory of comparative advantage and also believe that an export-led growth model is always the most effective. More on that anon.

China

In January it became clear that China had entered a period of lower growth with some economists predicting that the world's second-largest economy would grow by barely 4 percent this year – as compared to average growth over the last twenty years of more than 8 percent. China is no longer the *Wunderkind* of economic growth. A crackdown on China's shadow banking sector has started to starve the private economy of new credit. There is evidence that Chinese companies are deleveraging, corporate debt having reached 130 percent of GDP.

Chinese exports fell by 7.6 percent in December as compared with the same month the year before. Authorities blamed this on "a grave external environment". Car sales in China fell by 55 percent in December, according to Morgan Stanley, and were down overall by 4.1 percent in 2018 – the first annual decline since 1990. In response to the slowdown, authorities are cutting corporate taxes and bringing forward new infrastructure spending. The People's Bank of China (PBC) has now cut the required reserve ratio (RRR) for banks five times since the beginning of last year in the hope that looser monetary policy will stimulate demand.

Nicholas Lardy, a China specialist at the Peterson Institute thinks that President Xi has damaged the Chinese economy by abandoning market reforms and favouring more authoritarian state control. His book – *The State Strikes Back: The End of Economic Reform in China?* – shows that the share of total new loans taken by state-owned entities has risen to 83 percent of the total – up from 35 percent five years ago.

China agreed in December to suspend additional tariffs of 25 percent on imports of US cars for three months, prompting Mr Trump to speak of "big progress". There is a better chance of a conclusive US-China trade deal as I write than a UK-EU withdrawal deal. In the case of both, the equity markets would react with animal spirits, short-term at least.

"THE EUROPEAN AUTOMOTIVE INDUSTRY IS LOOKING HIGHLY VULNERABLE AT PRESENT."

Europe's automotive sector: a car crash in slow motion

Manufacturing output data released in mid-January told a sorry tale. Both Italian and Spanish industrial production was down by 2.6 percent year-on-year. French industrial output was down 1.3 percent in November while the confidence of French companies plunged, with the PMI coming in at 49.3. Germany's industrial output fell by 1.9 percent in November (down 4.7 percent on a year-on-year basis and the third month in a row) and the figure for October was revised downwards to minus 0.8 percent.

This downturn in manufacturing output has been largely driven by a dramatic slowdown in car production, which is only partially caused by the fall in demand from China. The European automotive industry is looking highly vulnerable at present.

The Chinese car market is critical for all of Europe's volume automotive manufacturers including **Volkswagen, Daimler AG, BMW, Nissan, General Motors (NYSE:GM), Ford (NYSE:F)** and **Jaguar Land Rover** (JLR, owned by **Tata Motors (NYSE:TTM)**).

JLR announced 4,800 job losses in early January, mostly in the UK where it employs about 40,000 people. Ford which employs 13,000 at its Bridgend and Dagenham engine plants in the UK also announced a shakeup of its European business. Ford reported a $1 billion loss in Europe last year. GM had already announced 14,000 redundancies last year. Sales at Nissan's UK business headquartered in Sunderland fell by £93 million last year to £6.3 billion. Nissan's car production fell by 6.2 percent to 487,000 units last year.

Car makers are also facing the challenge of tighter regulations limiting the use of diesel engines and the move away from the internal combustion engine towards electric-powered vehicles. The shadow over the future of diesel was darkened by the emissions scandals afflicting both VW and Daimler. While they are investing heavily in electrification, it is taking longer for them to roll-out a full range of electric vehicles than expected. In the meantime, **Tesla (NASDAQ:TSLA)** turned in excellent earnings numbers for Q4 2018 thanks to strong sales of its Model 3.

Few doubt that electric vehicles are the industry's future. According to the BNEF the number of electric vehicle models available will rise from 155 in 2017 to an estimated 289 in 2022, after which date it predicts that sales of internal combustion engine-powered vehicles will go into terminal decline. Yet most established automotive leaders are still some way from offering a full range of electric-powered vehicles.

The other aspect of the automotive revolution – the advent of driverless cars – is also taxing the volume producers. This requires that they invest in a whole range of related technologies, of which artificial intelligence (AI) is one. European governments cannot afford to subsidise this investment on the scale that the Chinese can. Accordingly, the markets have assigned poor valuations to Germany's three major car manufacturers while assigning optimistic valuations on more speculative stocks such as Tesla.

Automotive stocks slumped in December as a perfect storm gathered for global car manufacturers. Production of cars in the UK was 129,030 in November – down by one fifth on November 2017. More than 80 percent of British cars are exported. About 1.7 million cars were manufactured in the UK with an estimated 60 percent of their components coming from abroad, making

"THE FINAL SHAPE OF BREXIT COULD BE THE KEY FACTOR THAT DETERMINES WHETHER THE EUROZONE TIPS INTO RECESSION THIS YEAR OR NOT."

the industry uniquely sensitive to the outcome of the Brexit negotiations.

Europe: a policy crisis

While the Europeans have been busy trying to impose a miserable Withdrawal Agreement on the UK, a potential crisis has crept up on them of their own making. It is not clear that the eurozone could survive a new recession in its current form. This risk would be exacerbated by the fall-out of a no-deal Brexit which at the time of writing looks quite possible.

The presidency of Emmanuel Macron in France has run into trouble. He has had to water down his programme of reforms in the face of a popular uprising; furthermore, his grand project to reform the eurozone with Germany has been rebuffed by Berlin.

French GDP grew by just 0.3 percent in Q4 2018. This was less than expected and partly due to the waves of protests by the *gilets jaunes* across the country. Household spending and exports fell. The protests have forced President Macron to cancel planned tax increases on diesel and other fossil fuels and to offer a package of social spending which will undermine plans to keep the fiscal deficit within the 3 percent straightjacket this year. Monsieur Macron's authority is diminishing at precisely the moment that Frau Merkel is becoming a lame duck Chancellor. (I suspect that Frau Merkel will hand over the reins to her designated successor, Frau Kramp-Karrenbauer, sooner rather than later.)

The German trade surplus, which stands at around 8 percent of GDP, makes the country highly exposed to any downturn in global trade. When global trade plunged in Q4 2008 as a result of the financial crisis, the German economy lost more than 5 percent of its value.

Italy is in technical recession. Oxford Economics is forecasting that the country will grow by no more than 0.3 percent this year – a year in which the country will have to refinance debt equal to 17 percent of GDP. That will now take place without the ECB lending Italian banks funds at near-zero or negative rates which they can then invest in Italian government bonds (which yield nearly 3 percent). Just before Christmas the Italian government struck a deal with its EU overlords on the final shape of the 2019 budget, causing Italian bond yields to ease. But GDP-per-capita has not risen for 20 years and unemployment stands at 10.5 percent.

Moreover, Europe's banks are looking extremely lacklustre. There is still no substantial banking union. The Italian banks in particular are locked in a *doom loop* whereby any default on government debt would automatically trigger the systemic collapse of the entire banking sector – one which would not be confined to Italy. High-yield credit spreads have surged in Europe in recent months.

The single currency has condemned most of Southern Europe to mass unemployment, weak wage growth and relentless austerity. Without QE there are very few policy tools left to address this. There is still no sign of a concerted effort to reform the eurozone's structural flaws.

The final shape of Brexit could be the key factor that determines whether the eurozone tips into recession this year or not. There are already signs that Germany's trade surplus with the UK is narrowing and that it is likely to fall further. (Good news, in my view.) A no-deal Brexit would be much worse for Germany than for the UK.

Emerging markets

On the eurozone's periphery Turkey is about to tip into recession. In 2018 its currency and equity markets tumbled, precipitating renewed inflation. As its currency depreciated and dollar interest rates rose, so the cost of servicing its largely dollar-denominated debt surged. The OECD predicts that the Turkish economy will contract by 0.4 percent in 2018.

Argentina's economy contracted by 2.8 percent in 2018; this year it will contract by *only* 1.9 percent, according to the OECD. In contrast, Brazil's growth is likely to double to over 2 percent. Brazil is a country which has for so long been on the brink of great things but has never quite fulfilled its huge potential. The good news is that unemployment is falling and business confidence is rising. Reforms to the country's cripplingly expensive pension system should pay off this year.

Similarly, the outlook is improving in Mexico, which is enjoying a stronger jobs market and more public investment. Growth should tick up from 2.2 to 2.5 percent this year. South Africa and other African markets may also be oversold.

Russia, which is still subject to Western sanctions, had a poor harvest last year. One interesting development in Moscow is that the National Bank is preparing to replace the US dollar as a reserve currency with (drumroll) *Bitcoin*. (I'll have more to say about that soon.) India, which has a higher growth rate than China at around 7.5 percent last year, reported weaker exports in recent months – but the Mumbai market should not be overlooked.

"IF THE DOLLAR FALLS THANKS TO A LESS HAWKISH FED, THEN THAT COULD BE EXCELLENT NEWS FOR EMERGING MARKETS."

Sectors to avoid or short

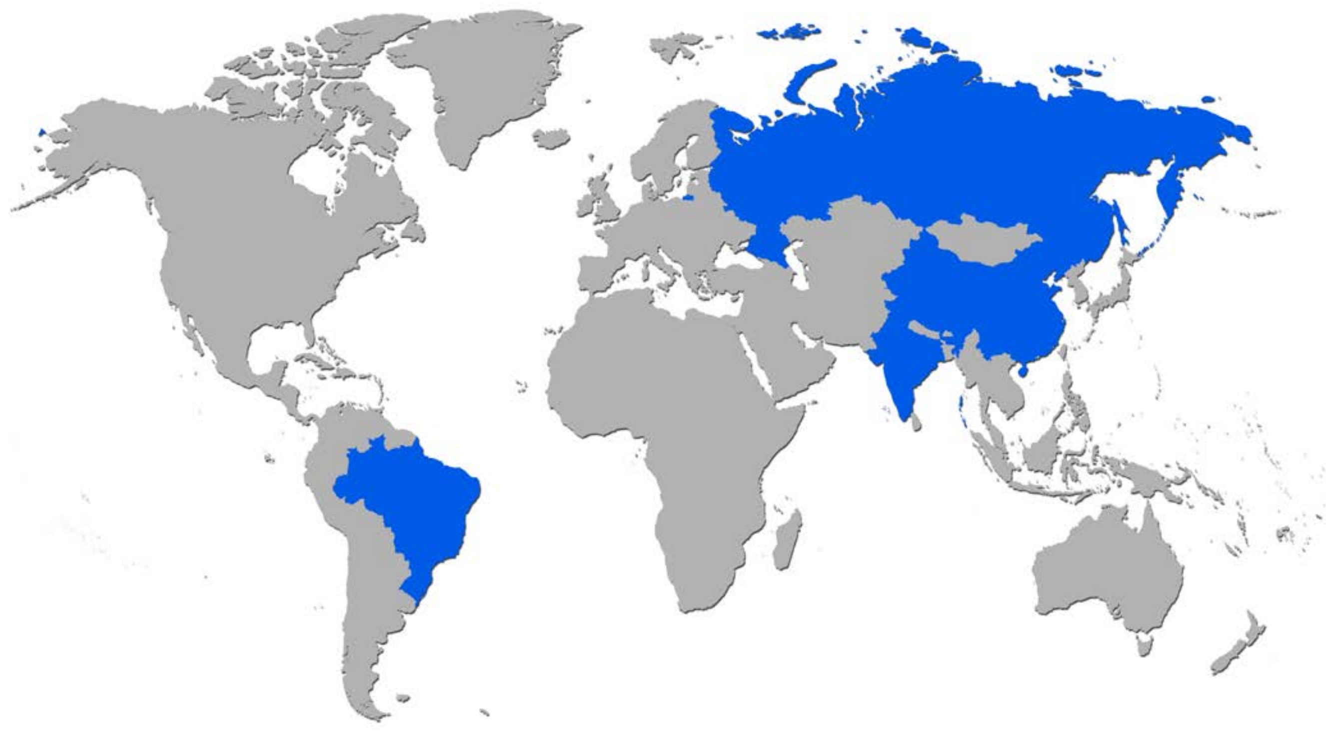
Banks are to be avoided right now across the globe. Bricks-and-mortar retailers are toxic – although, that said, those which have aligned their online offer with their high street offer have the potential to bounce back. Mike Ashley might just be able to resuscitate Debenhams – we shall see. But the fact is that the worst performer on the FTSE in 2018 was a cool retailer that was flying high until quite recently – **Supergroup PLC (LON:SDRY)** (owner of the Superdry brand).

In technology, social networks seem to be under pressure: expect the number of **Facebook (NASDAQ:FB)** users to fall this year for the first time – with massive implications for the technology giant's share price. That is also bad news for the unicorns. Will anyone really want to buy Uber's shares when Facebook's are tumbling?

Country-wise, I'm very bearish on Germany, which had the dubious distinction of hosting the worst performing European stock market in 2018 (down about 22 percent against the European average of minus 16 percent). If the automotive sector is about to be disrupted in unexpected ways, Germany could go into recession. Its banks are already going to the dogs and even some of its flagship industrial companies like **Bayer (OTCMKTS:BAYRY)** are floundering.

Sectors looking good

Bank of America is recommending reallocating to energy stocks, US small caps, and emerging market currencies which it deems "oversold" such as those of Turkey and Argentina. South Africa, the Philippines, Indonesia, India and Mexico have also suffered severe sell-offs in both their equity markets and currencies. According to the World



The UK – a much undervalued market

There is growing consensus amongst analysts that both the UK stock market and sterling are undervalued. The economic fundamentals in the UK have remained surprisingly robust with output and earnings up and inflation down – so living standards are rising. (That is probably why the Tories, despite everything, are still ahead of Labour in the opinion polls.) And public finances – alleluia – have been improving at last.

The FTSE All Share Index ended 2018 about 11 percent down. Only about 5 percent of UK equity funds delivered positive returns last year. Larger FTSE-100 companies with large foreign currency income streams have fared better than domestically focussed companies given the weaker pound. Companies with a high level of domestic exposure have fallen by 12.3 percent since 23 June 2016 while those with mainly overseas earnings have returned 4.6 percent over the same timeframe, according to Bank of America. However, some fund managers believe that there could be a reversal of fortunes between these two groups in 2019.

Investors have pulled an estimated £11 billion out of UK equity funds since the Brexit vote. The question is, with the London market yielding nearly 5 percent: Is this now the moment to get back in? Clearly, the prevailing pessimism has been priced into the London market.

The British pound is looking war-weary and is almost certainly oversold. In the six months following the June 2016 referendum the pound lost 20 percent of its value and has never been able to recover the lost ground. The weaker pound improved the competitiveness of Britain's exports but unleashed a wave of inflation that has only recently abated. After the events of the week of 14 January 2019 (when Mrs May's Withdrawal Agreement was decisively rejected by the House of Commons but the government survived a motion of no confidence) the pound actually rose. Presumably the foreign exchange market calculated that the events had made a no-deal Brexit less likely. At the time of writing it is by means clear that the markets have got this right.

If Britain were to leave the EU and start trading immediately on WTO terms (no-deal) then sterling would probably be convulsed – at least in the short-term. If there is some kind of deal the markets would no doubt heave a huge sigh of relief.

Bank, the emerging markets (including China) have surged to 59 percent of global GDP on a purchasing power parity basis – just as the share of US and EU GDP declines.

In the UK, Nick Dixon of Aegon thinks that housebuilders, which were amongst the biggest fallers in 2018, will do particularly well in 2019. **Barratt (LON:BDEV)** is forecast to yield 9.6 percent this year on a price-earnings ratio of 6.9. Competitors **Taylor Wimpey (LON:TW.)** and **Persimmon (LON:PSON)** are both forecast to endure single-digit P/E ratios with double-digit dividend yields.

If the dollar falls thanks to a less hawkish Fed, then that could be excellent news for emerging markets. A sharp decline in the dollar could also precipitate a spike in gold, oil and major commodity prices.

Conclusion

The gentle slowdown scenario is the more likely with only a 20 percent chance of a full-blown recession in Europe and the USA. That said – if the four horsemen charge together, the upshot could be dramatic. If the US market falls by more than 10 percent during the first half of 2019 the slide could gather momentum and become an avalanche. I advocate an investment stance that is both defensive and audacious.

About Victor

Victor is a financial economist, consultant, trainer and writer, with extensive experience in commercial and investment banking and fund management. His career includes stints at JP Morgan, Argyll Investment Management and World Bank IFC.

BY RICHARD GILL, CFA

BOOK REVIEW

THE SIGNS WERE THERE

THE CLUES FOR INVESTORS THAT A COMPANY IS HEADING FOR A FALL

BY TIM STEER

As every investor knows, "shares can go up as well as down". Small cap investors in particular will be familiar with the latter part of that statement, with many small cap companies being prone to disastrous falls in their share price. Often over a very short period of time. Last year, for example, saw 11 AIM-listed companies (about 1% of the market) lose 90% of their value or more over 12 months. A huge 204 companies had a share price fall of 50% or more over 2018. And those stats don't even consider firms that went bust!

So, in the small cap market, being a successful investor is not only down to picking big winners but also due to avoiding the losers. While there are scores of books available that claim to help you pick out the good companies, there aren't many that teach you how to spot the bad apples. So it was refreshing to come across *The Signs Were There,* written by author Tim Steer, which helps investors find "hidden" signs that there may be trouble ahead.

In a previous life, Tim Steer was a sound engineer who toured with the likes of Meat Loaf, Leo Sayer and Thin Lizzy. He then moved into a more glamourous career, qualifying as a Chartered Accountant with Ernst & Young then becoming a highly rated investment analyst with HSBC and then Merrill Lynch. In 2000, he joined fund managers New Star and subsequently Artemis, and was one of the top-ranked fund managers in the UK, being rated Triple A by Citywire. He has written regularly for the Sunday Times and Sunday Telegraph and featured in the 2018 Channel 4 Dispatches documentary on the collapse of Carillion.

Naught for shareholders after Con

Steer shares his wisdom through stories of 22 companies which, at some point in recent memory, have seen their share prices plummet. Some have gone bust (Northern Rock), some haven't (Utilitywise). But for all the companies he covers in the book, Steer argues that their falls could have been foreseen by doing nothing more than looking through their annual reports or fundraising prospectuses. Of course, not all upcoming disasters can

"CASH IS FACT AND EVERYTHING ELSE (ESPECIALLY PROFITS) IS A MATTER OF OPINION."

be predicted by delving through the historic numbers but they are very useful in highlighting red flags to potential investors.

The book is divided into ten parts, with each covering a selection of companies which exhibited a particular accounting trick or other corporate quirk before their shares went south. Part 1, named Abracadabra, looks at how companies use perfectly allowable accounting rules to magically turn costs into assets (just like that), thus making annual profits look considerable higher than they really are. A prime example here is the defunct public sector support services group Connaught, whose red flag antics could have been easily spotted by investors who read the notes to its accounts.

Around a decade ago, ahead of delivering on millions of pounds worth of new contracts, Connaught was forced to invest in infrastructure such as IT systems and staff training. But the 2009 annual report saw huge amounts of these expenses put on the balance sheet as assets rather than expensed through the income statement as costs. This massively inflated the reported profit for the year, a masterpiece of what Steer calls "shop window-dressing". Connaught went bust in September 2010, less than five months after the CEO wrote, *"...I look forward with excitement and confidence"*, with the company reportedly owing over a quarter of a billion pounds to lenders and creditors. The lesson here, and a recurring theme throughout the book, is that cash is fact and everything else (especially profits) is a matter of opinion.

Buy and shrink

My favourite part of the book is Part 5, "Busy Building Less Value", which takes a look at a trio of companies which destroyed shareholder value by pursuing a growth by acquisition strategy. Academic research shows time and time again that, against management's best intentions, the acquisition of one company by another rarely goes on to deliver the benefits expected at the outset. This could be for a number of reasons, like a clash of cultures, management "empire-building", a lack of due diligence or a simple lack of fit between the two businesses.

One of the three companies covered in this chapter is Conviviality (note the recurring theme of company names beginning with CON). The former owner of Bargain Booze went bust last year after a string of catastrophes. Faced with slowing growth, Conviviality decided to buy up a few small newsagent type businesses but also did two huge deals in the form of wholesaler Matthew Clark and wine merchant Bibendum. As a result, debt ballooned.

Last orders were called in March 2018, just months after another acquisition worth £30 million. If the announcement of an arithmetical error in forecasts wasn't enough, combined with weakening margins, the company failing to realise it had a £30 million tax bill to pay within two weeks was the final nail in the coffin. Alongside the overly aggressive acquisition strategy, Steer argues that investors could have picked up some warning signs in the company accounts relating to provisions made for onerous contracts. He calls this the Iceberg Principle – if you see one problem in an annual report there could be many others hiding beneath the surface.

Conclusion

The Signs Were There is a refreshing and thought-provoking title which provides investors with entertaining and practical advice on how to avoid putting their money into the next stock market disaster. While the book is easy to get to grips with, readers will need a decent knowledge of accounting and financial statement analysis to fully appreciate

the work as many of the case studies discussed use extracts from company accounts. Nevertheless, Steer always presents them in a simple manner, highlighting and adding useful comments to the specific numbers he thinks were important.

And if you're thinking corporate shenanigans are bound to continue, there is some hope yet. The book ends with a concluding chapter summarising the lessons learned and also looking at how the accounting and regulatory environments could be changed for the better. In particular, Steer sticks the knife into the role of the auditor and suggests that the regulators have a lot more work to do for justice to be done. All in all, this is the best book I have read so far this year.

About Richard

Richard Gill is an investment analyst with over a decade's experience of analysing small/mid cap equities. He is the Head of Research at Align Research. Richard qualified with the Chartered Financial Analyst (CFA) designation in 2012 and was awarded PLUS Markets Financial Writer of the Year at the 2008 PLUS Awards. He has been a judge at the Small Cap Awards from 2013 to 2017.

BY TIM PRICE

THE FINAL WORD

BE A CONTRARIAN ENTER THE CAVE!

Successful investing is not meant to be easy. Human beings are not evolutionarily well adapted to be good at investing. But after allowing for the psychological challenges involved, and not least the patience required, there are some basic principles that will stack the odds firmly in your favour.

The most terrifying and important test for a human being is to be in complete isolation. A human being is a very social creature, and ninety percent of what he does is only done because other people are watching. Alone, with no witnesses, he starts to learn about himself – who is he really? Sometimes, this brings staggering discoveries.

Because nobody's watching, you can easily become an animal: it is not necessary to shave, or to wash, or to keep your winter quarters clean – you can live in shit and no one will see you. You can shoot tigers, or choose not to shoot. You can run in fear and nobody will know. You have to have something – some force, which allows and helps you to survive without witnesses.

Once you have passed the solitude test you have absolute confidence in yourself, and there is nothing that can break you afterward.

- John Vaillant, *The Tiger*

John Vaillant's *The Tiger* is a gripping read. It is set in far eastern Russia, in a wilderness that the Chinese call the "forest sea". It tells the true-life story of a trapper and poacher, Markov, who is killed by a tiger. It goes on to tell the story of a unit called Inspection Tiger, which is brought in to investigate Markov's death. To a certain extent, it is a "murder mystery written in snow". It is also a study in human psychology.

"THE FUNDAMENTAL PROBLEM WITH CONTRARIAN INVESTING IS THAT HUMAN BEINGS ARE HARDWIRED TO BE SOCIAL ANIMALS."

Being alone is nothing new for contrarian investors. Contrarian investing requires that the practitioner stands alone from the crowd. The fundamental problem with contrarian investing is that human beings are hardwired to be social animals. Being alone is not an evolutionarily developed skill. We would not be here if our ancestors had lived in isolation, because they would have quickly died out.

Ticket Offer

Meet me and the rest of the team behind Master Investor Magazine on 6th April – just use the discount code PRICE to claim your complimentary ticket here.

But then we are not evolutionarily prepared for the stock market, either, or for financial markets more generally. Stock markets have only been with us for a few hundred years. *Homo sapiens,* on the other hand, has been around for roughly 300,000 years. So our brains are struggling to catch-up with this sudden innovation in investment.

Nevertheless, contrarian investing requires that we consciously live 'alone' for much of the time, at least as far as our portfolios are concerned. Nobody ever got rich following the herd, except as a result of wild good fortune. But being 'alone' is psychologically uncomfortable. Nothing about successful investing is particularly easy – or we would all be rich. Contrarian investing requires that we live in a domain well outside our natural comfort zone. It is difficult – but then so much of what is valuable in life is meant to be difficult. Challenge creates value. As the American writer and mythologist Joseph Campbell puts it, "The cave you fear to enter holds the treasure you seek."

The notion that successful investing is difficult is only reinforced by the extraordinary performance of last year's markets. As far as I can tell, the only stock market that gave investors a positive return in 2018 was that of Qatar. And their economy was being blockaded by Saudi Arabia. Go figure.

"CONTRARIAN INVESTING REQUIRES THAT WE LIVE IN A DOMAIN WELL OUTSIDE OUR NATURAL COMFORT ZONE."

So contrarianism (or value investing, which is practically the same thing) is not easy to practise. Another thing which is notoriously difficult for most investors – whether private or professional – is patience. The famed Canadian value investor Peter Cundill archly observed that:

> *The most important attribute for success in value investing is patience, patience and more patience. THE MAJORITY OF INVESTORS DO NOT POSSESS THIS CHARACTERISTIC.*

A case in point. The US investor and blogger Morgan Housel suggests that the best preparation for the next bear market is not to hypothesize your response, but rather to recall how you actually reacted to the last one. So here's a trial run. The table below shows how an investor in Warren Buffett's holding company, Berkshire Hathaway, would have fared during the 1970s. Imagine you are a shareholder. You have followed Buffett since he established his first investment partnership in 1956. In 1971, you invest $10,000 in Berkshire Hathaway stock. The table shows the value of your shareholding versus an investment in the S&P 500 stock index.

Year	Value of $10,000 in Berkshire Hathaway	Value of $10,000 in the S&P 500
1971	$10,000	$10,000
1974	$5,708	$7,456
1975	$5,422	$10,229

So a simple question: Would ***you*** have sold?

Now that you've had a chance to consider honestly, let's unfurl the calendar a little further. Here's how history played out.

Year	Value of $10,000 in Berkshire Hathaway	Value of $10,000 in the S&P 500
1975	$5,422	$10,229
1976	$13,392	$12,643
2008 (Nov)	$14,387,737	$259,068

Be honest. Would you have sold?

In a fabulously ironic twist of fate, by 1975, not only had our putative Berkshire Hathaway investor incurred a loss of nearly 50 percent on his shareholding, but the stock market as a whole was comfortably back in the black. I think many shareholders would have bailed on Buffett back then. And they would, of course, have missed out on quite extraordinary gains had they done so. Successful investing simply isn't easy.

Berkshire Hathaway, of course, is a completely different animal today versus what it was in the 1970s. As Buffett himself has well observed, the tree doesn't grow to the sky. When Buffett purchased the company, its share price was around $19. The stock has never split. As at early January 2019, Berkshire stock was trading at $294,000.

There are clearly two ways of going about successful value investing. One is to put in the hard yards yourself. The other is to delegate that task to a professional fund manager. And it is, of course, possible and probably desirable to combine the two. I enjoy the intellectual pursuit of stock picking, but I also enjoy hunting out like-minded managers, especially in parts of the world where I have nothing to bring to the table by way of market knowledge or affinity.

"THERE ARE CLEARLY TWO WAYS OF GOING ABOUT SUCCESSFUL VALUE INVESTING. ONE IS TO PUT IN THE HARD YARDS YOURSELF. THE OTHER IS TO DELEGATE THAT TASK TO A PROFESSIONAL FUND MANAGER."

Per Berkshire Hathaway, however, it is also critical to discriminate between asset managers and asset gatherers. With no disrespect towards Warren Buffett, his best days as an investor are behind him. This is not a judgment call but simply mathematics. As Buffett himself has acknowledged, it is far easier to generate high returns when you manage a small fund than when you manage a colossal fund. As he says:

> *Size is the anchor of performance. There is no question about it. It doesn't mean you can't do better than average when you get larger, but the margin shrinks. And if you ever get so you're managing two trillion dollars, and that happens to be the amount of the total equity valuation in the economy, don't think that you'll do better than average!*

(The asset 'manager' BlackRock, by way of example, currently has over $6 trillion under its 'management'.)

From the generic to the specific. Here are the criteria that my own firm uses in its search for compelling value opportunities from the world's stock markets. On the (non-casual) presumption that we have identified company managers who are principled, shareholder-friendly people and who are also adept at capital allocation, we ***then*** seek the following quantitative characteristics from that company's shares. We require that the price-to-book ratio is no higher than 1.5 times, and ideally below 1. I acknowledge that price-to-book is an imperfect metric in a world in which so much value is attributed to intangibles (as in the world of information technology and software, for example) but we have to start somewhere. We also require that the price-to-earnings ratio is no higher than 15 times. We seek a cash flow from operations yield of more than 10 percent per annum (this is calculated by assessing the cash a company generates versus the total value of its debt and equity). We require that cash from operations has grown over the prior five years. (We focus on cash generation because it is more difficult to 'abuse' by creative accounting than either earnings or profits.) We also require that return on equity has been above 8 percent, on average, per annum.

In light of last year's uniformly poor performance from stock markets, we derive some comfort from investing in companies where the underlying cash flow generation is doing splendidly. Whatever happens to the stock price in the short term is frankly for other people to worry about. As long as the companies themselves are performing well, we lose no sleep at night.

Welcome to the cave.

About Tim

Tim Price is manager of the VT Price Value Portfolio (www.pricevaluepartners.com) and author of 'Investing Through the Looking Glass: a rational guide to irrational financial markets'.

FEBRUARY 2019

INVESTOR EVENTS DIARY

EVERY WEDNESDAY

Event:	SR Live
Organiser:	SyndicateRoom
Time:	12:30
Place:	Webinar

TUESDAY, 5 FEBRUARY

Event:	London South East Investor Evening
Organiser:	London South East
Time:	18:00-21:00
Place:	Brewers Hall, Aldermanbury Square, London EC2V 7HR
Tickets:	Email amanda@masterinvestor.co.uk

WEDNESDAY, 6 FEBRUARY

Event:	UKBAA Healthtech showcase
Organiser:	UKBAA
Time:	17:30-21:00
Place:	Royal College of Physicians, 11 Saint Andrews Place, London NW1 4LE
Tickets:	https://bit.ly/2TiILdz

TUESDAY, 12 FEBRUARY

Event:	2019 Investment Threats and Opportunities
Organiser:	Netwealth, MoneyWeek
Time:	19:00-21:00
Place:	Prince Philip House, London SW1Y 5DG
Tickets:	https://bit.ly/2BbHVIO

THURSDAY, 21 FEBRUARY

Event:	Business Funding Show
Organiser:	Business Funding Show
Time:	10:00-17:00
Place:	East Wintergarden, London E14 5NX
Tickets:	https://bit.ly/2ANwG96 Use code: MasterInvestorShow to claim 15% off your ticket

FRIDAY, 22 FEBRUARY

Event:	London Forex Show 2019
Organiser:	Investor Conferences (UK)
Time:	09:30-17:00
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	https://bit.ly/2ME1SfX Use code: MASTERINVESTOR19 for a free ticket

WEDNESDAY, 6 MARCH

Event:	OXCP Investor Showcase
Organiser:	Oxford Capital Partners
Time:	18:00-20:00
Place:	London TBC
Tickets:	Email cmckay@oxcp.com

SATURDAY, 6 APRIL

Event:	Master Investor Show
Organiser:	Master Investor
Time:	09:30-17:00
Place:	Business Design Centre, 52 Upper Street, London N1 0QH
Tickets:	https://masterinvestorshow-2019.reg.buzz Use code: M219 for a free ticket

SATURDAY, 6 APRIL

Event:	London Cryptocurrency Show 2019
Organiser:	Investor Conferences (UK)
Time:	09:30-17:00
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	https://bit.ly/2FWvLY9 Use code: MASTERINVESTOR19 for a free ticket

TUESDAY, 9 APRIL

Event:	London South East Investor Evening
Organiser:	London South East
Time:	18:00-21:00
Place:	Brewers Hall, Aldermanbury Square, London EC2V 7HR
Tickets:	Email amanda@masterinvestor.co.uk

TUESDAY, 14 MAY

Event:	London South East Investor Evening
Organiser:	London South East
Time:	18:00-21:00
Place:	Brewers Hall, Aldermanbury Square, London EC2V 7HR
Tickets:	Email amanda@masterinvestor.co.uk

TUESDAY, 9 JULY

Event:	London South East Investor Evening
Organiser:	London South East
Time:	18:00-21:00
Place:	Brewers Hall, Aldermanbury Square, London EC2V 7HR
Tickets:	Email amanda@masterinvestor.co.uk

TUESDAY, 10 SEPTEMBER

Event:	London South East Investor Evening
Organiser:	London South East
Time:	18:00-21:00
Place:	Brewers Hall, Aldermanbury Square, London EC2V 7HR
Tickets:	Email amanda@masterinvestor.co.uk

FRIDAY, 25 OCTOBER

Event:	London Investor Show
Organiser:	UK Investor Events
Time:	09:30-17:00
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	https://bit.ly/2BaAn8Z

TUESDAY, 12 NOVEMBER

Event:	London South East Investor Evening
Organiser:	London South East
Time:	18:00-21:00
Place:	Brewers Hall, Aldermanbury Square, London EC2V 7HR
Tickets:	Email amanda@masterinvestor.co.uk

FRIDAY, 22 NOVEMBER

Event:	Manchester Investor Show
Organiser:	UK Investor Events
Time:	09:30-17:00
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	https://bit.ly/2BaAn8Z

MARKETS IN FOCUS

JANUARY 2019

GLOBAL EQUITIES

Index	Last Month %	YTD%	52-Week Strength
Russian TSI	13.7	13.7	
Bovespa	10.8	10.8	
NASDAQ 100	9.1	9.1	
Hang Seng	8.1	8.1	
S&P 500	7.9	7.9	
FTSE All-World	7.7	7.7	
Dow Jones	7.2	7.2	
CSI 300	6.3	6.3	
Euronext 100	6.2	6.2	
IBEX 35	6.1	6.1	
DAX Xetra	5.8	5.8	
CAC 40	5.5	5.5	
S&P/ASX 200	3.9	3.9	
Nikkei 225	3.8	3.8	
FTSE 100	3.6	3.6	

COMMODITIES

Commodity	Last Month %	YTD%	52-Week Strength
Iron Ore	18.4	18.4	
Crude oil (Light Sweet)	17.7	17.7	
Crude oil (Brent)	12.1	12.1	
Palm Oil (Crude)	9.6	9.6	
Palladium	9.5	9.5	
Copper	6.1	6.1	
Sugar (No. 11)	5.8	5.8	
Coffee	4.0	4.0	
Gold	3.2	3.2	
Silver	3.2	3.2	
Cotton	3.1	3.1	
Platinum	2.7	2.7	
Natural Gas	-4.2	-4.2	
Bitcoin	-7.3	-7.3	
Cocoa	-10.3	-10.3	

FOREX

Pair/Cross	Last Month %	YTD%	52-Week Strength
AUD/USD	3.1	3.1	
GBP/USD	2.8	2.8	
EUR/CHF	1.1	1.1	
USD/CHF	1.0	1.0	
EUR/USD	-0.2	-0.2	
GBP/AUD	-0.4	-0.4	
USD/JPY	-0.7	-0.7	
EUR/JPY	-0.9	-0.9	
EUR/GBP	-2.9	-2.9	
USD/CAD	-3.5	-3.5	

CENTRAL BANKS – RATES & MEETINGS

Central Bank	Key Rate	Next	After
Bank of England (BoE)	0.75%	Feb 07	Mar 21
European Central Bank (ECB)	0.00%	Mar 07	Apr 10
Federal Reserve System (FED)	2.50%	Mar 20	May 01
Bank of Japan (BoJ)	-0.10%	Mar 15	Apr 25
Bank of Canada (BoC)	1.75%	Mar 06	Apr 24
Reserve Bank of Australia (RBA)	1.50%	Feb 05	Mar 05
Swiss National Bank (SNB)	-0.75%	Mar 21	Jun 13
Banco Central do Brasil (BCB)	6.50%	Feb 06	Mar 20
Central Bank of Russia (CBR)	7.75%	Feb 08	Mar 22
Reserve Bank of India (RBI)	6.50%	Feb 07	

FTSE 350 TOP RISERS

Company	Last Month %	YTD%	52-Week Strength
Clarkson PLC	34.7	34.7	
Dunelm Group PLC	33.5	33.5	
Ferrexpo PLC	32.8	32.8	
JD Sports Fashion PLC	32.7	32.7	
On The Beach Group PLC	31.0	31.0	

FTSE 350 FALLERS

Company	Last Month %	YTD%	52-Week Strength
Metro Bank PLC	-35.8	-35.8	
PZ Cussons PLC	-15.9	-15.9	
Sanne Group PLC	-13.9	-13.9	
Amigo Holdings PLC	-13.5	-13.5	
Hiscox Ltd	-12.5	-12.5	

FTSE 350 SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Technology Hardware & Equip	24.5	24.5	
Food & Drug Retailers	16.1	16.1	
General Retailers	14.7	14.7	
Forestry & Paper	12.6	12.6	
Food Producers	11.8	11.8	

FTSE 350 SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Mobile Telecommunications	-9.1	-9.1	
Pharma & Biotech	-3.1	-3.1	
Fixed Line Telecom	-2.4	-2.4	
Health Care Equip & Serv	-2.1	-2.1	
Personal Goods	-1.9	-1.9	

IA SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
North American Smaller Comp	8.1	8.1	
Technology and Telecom	6.5	6.5	
European Smaller Comp	5.7	5.7	
China/Greater China	5.7	5.7	
North America	5.5	5.5	

IA SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Money Market	0.1	0.1	
Global Bonds	0.1	0.1	
Short Term Money Market	0.1	0.1	
UK Direct Property	0.4	0.4	
UK Index Linked Gilts	0.9	0.9