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master investor MAGAZINE

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GENERAL ELECTION 2015:

WHOEVER WINS, BRITAIN LOSES

ISSUE 02 - MAY 2015
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WELCOME

I write to you in the wake of the 2015 Master Investor conference, which was by all accounts the best and most well attended in the event's history. I would like to say a huge thank you to all the 3,800 people who attended on the day. It will be hard to raise the bar again in 2016 – but that is exactly what we aim to do!

Issue no. 2 of Master Investor Magazine once again brings you a broad array of insightful articles about investing, trading, and navigating the markets in what Moneyweek's Merryn Somerset-Webb rightly referred to as extraordinary conditions. What's more, our authors are doing their best to identify some common misconceptions.

For example, it's commonly thought that "you can't lose with property". However, everywhere in the world, property suffers regular periods of underperformance. On page 22, I give the example of Germany, where between 1975 and 2003 prices did not move an inch once inflation is taken into consideration. You'll also learn why 80% of all residential property in Germany is unlikely to gain any real value over the coming 20 years - and how you can focus on the remaining 20%!

This issue is once again filled with comment and analysis that may help you to make sense of markets and identify new opportunities. For those of you who like to do your own research, turn to page 82 to read about a fascinating new book that lays out why some of the best value opportunities might just be in your own back yard. Gervais Williams delivered a keynote speech to a jam-packed auditorium at the Master Investor show last month, and anyone who missed it is advised to catch up on his thinking by getting his latest book.

A substantial part of the rest of this issue is focused on the UK General Election and how it may influence your investments. This is the most unpredictable election the UK has experienced in living memory, and our authors Filipe R. Costa, James Faulkner, Robert Sutherland Smith, Nick Sudbury and Samuel Rae are offering you their viewpoints on how to prepare for the aftermath.

I hope you have also been making ample use of our newly launched website, www.masterinvestormagazine.co.uk, where we are posting new material on a daily basis. You'll find articles from some of the authors that you already know from the magazine, but also new authors that we will be adding to our growing line-up of contributors over the coming months (interested in writing for us – email james.faulkner@masterinvestor.co.uk).

Last but not least, we have relaunched our daily market report in a format that I hope you find more informative, more useful, and more visually appealing. To sign up to the free market report, please subscribe by clicking **HERE**

Until next month, Best regards,

Swen Lorenz, Editor

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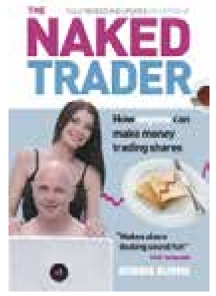

Get the latest copy of Robbie Burn's new book the Naked Trader, which has just been published!

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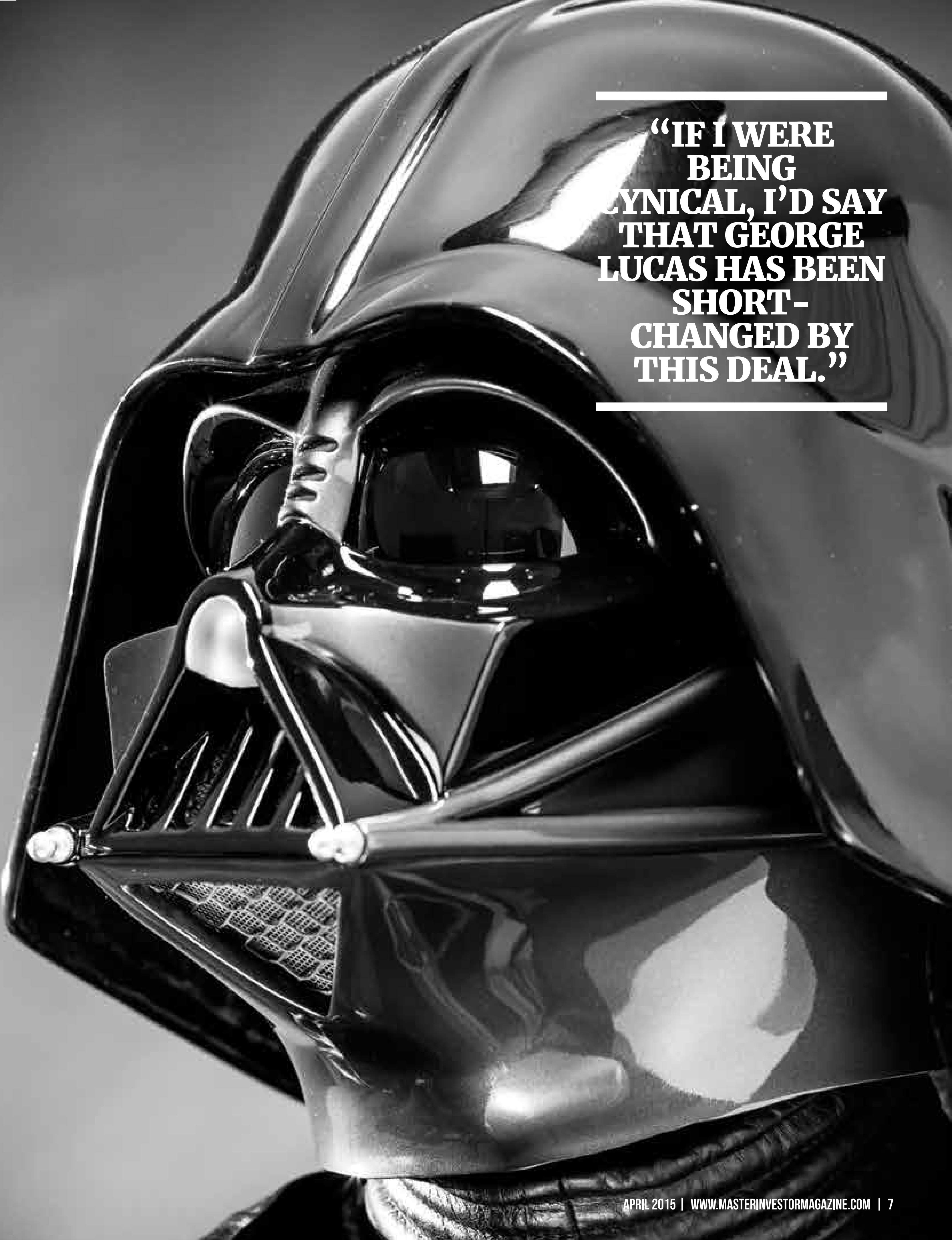
WHEN DISNEY MET STAR WARS

THE FORCE IS STRONG WITH THIS ONE

When Disney Met STAR WARS

BY JAMES FAULKNER

Being a huge Star Wars fan, I confess to having felt a pang of child-like excitement upon hearing that Disney had released a new trailer for the first instalment of the third trilogy in the franchise. Although it certainly piqued my interest, I had been somewhat underwhelmed by the first 'teaser' trailer, which was painfully laconic in terms of what it revealed. But perhaps that was always the best way to play it: keep the fans guessing and wanting more.



"IF I WERE BEING CYNICAL, I'D SAY THAT GEORGE LUCAS HAS BEEN SHORT-CHANGED BY THIS DEAL."

If the last trailer underdelivered, the latest one did the opposite. We were treated to screenshots of key characters in what was an altogether more fluid and cogent appetiser for the film. I challenge any Star Wars fan not to admit to having felt the hair stand up on the back of their neck upon witnessing the Millennium Falcon fly into the engine shaft of a star destroyer; or at the reappearance of a geriatric Han Solo and Chewbacca after an absence of more than three decades from the silver screen.

But apart from the fans, the people who can also look forward to many an exciting year ahead are Walt Disney Co. shareholders. Disney stock jumped 1% on the back of the release of the new trailer – a move that was enough to add $2 billion to the company's market capitalisation. To put that into context, Disney bought Lucasfilm for $4.05 billion back in 2012. If the Star Wars franchise can add that much value on the back of one trailer, what might it add over the next decade of films and merchandising? If I were being cynical, I'd say that George Lucas has been short-changed by this deal.

The deal follows Disney's acquisitions of Pixar studios for $7.4 billion in 2006 and Marvel comics for $4.2 billion in 2009, and is part of a strategy to grow its stable of entertainment franchises from the core Disney portfolio. Examining the Disney Co. accounts, we find that the $4.1 billion price tag for Lucasfilm was allocated as follows: $2.6 billion to identifiable intangible assets, $2.3 billion to goodwill, and ($0.8 billion) for a deferred income tax liability. The 2014 annual report states that "The goodwill reflects the value to Disney from leveraging Lucasfilm intellectual property across our distribution channels, taking advantage of Disney's established global reach." It strikes me that $2.3 billion is a seriously conservative estimate for this potential. It therefore seems that rather than purely extracting the highest price tag for Lucasfilm, Lucas himself was primarily motivated by stewardship considerations. Put simply, Lucas wanted Disney as much as Disney wanted Lucasfilm.

So how much is the Star Wars franchise *really* worth to Disney?

Disney has allocated a 'useful life' of 40 years to its Lucasfilm intangible assets, so that gives us a clear indication that Disney expects a lot of mileage out of the franchise. After all, Star Wars has been around for almost 40 years already, so why shouldn't it be around for another 40 years? With the last film in the franchise, *The Revenge of the Sith*, having been released 'a long, long time ago' in 2005, Disney believes that there is "substantial pent-up demand" for new material. As a Star Wars fan myself, I can confirm that they're right in that assumption.

But the real opportunity surely lies in bringing Star Wars to a new generation of fans, along with opening up new markets and geographies to the franchise. Since the last film was released in 2005, hundreds of millions of people have joined the ranks of the middle classes of the emerging economies.

What's more, the global middle classes are set to more than double by 2030 (according to analysis from Reuters), thus bringing a whole new potential market of budding Star Wars enthusiasts.

With this in mind – and considering the fact that there hasn't been a Star Wars movie released for ten years – the new batch of Star Wars films could easily become the highest grossing films of all time. Star Wars is currently the fifth most successful film franchise of all time, with total worldwide box office receipts of $4.4 billion. But consider that the top four franchises – Harry Potter, Marvel, James Bond and Tolkien's Middle Earth – have all had films out much more recently, in a market where ticket prices are now much higher and global audiences much larger! Given that Avatar made $2.8 billion in 2009, I don't think it would be outrageous to suggest that Disney could conceivably recoup the entire price tag for Lucasfilm in a single film.

Rank	Film Franchise	Last film released in	Worldwide Gross
1	*Harry Potter*	2011	$7.7 billion
2	*Marvel*	2014	$7.2 billion
3	*James Bond*	2012	$6.2 billion
4	*Tolkien's Middle Earth*	2014	$5.9 billion
5	***Star Wars***	**2005**	**$4.4 billion**

WHEN DISNEY MET STAR WARS

In addition to the films themselves, there is also the whole consumer phenomenon emanating from them. An article from Forbes in 2011 noted, "Star Wars' initial release was followed by another five blockbuster films and a mini-industry of tapes and DVDs, toys, video games and books. Taken together over its 30 years of cultural dominance, the Star Wars franchise has earned more than $22 billion." Sales have now surpassed $30 billion, according to more recent estimates.

With its extensive distribution and creative infrastructure, Disney should easily be able to move the Star Wars money-making machine up a few gears, especially as it seeks to capitalise on the release of the new films from the end of 2015 onwards.

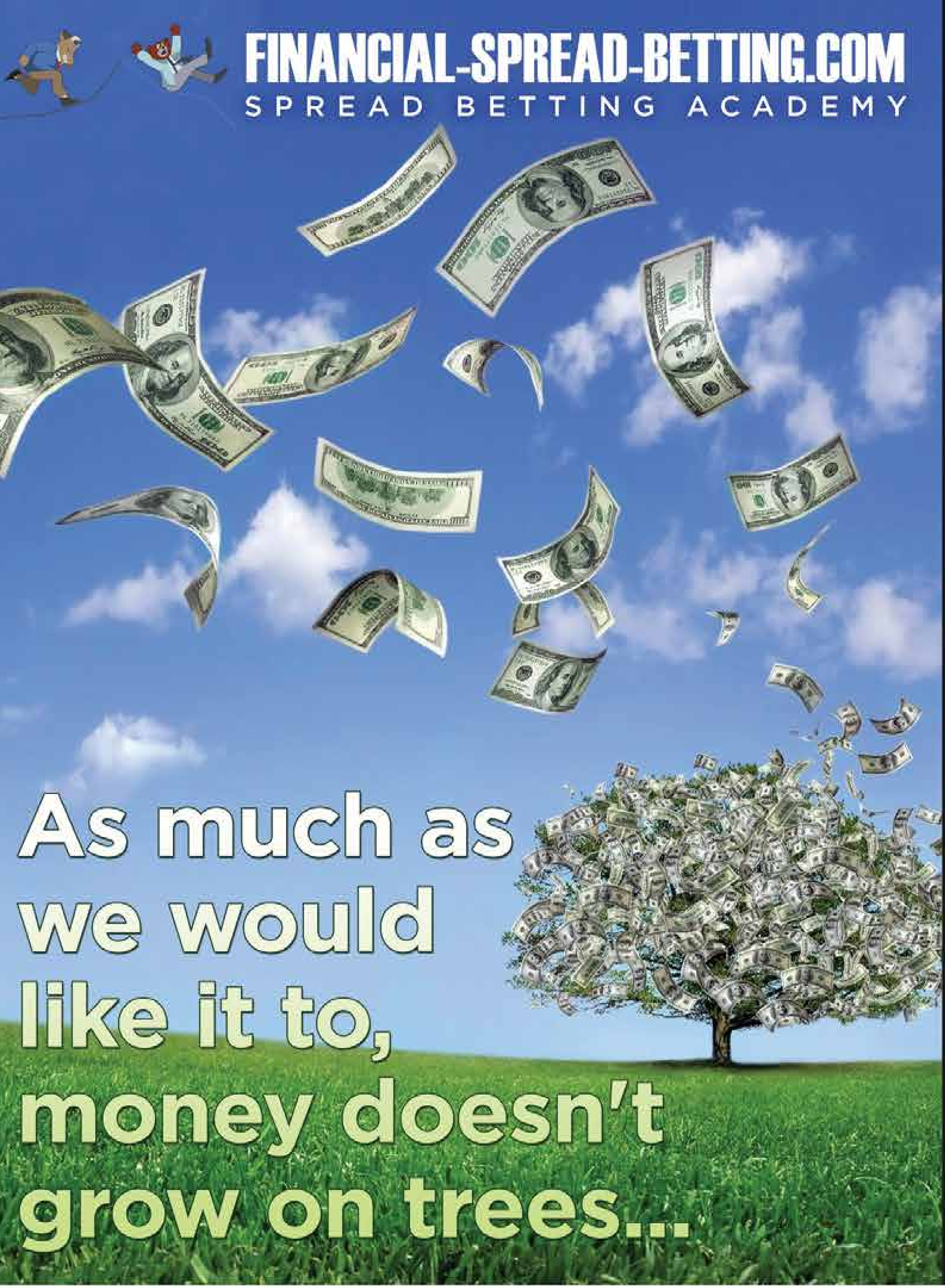
"GIVEN THAT AVATAR MADE $2.8 BILLION IN 2009, I DON'T THINK IT WOULD BE OUTRAGEOUS TO SUGGEST THAT DISNEY COULD CONCEIVABLY RECOUP THE ENTIRE PRICE TAG FOR LUCASFILM IN A SINGLE FILM."

In the new world where Content is King, Disney holds the crown jewels

With Star Wars being but the latest jewel in the crown, Disney is in a supremely strong position in today's digital world. The market is beginning to understand that entities that have a strong creative and distribution presence are highly valuable assets – and Disney's portfolio is arguably the best out there. Moreover, Disney has shown itself to be a masterful creator, acquirer and reformulator of content – something which is showcased perfectly in its success with *Pirates of the Caribbean*, a franchise that was created entirely out of a theme park ride!

Although Disney stock trades on a trailing 12-month P/E of around 24x, this rating looks well-deserved in light of its position within the industry and its prospects for future growth. The shares are, in my opinion, a long-term strategic hold.

May the Force be with you... always!



...but we can give you the opportunity to plant the seeds of your own success!

In our own experience with hundreds of traders from around the world, the 'secret' - if there is one, as to why some of these guys always seem to make money right from the start, is that they keep things simple.

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ZAK MIR INTERVIEW

DAVID BUIK

Zak : David Buik, City Legend, are there any qualifications required for this type of job if someone wants to follow in your footsteps?

That's a very difficult question because they don't come more of a Luddite than myself, nor more uneducated for that matter – the only exams I ever passed were seven GCSEs. I fear that time has rather moved on since then. I mean that by today's standards I would be described, and quite rightly so, as completely unemployable. So it's quite hard to answer the question. You don't need the brains, as you know, of a rocket scientist to do what I do. You just need a little bit of confidence, a little bit of experience and a bit of knowledge – and the ability to communicate. The greatest joy that God ever gave anybody in this world as far as I'm concerned is good company, and if you feel comfortable in good company or all company, the job is actually very easy.

Zak : Actually, you have answered what was a very difficult question I know – almost cheeky. But there are in fact many points arising from what you have said. The first one is qualifications in the City. These days you need more and more qualifications, while until about 20 years ago some could get into the City with no qualifications at all. Couldn't it be argued that the City was a better place before the advent of qualifications overload?

I think in fact there was more flare. Flare as well as ability. Flare was very important. Somebody who could smell markets in their nostrils, whether they were going up, down, moving. Whether there was long-term value. Today, as you know – you only have to look at the percentage of business that is done technically on screens, whether they're auctions or programme trades – it's regrettable but somewhere between 40 and 50 per cent of trades are done by mathematicians. And it's got nothing to do with flare or whether you think the market could tank, or whether you think the market's got more value in it. It's "This is what the algorithm says…", which I find very depressing. It's certainly, from my perspective, not a market I would particularly like to be working in 2015.

> **"YOU CAN'T BUCK THE MARKET. BUT ALL YOU CAN SAY IS THAT THE QUALITY OF REGULATORS TODAY IN COMPARISON TO EVEN SEVEN YEARS AGO IS SUBSTANTIALLY HIGHER."**

Zak : Sorry, but do these algorithms work? We had the Euro/Swiss debacle earlier this year. Presumably, most got carted on that move? Algorithms or not.

I think a number of people did get carted on that move, but I mean even you will find that all the central banks, whether it be the Fed, the Bank of England, or the Bank of Japan, are incandescent with rage against the Swiss authorities for giving them absolutely no notice, so that a movement of that nature could be massaged into the market. It was really an unforgivable thing.

Zak : That is assuming that the central banks actually know what they are doing. From the Euro/Swiss debacle, and obviously from our own ERM situation, pegging currencies is a failed strategy. As Mrs Thatcher said, "You can't buck the market."

You can't buck the market. But all you can say is that the quality of regulators today in comparison to even seven years ago is substantially higher. There are also more of them, and the leadership is much stronger than it was then. No doubt, this is helped by the fact that they had support from the government at a very, very, high level. So you are getting quality people like Andrew Bailey at the Prudential Authority of the Bank of England, and Martin Wheatley, who's had his moments as well, but again I would describe as a quality individual. So I think to compare what's going on today and what went on seven or eight years ago, or longer than that, is probably unfair.

I mean the only thing that concerns me gravely at the moment – and I am hugely concerned about it – is when something's gone wrong we always overcompensate in this country. And we are over regulating now.

Zak : Let me be unfair, because you could say that between those few who can trade or invest successfully and those who regulate, it is always going to be the latter who are one step behind the curve. They will always be shutting the door after the horse has bolted.

Yes, but you know from what happened eight years ago, the first thing is we want no repetition of that at all. But on the other side of the coin, to hear after 52 years in the City of London that there will be in a year's time no investment banking in the Royal Bank of Scotland at all! There is also a very badly shaved down Barclays Bank where most of the exposure will be in New York. HSBC is battered, scared and bruised by unfair treatment out of the United States of America, and also issues with the authorities over here will almost certainly transfer the valuation of their investment banking balance sheet away to Asia. They are already complying with the Chinese laws by sending 1,000 staff up to Birmingham to run their retail banking. This means that we are actually turning to the likes of Goldman Sachs, Morgan Stanley, JP Morgan Chase, Deutsche Bank and UBS saying, "Fill your boots and do it in London". I think it's just terribly, terribly sad. I don't condone bad behaviour but we have gone completely over the top in my humble opinion.

Zak : What is the answer? Who is going to change this, because on the political side it is very difficult? You have a situation where the general public really doesn't understand the City, so it is up to the politicians to play it by ear. It is just something they are lumbered with unless there is a scandal such as PPI, Libor or Forex manipulation, when they are forced to act.

Well you know the politicians of today, regardless of colour, creed, or anything else, have to be prudent. They can't afford not to take a measured judgement on these things. In other words, any kind of uncontrolled risk would be completely unsatisfactory in the current circumstances. But this goes to a subject that you and I have no time to deal with, which is the lack of professionalism in the world of politics. The number of people who've actually had a job, have had any commercial experience, any leadership experience, is extremely limited. That's because if you have experience, you automatically are labelled with having a colourful past. Things go wrong with people who actually do things.

"THIS BUSINESS OF GOING UP THE AIRCRAFT GANGWAY AND TURNING LEFT, AND HEADING OFF TO HONG KONG OR ZOG OR WHEREVER IT MIGHT BE, BECAUSE THE TAX IS BETTER AND YOU'LL BE ALLOWED TO DO IT – THAT'S JUST A MYTH."

Zak : Eventually.

Even Richard Branson has had a few failed businesses under his belt. But it seems to be that the press are very unforgiving on any blemishes at all.

Well again you're going back to things that – and I'm substantially older than you are, but if you recall – even in the days of Patrick Sergeant, and Ivan Fallon, and all these other great financial doyens of the past, even Nigel Lawson when he was Business Editor of the Sunday Telegraph 50 years ago, is that they were on the whole lacking in what we call communications. They had no Bloomberg, they had no Reuters, they had no wall-to-wall television, they had no technology. Therefore the quality of journalism was down to the Cheshire Cheese in Fleet Street. You know, you poured a couple of bottles of claret down your Gregory Peck, got some information and went back to the office to write a story. Life is very much more sophisticated now, and the quality of journalist that you have, as you well know yourself, in my humble opinion is very high. They are a very unforgiving bunch because they pick holes in everything that's going, which is what they're paid to do, as a result of which they are very, very critical and the actual support for the financial services in the financial press is extremely limited.

Zak : That is because we have got the CEO fat cats, the bonuses, and sky high commissions from fund managers, the latest section of the City community to get it in the neck.

Yes.

Zak : In terms of charges and things like that, where is it going to end? It could be the case within ten years that there is hardly any point in getting involved in the business of providing financial services at all. The death warrant is being issued as we speak.

Well yes, I think you can be negative in your attitude and the way you put things across is the immediate hurdle that we all have to face. And I don't think you're exaggerating a point. But people seem these days to only learn when serious mistakes and errors of judgement have been made. As we know, this business of going up the aircraft gangway and turning left, and heading off to Hong Kong or Zog or wherever it might be, because the tax is better and you'll be allowed to do it – that's just a myth. What will happen is the capital will be appropriated to other parts of the world. This is why it's very sad. And you know, the European Union will learn by its draconian stance and by the hopeless interpretation of regulation being done on a global basis. Even the Bank of England thinks regulation should be done on a global basis. I do not. How can you possibly compare the criteria that is required from British banks over here – we're basically mortgage lenders – to countries in Spain and Portugal and France where they can't even spell it? So how you could possibly have the same criteria for regulation? I don't understand. That's where I think they've made a serious error of judgement. We've waited for everybody else to dance and sing from the same hymn sheet. That's just nonsense.

Zak : I am going to put you on the spot again. In terms of a wish list, if you were King David of Buik, are there any obvious things you would change? Glaring things that we have wrong in 2015 and which we maybe did not have before in the City?

What we have in the City basically is that the whole of the City of London now is tarred by the brush of the ailments of maybe a couple of hundred people. This I find terribly, terribly sad. I really do. The idea that we should not be involved in investment banking is just utter nonsense, as far as I'm concerned. If you need to have more capital in that part of the business, but under the same banner, then so be it. I've got no problem with that. I don't have a problem with regulation. But what I do have a problem with is when people slam the door in the face of flare. I find that completely and utterly illogical and ridiculous. And it's political pressure, it's the establishment, because they feel that their only way of getting themselves heard is to thump the tub, and think that they're making a tremendous contribution to society. They're not. Where we're woefully weak is 650 members of parliament, where probably 500 haven't got a clue about the commercial world. That is really detrimental to serious decisions being made on regulation and on commercial practice.

"WHERE WE'RE WOEFULLY WEAK IS 650 MEMBERS OF PARLIAMENT, WHERE PROBABLY 500 HAVEN'T GOT A CLUE ABOUT THE COMMERCIAL WORLD."

Zak : Just to be cheeky once again. You are not exactly a fan of the European project. But how much better is the Westminster project. It looks as though it is absolutely in tatters. Not just the scandals and historic horrors, but the whole model of the second house and the expenses. The only plus point with Westminster is to be ruined by your own people rather than people who are abroad. Indeed, you don't hear of as many scandals from Brussels as you do from Westminster.

We won't, for the simple reason that you can add Paris, Frankfurt, Brussels, Amsterdam, Rome, Madrid, list them all together, and they won't make up the size of London as a financial centre. If that's the case the quality of risk management for want of anything else is far greater. So when something goes wrong it's going to go horribly wrong. What I'm saying is, what strikes me here at the moment is that we don't have any balance. We do not want what happened before the financial crisis, no doubt at all. But what we do want is the ability that if there is good business around, or people have flare to creative business, that they should be given an environment to do it with decent regulation.

Zak : May 7th is fast approaching, and in terms of the General Election result Nigel Farage is hoping that he will have a say in the outcome. So is Alex Salmond. Is there any happy scenario you can think of in terms of what is going to happen?

No. I mean basically my political affiliations will come as absolutely no surprise to you at all. And, you know the idea that I would have Ed Miliband as my Prime Minister is not one that fills me with great joy, and even if I wasn't at the advanced age of 71 I certainly wouldn't be able to do backwards summersaults.

Zak : And you would not have two kitchens either.

No, I wouldn't. The point I was going to make to you really and truly today however emotional I want to feel about the idea of a Labour Government, or a Labour coalition, or any government at all, is the fact is decisions in the United Kingdom are not made domestically anymore. Mr Cameron is incapable of controlling immigration, the world outside decides what happens about currency flow. Pretty much every decision about anything that happens is a global one. Therefore who wins or whatever coalition it is, there'll be a different emphasis on the type of business, or the business environment. But anybody who thinks because we're going to have a Labour government that the whole world is, or the whole of the United Kingdom is just going to fall over, I think just deludes themselves. It's not going to happen. It's going to be twice as tough to make any money, and the concern is that of course unemployment will go up because incentives will go down, and therefore people won't invest and without investments you've got very little chance of creating wealth. But I'm afraid a Labour-led minority government or any Labour-led government has to learn by its mistakes, because it doesn't believe what business, industry and commerce tells it.

FUND MANAGER IN FOCUS

Zak : You are saying that the optimistic side of that is just that money flows and external political contingencies will probably govern this country alongside Labour in a way?

Any government. I honestly generally believe it's the same for a Conservative-led coalition. What I do say is that the emphasis would be different. Currently the UK is a terrific environment to do business. I actually believe in my heart, because he's never given me any reason to disbelieve it, that Ed Miliband's heart is probably in the right place, because he has a massive social conscience for which nobody could possibly be chastised or criticised for. The trouble is with him he's not balanced, he is anti-business, and that comes across a vibration very, very strong wherever you go and whoever you talk to. I haven't found anybody who's said, "You know you can trust him and he really is on business's side". He's not. I think Ed Balls is pragmatic. I think his macroeconomic outlook is probably not unsound. But his micro-management of it and understanding what is required to keep incentive going, is to keep people going back to the world and investing in business, industry and commerce. He doesn't get it like Ed Miliband but he does understand the big picture. He might be many things, Ed Balls, stupid he's not.

Zak : Do you think that we are probably going to have a coalition, probably a Conservative coalition, because they have done enough to prop up the housing market and the jobs situation? A Cameron coalition second term, with business as usual?

The same as we have at the moment? Is that the best scenario do you think?

Well I think you're writing a script that everybody in the City would love to have. But I'm not certain it's going to happen because one thing that concerns me hugely is that the campaign which has been underway now for some weeks, clearly Lynton Crosby has got the Conservatives singing from one hymn sheet and that hymn sheet says, it's the economy stupid. Well that's all very well, but you know basically if you live outside the South East of England and London, and some of the very richer parts of Manchester, they haven't seen this huge rally. And therefore you have to give them hope. What I don't think either party has got the slightest idea of how to do – and don't ask me because I don't have any idea either – is how you close the gap between those who have become very rich in the last 10 years. It hasn't been since the Conservatives have been in, it's since the last 10 years and there have been those who've not seen their standard of living rise at all. And that is, I think, a huge problem. And even if Miliband is not plausible, which he is to me, if he can get that message across who knows what's going to happen on 7th May. I'd like to think David Cameron and George Osborne, 100 per cent deserve another chance because of what they've achieved in very, very difficult circumstances. Whether they'll be given it, I have my doubts.

Zak : Thank you, David. Hopefully, we shall speak again soon

"ED MILIBAND'S HEART IS PROBABLY IN THE RIGHT PLACE, BECAUSE HE HAS A MASSIVE SOCIAL CONSCIENCE FOR WHICH NOBODY COULD POSSIBLY BE CHASTISED OR CRITICISED FOR."

MELLON ON THE MARKETS

BY JIM MELLON

Well, another year, and another Master Investor. This year was particularly special, as we had 3,800 people through the door, and a huge amount of publicity. Over the years, I've made new friends at the show and it's always great to welcome them back.

My slides will be linked to this article (see right), so I won't go into too much detail, as the presentation itself will soon be on the magazine's website. The magazine is now the format for all of the various publications produced under the Ancien Regime, and we are investing heavily in content. Its objective is to get away from the rant rag tone of other people's 'work', and to genuinely provide balanced comment and analysis.

We won't ever get everything – or even close to everything – right, but our guiding principles are, firstly, to do our best, and secondly, to eat our own cooking wherever possible.

I am truly grateful for so many people coming to make this by far the biggest show for investors in the UK and I guarantee you that on 23rd April 2016 we will have some spectacular stuff for you to see and hear.

As I said in my speech – one based largely on the **Fast Forward book** – this is the best time ever to be alive, and the mundanity of everyday life and its struggles should be seen in that context.

"THIS IS THE BEST TIME EVER TO BE ALIVE, AND THE MUNDANITY OF EVERYDAY LIFE AND ITS STRUGGLES SHOULD BE SEEN IN THAT CONTEXT

Sure, the droning sound of economic forecasts, the hunt for yield and return in a triple zero (growth, interest rates and productivity) world may seem tedious and grinding, but quite soon, we will live in a different type of world.

Meantime, we have to eat, so I am going to reiterate some of my key trades. I have closed out the Euro short that has served us so well in the past year; I have gone short **Apple** (notwithstanding great results in the first quarter); and I am heavily short the **Swiss Franc** against the Euro. I like **Hewlett Packard** for recovery; I have recently recommended **HSBC**, but it is close to target now; and amongst smaller companies, I like **Portage Therapeutics** in Canada, in which I have a key interest, as well as **Synergy Pharma** in the US.

All negative yield bonds are shorts, and I would lighten up on gilts and US Treasuries with immediate effect.

> **"ALL NEGATIVE YIELD BONDS ARE SHORTS, AND I WOULD LIGHTEN UP ON GILTS AND US TREASURIES WITH IMMEDIATE EFFECT."**

I am certain that **US interest rates** are going to rise soon, and as a result I would be very wary of the overall US market. Meantime, I remain long the **Nikkei,** for a further 10-15 % from this point. Japan is transforming itself quite quickly and I wouldn't worry too much about all the blather on demographics and stasis.

The fact is, Mr and Mrs Mikimoto are chasing yield and return, they have huge savings, inadequate pensions, and they are replaying the stock mania of the 1980s.

In the precious metals complex, I plump for **silver**; it is a leveraged way of dealing with tail risk and as such provides good insurance. I won't follow Merryn Somerset Webb into the Chinese markets, though she may be right; it seems too much of a pass the parcel game to me.

In the past six weeks, I have made four speeches and am delighted now to go to Spain (preceded by a quick trip to Kiev, which I will report on) and take some time off. Of course, I will still be keeping in touch both with you and the wider world, but at least my voice gets a rest.

The link to my slides follows below, and you can look at the key themes at your leisure.

Robotics **(Fanuc and Kuka)** and life sciences are my favourite areas.

Happy Hunting!!

Jim Mellon

Click HERE to view the slides from Jim's presentation at Master Investor 2015

Click HERE to follow Jim's trades on twitter

What Jim read this month...

"Tech titans' latest project: Defy death"

Jim is a firm believer in the rise of human life-expectancy, but maybe he has set his sights even further... Forget the Fountain of Youth, the Picture of Dorian Gray, or the Holy Grail, the search for immortality is over, today's tech titan billionaires now believe they can create it using technology and data.

From The Washington Post - CLICK HERE

"The biggest question for pension planning: how long until you die?"

Until the tech titans crack eternal life, this is something we all need to consider at some point. Our life expectancy has been at the heart of many financial transactions over the decades, but with longevity the norm, the whole system is being revised. The article looks at some interesting solutions and Jim's book *Fast Forward* is quoted as an 'upbeat' outlook on things.

From The Sunday Times - CLICK HERE

"The innovators: build and launch your own satellite ... for £20,000"

This article from *The Guardian* takes a look at 25 year old founder of the PocketQube Shop, Tom Walkinshaw, who is looking to open up the next generation of space technology to amateur innovators by selling satellites the size of smartphones, for the comparatively accessible sum of £20,000.

From The Guardian - CLICK HERE

"The Secrets of Unicorn Companies"

Salim Ismail explores the secrets of Unicorn companies (companies that soar to a $1billion valuation and beyond) and the 100 most scalable organisations. Ismail theorises that Unicorns share a unique scaling structure which allows them to prosper exponentially, identifying and implementing that structure is the key to $1billion success. ...

From Medium.com - CLICK HERE

A cryptocurrency fit for Wall Street"

Gillian Tett looks at the latest chapter in the bitcoin saga. Wall Street financiers are now looking beyond retail payments and donations, so far the mainstay of cryptocurrency, to wholesale financial transactions and back-office markets settlements.

From The Financial Times - CLICK HERE

Out of the Ashes: Can civilisation reboot without fossil fuels?

Lewis Dartnell, UK Space Agency research fellow at the University of Leicester, discusses themes explored in his latest book *The Knowledge: How to Rebuild Our World From Scratch (2014)*. He looks at how the world will cope when we run out of fossil fuels, and surprisingly, it's not all doom and gloom.

From Aeon Magazine - CLICK HERE

AROUND THE WORLD IN A DOZEN PROPERTIES (PART 2)

HOW TO GET IN ON THE GERMAN PROPERTY JUGGERNAUT

BY SWEN LORENZ

This is the second in a 12-part series of articles by Swen Lorenz, reporting on easy-to-access investment opportunities in high quality real estate around the world. This month, Swen has travelled to Germany to seek out an investment suitable for private investors.

You'd have to have spent the last few years under a rock not to have heard of Germany's booming property market. After many years of being ignored by real estate investors, since 2005 the German market has come onto its own.

Prices for residential property in some areas of Berlin have risen by a factor of 4-5 over the past decade; Munich can now keep up with some of the priciest real estate locations in the world; and the country has been discovered by private equity investors, such as British firm Terra Firma, which bought a six digit number of apartments across the country, but has since then moved on through floating them on the stock market.

I'm here to investigate whether or not it's still a good time for private investors to invest in this market.

Some common misconceptions about the German market

Investors interested in property investments in Germany need to keep in mind just how large and diverse the country is. In a country with 80 million residents, which previously was split into two separate nations, you inevitably end up having a broad spectrum of property sub-markets. Some do not lend themselves to property investment at all, and it is quite likely that the percentage of such unsuitable locations is much bigger than is widely believed.

The country has a lot of rural areas and mid-sized cities that labour under continued structural weaknesses, particularly ageing populations. In a growing number of these areas, there are now tendencies towards negative population growth, with the young leaving for the large urban areas and the old remaining behind - which becomes a self-reinforcing cycle that is hard to break.

In Chemnitz, the third largest city of the state of Saxony with 240,000 residents, a staggering 30,000 apartments are already standing empty. The Government is now discussing large-scale demolition work to deal with the issue. You wouldn't want a property promoter to sell you an apartment in an area that has a bleak economic future - and there are many such places!

"A LARGE-SCALE STUDY ESTIMATED THAT ONLY 20% OF GERMANY'S RESIDENTIAL PROPERTY HAS ANY PROSPECT OF INCREASING IN VALUE BY MORE THAN THE RATE OF INFLATION OVER THE COMING 20 YEARS."

A large-scale study estimated that only 20% of Germany's residential property has any prospect of increasing in value by more than the rate of inflation over the coming 20 years. That renders the other 80% of the country entirely uninteresting for investment purposes.

Also, don't under-estimate how taxes, bureaucracy and regulation can affect your investment. Germany is a country of traditionally strong protections for tenants. The booming property market is great for investors, but 58% of Germans still rent rather than own. The majority feels left out and will fight increasing prices and rents in the poll booths. Even now, regulation makes it difficult to get rid of tenants that have turned into a problem. Imagine owning a property and not just ending up with a tenant from Hell, but also finding out that the law is basically set against you.

Some areas remain attractive for the long term

No matter how strong Germany is economically, its property market is anything but a one-way street. As a matter of fact, between 1975 and 2003, inflation-adjusted property prices in Germany didn't go anywhere. Just like with any other market, it's important to get both investment quality and timing right.

The number one real estate location to look at in Germany is Berlin. A quarter of a century after the Wall came down, Berlin has turned itself into an edgy and vibrant global capital with an interesting historic and cultural legacy. If you visit for a weekend, you'll find majestic historic architecture across the entire city centre, newly gentrified apartment blocks in areas that were previously occupied by communist flats and buildings from the Third Reich – and there are still countless construction cranes foresting the skylines, indicating that more change is still to come.

Berlin experienced a first wave of foreign buying between 2005 and 2007. After a temporary dip during the financial crisis, these foreign buyers have now returned. Their favourite investments are apartments in the fashionable *Mitte* district, where foreigners make up 70% of all transactions. Brits and Russians account for a substantial part of these transactions, the latter together with Ukranians and other Eastern Europeans who are looking for a safe haven destination. *Mitte* is also a no-brainer for expats who actually want to live in Berlin.

In the *Mitte* district, prices have now risen to a level where some high-end apartments are changing hands for nearly EUR 20,000/sqm, which is near the rate for similar locations in other large capitals. However, Berlin as a whole is still cheap, and that's what investors should pay attention to.

Across the entirety of Berlin, residential property is priced at an average of EUR 2,000 to EUR 2,500 per square metre. That's just a third of what's being paid in London or Paris. In terms of youthful population, economic vibrancy, and cultural offerings, Berlin is nearly certain to eventually catch up with Paris and London. That's where the opportunity lies.

Already a sought-after location for start-ups, Berlin will eventually succeed in what it has utterly failed at thus far. The city's average income is currently 8% below the national average, which of course also hinders price growth for residential property.

Of the 30 companies making up the German DAX index, not a single one is domiciled in Berlin! Thanks to the German Government's commitment to continue to pump billions of Euros into developing the country's capital into a major European hub, that will change eventually. Unemployment in Berlin is still higher than the national average, but economic growth is also outpacing the national rate. Berlin will eventually become an economic powerhouse; it's only a matter of time.

Whereas 42% of the population in Germany as a whole owns a property, in Berlin the figure is currently only 15%. That statistic only has one way to go with the increasing economic development of Berlin. A growing culture of ownership always contributes to price growth, and helps stabilise a market during economically difficult periods. In essence, the macro trend is clearly in favour of long-term value appreciation.

How to get in on the Berlin investment opportunity

Buying your own apartment in Berlin is an option, especially given that the cheapest apartments are available from just EUR 100,000 upwards and financing is not hard to get. However, very few people want the hassle of looking after tenants in another country, with a different language and legal system.

One alternative is to buy into one of the listed residential property companies. These are mostly the result of some large-scale privatisations of residential property portfolios in the 1990s and 2000s. The German national railway, Municipal governments and some large corporations historically held huge property portfolios, and eventually decided to sell them. They first ended up in the hands of private equity investors, and later found their way onto the stock market.

Among the biggest such companies is *Deutsche Wohnen* (literally: German Living), which owns and manages 147,000 flats and 2,000 commercial units.

Unlike many other such companies, DW has a clear focus. 73% of the entire portfolio – i.e. 106,000 apartments – are located in Berlin. More than 87% of the portfolio is in locations that are dynamic growth regions, with an additional focus in and around Hanover, Frankfurt, and Cologne/Bonn.

Buying shares in DW offers easy access to the Berlin opportunity. It takes away the hassle of individual ownership of property, and instead gives investors access to the efficiencies that only a large real estate holding has when it comes to managing a portfolio on a day-to-day basis. There is also a high level of liquidity, given the current market valuation of EUR 7 billion.

What's the downside?

Shares in DW were trading at a significant discount to the underlying net asset value during the times of the financial crisis. In 2007/08, the share price fell from EUR 30 to just EUR 3, showing that even residential property investments can suffer a fair amount of volatility if purchased through a listed company. Since then, the share price has recovered to EUR 25, which is above the current net asset value of approximately EUR 20 per share. Investors are currently so keen on investing in German residential property via the ease of a listed company, that they are willing to pay a premium to get in on the opportunity.

Although prudent investors would obviously prefer to invest at a price that is near (or ideally below) the net asset value, it's clearly possible that DW shares will continue to rise, given the strong fundamentals of the Berlin market. Equally, a new financial crisis of any kind, such as a collapse of the bond market, could lead to the shares quickly coming off.

The only certainty, it seems, is that Berlin is well on the way to becoming a veritable European capital. If anything, visit for a weekend and witness it yourself! It's well worth the short flight from the UK.

Next month: Swen will be visiting Hong Kong.

UK GENERAL ELECTION
WHOEVER WINS, BRITAIN LOSES

BY FILIPE R. COSTA

The Election Day Is Nearing...

Five years have passed since the last General Election and the UK is preparing for a new one. All parties involved are now aggressively marketing their political plans with each of them greatly amplifying its strengths while trying to cloak its weaknesses. The fight will be fierce and eventually extend past the Election Day, as neither the Conservatives nor the Labour party are likely to grab a majority. Political leaders like Tony Blair, Margaret Thatcher and John Major, who were able to lead their parties to a majority, are part of the past, as the new government will most likely either have to rule with an unstable minority or to seduce an ally. But, with the Liberal Democrats likely to lose a few seats and with the SNP and UKIP not being first choices for either the Conservatives or the Labour party as coalition partners, markets are heading towards turbulent waters, with the pound being the first casualty. But while David Cameron praises the recovery of the British economy from the Great Recession and Ed Miliband promises extra funding for the NHS and a cut in University tuition fees, the UK economic recovery is hiding severe problems that have not been seriously tackled by either party. Time is running out, as Britain has been spending much more than it generates for many, many years. The public sector runs a deficit of 5.8% while the current account deficit amounts to 5.6% and no government, either from left or right, has been able to plug the leak. It is true that the economy is growing, but that is mostly the consequence of an epic central bank intervention and bold fiscal moves, which have been generating present relief but at the cost of mortgaging the future. Growth has been created out of artificial fundamentals and not based on previous savings. Such a strategy is running out of fuel.

> **"THE PUBLIC SECTOR RUNS A DEFICIT OF 5.8% WHILE THE CURRENT ACCOUNT DEFICIT AMOUNTS TO 5.6% AND NO GOVERNMENT, EITHER FROM LEFT OR RIGHT, HAS BEEN ABLE TO PLUG THE LEAK."**

...But the Main Problems Persist

"A ticking time bomb" is the expression the perma-bear Albert Edwards (of Societe Generale) uses when referring to the UK economy's *"twin deficit"* of more than 10%. Not only is the current account deficit obscenely large and the government deficit persistently positive but also the household financial position is deteriorating.

> **"NOT ONLY IS THE CURRENT ACCOUNT DEFICIT OBSCENELY LARGE AND THE GOVERNMENT DEFICIT PERSISTENTLY POSITIVE BUT ALSO THE HOUSEHOLD FINANCIAL POSITION IS DETERIORATING."**

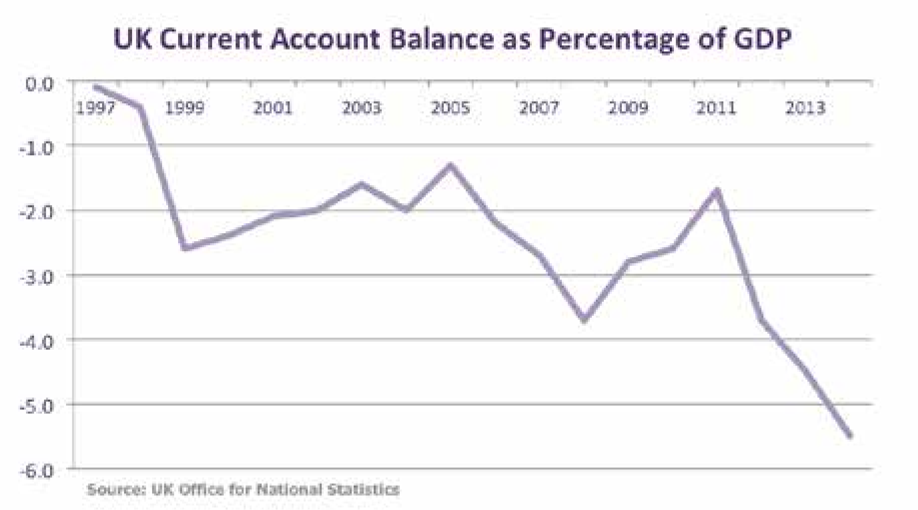
Economic growth has been the result of unsustainable fundamentals led by asset price increases, which in turn have been fuelled by uncontrolled credit creation and government spending. Thereby, asset price inflation is neither the consequence of any kind of economic improvement nor of any kind of change in the country's savings position, but rather a transmission mechanism the central bank uses to boost economic growth. But the Bank of England, being a modern central bank, has lost control over money, which is now in the hands of commercial banks. The problem is that these banks act in their own interests, which are rarely aligned with the country's long-term sustainability. Banks do tend to add too much credit when there is no need for it, leveraging the economy to unsustainable levels.

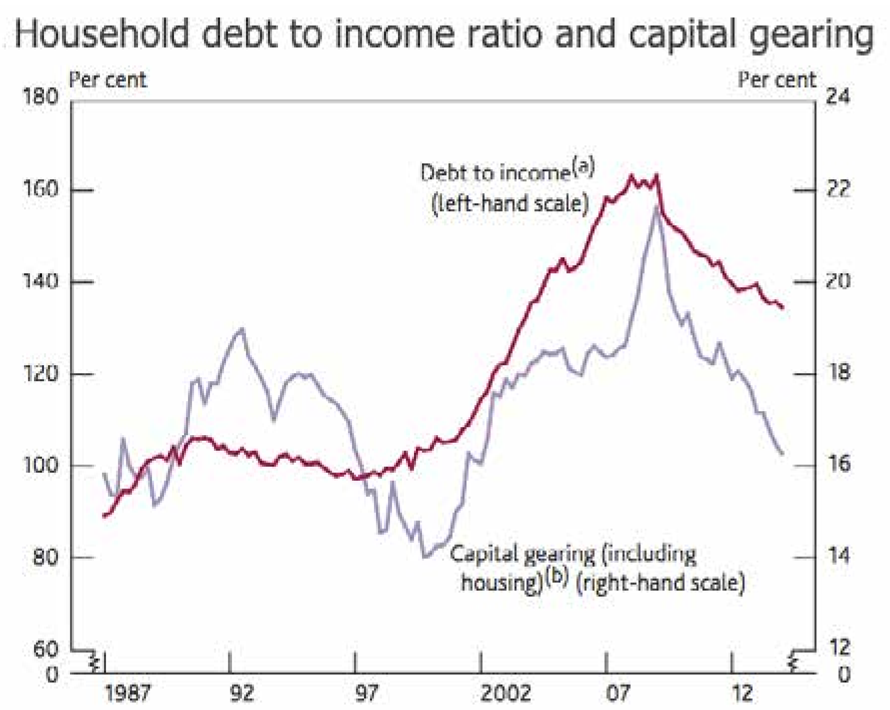
The economy is led by a feedback price effect. Higher prices lead to more credit, which in turn leads to more credit and additional price rises. But such Ponzi schemes sometimes break and prices stop increasing. At that point, such is the leverage taken by the economy (government, private sector and households) that no one is able to repay the existing debt. The equity market crashes, the economy shrinks and a large recession sets in.

The Bank of England Is Part of the Problem...

Then comes the central bank again, cutting interest rates, purchasing assets en masse and trying all kinds of tricks to boost asset prices again. In the end, the interest rate will never reflect the underlying economic conditions on which investment and consumption decisions should be based, and will contribute to the growing imbalances.

For households, lower interest rates are an incentive for them to engage in too much credit, which will translate into higher prices (in particular house prices) and at the same time completely erode any incentives to save. It comes as no surprise that the savings rate is negative for households in the UK.





Source: UK Office for National Statistics and Bank of

(a) Total financial liabilities as a percentage of annualised total household resources.
(b) Total financial liabilities as a percentage of households' total financial assets and residential building assets.

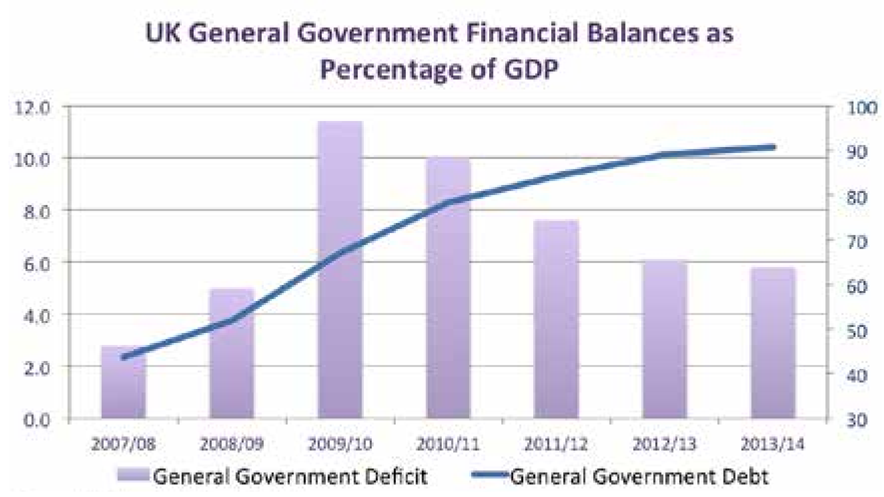
For the government, lower interest rates means paying lower prices for new debt issues no matter how much debt is in the pile. Again, it is no surprise that despite its pledge to balance the public finances, David Cameron completely reversed the idea three years ago, as the incentive to spend was too great to miss.

For businesses (and pushing the Austrian School of Economics thinking into the table), lower interest rates decrease the cost of capital, leading to larger allocations of investment into capital goods instead of consumption goods. For the Austrian School, the lower interest rate is the result of an increase in the savings rate in the economy. Households are willing to consume less in the present to consume more in the future, thereby leading to a decrease in the interest rate. But what about when the decrease in the interest rate is artificial? Then the interest rate no longer reflects an increase in the savings rate and businesses will invest in longer-term projects to produce more capital goods at a time the preference goes in favour of consumption goods.

The investment in capital goods is not financed by savings and at the same time there is no decrease in current consumption. The central bank "fools" households and businesses into taking wrong decisions. At a time the economy should be getting rid of past excess capacity, liquidating some of the unprofitable projects and relying more on consumption goods, it will produce capital goods. In the present it looks like the problem is solved but then, when reality sets in, we will have excess capacity and a new recession will take hold. We need consumer wealth to follow economic growth; otherwise what we really have is no more than thin air and leverage, which will create a bubble that always ends with a burst. With all this in mind, I think it is fair to say that the Bank of England would have its fair share of responsibility in the next crisis to come.

...But It Is Not Alone

While the Austrian School may be right, sometimes it is costly to allow the economy to liquidate excess capacity, as it would certainly generate unemployment and could lead to serious recession. For the sake of long-term stability and sustainability, allowing a recession to take place may be a small and necessary price to pay for past excesses; but for the sake of a political party being re-elected that is certainly too large a price to pay. So, no government will weigh long-term risks as they weigh short-term ones. And that is the main reason why the UK is heading towards disaster. A two-digit twin deficit is a huge problem, but not today or tomorrow. Today the sun will continue to shine, as the global easing has been contributing to a decrease in the issuing costs for gilts while sterling has been trading within an acceptable margin. Only when it is too late, will the British government do something. When that time comes, the adjustment will be much more painful, as Southern Europe knows all too well. No one can sustain deficits for an unlimited period, as these annual deficits add to a growing debt pile.



Smoothing the business cycle as advocated by Keynes is a justifiable policy option. Government reduces taxes and increases spending when the economy is sluggish but then reverses the policy when the economy is fast growing. But has that really been the case so far with Britain?

Just suppose you earn £10,000 in even months but just £2,000 in odd ones. On average, you earn £6,000, even though there is a cycle behind it. That is not much different from the business cycle. Think about it as the boom-bust cycle, with the even months representing the peaks and the odd ones representing the troughs. Keynes would advise you to proceed as follows: borrow £4,000 in odd months to keep a spending level of £6,000 and save £4,000 in the other months. This procedure allows you to smooth your spending while keeping your finances in shape.

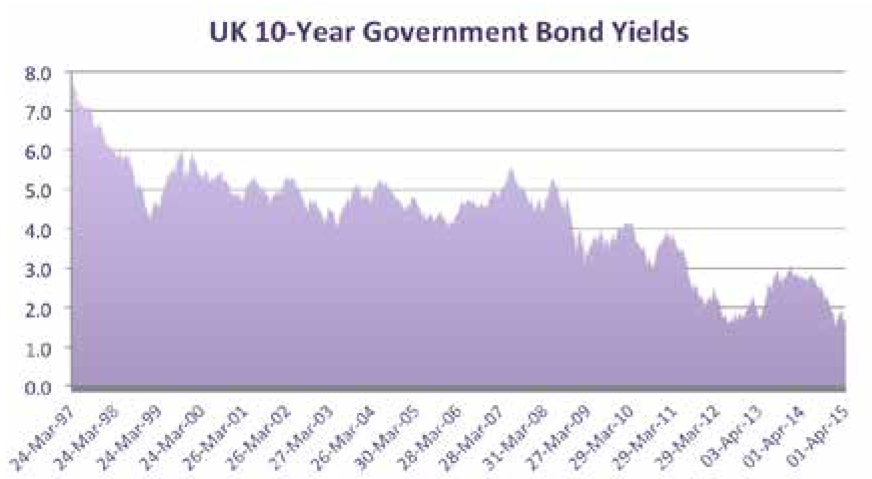
"THE QUESTION WE SHOULD ASK IS THIS: IS THE BRITISH GOVERNMENT "INVESTING" TO GENERATE FUTURE INCOME?"

Now suppose you spend the same £6,000 in odd months but that you save nothing in even months. You will then end the year with a deficit of £24,000. Now add years of deficits and you have the situation of the British government. That is obviously unsustainable. Unless at least part of the extra "spending" is in the form of "investment" to expand your potential to generate a higher future income, you will become ever more indebted until everybody realises you are bankrupt. Therefore, the question we should ask is this: Is the British Government "investing" to generate future income?

To quote The Economist: *"Britain is on a consumption binge. The household savings rate is negative, according to one estimate, and household debt is forecast to balloon in the next five years. If that happens, Britain will grow as forecast, but at the cost of running down its wealth. It will be heading for a crisis"*. The government is spending rather than investing and has been doing that for years, by consuming the country's present wealth. So rather than creating a future the government is destroying it just for sake of the present looking better than it really is. With the Bank of England helping the government with a 0.5% interest rate and with the ECB just having approved a large-scale asset purchase; the yields on the British government debt are improving overnight, as investors are angrily seeking anything with returns above zero. The 1.57% currently offered by the 10-year gilt is a massive premium over the negative Swiss rates or over the zero-yielding German bunds, in particular at a time the pound looks robust against the euro. Thus, the British Government is issuing debt at ever lower rates, despite the debt as a percentage of GDP having risen from 43.7% in 2007/08 to 90.6% in 2013/14 (see chart to the right).

Whoever Wins, Britain Loses

Overall, the British economy now seems better than at the peak of the Great Recession, but such observation hides the real value of the improvement. Investing after saving is very different from investing before saving. Without saving, the cost to finance the extra growth in the present will be too high to pay in the future. No matter who wins the General Election, the next government will have the difficult task of tackling the growing imbalances. If not, the pound will be vulnerable to what happened in 1992 when George Soros *"broke the Bank of England"*. The current account deficit cannot continue to grow, as the pound would face a quick depreciation at some point. Until now the fact that all major central banks have been competing for currency devaluations has prevented the pound from being hit, but if the first rate



hike in the country continues to be pushed into the distant future, the pound may be pressed in the second half when the first rate hike from the Fed is likely to occur.

At the same time, even though the large-scale asset purchase programme is not beneficial for the euro and thus supports the pound at current levels, we should not forget that the Eurozone still has a positive current account, which helps the euro in the long-term. When we sum all this, it makes us worried about the future and we believe that a currency crisis may occur in the UK and interest rates may start rising faster than first thought, which would lead the vulnerable economy into recession once again.

"OVERALL, THE BRITISH ECONOMY NOW SEEMS BETTER THAN AT THE PEAK OF THE GREAT RECESSION, BUT SUCH OBSERVATION HIDES THE REAL VALUE OF THE IMPROVEMENT?"

It is time to look at the past and recognise that we can no longer finance growth with credit and debt, which has only been possible due to an artificially low interest rate level, but that, at the same time, has been leading to huge investment mistakes that drive the economy from boom to bust. Households and the government are consuming more than they generate and thus eroding wealth. Productivity gains have been modest over the last few years when compared with other countries. Money is flowing out of the country with the current account just hitting the worst annual deficit since records began in 1948 and *"the largest peace-time deficit since at least 1830, based on the Bank of England's historical dataset"*, the Office of Budget Responsibility reports. This is the real challenge facing Britain today, yet sadly it is one that will be overlooked by the politicians and the public until it is too late.

THE LIMPOPO DISPATCHES

THE LIMPOPO DISPATCHES

ELECTION AND OTHER FEVERS

BY ROBERT SUTHERLAND SMITH

In which your correspondent has a bad dream about politics and the local witch doctor asks for advice whilst reaching for a cigar...

It is that time of the month, when I convey my innermost, subconscious thoughts to the outer world which exists beyond the crocodile and hippopotamus pre-occupied banks and waters of the fair Limpopo. So with a flask of the local jungle juice - a remarkably good substitute for General Gordon's London Gin in my humble opinion – I climb into my hammock to nurture and nourish my innermost thoughts before slipping into a dream filled sleep, slumbering in the heat of an early Limpopo afternoon. Would there be dreams of investing? Or dreams of something else? As it turned out it was a dream about elections which have obvious implications for the currency and the amount of confidence the world might have in its value in a week or two.

"We are", as an old merchant banker, Samuel Montagu, used to say, nodding off after a good lunch; "we are such things as dreams are made of", old boy; particularly after you have had a glass or two of the jungle juice; or as in his case, a bottle of Corny & Barrows house claret with a few chums from Morgan Grenfell (an almost forgotten one time merchant bank, once described by a Rothschild as the "goy merchant bank"). I am very glad that those top hat, white collared puritanical Tories cannot see me asleep in the afternoon, for fear that they would judge me to be one of those delinquent, benefit scroungers - unlike those hardworking chaps in the restaurants and clubs of Westminster, with whom Ministers no doubt surround themselves for exhausting, long, hard working, lunches.

I do not want to be accused of pulling down the blinds and just sleeping while hard working people toil at their labours. The fact is, I do not have a blind to pull down. A couple of shady bongo trees are enough for yours truly!

Moreover, as a 'remittance man' I am not in receipt of government social security benefits but a private monthly allowance from my maiden aunt (a category of persons without whom no respectable family was once complete) living indignantly in Tunbridge Wells, on the promise that I never darken her doorstep again. So here I remain, along with Lord Lucan and Elvis Presley, and a few flash crash futures traders on the run from the FBI, in the land of pure market detachment; a sort of Shangri-La along the banks of the Limpopo for those who never wish to grow old.

The dream is not too long in coming. In it, I find myself in a kind of civil war England, without a king to behead (the old Royal prerogative has been largely transferred to Prime Ministers) but plenty of parliamentarians of various kinds. In my nightmare, I am being pointed at by a nightmarish, George Osborne figure in black, with one of those tapering top hats (inspired no doubt by a fashion for quantitative easing) with a white silver buckle on the front.

UK GENERAL ELECTION: WHOEVER WINS, BRITAIN LOSES

He is wearing a very large white collar and grimly reading from the Book of Austerity – it comes after Ecclesiastes and describes the Lord's long term plan for the economy – condemning my sloth and general malignance. (He seems, in my dream, to confuse the national accounts with the real world of the real economy, which is the kind of disconcerting thing that happens in a lurid sleep, and sometimes when wide awake – as in the case of cabinet meetings.)

David Cameron appears dressed as a wart free Oliver Cromwell with a brown buckskin jerkin and white builder's hard hat marked 'Sky News', and is facing down Levellers, led by Ed Miliband (in a builders hard hat marked 'NHS'), who mistakenly reads the wrong line, by beseeching Cromwell, "in the bowels of Christ" to go, because he has sat there too long – or words to that effect.

Nick Clegg gallops on like a laughing cavalier, Prince Rupert of the Rhine, but keeps going (not having yet learnt to regroup after a cavalry charge) whilst Nigel Farage appears as the parliamentarian Earl of Manchester, with a pewter mug of foaming ale, demanding restoration of the sovereignty of Parliament whilst, being steadied by Major Reckless of the Rochester Militia. In the background is the skirl of Highland bagpipes as Nicola Sturgeon, seeming remarkably like Flora MacDonald, is at the head of an army of Glaswegian long pikemen. ("They dinna like it up them, Jimmy" is their motto.)

There are parliamentarians everywhere but not a monarch in sight!? Too many Regicides but no sign of Reg. (Her Majesty in fact remains aloof from the strife by taking tea with the Saudi Arabian Ambassador to the Court of St. James, at Buck House, who wants to know if they can have their money back.) It is an election battle in which parliamentarian gouges parliamentarian with hard destructive words and harsh allusions to the Bible. Most cruelly, Fallon says Ed has the mark of Cain – not Michael, the other one – upon him, condemning him for plans to destroy old Blighty's defence capability; forgetting of course, that this has been largely accomplished already, to the alarm of Capitol Hill and the Whitehall Chiefs of Staff.

Suddenly, a chap in a bad way and weighed down with a suit of armour enters right and stumbles forward, crying "A horse, a horse, my Kingdom for a horse" and "which way to Leicester Cathedral?" At last a king! But the wrong one! I don't like to tell him his horse has stampeded off with Prince Rupert of the Rhine – played by the boyishly smiling Nick Clegg. Suddenly and inexplicably, an unsmiling Queen Victoria appears in little Brougham carriage, directed by John Brown (looking oddly like Alex Salmond) and proclaiming that she is not amused. A large body of the voting public then chorus in unity, "Neither are we!"

Then, I wake up and find my parrot, Polly looking into my eyes, with curious concern. "Are you alright?" she asks anxiously.

"Is it time for dinner?" I reply.

"Its *bouef Wellington*", says the parrot.

"Not with HP sauce?!" I respond; not thinking clearly as a gentleman should, about the most important event of the day.

Her interest is mollifying.

"I dreamt that Osborne had found me!"

"Oh my God!" volunteered Polly.

Much relieved by the parrot's non political demeanour, I climb from my hammock to dress for dinner, calling over my shoulder "If the Tory canvasser does ring the vine, tell him or her that I shall be voting Jungle Green this time."

"Very good my Lord", replies the parrot, in an imitation of Mr. Bates, that would do credit to a digitally advanced sound mixer.

"If anyone calls, tell them I am not at home to visitors – except for the witch doctor of course. His conversation will be like a light relief after all those parliamentarians and their antics."

"Just so" replies Bates – I mean Polly. I merely add for the record, that Umbopo's Bouef Wellington was a triumph as great as the victory at Waterloo itself and would have won the approbation of the Great Duke, had he been present to enjoy a serving.

The FT has arrived at last but I note it is dated 1928; late again! I shall need to listen to the distant drumming to find out what is happening in the equity market. And they are not always right. Polly comes in to announce the local witch doctor, who had arrived for a late bottled Port.

"What do you think the outcome of the election will mean for punters, old boy?" he says in perfectly modulated received pronunciation of that long deceased British film actor Dennis Price, whilst reaching effortlessly for a Monti Cristo from my cigar box marked "Home and Colonial's Best". Typical Labour supporter I think to myself, remembering that Harold Wilson puffed a pipe in public but always drew on a good Cuban in private.

Playing the Sterling game in shares

As we approach a UK general election like no other that we have known, or have any history of, the market in the shape of the FTSE 100 Index has remained as steady as the Buffs in front of such uncertainty. It has been trending up and has recently got into new share price territory. It may be true that DJ 500 has led the FTSE 100 by plus 13% to 8% over a year, but they have performed almost identically over six months – both up around 12%.

It seems that currency traders and their one eyed economist advisors are viewing the outlook for dollar denominated politics and government and its sterling denominated counterpart as having much in common.

If the UK faces a prospect of a greater degree of national un-governability, the US already has it in the form of a Democratic Whitehouse and a Republican Congress. In the US it is a time great political polarisation. The President is reputed to lack the skills to get his policies through a tribal Congress. Moreover, the two year long period of Presidential electioneering has just begun. It promises to be long, nasty and brutish.

The current economic consensus GDP estimates are for 3% growth in the US and 2.6% in the UK. Although the US has a deficit on current account equal to 2% of GDP, the UK has a champion 4.5% current account deficit.

The idea that we shall have an unstable parliament and political situation after May might well call the UK economic situation into greater question, with overseas holders of Sterling perhaps preferring the dollar above sterling. The dollar also has the advantage of being a reserve and haven currency which sterling is not. One can of course play the geared version of any such coming currency misalignment in the FTSE 100 section of the London stock market.

Part of the explanation for that rests on the fact that the FTSE100 Index measures company performance internationally and not domestically. Like the French Foreign Legion the FTSE 100 Index is more foreign than British in its range of activities. Most of its constituent company activities are international. However, it inevitably also attracts overseas buyers who are influenced by prospects of sterling.

It has a heavy weighting of oil and mining shares, banks and pharmaceutical shares. And many of those are overseas earners, though not all. British banks for example, are increasingly domestic in their operations and less international.

The banks you should not consider as an investment in a weaker pound environment include **Lloyds (LLOY)** and **RBS (RBS)**, which are much more geared plays on the prospects of the UK economy.

"GOLDMAN SACHS LOOKED AT 400 OF THE WORLD'S LARGEST NEW OIL AND GAS FIELDS AND FOUND PROJECTS REPRESENTING $930 BILLION OF FUTURE INVESTMENT THAT ARE NO LONGER PROFITABLE WITH BRENT CRUDE AT $70 PER BARREL."

These would get little direct benefit from a weak pound exchange rate but benefit from any rise in interest rates, if they were raised to defend the currency. **HSBC (HSBA), Standard Chartered (STAN)** and **Barclays (BARC)**, on the other hand, are much more plugged into international markets. These latter three, are much more likely to benefit from any weakening in the pound's exchange value. Moreover, there is talk of HSBC and Standard Chartered shifting their HQs to Asia which, if it happened, would be good for the share price, albeit less good for the UK.

HSBC logs a trailing annual dividend yield of 5.13% and a trailing PER of 13.

Although **WPP (WPP)** only has a dividend yield of 2.4% at 1,572p, the share price chart arguably looks ready to resume its upward trend.

Rolls Royce (RR.) at 1,035p is also a natural beneficiary of a weak pound exchange rate against the dollar. This is in my opinion a now undervalued business of great scarcity value and sustainability with shares for the time being not selling at a premium.

Rio Tinto (RIO) at 2,958p, after a period of decline, yields 4.8% and the share price trend looks attractive. I have previously argued that it is generating profits from lower unit costs of production to compensate for the fall in the price of iron ore. Its results are due, and I guess they may be better than many expect.

NO COUNTRY FOR RICH MEN

BY JAMES FAULKNER

In a world full of uncertainty, it is often remarked that the only certainties in life are death and taxes. Well, today we can add the following to that short list of certainties: no matter who wins the General Election on 7th May, taxes as a whole will have to go up. Despite five years of so-called 'austerity', the fiscal deficit still stands at around 5% of GDP and the national debt has almost doubled in cash terms since 2010. The deficit remains the elephant in the room, and still requires urgent attention if Britain is to return to a modicum of fiscal rectitude.

So how could a future government go about plugging this gaping hole? To address this question it might be useful to understand how the last government *attempted* to fix the deficit, and what factors blew it off course. Given that George Osborne's original plans envisaged eliminating the deficit by the end of 2015, it could easily be argued that the Coalition Government failed miserably in its main objective. However, it would be churlish to ignore the headwinds posed by the European Crisis, which had significant knock-on effects on UK growth. Osborne et al decided it would be better to allow the 'automatic stabilisers' to take up some of the slack, rather than continue to push harder with austerity in the early years of the Coalition.

In addition to the crisis in Europe, the UK economy has suffered from a chronic productivity problem. Given that the last downturn saw fewer job losses than previous crises, it is likely that much of this problem stems from labour hoarding and underemployment– the flipside of the UK's highly flexible labour market – but there are also questions regarding the level of investment undertaken by UK firms, which sits below many of our developed world counterparts. Stemming from this, the major shortfall for the Coalition Government in terms of tax revenues has been income tax receipts, which have underperformed on the back of a persistent lack of wage growth. Compounding the problem is the fact that the income tax threshold has been raised from just over £6,000 to over £10,000, thereby narrowing the income tax base.

This hollowing out of the tax base is one of the major developments of recent times. Whilst the rich now pay an even greater share of the total tax take than ever before – in fact, the "1%" pay close to 30% of the entire income tax take – many lower earners are being taken out of income tax altogether. In addition to this, the number of 'higher' earners – those who fall into the 40% marginal tax rate – has grown markedly due to 'fiscal drag'. The alarming result is a top-heavy tax base, at a time when the wealthy are being increasingly called upon to foot an an even greater share of the bill.

Squeezed until the pips squeak

We should be in no doubt that paying tax to the UK coffers is an entirely voluntary affair for the super-rich. Squeeze them too hard and they will leave for fairer shores. Indeed, despite all the rhetoric, it is not the super-rich who lie in politicians' crosshairs. In fact, those who stand to lose most from the next round of 'fiscal consolidation' would probably not describe themselves as 'rich'. We're talking about doctors, lawyers, accountants, small business owners and other successful professionals – the people who are sufficiently wealthy and numerous to collectively yield a major contribution, yet at the same time less likely to disappear overseas.

So how will the next government set about mining this rich seam? A collection of wealth taxes looks likely in the event of any Labour-led government.

"DESPITE FIVE YEARS OF SO-CALLED 'AUSTERITY', THE FISCAL DEFICIT STILL STANDS AT AROUND 5% OF GDP AND THE NATIONAL DEBT HAS ALMOST DOUBLED IN CASH TERMS SINCE 2010."

First and foremost, after another credit fuelled housing boom, the left-leaning parties clearly have property in their sights. The so-called 'mansion tax' would hit anyone with a home worth more than £2 million, although the precise details of individual parties' proposals are as yet unclear. The lifetime pensions tax relief allowance has already been capped at £1.25 million, down from £1.5 million, and is likely to be reduced to £1 million. This may still seem generous, but consider that £1.25 million will only buy a pension of £27,000 per year (after taking tax free cash of 25%) after tax, which would not be considered extravagant by any stretch of the imagination.

But what about those looking to supplement their income via investing in property or shares? I'm afraid there isn't any good news from that corner either. Under Labour, landlords are likely to face the loss of the tax relief they currently receive on mortgage interest payments, and both major parties appear likely to reform letting rules in favour of the tenant. As for equity investments, investors are likely to face higher capital gains and dividend taxes, which would make the annual ISA allowance all that more valuable. However, some commentators have even suggested that a future government may consider capping the value of an ISA at a similar level to the pensions cap, thus hitting the growing number of ISA millionaires. The message is exactly this: "wherever you stash your cash, we will come after it".

The curse of the sacred cows

It is often remarked that there is no real choice in politics any more, but the public are also partly to blame in that they have forced politicians to tread a very narrow line in a very rapidly changing world. Symptomatic of this attitude of consensus is the 'sacred cow', chief of which is the NHS. The world's third largest employer (behind the Chinese Liberation Army and the Indian Railway) is in drastic need of a major overhaul to make it fit for purpose in the 21st century.

"THE CURRENT GENERATION OF RETIREES HAVE REAPED THE LION'S SHARE OF THE LAST HOUSING BOOM AND SEEN THEIR BENEFITS PROTECTED THROUGHOUT 'AUSTERITY'.

Yet the Coalition's tinkering around the edges – dubbed a 'top-down reorganisation' or, even more ridiculously, 'privatisation' by some – was met with a huge public outcry, as if it was wholly unnecessary. In a political climate where even the slightest proposals for change are shouted down, it is impossible to have a constructive debate about the very real challenges facing this venerable organisation.

The UK faces similarly intractable problems when it comes to pensioner benefits and housing policy. The pensioner-related benefits bill is by far the largest component of welfare spending, yet it receives scant attention from politicians, who prefer to concentrate on easier targets like so-called 'scroungers' and the working poor. The current generation of retirees have reaped the lion's share of the last housing boom and seen their benefits protected throughout 'austerity'. Meanwhile, prospective retirees can no longer look forward to the defined benefit (or 'final salary') pensions of their forebears, whilst simultaneously being saddled with the additional national debt accumulated to maintain the current generation of retirees.

I conclude with housing, which continues to be an all-pervasive influence on the UK economy, for better or worse. Currently, we are seeing the former, but it has to be said that the current housing boom is yet another credit-fuelled bubble waiting to burst. The Coalition dealt with the demand side via the various lending initiatives such as Help to Buy, but totally neglected the supply side, which remains frustrated by outdated planning laws. Stoking a housing boom may be an easy way to deliver a cyclical recovery, but it does not lay the foundations for a sustainable one. It is long-term systemic issues such as these that will have to be tackled if the UK is to ever achieve the 'rebalancing' that politicians like to talk about.

Investment Idea

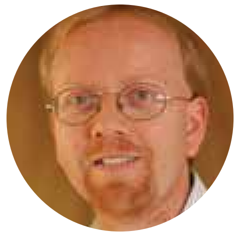
If, like me, you're feeling a little pessimistic about the UK's prospects, you may wish to take a look at the **Murray International Trust* (MYI).** Managed by Bruce Stout of Aberdeen Asset Management, the trust invests globally in companies that Stout believes have strong track records of growing cash flow and dividends. Stout is pessimistic regarding the prospects for developed economies such as the UK, not least because of their mountainous debt piles, both public and private. He believes better value currently resides in international equities, in particular those in emerging markets. The trust has historically tended to trade on quite a significant premium to net assets, which reflects Stout's strong track record, but a period of short-term underperformance has recently seen the premium all but disappear. There is also a 4.2% dividend yield and a strong track record of dividend growth.

** James holds the Murray International Trust in his ISA.*

FUND CORNER

THINK THE UNTHINKABLE

BY NICK SUDBURY



The upcoming General Election could be a pivotal point in our history and lead to the country leaving the EU or the breakup of the United Kingdom, with Scotland becoming independent. It might just as easily turn out to be a complete damp squib, which creates something of a dilemma if you are wondering which funds to invest in for the next few months.

Neil Woodford, probably the most feted fund manager in the UK, has warned that a Tory inspired referendum on the country's membership of the EU could have a big impact on the stock market, as could SNP pressure for a new vote on Scottish Independence. Despite this he has remained fully invested, even though the UK Equity Income sector in which he operates is likely to be one of those most affected by new government policies.

If Ed Miliband gets into number 10 it could be bad news for utility companies because of his proposed policy of capping energy prices. Research from Deutsche Bank suggests that stocks such as Centrica could be worth at least 20% less under a Labour-led government than a Conservative one. Utility companies tend to form the core of many UK equity income funds on account of their high and steady dividends, but a price cap could make a nasty dent in their earnings.

Banks are another favoured area, yet they remain a popular political target given the public anger over the financial crisis.

"RESEARCH FROM DEUTSCHE BANK SUGGESTS THAT STOCKS SUCH AS CENTRICA COULD BE WORTH AT LEAST 20% LESS UNDER A LABOUR-LED GOVERNMENT THAN A CONSERVATIVE ONE."

In his final pre-election Budget, George Osborne announced a further substantial increase in the bank levy and the removal of corporation tax relief on the multi-billion pound fines imposed on the sector. If Labour gets in it could be even worse with a Miliband government threatening to break up the largest domestic lenders and to introduce a higher bank levy, a new bonus tax and other similar measures.

Other common holdings include tobacco stocks, which make up some of the largest weightings in the Woodford Equity Income fund as well as many of his peer group. Parliament has already voted to introduce standardised cigarette packaging from May 2016, but the Labour party has gone a step further and said that it would impose a levy on tobacco firms to pay for additional staff in the National Health Service.

Utility companies like Centrica could be worth around 20% less under a Labour-led government, according to research from Deutsche Bank.

Always look on the bright side

Change also creates opportunities, with a prime example being the housebuilding sector. All the main parties have announced new initiatives designed to help first time buyers get onto the housing ladder, which is one reason why the managers of the Artemis Income fund have recently invested in Persimmon. It is not unreasonable to expect companies like this to benefit regardless of who gets into Downing Street, especially if interest rates remain at the current low level.

Many fund managers believe that the main impact of the Election will be to weaken the pound on the foreign exchange markets. This has lots of negative ramifications, but would be beneficial for UK-listed companies that generate a high proportion of their earnings overseas. One such company is Unilever, which recently beat expectations thanks to a 10.6% boost to revenues, courtesy of its foreign currency exposure. The presence of these sorts of businesses on the London Stock Exchange offers a type of natural hedge for domestic events like the Election.

Another option available to UK fund managers is to increase their cash weighting ahead of the vote. This would allow them to take advantage of any volatility and to reduce the impact of a falling market as a result of an unwelcome outcome, although it also means that they run the risk of not fully participating in a relief rally.

Analysis by FE Trustnet shows that the cash weightings in Smith & Williamson UK Equity Income and GLG Undervalued Assets have recently been increased to more than 10%, while JP Morgan's UK Dynamic and UK Focus funds have gone from a near zero exposure to around 20%.

"MANY FUND MANAGERS BELIEVE THAT THE MAIN IMPACT OF THE ELECTION WILL BE TO WEAKEN THE POUND ON THE FOREIGN EXCHANGE MARKETS."

A weak pound could be good for companies with a lot of overseas earnings, such as Unilever.

Time to emigrate

Other funds have more flexible mandates that allow them to prepare in different ways. A good example is the Targeted Absolute Return sector where the managers aim to deliver positive returns in all market conditions. One of the biggest and best known of these is the Standard Life Global Absolute Return-Strategies (GARS) fund, which has a remarkable £25bn in assets under management.

The team responsible for GARS have reduced their exposure to UK equities to less than 7% of the portfolio. Their remaining UK holdings have been chosen on the basis that they will benefit from strong domestic earnings outside of the financials and supermarket sectors. The managers are also anticipating a fall in the pound, which would enhance the value of their substantial overseas weightings when translated back into sterling.

Global funds can take advantage of the best opportunities in the world, and if the managers are concerned about the outlook for the UK they can trim their exposure accordingly.

Terry Smith's Fundsmith Equity, which is one of the top performing funds in the Global sector since it was launched in November 2010, currently only has a quarter of the portfolio invested in the UK. His main allocation is to the United States where he has a 58% weighting and there is a further 14% in Europe.

It is a similar picture with Baillie Gifford Global Discovery that has an equally impressive record. The fund has 26% invested in the UK, with 39% in the US and 14% in Europe, as well as various smaller allocations elsewhere.

Others have gone a whole lot further. The team at Neptune Investment Management is one of the most pessimistic about the impact of the election and have reduced the UK component of their Global Equity and Global Alpha funds to zero. The latter operates in the Flexible Investment sector and has a first quartile ranking over one and three years.

Discretionary investment firm Nutmeg has also taken drastic action. It has reduced its UK equity exposure by two-thirds and reinvested the money in markets such as the Eurozone and Japan, both of which are being supported by Quantitative Easing.

The company mainly uses ETFs and took a similar step before the last year's vote on Scottish independence.

Many UK fund managers are increasing overseas weightings in order to profit from any weakness in sterling.

In the firing line

The pound has been in a clear down trend against the US dollar since the start of July, and many believe that it is sterling that will be the biggest loser from the election. In a recent report entitled 'Ruling Britannia', BlackRock warned that the exchange rate could fall further if Labour wins power with the backing of the SNP.

Their view is that an Ed Miliband government would result in looser fiscal discipline. Larger current account and budget deficits would have the potential to undermine international investor confidence and this could put pressure on short and medium dated gilts while undermining the value of the pound on the foreign exchanges.

This might also be a problem under a Conservative-led coalition that was committed to holding an EU referendum, especially if pressurised by a smattering of UKIP MPs in the House of Commons. David Cameron has promised to hold an in-out vote in 2017 if he wins power, but if he has to rely on UKIP support for other measures, he may be forced to bring it forward.

If a possible British exit – or "Brexit" – was to become a serious possibility it

"MOST FUND MANAGERS CONCENTRATE PRIMARILY ON COMPANY FUNDAMENTALS AND IT IS POSSIBLE THAT A BOUT OF MARKET VOLATILITY COULD CREATE SOME INTERESTING NEW OPPORTUNITIES."

could lead to a sovereign credit rating downgrade, the loss of safe haven status for gilts and unwelcome attention on the country's burgeoning current account deficit. This would be detrimental for UK gilt funds, sterling corporate bond funds and UK equity funds that invest in companies with significant domestic earnings.

Another problem is the Budget deficit. The IMF recently warned that the UK's next government will not be able to balance its books by the end of the decade. It predicts that tax revenues will be lower than forecast and that whoever is in power will be forced to spend more than they are currently planning. This could have a negative impact on the pound and possibly on UK assets as a whole if it scares away foreign investors and makes them look for better opportunities elsewhere.

A "Brexit could weigh on the UK's economic credibility.

A more pragmatic view

Given the huge degree of uncertainty about the outcome of the election and the possible ramifications, it is possible that the most sensible strategy is simply to wait and see what happens. This would enable a fund manager to avoid the transaction costs of positioning their portfolio for something that may never happen or being caught out by misjudging the result.

Managers that are measured against a global market index can take a pragmatic wait and see approach by moving to a benchmark neutral position. One person that has gone down this route is Bambos Hambi, who runs the £614m MyFolio Multi-Manager III fund at Standard Life Investments.

In his latest quarterly commentary he says that his main concerns around the election are the prospect of a hung parliament, as well as the potential for an EU referendum if the Tories are re-elected. He is also cautious about the UK because of the impact of falling commodity prices on mining stocks and the fact that sterling's strength against the euro is reducing competitiveness against the country's biggest trading partner.

Most fund managers concentrate primarily on company fundamentals and it is possible that a bout of market volatility could create some interesting new opportunities. Of course it is equally likely that some of the current valuations may turn out to be overly optimistic. The trouble is we won't know for sure until the election result is known on 8th May, and even then there is a good chance that the uncertainty will continue for many months to come. All investors, professional or otherwise, will have to be quick on their feet.

CURRENCY CORNER

ELECTION UNCERTAINTY ONLY HAS ONE OUTCOME IN THE CABLE

BY SAMUEL J. RAE

On 7th May, 2015, the polls will open for the 2015 General Election, in what has been one of the most painstakingly dissected elections of recent times, primarily as a result of the uncertainty surrounding its outcome and the spectrum of parties that could play a key role.

The focus of this edition of Master Investor is, of course, the election, and so it's only fitting that I incorporate a political twist into this month's forex piece. Those familiar with my style of trading, however, will be more than aware that allowing politics to influence my view of the currency markets flies in the face of my technical and risk management orientated strategy.

Generally, I approach the currency charts with some indignation towards major news releases and geopolitical events. But perhaps indignation is the wrong word. More apt would be to say that I view these fundamental factors as secondary to what price action tells me. It's not impossible, however, to take a look at how the outcome of the UK election might affect my medium-term directional bias. I have talked about Shinzo Abe, and the implications of his stimulus policy in Japan, and in turn, how this affects my dollar/yen bias in the past, and I will attempt the same here.

First, I want to stress that my bias towards any particular party strictly relates to how I believe that party's policy might affect the value of sterling versus its major counterparts – it is not reflective of my personal political opinions. However, this is not to say that they may not be aligned!

So, let's get to it. For me, everything is rooted in uncertainty. The chance of any of the two parties achieving a majority government is almost non-existent, and so there are a number of outcomes we could potentially be faced with, and further, a number of factors that could influence these outcomes.

Polls at the last count had Labour and Conservative with around 31.6% and 33.7% of the vote respectively, accounting for 280 seats for the Tories and 282 seats for Labour.

The two most likely outcomes are a Conservative minority government (for me, this is the most likely) and a Labour minority government, both of which would precede a race to scramble together a vote by vote parliamentary alliance needed by each political leader to survive the term. It took just short of a week for the 2010 elections to resolve in a coalition government after Election Day, and if we get something similar (an even more sustained period is looking potentially more likely), uncertainty will be king in the sterling crosses.

Regardless of the outcome, therefore, the policies of the party or parties that take the reins will not – at least in the medium-term – have too much bearing on the value of sterling versus its major counterparts. What will have bearing is the fact that – as a result of the uncertainty – the currency markets will interpret the situation in the UK as unstable, regardless of whether this actually reflects the fundamental situation.

In the currency markets, uncertainty virtually always translates to downside pressure. We saw it with the forming of the coalition in 2010; we saw it when the US government ceased operations a couple of years back; we saw it when a Malaysia airlines plane went down in Ukraine early last year; and we will see it again for the first three weeks of May in the UK.

So, with this said, my overarching bias in cable for at least the first half of May – and likely for a few weeks after – is bearish. This is not to say I will be completely averse to entering a quick counter trend long position if we get the right price action set up, but it will have me keeping a close eye out for any potential downside signals, and help me to define my risk parameters with much more confidence than I might otherwise be afforded.

What are some of the key levels we are approaching in cable that I will be keeping an eye on?

Take a quick look at the chart. The chart shows that – very much against the overarching trend for the year – we have seen some bullish momentum in cable over the past couple of weeks. Pretty much 10 days straight of gains has brought us to trade just ahead of what I deem key long-term resistance around 1.5160.

GBP/USD Daily

> **"MY OVERARCHING BIAS IN CABLE FOR AT LEAST THE FIRST HALF OF MAY – AND LIKELY FOR A FEW WEEKS AFTER – IS BEARISH."**

If the uncertainty described in this piece develops into some downside momentum, I will be looking for an initial run towards 1.4600, and for a break of this level to bring 1.4 flat into play longer-term. As always, I'll be looking for candlestick patterns to dictate my entries and exits; in this situation, primarily bearish pin bars around the key levels outlined.

Now let's wait and see what happens…

As ever, happy trading!

ZAK MIR'S MONTHLY PICK

BUY STERLING/ DOLLAR

ABOVE $1.50 TARGETS $1.60

Recommendation Summary

Even at the best of times it can be said the Sterling/Dollar represents the ultimate challenge in the foreign exchange markets, something of a "north face of the Eiger" for currency traders. However, in the run up to the 7th May General Election, an event which is unlikely to have a clear cut winner (nor ironically a clear cut loser), "cable" is looking even more of a challenge in terms of the prediction game than one would normally expect. Of course, there are two sides to every cross and the post autumn period has witnessed a massive advance for the U.S. Dollar, as traders believed the Federal Reserve would raise interest rates. Just how this could be possible is likely to be blamed on the way that for some reason even though on many occasions in the recent past central banks have proved to be relatively powerless in the face of the money markets (Euro/Swiss is a good example), many of us still "believe." Nevertheless, it could very well be the case that our currency benefits both from a relief rally in the wake of a return for Cameron and friends, as well as the unwinding of an erroneous belief in higher U.S. interest rates.

> "IT COULD VERY WELL BE THE CASE THAT OUR CURRENCY BENEFITS BOTH FROM A RELIEF RALLY IN THE WAKE OF A RETURN FOR CAMERON AND FRIENDS, AS WELL AS THE UNWINDING OF AN ERRONEOUS BELIEF IN HIGHER U.S. INTEREST RATES."

Technicals

What is interesting in terms of the technicals of Sterling/Dollar over much of the course of 2015 to date is that even though the cross would appear to be shackled with myriad imponderables, so far it has behaved itself in a reasonably straightforward technical fashion.

This is said on the basis of the post July breakdown for this market from above $1.70, one where for most of the time the 50 day moving average served as the resistance and charting feature to sell into. The end of the bear run came in the form of the brief early April probe and rebound from below the former March $1.4635 floor. Since then we have been treated to a relatively normal turnaround, in the form of a bear trap reversal, one that initially targeted the January support zone/$1.50 area, and 50 day moving average at $1.5021.

However, even before the cross headed back to this implied initial target, it seemed possible that the RSI breaking back above the neutral 50 level for the first time since the beginning of March could be enough to initiate a significant intermediate rally. This is the case even if the full decline from the summer of 2014 is not recovered. At least at this stage the anticipated upside is as great as the top of a rising trend channel which can be drawn on the daily chart from as long ago as January.

ZAK MIR'S MONTHLY PICK

This has its resistance line projection currently heading as high as $1.60, a target which could be hit as soon as the next 4-6 weeks. The stop loss on the recovery argument at this stage is regarded as being back below $1.50 – just below the present level of the 50 day moving average.

Recent Significant News

April 28th Bloomberg:

The pound posted its longest winning streak in almost a year against the dollar, defying a report that showed U.K. economic growth slowed more than analysts forecast in the first quarter. Sterling reversed an earlier decline versus the U.S. currency as investors downplayed risks from next week's election.

While two-week volatility on the pound against the dollar has jumped to the highest since September, a three-month measure of anticipated price swings has slipped to a more than seven-week low, showing investors are more concerned about the immediate aftermath of the election than the U.K.'s longer-term stability.

April 22nd International Business Times:

The hawkish bias in the comments of the MPC members of the Bank of England as revealed on 22 April drove the pound back near last week's one-month high versus the dollar, yen as well as the euro, while pushing up short term gilt yields.

The minutes showed all the members see the Bank Rate rising over a three-year horizon and the committee is generally optimistic about wage and price inflation catching up with economic growth.

GBP/USD jumped to 1.5049 from near 1.4960 following the release of the minutes. At the high, the pair was only a shade away from the 17 April one-month high of 1.5055 and was up 0.86% on the day.

Traders had been weighing more negative news than positive over the past in the new year, pushing the UK currency down to a five-year low of 1.4565 last week.

In addition to uncertainty surrounding the likely outcome of the UK general election on 7 May, disinflation and downside risks to growth have all been drag on Sterling.

However, of late, analysts had been looking at the possibility of risks skewed more towards north for the pound, rather than to the south, thanks to the sufficient negativity that has been priced in already.

April 10th The Guardian:

Analysts have warned that the pound could fall further as financial markets react to the closest general election for more than 20 years and weaker than expected economic data. Sterling fell to a five-year low of $1.4623 on Friday morning from $1.4802 on Thursday. The drop followed signs of jitters in markets on Thursday as investors bought insurance against sharp swings in the value of the pound. The pound rose slightly against the euro this morning to €1.3820.

Currency traders were also unsettled by lower than expected industrial production in February that augured a growth slowdown in the UK economy. Industrial production rose just 0.1% in February due to a big fall in North Sea oil production. Economists had expected an increase of 0.3%.

Fundamentals

In terms of choosing which market to look at for the May edition of Master Investor Magazine, it is difficult from my perspective to have veered any further than looking at Pound/Dollar. This is because we are at the time of writing in the grip of a General Election campaign of generational importance, one that could take the UK in almost any direction. The problem is that any direction from the current Conservative/LibDem coalition seems to be one which would upset both the markets and the general public, unless they are very much of an anti-stability mentality.

While so-called experts may still be trying to rationalise the value of the Pound against the U.S. Dollar in recent months, it would appear that the driving force here over much of the last five years has been the interaction between geopolitical issues, the City of London's place in the world, and the strength of the U.S. economy in the wake of the financial crisis. The de facto strategy in terms of the Conservative led coalition is that we have in London at least witnessed a major world economic centre which has become a northern Monaco, especially for Non-Doms.

This has artificially boosted the value of

Sterling as much of the City's real estate has become a "buy to forget" type of asset. The problem now is that the other side of the curve may kick in, in terms of investors being scared of a possible Labour/SNP alliance, something which would mean that they would want to get their cash out of Prime London in a hurry.

Happily, the position is that at least according to the latest opinion polls the Tories will be able to form a minority government and it will be more of the same after 7th May. This looks to be the explanation for the latest push to the upside for the Pound against the Dollar, combined with the way that the penny is finally starting to drop in terms of the Federal Reserve not like being likely to raise interest rates for the rest of 2015 and perhaps well into 2016, as it tries to ward off the effects of both deflation and a jobless recovery in the US economy. At the same time, we have the same old problem of Western Governments being up to the eyeballs in sovereign debt. They would simply be shooting themselves in the foot if they raised interest rates in any material way. In the meantime we have sterling likely to be squeezed higher as the prospect of a Labour government diminishes over the early part of May. The hope would also be for Sterling bulls that if a new Tory Coalition came in again there will be further gains, as the "hot" money returns to the UK.

"THE PENNY IS FINALLY STARTING TO DROP IN TERMS OF THE FEDERAL RESERVE NOT LIKE BEING LIKELY TO RAISE INTEREST RATES FOR THE REST OF 2015 AND PERHAPS WELL INTO 2016."

SMALL CAP CORNER

TOMORROW'S JAM TODAY

BY JAMES FAULKNER

This month I take a look at three "jam tomorrow" businesses that could soon turn into "jam today" companies. Often, a company can have an exciting product in the pipeline for years and remain relatively unnoticed until some kind of catalyst grabs the attention of the market and sends the share price rocketing. No-one has a crystal ball, but more often than not in these cases, such catalysts are entirely predictable for anyone willing to do the research. In the following piece, I outline the case for three companies that could be nearing catalysts of their own.

Omega Diagnostics (ODX)* is a share I called back in 2013 – to some initial success as market anticipation built up on the back of positive newsflow surrounding its CD4 tests for AIDS, which are a vital part of patient management (measurement of CD4 T-cells is required when determining when to commence antiretroviral treatment). Currently available CD4 tests require flow cytometry techniques which are lab-based, expensive and require cold-chain storage for reagents. However, Omega's Visitect CD4 point-of-care test does not require such infrastructure and therefore opens up the opportunity for widespread testing, particularly in rural areas of the developing world.

However, the firm encountered some variability in the testing efficacy of Visitect, which held up the commercialisation process and sent the shares back to prior levels. Since then, Omega has brought the process of lamination and re-agent dispensing in-house, thereby gaining fuller control of the manufacturing process for Visitect CD4.

The renewed excitement comes on the back of a recent trading update, which revealed that results for the year ended 31st March will be slightly ahead of expectations, with revenues at £12.1 million and adjusted pre-tax profit at £1.4 million. More importantly, however, Omega said it believes it has identified and corrected the root cause of the test variability for Visitect CD4. Final confirmatory testing is underway, and the firm anticipates providing a further update by the end of May.

Omega states that the "prospects for the Group as a whole will be significantly enhanced by the success of this product". Indeed, the market opportunity for Visitect is huge. The global CD4 need is expected to grow substantially over the next eight years as countries scale up their HIV/AIDS treatment programmes; this should see the number of tests rise from current levels of just over 30 million to nearly 60 million tests by 2020. The estimated cost per test for Visitect is £1.12 versus an estimated unit selling price of £3.21. With annual capacity at the Omega facility estimated at 2.5-7.5 million units, this implies sales potential of £8-24 million with gross margins of £5.2-15.7 million, thus underlining the scale of the opportunity for Omega.

"THE GLOBAL CD4 NEED IS EXPECTED TO GROW SUBSTANTIALLY OVER THE NEXT 8 YEARS AS COUNTRIES SCALE UP THEIR HIV/AIDS TREATMENT PROGRAMMES."

*James Faulkner owns shares in Omega Diagnostics.

The really interesting point to note from an investment perspective is that broker finnCap's forecasts currently exclude any contribution from Visitect CD4. However, the broker commented that the trading update "gives us confidence that the moment when the time-to-market will become clearer is not far away." Based on its current forecasts, the broker's 28p price target would place Omega shares on an EV/Sales multiple of 2.2x, EV/EBITDA of 15x and a P/E of 20.8x – metrics which finnCap notes are "not out of line with our peer group of profitable diagnostics companies".

CAMBRIDGE COGNITION

A world leader in cognition testing, **Cambridge Cognition (COG)** has spent 25 years testing and validating its technology, CANTAB, in a clinical setting. Supported by over 1,000 peer reviewed publications, this technology is now ready for commercialisation. The firm has also developed an iPad-based diagnostic which enables early detection of memory loss and differential diagnosis of Alzheimer's disease. It is currently in use in the UK, and forms a central component of a government-sponsored pilot Brain Health service in the UK. In addition to this, the firm also has an existing profitable business which supports cognition research and drug development.

Consider this astonishing fact: Alzheimer's Disease International estimates that if the disease were a country, it would be the 18th largest economy in the world. Moreover, Alzheimer's is but one of several different forms of dementia, of which Alzheimer's is the most common. In the UK alone, it was estimated in 2012 that over 800,000 people suffered from dementia, with a direct cost to the NHS of £3.3 billion a year, and an overall economic burden of £23 billion - greater than the costs of cancer, heart disease and stroke combined.

With the ageing population, the number of patients is forecast to increase to over 1 million by 2021, with a commensurate increase in costs (source: Alzheimer's Society).

Globally the problem is even more pronounced. An estimated 35.6 million people suffered from dementia in 2010, and this is forecast to double every 20 years as the world's population gets older. The annual economic cost of the disease has been estimated at $604 billion - i.e. more than 1% of global GDP (source: World Alzheimer Report 2010, Alzheimer's Disease International).

In order to bring down the cost of dementia to society, early detection and treatment is crucial. A recent publication found that in the UK every patient receiving early assessment and treatment saved society £7,741 per annum, of which £3,600 was direct healthcare costs. In terms of an average cost of £25,472 per dementia sufferer per annum, this represents a considerable saving. It is therefore unsurprising that both the US and the UK have made Alzheimer's disease a priority.

Launched in the UK in May 2012 and available as an app on the iPad, CANTABmobile is CE-marked as a Class II medical device. It can be deployed in any GP surgery, requires no special training, and can assess the memory function of the patient in 10 minutes. It is paid for on a per site basis, and the current price is £1,000 per annum for a maximum of four users. During 2014 over 260 GP surgeries and over 40 Clinical Commissioning Groups (CCGs) in the UK (out of a total of 211) used Cantab Mobile.

However, the real opportunity lies in rolling out the product internationally. With this in mind, the company opened its first office in the US in March, which seems to already be bearing fruit. The North American operation already has a healthy pipeline of contracts in the safety and tolerability trial space that are expected to convert over the year.

Full-year results released in March showed that the company was profitable in H2, with sales and gross margins ahead of expectations and resulting in a loss before tax considerably lower than forecast. In particular, Cantab Mobile sales continue to grow, with over 15,000 patients having now been assessed in the UK. Management expects to deliver a pre-tax profit in the current year, and finnCap's 100p target price would place Cambridge Cognition on a 1.8x EV/Sales multiple based on 2015 estimates – still a discount to the peer group. The broker also added that it sees progress to "an even higher share price as confidence in these forecasts increases".

ANGLE

Previously an IP management and investment company, **Angle (AGL)** has recently transformed itself into a medtech company in order to focus solely on its cancer cell capture technology, Parsortix. Parsortix was originally developed as the first ever non-invasive testing platform for the unborn baby. Pregnant women have a very small number of their baby's cells circulating in their blood - at most one foetal cell for 500 million maternal cells.

"DURING 2014 OVER 260 GP SURGERIES AND OVER 40 CLINICAL COMMISSIONING GROUPS (CCGS) IN THE UK (OUT OF A TOTAL OF 211) USED CANTAB MOBILE."

Parsortix developed a separation device, which can isolate intact foetal cells in maternal blood (as opposed to merely DNA fragments) when only 1.5ml of maternal blood is flowed through the device.

However, it soon became apparent that a much more lucrative opportunity for the device existed in the cancer diagnostics market. In September 2011 the firm achieved a major milestone by validating that its cell separation device can capture cancer cells added to blood. Angle reported that it had "already established discussions with several of the world's leading cancer research institutes and there is strong interest in such a product, which would not require regulatory approval for use for research purposes." The company also noted "encouraging interest" from many of the larger medical diagnostics companies regarding a potential commercial collaboration.

The potential market for such a product is huge. In addition to the substantial commercial opportunities available prior to regulatory approval in respect of sales of product for research purposes and corporate partnerships, it is estimated that major clinical markets for a simple CTC counting product exceed $4 billion per annum in the United States alone. As house broker Cenkos opines, "There are very few cancer patients today who would not derive a potential benefit from being evaluated with the Parsortix device in order to not only detect circulating tumour cells (either before or post diagnosis of cancer) but also in terms of the evaluation of treatment regimens (using genomics and proteomics) and monitoring patients who are in remission and at risk of recurrence."

PricewaterhouseCoopers projects that the market for a more personalized approach to health and wellness will grow to as much as $452 billion by 2015. Although the largest share of this market is projected to be accounted for by the nutrition and wellness market, it is the core diagnostic and therapeutic segment of the market - comprised primarily of pharmaceutical, medical device and diagnostics companies and expected to grow by 10% annually, reaching $42 billion by 2015 - where the real excitement lies. Parsortix could therefore play a key role in identifying the particular therapeutic needs of a patient.

"ANGLE COULD BE ONE TO WATCH IN 2015, AS THE FIRM IS CURRENTLY IN THE PROCESS OF SECURING US REGULATORY APPROVAL FOR PARSORTIX FROM THE FDA."

Angle could be one to watch in 2015, as the firm is currently in the process of securing US regulatory approval for Parsortix from the FDA. At present the only CTC system that has been approved by the FDA is CellSearch (Veridex, Johnson & Johnson) which, unlike Parsortix, is unable to harvest CTCs for molecular analysis, and can only be used to isolate CTCs from a limited number of cancer types. "It is this feature that makes Parsortix unique", argues house broker Cenkos, "and due to the urgent need for a system with the capabilities of Parsortix we believe that the FDA will be keen to drive this forward."

With the US regulatory filing underway, there have been hints that Angle is preparing the ground for greater things to come. In particular, the appointment of Peggy Robinson to the senior management team looks prescient, as Robinson was involved in the commercialisation of none other than CellSearch, which should provide Angle with invaluable contacts and expertise in the field. In addition to this, Angle secured a US quote in October 2014 through ADRs (American Depository Receipts), which should help improve liquidity and raise the firm's profile in the medtech-hungry US market. Given the scale and scope of the opportunity here, this is a share that could easily soar on positive newsflow.

ALPESH PATEL ON THE MARKETS

ALPESH PATEL ON THE MARKETS

TRADING ROADMAP

A DIVERSION FROM SWEAT, TEARS AND PROFITS LOST (PART 1)

During my many talks over trading events, conferences and training sessions, I have always encountered the same question from people who are interested in dipping their toes into the markets or have just a couple of years of experience: what are the most basic and fundamental rules that one should follow when starting to get into trading and investing? Are there any very simple guidelines that will ensure that everyone and anyone has at least a fighting chance in this game or is it just for professionals?

And that's exactly what I will do in this two-series guide, give everyone a shortcut to the lessons that I have learned through sweat and tears. So hopefully you won't have to go through the same experiences to learn these rules the hard way. And trust me, this saves time and, equally importantly, money, lots of money.

Win more and win bigger

A trader should always focus on winning more times than he loses, and making sure that his winners make him more money than his losers cost him. This sounds too simple and stupid to focus on, right?

But at the end of the day that's what trading is all about and that's why it is called trading. You will make choices – effectively that's what trades are – and some of them will go well and some of them will go wrong. The key here is to try to make more good decisions than bad ones and also make sure that when a trade goes your way you will get paid more than you'd lose if it went badly.

And then repeat this simple plan again and again.

After all, if you could achieve a small edge in both these factors do you really need anything else? Suppose that you win 55% of the time on your trades and you make 1% on your winners and lose 0.5% on your losers. Doesn't sound too exciting, right? However a sustainable performance like that will make you infinite profits if repeated forever.

Just think how casinos – yes, casinos, stay with me here - make their money: they have the odds stacked in their favour far less than 55% - most times only about 0.5% or 1% - and they just pay winners an equal amount to what they get from losers.

"IT MAKES NO SENSE TRYING TO GO AGAINST A MULTI-TRILLION DOLLAR MARKET BECAUSE YOU'RE ANGRY OR "YOU KNOW BETTER", THE MARKET WILL

However, they simply repeat this process for an infinite amount of times because they know that this way they will make an infinite amount of money. That's an easy rule to follow and it keeps the focus on the bigger picture – every single trade is just another choice, another step along the way.

Never fight the market, the market always wins

It makes no sense trying to go against a multi-trillion dollar market because you're angry or "you know better", the market will wipe you out. Understand when you're wrong on a trade and get out as soon as your stops are hit, never move them or add to a losing trade.

What that means comes down to two lessons: first, that you should not get stuck to a losing trade more time than what's needed to find out that your initial idea was wrong; and secondly, that trading is a game or a business where ego has no place.

What is really important to understand is that each trade is essentially a bet, an attempt to get a feeling of where the market is heading. And as such there are levels and indications that pretty much confirm the market's intentions for the time being, so if your trade is towards the opposite direction, simply get out of it.

Don't get fixated and try to stay in the trade "just a bit longer" only because "it might eventually reverse in your favour" – it rarely does. Most of the time you will lose more money than you should and also waste time waiting for your luck to turn.

So don't try to outsmart the market or stomach supposedly "temporary" losses; the market will always outstretch you to a point where your account simply can't take it. Instead, trying to understand what the market wants to do and calmly following it is much simpler, much safer and mostly stress-free.

"YOU NEED TO PROVIDE YOURSELF WITH THE OPPORTUNITY TO MAKE MISTAKES AND STILL HAVE THE CHANCE TO CORRECT THEM AND MOVE FORWARD."

Be adequately capitalised

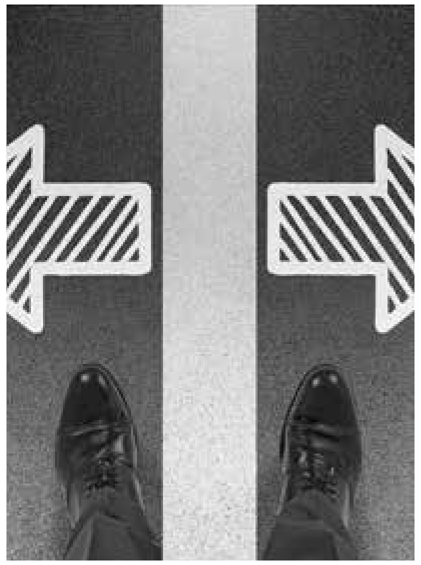
Trading is like a small business, it requires starting capital. You wouldn't want to fund your account with such a small amount that a few mistakes would wipe it out. You need to provide yourself with the opportunity to make mistakes and still have the chance to correct them and move forward.

Always keep in mind that making a loss means that you need to over-perform the next time to cover your loss and break even. It is crucial to understand that, for example, a 5% loss requires a 5.3% gain just to bring you up to your original capital and so on. So each loss hurts more than an equal win.

Hence having an adequately funded account means that you prolong the life of your trading career and allow yourself to make mistakes, learn from them and then over-perform to break into profits.

And that almost brings us to the end of the first part of this mini-guide, but I would like to conclude with something really important. Trading is one of the very few things in life where mistakes translate to an immediate loss of money. It's not that you simply don't make money; in fact, you immediately see your capital go down. So sticking to a few rules or "commandments" literally translates to preserving your capital and avoiding simple yet treacherous pitfalls.

Happy Trading, Alpesh B Patel



P.S. You can find my daily market commentary on InvestingBetter.com. See you next month!

Alpesh is a hedge fund manager who set up his asset management company in 2004. His Sharescope Special Edition has outperformed every UK company's fund manager over the past decade, as well as Warren Buffett. He has written over 200 columns for the Financial Times and presented his own investment show on Bloomberg TV for three years. He is a former Visiting Fellow in Business & Industry at Oxford University and the author of 18 books on investing. Find out more at http://www.investingbetter.com and http://www.inter.tradermind.com

FUND MANAGER IN FOCUS

HUGH HENDRY

BY FILIPE R. COSTA

"The contrary investor is every human when he resigns momentarily from the herd and thinks for himself."

– Archibald MacLeish

The Last Bear Standing

"Remember the film The Matrix? Morpheus offered Neo the choice of two pills - blue, to forget about the Matrix and continue to live in the world of illusion, or red, to live in the painful world of reality... They, as the "enlightened", chose red, and so are convinced that they understand everything, which has become illusory about today's markets. Their truth is Austrian economics. They know that today's central bankers are spinning a falsehood of recovery; they steadfastly refuse to be suckered in by the euphoria of a monetary boom; and they are convinced that they will therefore be spared the consequences of the inevitable crash. Everyone else, currently drugged by the virtual simulation of prosperity and its acolyte QE, will be destroyed, leaving them alone, to re-invest when markets finally get cheap. They will once again be masters of the universe."

- Hugh Hendry

As a strongly committed ruthless value seeker and a self-labelled "troublemaker", Hugh Hendry could not take a pill other than red, just like the *enlightened* from *The Matrix.* As a fund manager, he is one of the last standing, still willing to take the painful direction of being right alone instead of going wrong with the herd. Hendry believes that the market often deviates from rationality, as investors are too enthusiastic about their options, and are then heavily influenced by a market wide mood - sentiment - that guides them into detaching asset prices from intrinsic values. He doesn't hesitate to oppose this mood and sell what others are purchasing. Such contrarian strategies earned him a fortune during the financial crisis when he bet on the collapse of Greece and the banking system. But going the contrarian route of betting against the current order has also earned him fierce critics, as policy makers always believe the main reason behind a financial collapse mostly resides in the actions taken by the devil – i.e. contrarian hedge funds like Hendry's - and, of course, not in the unsustainable business they usually like to keep.

Buying just for the sake of it while disregarding any fundamental value, in the hope someone will come along later and buy the same at a greater price was never in Hendry's veins. On the contrary, Hendry seeks out opportunities arising from the sentiment-driven disconnects between fundamental value and nominal price to make his bets. In his view, that is the only way to drive value in an investment over the longer-term and to minimise the risk taken. In 2008, Hendry achieved a 31% return, while most of the fund management industry just struggled to survive, such was the blood bath taken.

"BUYING JUST FOR THE SAKE OF IT WHILE DISREGARDING ANY FUNDAMENTAL VALUE, IN THE HOPE SOMEONE WILL COME ALONG LATER AND BUY THE SAME AT A GREATER PRICE WAS NEVER IN HENDRY'S VEINS. MOVE FORWARD."

Always being critical of the fictional optimism created by central bank intervention and by too much credit creation, Hendry has more often been on the bearish side than on the bullish side. At a time central bank intervention is uncapped, everyone in the market seems like a *"fool"* waiting for a *"greater fool"* to buy assets from them at even more *"foolish"* prices. Everyone, that is, but Hugh Hendry, *"the last bear standing"*. But, can someone resist the temptation of selling to a greater fool when central banks are protecting against the downside? For how long can someone oppose the irrational upside? Wouldn't it be better to just join the herd and follow the trend?

From Chronic Troublemaker to Sagacious Fund Manager

Hugh Hendry was born in Glasgow, Scotland, in 1969 and graduated from Strathclyde University in 1990 with a BA in economics and finance. Curiously, he was the first in his family to attend university (and also one of only a few from his school). After graduating, Hendry found a job in Edinburgh at the prestigious investment firm Baillie Gifford. At that time, he was the first non-Oxbridge graduate to enter the firm. Soon, he started causing trouble and ended up moving to the City where he joined Credit Suisse Asset Management. Eventually frustrated by the fact he was just one of 400 other traders planted in the company's floor, he tried to make his voice heard. But that was unwelcome and he was fired within a month. Nothing better could have happened to him, as the reputation as a troublemaker quickly seduced Crispin Odey from Odey Asset Management, who was seeking a talented someone able to think by himself. In 1999, Hendry was hired by Odey Asset Management and started a successful career that culminated with the creation of Eclectica Asset Management.

Opposing the existing state of affairs is never easy. A person who resigns from the herd and thinks for himself is many times labelled as a troublemaker and is most likely taking the thorny route enlightened by the red pill. But that was exactly the route that led Hendry to brilliance and which led his fund to $1.5 billion in assets under management. With Hendry on board, Odey created the Eclectica fund in 2002. The idea was one of maximising the long-term wealth of investors by opposing irrational pricing. The fund was very successful and in 2005, Hendry and Simon Batten, a colleague at Odey, purchased the management contract of the fund and founded Eclectica Asset Management, which is now independent from Odey.

Today, Hendry manages Eclectica in the Whiteleys Shopping Centre in Bayswater and without maintaining any correspondence with investment bankers or other industry professionals. Unlike many others in the industry, he starts working only at 10 am after a school run and a visit to the local coffee shop. He lives nearby in Notting Hill, but he travels to the countryside at weekends with his wife and three kids in a second-hand Land Rover Discovery.

Stars Don't Shine Indefinitely

Eclectica was always very effective at managing the risk-return relationship but faced some muddy waters when central banks engaged in massive bold policy action to recover from the financial crisis. With interest rates being kept near zero for too long and massive asset purchase programmes being unfolded by central banks, the game changed dramatically. Such policies are detrimental for the contrarian strategies adopted by Eclectica and prevent professional traders from driving markets towards fundamental value again. The fund performed very well during market downturns, outpacing almost every other hedge fund, but completely struggled in 2012 and 2013, when everyone else, spurred by central bank action, was doing great.

Of course, the large profits everyone achieved in those years were generated by central bank intervention rather than skill.

"UNLIKE MANY OTHERS IN THE INDUSTRY, HE STARTS WORKING ONLY AT 10 AM AFTER A SCHOOL RUN AND A VISIT TO THE LOCAL COFFEE SHOP."

The massive leverage taken on by many would just expose them to bankruptcy had the central bank cut back its support and allowed for fundamentals to prevail. So, to a large extent there was no magic there. But even though fund management is about delivering long-term profits while minimising unnecessary risks, there is always pressure for short-term performance, as investors have limited patience, particularly when they see almost any other naive strategy ending the year with two-digit returns. After getting weary of fighting the irrational market, Hendry decided to let the "last bear standing" rest in peace. In a newsletter to investors, Hendry explained:

"There are times when an investor has no choice but to behave as though he believes in things that don't necessarily exist. For us, that means being willing to be long risk assets in the full knowledge of two things: that those assets may have no qualitative support; and second, that this is all going to end painfully. The good news is that mankind clearly has the ability to suspend rational judgment long and often."

"I'm Taking the Blue Pill Now"

Getting a share of the easy profits that were lying around was too large a temptation to be missed. Not even the most rampant and fierce opponent of the bull market could survive the long bullish run to tell the story. Hendry was no exception and replaced the red pill with the blue. It is certainly with a bitter taste that he now advises investors to "just be long, pretty much anything" as "only a foolish investor would stand in the way of this bull market". Perhaps he is right. But it is exactly because not even hedge funds oppose such irrational behaviour that it persists for longer than before, which results in a growing systemic risk that can only end in disaster. On one hand, it is foolish to oppose the market, but on the other, why would anyone pay a 2-20 fee for professional services when one can just purchase a passively managed ETF on the S&P 500 for a fraction of the cost?

TOP HEDGE FUNDS BY YTD PERFORMANCE

Rank	Name	Net Worth
#1	Eclectica	13.96%
#2	Keynes Leveraged Quant. Strat.	13.11%
#3	Russian Prosperity Fund	11.05%
#4	Tulip Trend Fund	10.24%
#5	Visium Balanced	7.26%
#6	Moore Global	5.88%
....	....	....
#29	**S&P 500**	**2.25%**

SOURCE: HSBC, Zerohedge

"SO FAR IN 2015, THE FUND IS UP ALMOST 14%, AS THE CONVERSION OF ECLECTICA FROM A BEARISH TO A BULLISH OUTLOOK IS STARTING TO PAY OFF."

Since changing strategies from contrarian to momentum (trend following), Hendry has boosted Eclectica's performance. While it struggled to outperform the market in 2013 and most of 2014, the fund then experienced a quick reversion and ended 2014 with a return of 8%. So far in 2015, the fund is up almost 14%, as the conversion of Eclectica from a bearish to a bullish outlook is starting to pay off.

Hendry is an admirer of Kindleberger's book *"Manias, Panics and Crashes"*, which depicts how the global economy has been heading from crisis to crisis, fuelled by too much credit expansion and irrational behaviour. But Hendry also admits that the book has been detrimental to his investment performance. Realising a price is wrongly formed is no longer reason to sell or even avoid purchasing an asset, as there may exist a "greater fool" who is willing to purchase it at an even higher price. To justify his options, Hendry additionally claims that Eclectica's performance has improved substantially since changing strategies. With Eclectica already up 14% this year, such a comment is hard to challenge. But he is now incurring the risk of a systemic crisis and is not particularly offering much more to an investor than one could get from a leveraged passive ETF.

Rather than theorising on markets, Kindleberger adopts a very practical approach. He shows the history of the real world as it happened. He clearly shows how central banks and credit expansion have been contributing to the boom and bust economy and how a period of irrationality is always reversed by a violent return to fundamentals. Only those who take the red pill can survive in the long-term. It is exactly because everyone is betting on the "greater fool" theory that a crisis is going to occur, as such a system is no less than a Ponzi scheme, which is condemned to fail from the beginning. Some are seduced by the uptrend; others, while recognising its irrationality, still believe they can get out before everybody else does. But history tells us that when you realise a crash is about to occur it is probably already too late, because at that point, markets have already returned to rationality.

Sadly, Hendry has just adopted a long-term losing strategy, even if that can bring some positive performance from time to time in the short-term. Eclectica's assets under management have fallen from more than $1.5 billion to the current $300 million today, as its core investors don't see the long-term alpha anymore.

Some Final Words

The man who once disturbed Nobel-Prize winner Joseph Stiglitz with a challenging *"Um hello? Can I tell you about the real world?"* continues to believe the world is going to crash despite having taken the blue pill for now. He believes that financial markets are single-digit years away from a crash that will present investors with opportunities of a lifetime. "Bad things are going to happen and I still think the closest analogy is the 1930s", he says. So, it seems, the blue pill Hendry has taken was just a small dose after all.

ECLECTICA ASSET MANAGEMENT

Total Portfolio **$42.04M**

Nr. Of Assets **28**

Asset	Value (x$1000)	% Portfolio
Altria Group Inc	3,724	8.85%
Reynolds American Inc	3,618	8.60%
Philip Morris International Inc	3,178	7.55%
Archer Daniels Midland Co	2,708	6.44%
Veeco Instruments Inc Del	2,578	6.13%
C F Industries Holdings Inc	2,401	5.71%
Monsanto Co New	2,356	5.60%
Potash Corp Saskatchewan inc	1,801	4.28%
Hormel Foods Corp	1,785	4.24%
B R F Brasil Foods SA	1,673	3.97%

Source: EDGAR filings - Form 13F as of 31/Dec/2014

EUROPEAN BANKS

TIME FOR SOME CREATIVE DESTRUCTION?

BY BILL BLAIN – STRATEGIST AT MINT PARTNERS

Well placed rumours say a number of large European banks are about to pull out of investment banking and markets. Credit Suisse is said to be mulling the closure or sale its investment bank and focus on Wealth Management instead. This comes on the back of similar stories about Deutsche, Barclays and others. It feels like the era of European universal investment banking is drawing to an end. And maybe that's a good thing. What's not to like about creative destruction? It's long overdue in the European banking sector.

Since 2007 the global finance industry has changed utterly, with profound implications for investors and markets. But after seven years of fudged repairs to the damage inflicted by the liquidity crisis of 2007 and the subsequent collapse of Lehman Brothers in 2008, Europe's banking sector is still not fit for purpose. Everyone has anecdotal tales of how difficult mortgage finance has become; how hard it is for small firms to obtain business loans; or for private investors to retain wealth management services – if you ain't got a couple of million in easily identified readies, forget it.

The reform of banking since the crash has been a fraught, confusing and difficult process. Politicians have revelled in "bash a banker" rhetoric, regulators have delighted in producing thick and obscure rule books, while compliance officers now hold the top paying jobs. Talk to any financial CEO and they will confirm they spend more time managing for regulators than they do for shareholders. Meanwhile, markets have changed and become far less liquid than they were, leading to increased fears the next crash will make what we saw in 2008 look a storm in a tea-cup.

"AFTER SEVEN YEARS OF FUDGED REPAIRS TO THE DAMAGE INFLICTED BY THE LIQUIDITY CRISIS OF 2007 AND THE SUBSEQUENT COLLAPSE OF LEHMAN BROTHERS IN 2008, EUROPE'S BANKING SECTOR IS STILL NOT FIT FOR PURPOSE."

Despite talk of banking union, European banks essentially remain an ill-assorted hatful of sub-scale national institutions. Few aspire to globalisation – but even those that do are weighted towards national thinking and directives.

There is certainly no European bank that can even claim to be pan-European – American banks have offices in more European nations than any European bank!

Most banks are facing up to the challenges of generating returns and growth in the new global market reality. The big names like Credit Suisse and Deutsche are looking to increase profits and returns by pulling back from less optimal businesses – which could see closures or sales of investment, commercial and retail banking divisions. The banks seek to exit low return, high capital trading and prime brokerage businesses. They will optimise themselves to best address the current capital/regulation/funding/interest rate environment.

As more banks look likely to pull out of the securities game because of its sub-optimal nature, what does that mean for the future of market making, investment financing and the prospects for growth? We are in an evolutionary environment. A recent report from banking consultants Oliver Wyman said that"diminishing returns on capital from market making [trading] demand even greater efficiency, dexterity and scale to achieve 10-12% returns… more firms will trim this business, ultimately leaving an attractive prize for those able to endure." I'm pretty sure that among the prize winners will be the remaining US investment banks. Or maybe new Chinese institutions that buy whatever the European banks decide to discard.

It's interesting how US banking came out of the crisis faster, in better shape and essentially fitter for purpose. I'd argue the speed at which the US sorted out their banks is the key reason the US now leads global economic growth. No "kicking the can down the road" from the Fed, but a swift and brutally enforced recapitalisation programme, directing banks into clear niches, and frankly better regulation. It's worked. JP Morgan has seen its share of the global banking fees wallet from Fixed Income, Currencies and Commodities jump from 6% in 2006 to 18% in 2014! That is staggering – no wonder the Europeans are giving up.

Compare and contrast to Europe where the ECB still has to play to national interests, giving the impression it doesn't understand the simple truth that an unfixed banking system equals a stagnant economy. What's the real volume of bad loans in the banking system? 10%? How much provisioning to come? (Clue: you should probably use trillions in your answer.) The EU is trying to fix it with nods to non-bank lending (which is critical in the US, but barely established in Europe), compromised stress tests, and all against a backdrop of unresolved national self-interest.

Trillions in European banking assets are still marked at 100% on banking books. In the US the hedge funds cleared the sclerotic banking arteries and bought billions of distressed US bank assets – but suspiciously little in Europe. Moreover, while the Fed defibrillated securitisation to ensure banks could keep and develop lending, Europe banned financial innovation and ended up funding banks for free through LTROs (Long-Term Repos), which was essentially back door QE used to prop up crashing sovereign bond markets – but that's another story…

Sure, US banks have some critical advantages – their accounting rules allow them to net derivatives, and the fact they can originate mortgages and pass them on to the GSEs (Fannie and Freddie). European banks are stuck with mortgage and derivatives on balance sheet making their leverage look awful.

"SADLY, I FEAR A NUMBER OF EUROPEAN BANKS WILL REMAIN MIRED IN THE PAST."

Adjusting to the new environment remains work in progress for most European banks. Some will successfully evolve into sleeker, more nimble institutions by dint of reinventing themselves and new management. There will certainly be business for them – the sheer volume of the project finance pipeline and corporate growth means there is plenty to go round. But it should go to the most capable firms.

The right firms may not be the current "Universal" or "Regional" banks. Big banking is under attack from regulators and shareholders, but it's not enough to simply split investment banking from universal banks. It's more subtle than that. I am told an industry lobby body ran the numbers, and of the 17 European dealers they examined, only nine would be able to achieve sustainable post-separation returns.

But there is a good argument to split simple "utility banking" from "innovation banking". Innovation can happen outside the current banking sector. Spinning off investment banks to create shareholder value looks certain to happen – there are a raft of hedge funds and foreign players poised to fund breakup and pick up the pieces from capital arbitrage trades.

There are also more innovative ways to approach financing and trading markets. Fortunately, that is already happening as new brokers and financial boutiques morph into new Merchant banks matching capital and borrowers.

Sadly, I fear a number of European banks will remain mired in the past, and are set to become increasingly bothersome with more and more names joining the likes of SNS, BES, and HAA on the European Banking Embarrassment Bench.

When it comes to figuring out which are the cheap European banking stocks, it looks like the old CAMEL analysis (Capital, Assets, Management, Earnings and Liquidity) is no longer sufficient. And the good old bank adage: *"buy banks that are dull, boring and predictable"* is just too restrictive.

Maybe a better rule would be to buy banks that are: *"optimised for value"?* Investors have quickly adapted to likely bail-ins on bank debt, and to the end of the Too Big To Fail banking put, but understanding "optimised for value" rule probably means smaller banks are simpler to follow.

Bill Blain is Strategist and co-head Special Situations Group at Mint Partners. Mint is a full service agency brokerage owned by, but independent of BGC, the leading financial brokerage. Bill is a regular commentator on fixed income and financial markets. He publishes a daily market comment - The Morning Porridge.

EVIL KNIEVIL (AKA SIMON CAWKWELL)

THE BEST OF THE EVIL DIARIES

A big man with a bigger reputation, Evil Knievil famously made £1 million by short selling shares in Northern Rock during its collapse. He also uses his knowledge and experience to buy shares, often resulting in the same devastating effect.

At least three times a week, Evil provides his thoughts and musings on the markets. Now writing EXCLUSIVELY for Master Investor Magazine at http://www.masterinvestormagazine.co.uk/category/evil-diaries/.

He doesn't just pontificate on the financial markets in The Evil Diaries; he also comments on politics, current affairs, his favourite horses/sports bets, and the occasional film and book review thrown in for good measure. Here we take a look back on the highlights of Evil's diaries in the month of April.

6th April

Looking in my box of write offs yesterday I encountered warrants to subscribe for Ducat Ventures. I scratched my head and enquired: an hour later it transpired that I am the proud owner of **Optibiotix (OPTI),** now 32p. Since this is considerably more than I ever dreamed that they would be worth my first instinct was to sell stock. But since the racing was drab I diverted my energies to asking around. Apparently, Optibiotix could be very cheap indeed (it's a great chart). I do not understand what it's on about but it is claimed that it offers microbiomes.

I have no idea what a microbiome is (and nor do most readers, come to that). But it is pointed out that if one sticks microbiomes in a yoghurt it sweetens the stuff, thus rendering yoghurt more palatable, and causes a microbial reaction in the gut which reduces weight. Even I can see the appeal of this sort of additive.

The quoted competition is led by **4D Pharma (DDDD)** which is capitalised at 570p at £350m. On the other hand, Optibiotix at 32p is capitalised at £23m. On this basis the choice is clear. That noted, I freely admit that this is not my specialist subject for Mastermind. I therefore welcome commentary from those who claim to know.

> **"IT IS POINTED OUT THAT IF ONE STICKS MICROBIOMES IN A YOGHURT IT SWEETENS THE STUFF, THUS RENDERING YOGHURT MORE PALATABLE, AND CAUSES A MICROBIAL REACTION IN THE GUT WHICH REDUCES WEIGHT. EVEN I CAN SEE THE APPEAL OF THIS SORT OF ADDITIVE."**

10th April

I have very recently commented on the big unravel coming at **Mitie (MTO)** and was surprised that the stock recovered to 281p at COB last Friday. Anyway, Saturday's DMail finance section leads on delays now being encountered at Mitie on paying up arrears of pay where Mitie had underpaid in the sense of below the minimum wage.

"FEAST UPON THE CADAVRE."

Apparently, or so the DMail commented, HMRC staff are on holiday for Easter wekeend and cannot sign off the extra payable (just how much is in point?) and, which is even more telling, decide how much of a fine should be levied for breach of the law.

(When the law came in (1998), a chum of mine was running a limited liability company, owned entirely by himself and losing money. He therefore paid himself nothing. HMRC, as it then wasn't known, advised he was in breach of the law in not paying himself what he couldn't afford anyway to pay. Kafka was starting to rear his head. In those days, Kafka was merely playing at playing the bloody fool: now he is worshipped for doing just that full time in the regulatory world.)

Anyway, all this is just the taster at Mitie. It's easy and economic to borrow stock. Feast upon the cadavre.

13th April

On Thursday I contacted David Lenigas to congratulate him on his stunning presentation campaign to publicise UK OIl & Gas (UKOG) and the potential bonanza arising at Horse Hill and environs – his publicist will certainly get a case of Foster's for Christmas. The British like him since he is so gungho. So much so that they suspend disbelief. However, the facts remain: there is an awfully long way to go before this oil field is established let alone shown to be economic. I shorted UKOG too early at around 2p, little guessing the shower of bull that was yet to emerge and be gobbled up by the public. I'll still make a profit.

17th April

I had **Allied Minds (ALM)** pointed out to me about three months ago. It has risen from nowhere and now stands at about three times fair value. This, I am told, is because Neil Woodford of Patient Capital Trust (well, would you invest in an Impatient Capital Trust? Or perhaps the Woodford endeavour is designed to make one a patient?) will prop up the price. Now 690p, it is time to leave quam celerrime.

20th April

Ben Edelman, an associate professor at Harvard where he lectures on the MBA course, stayed with me and my wife over the weekend, preparatory to talking in public on Adware Shenanigans in 2015. It was really interesting – clearly there is massive fraud taking place. The chief villain in quoted UK is **blinkx (BLNX).** Seemingly, the US authorities will not take action against these scum. And so it goes on.

It is truly astonishing how supine the authorities are both here and in the USA. It can't be a conspiracy to fail. It has to be a general ignorance.

Ben offers his thoughts on www.benedelman.org. He is terrifically clever and has a modest manner. Although he is known as The Sheriff of the Internet he is in fact a lawyer by profession and he outlined to me an extraordinary case he is bringing as a class action against Facebook. He became informed that under age minors in the USA who cannot enter into contract, save for essentials such as food, were sending sums of money to Facebook so to participate in computerised games involving virtual characters. Ben has got a US judge to agree that there is the basis of a class action. He is after $500m or so and should earn a walloping fee.

22nd April

I suppose that Hounslow is the perfect sotto voce base for setting out to own the world but **Mr Sarao** seems to me to have behaved entirely legitimately in causing the Henny Pennies to give him some money.

I long ago decided that to the authorities' minds (if such is the right word to describe the void between their ears) manipulation is something they would like to be able to engage in but finding that they do not know how to do it attribute this sin/crime to someone who does. This must be the basis of Mr Sarao being fingered. For it seems that he placed orders to sell or seemed to place orders to sell which on enquiry were withdrawn a tiny fraction of a second before they could be met. However, this lifting of the skirt deceived the Henny Pennies into selling and thus allowed weak market conditions for Mr Sarao's nimble computer to buy. Apparently, Mr Sarao has made £27m. Good on Mr Sarao.

The problem will be that the USA will seek to have Mr Sarao extradited so that he can be framed there. I hope (but do not expect) that the judiciary over here will ask the Americans to explain themselves which of course they cannot. However, for the time being, Mr Sarao and family should steer clear of Disneyworld.

24th April

I caught up with Andrew Monk of VSA Capital this morning. VSA are brokers to **Madagascar Oil (MOIL)** and Andrew is, to put it mildly, bullish.

I started by pointing out that Madagascar is hardly the safest territory politically speaking. However, he countered that the World Bank is in there and the new president of this last fifteen months seems to be delivering a sensible regime. Andrew may be right; I simply do not know.

However, MOIL's acreage is vast and could hold 10bn barrels of "heavy" oil. This guess is a long way ahead of the publicly floated figure of 1.8bn barrels and, apparently, there are widely encountered oil seeps at surface. You can make what you will of the significance of that claim. I found myself wondering what David Lenigas would make by way of presentation of this set of facts.

This field will take serious cash to develop and the sums required are probably way beyond MOIL's capacity to raise. But the likes of Exxon and Mobil are taking a close look since the potential of MOIL's acreage is strategically significant.

"THE LIKES OF EXXON AND MOBIL ARE TAKING A CLOSE LOOK SINCE THE POTENTIAL OF MOIL'S ACREAGE IS STRATEGICALLY SIGNIFICANT."

It is very hard to put a valuation on MOIL right now but at 6p or £35m odd it seems ridiculously low. Some think it should be 30p or more and others think that, long term, this is a 200p/300p possibility.

It is clearly a strong buy even though it can be argued that it is premature to get excited. Take your choice.

SCHOOL CORNER

MARIA'S GOLDEN RULES FOR TRADING CFDS

BY MARIA PSARRA

Ladies and gentlemen, I do realise that we were just beginning to touch upon the subject of Deadly Trading Sins with my last few articles here in the new Master Investor Magazine, so I really hope that you will forgive me for changing the subject for the current and following issues.

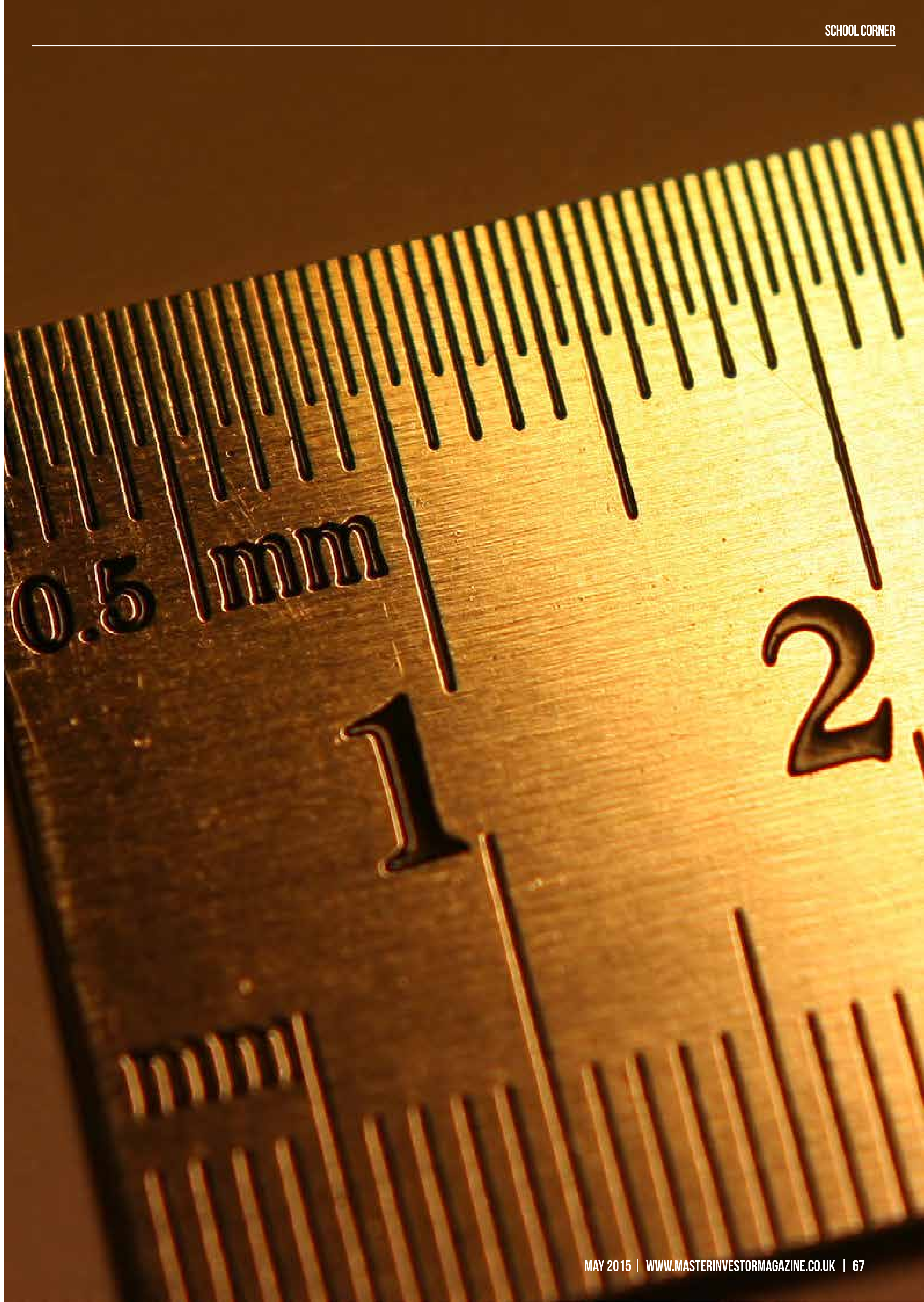
This follows the Traders' Panel Discussion with my friend and renowned market strategist Zak Mir, which took place during last month's 2015 Master Investor Show.

We shall continue our trip down the Sins lane in July (and mind you, I am no saint, I just know how to keep my 'sins' out of my Trading, and hopefully one day you will too). So for now, let's just look at my Golden Rules for Trading CFDs...

Rule 1 - Avoid Overleveraging

Do NOT overleverage your accounts, ladies and gents. CFDs are one of the most flexible financial products ever invented, but they are also one of the riskiest. If you do not know how to play with fire, then just don't. If you do not trust yourself, but trust someone else enough, hire them to help you. If you do not know such a person, stay away. And finally... if you think you are better than the professionals, then good luck, prove it, and I shall give you my own money, seriously.

So what do I mean by overleveraging? Let's start with the assumption that all the funds in your trading account are funds that you can afford to lose (and if not, then too bad, they shouldn't have been there in the first place), so the maximum of these funds that should ever be used for the total of your open positions is 80% at any given time. And this IS the maximum. The rest (at least 20% at any given time) should just sit there in cash. You are NOT God, and as such cannot predict Lehman Brothers, MF Global, a plane crashing into the Tower of London, the End of the World as we know it etc.



You just have to accept that, remote as the probability of such an event may appear to be, it is definitely not zero. I have. I guess watching Lehman Brothers fail and having my money tied up in MF's liquidation helped to open up my doors of perception. So, coming back to you and to today, if a similarly shocking 'Black Swan' event should happen, you want that minimum 20% of remaining capital discussed to get you through the subsequent rainy days.

Rule 2 –Position Sizing

We discussed this one in one of my recent articles, and as I believe I have repeatedly mentioned before, in the markets size DOES matter. In short, "too big can kill you every time", and too small is just not worth your while. What is more, by some weird coincidence, you will find that you will always tend to lose money in the trades you went "too big" with, and win money in the trades you went "too small" with. So how about you just try to determine a suitable position size for each of your trades given the size of your trading account and risk tolerance, and adhere to it?

> "IN THE MARKETS SIZE DOES MATTER."

Rule 3 – Selecting Suitable Stop Loss Orders

Let me start by saying that I do not personally use stops when trading 'normal' stocks. I also did not use stops when I used to trade Futures intraday for myself and institutional clients. In both cases, the reason was the same. I could control the risk I was taking and exit the position when necessary. Stocks are not leveraged, therefore for any liquid stock, the risk that you are "carrying" by buying it is 95% and below the risk that you have by "carrying" the same monetary amount in a CFD position.

Yes, you could bring the size down so that you have the same exposure, but let's be honest, this is not why CFDs were invented – i.e. they were invented to provide short-term leveraged exposure/profits to those that can achieve them. So if you are to ever receive the benefits of this, you have to learn to control the downside.

As for the Futures I used to trade, our way of trading at the time involved around 70 scalping trades per day; we had to be ''married'' to our trading screens, and react like an algorithm. These days are gone as any prop trader of that era will tell you, and such tasks are now best performed by real algorithms.

So that leaves us with the present, and with the fact that when trading CFDs, it is best to use trading stops. And as I discussed in one of my past articles, these stops should be placed at the price points where the market "proves you wrong". For example, when you are long a stock CFD, this stop price is below the support level you bought it against.

Rule 4 – Be Flexible

Nobody likes being wrong. It hurts, and it always comes at a price. However, confident people are not afraid to be wrong. So when they make a decision, they are 1) ready to fully support it without doubting it for no reason; and 2) happy to admit that this decision was either always wrong, or is no longer right if the conditions that led to it happen to change.

Let me give you an example. A couple of months ago, I was short Fresnillo and was making money in the trade. Then, one evening, a US Fed announcement came out stating that interest rates may be raised earlier than expected. Following this, Gold shot up. For me that meant that Fresnillo (being a FTSE 100 Gold and Silver Miner) was also going to shoot up soon as the UK stock market opened next morning. So I went to the office that morning, and advised all of our traders and clients to exit their related positions. Did we lose money in this? In some cases we did, yes. We for sure lost the profits we were making beforehand. But so what? The reason for being in this trade was no longer there, we were no longer right, so our only reasonable option was to exit. And that was OK. I can assure you that taking the loss at that point made no big negative difference to anyone's weekly, let alone monthly P&L. I can also assure you that staying short Fresnillo after this point would have.

This concludes the first four of my Golden Rules for Trading CFDs. We shall continue with the remaining six in Master Investor's June edition.

Until next month,

Happy trading everyone!!

Until next month,
Happy trading everyone!

Maria Psarra is a Senior Derivatives and Equities Trader who has headed several Advisory Trading desks in the City over the course of her career. In her most recent role as Head of Trading at Prime Wealth Group, Maria determined the company's trading strategy, supervised a team of experienced brokers, and advised high-net-worth individuals on suitable investment strategies. Maria employs different investment styles in order to construct personalised portfolios best suited to the risk and return preferences of her clients. Typical portfolios primarily comprise UK and European equities and equity indices, and, to a lesser extent, commodities and fixed income exposure.

Maria appears on Tip TV on a weekly basis providing investment tips and market commentary, writes for a number of financial publications, and is often invited to present her views during conferences such as the Master Investor Show, the London Trading Show, and Inside ETFs Europe, Europe's largest ETFs conference.

SHAKEN NOT STIRRED

AN INTRODUCTION TO THE BUBBLY WORLD OF COCKTAIL-SHAKER INVESTMENT

BY WENDY SALISBURY

In the civilised decadence of the Roaring Twenties and Dirty Thirties, any person in possession of a cocktail shaker was a person ready to party. But where did this ingenious little bar tool originate and how come everyone aspired to own one?

"IN THE CIVILISED DECADENCE OF THE ROARING TWENTIES AND DIRTY THIRTIES, ANY PERSON IN POSSESSION OF A COCKTAIL SHAKER WAS A PERSON READY TO PARTY."

Wendy Salisbury is a London-based antique dealer, author and broadcaster with a passion for collecting eclectic objets d'art for investment. "I'll buy anything I can fit into the boot of my car if I think there's a profit in it!"

The origins of the mixed drink and the essential accessory with which to blend it began with the ancient Egyptians: they combined herbs, spices and alcohol to make medicinal remedies. In 1520, Hernan Cortéz, the conqueror of Mexico, became partial to a New World potion with a base of cacao which was served to him from a tall golden vessel.

In America in the late 1700s, the brewing of different liquors was the precursor to the punchy combos we enjoy today. But how did the cocktail get its name?

Legend has it that a widowed innkeeper named Betsy Flanagan was having a bad time with her chicken-rearing neighbours. To teach them a lesson, she stole their prize rooster which she killed and cooked to serve to her customers. A bunch of rowdy French and American soldiers washed the tasty meal down with a drink Betsy concocted and decorated with tail feathers. As the evening wore on and the boys got merrier, they demanded 'more cock tail' and the rest, as they say, is history.

As early as 1806, in the May edition of a New York publication entitled The Balance and Columbian Repository, this new fangled beverage was described as *"a stimulating liquor, composed of spirits, sugar, water and bitters supposed to be an excellent electioneering potion in as much as it renders the heart stout and bold, at the same time that it fuddles the head. A person having swallowed a glass of it is ready to swallow almost anything else!"*

Mixologists of the day experimented by adding fruit juices and sodas to bottled drinks such as gin, martini, vermouth and whisky. Merging the flavours by moving the liquids back and forth between two tumblers, they soon realised that something a little less clumsy and a little more practical was needed. And so the true evolution of the decorative cocktail shaker began.

"BARMEN SOON BECAME SHOWMEN AS THEY BRANDISHED THEIR SHAKERS HIGH IN THE AIR LIKE MARACA PLAYERS."

The earliest of these inventions were native New Yorkers much like their promoter, Mr. William Hartnett. He applied for a design patent in 1872 for an 'Apparatus for Mixing Drinks'. This was a three-piece gadget comprising a built-in strainer, a cup and a cylindrical base that all fitted neatly together. The contraption was later simplified to just two pieces: a tall base into which the ingredients could be added to chunks of ice for speedy cooling and a cup-shaped top with a built-in sieve. The subsequent shaking combined the contents and the sieve stopped the ice cubes from tumbling into the glass. Ice could be popped in later if required.

In 1887 The International Silver Company listed six sizes of the standard two-piece shaker in their catalogue. By the turn of the 20th century, the Victorian-style shaker, not unlike a tea or coffee pot, had become a bar-room fixture. Grand hotels in the USA were keen to compete with the British convention of Afternoon Tea so they came up with the slightly more outré Cocktail Hour.

That time of day, a pre-prandial *cinq à sept,* earned its reputation as a way to fill the gap between tea and dinner. The custom was embraced with gusto.

Advertising agencies jumped onboard with slogans like: *"... puts new life into the tired woman after a long day's shopping" or the even catchier "... designed to boost your husband when he comes home late from work."*

Barmen soon became showmen as they brandished their shakers high in the air like maraca players. The rapid rattling of ice cubes was a satisfying and anticipatory sound, tempting the taste buds with the latest creations from the bartender's fertile imagination. A natural progression was to serve cocktails at home and before long, no self-respecting household was complete without a bar full of blending equipment not least of which was a collection of shiny shakers.

Matching drinking cups, citrus presses, stirrers, ice picks, scoops, tongs, strainers and muddlers were thrown into the mix and the expression "Anyone for cocktails?" became music to the ears, a pleasure that could be enjoyed by men and women in equal measure leading them through to dinnertime 'in high spirits'.

Exotic names like Angel's Delight, Boston Iced Tea, Bronx Express, Cowboy Martini, Floridita, Margarita, Moscow Mule, Prairie Oyster and Singapore Sling

Prairie Oyster and Singapore Sling fuelled the fire for all things fancy, foreign and frolicsome. As Dorothy Parker, the great American writer, poet, critic and doyenne of the witty riposte said:

"I love a Martini, but two at the most,
Three, I'm under table
Four, under the host!"

In 1908, Harrods advertised two silver-plated cocktail shakers in their brochure *"for mixing American drinks".* High end houses like Cartier, Tiffany, Mappin & Webb and Asprey followed suit and the great jewellers and silversmiths of the time competed to design novelty shakers to rival the ever-growing plethora of bar room accessories.

Cocktail shakers were given as Christmas and birthday presents and awarded to sporting heroes. They were shaped like fire extinguishers, ladies' calves (shake a leg?), Zeppelin airships, WW1 bombs, army tanks, lighthouses, golf bags and skyscrapers inspired by the New York City skyline.

During Prohibition (1920–1933), when alcoholic beverages became illegal, cocktails were still consumed in bars called Speakeasies. The quality of the liquor available was inferior to before and there was a shift from whisky to gin; the latter did not require ageing and was therefore easier to produce illicitly. Honey, fruit juices and other flavourings helped to mask the foul taste of the poor quality spirit. Sweet cocktails were easier to drink quickly which was quite a consideration when the establishment could have been raided at any moment.

The Great Depression of 1929 stilted manufacturing and sales but once the economy picked up and Prohibition was lifted, glassmakers like The Cambridge Glass Company of Ohio added flair to a new range of styles in ruby red, cobalt blue and emerald green glass with recipes and measures etched or silk screened on the sides.

Jazz Age figures frolicked around the circumference while golfers, polo players and aviators showed off their prowess in paint or inlay. Cocktail shakers wielded by flamboyant bar tenders appeared in movies and became associated with the glamorous lifestyles of the movie stars. The stylish shaker became a de rigueur symbol of sophistication and the good life.

So, what to look out for and what to collect? As with any purchase for investment, there are only three requirements: quality, quality and quality. Go for the luxury labels mentioned above if you can afford them – they hold their value and have more chance of appreciating than everyday examples.

If you like glass, the Cambridge Glass Company's Rose Point, Gloria, Diane and Wildflower patterns are popular and very affordable. A vintage Wildflower design with a chrome lid is currently for sale on eBay at around £60.

S.W. Farber's 'Farberware' and Farber Brothers' 'Kromekraft' range are also excellent starter models. They are fairly standard in design with an Art Deco Farberware 12" chrome model comprising pitcher and lid currently on sale on eBay for around £18.00.

If you want to create a serious collection, however, you'll need to dig a little deeper. The Penguin is a highly collectible character as he was a 1930s mascot. Dressed in a tuxedo with a hinged beak that lifts up to reveal a stopper and pouring spout, he symbolizes the elegant man about town. I would guess this figure was chosen as much as for his 'penguin suit' as for his cold climate connotation, representing a well-chilled cocktail.

A good quality silver plate penguin-shaped shaker sells today for around £1,300. Look out for the Napier label, originally introduced during the holiday season of 1936. Other shakers with a good provenance are classic architectural designs by Norman Bel Geddes.

Asprey of London is currently selling a rocket-shaped shaker for £7,500 and Pullman Gallery of King Street, St. James's has a wonderful, eclectic selection from around £2,000 upwards. The auction site 1st Dibs is another great shopping source offering a variety of models and prices.

Books also abound on the subject for you to do your research before you buy. Here's a quote from San Francisco writer and bartender William "Cocktail Bill" Boothby's 1891 tome:

"Do not serve a frosted glass to a gentleman with a moustache. The sugar will adhere to that appendage and cause great inconvenience."

Cheers m'dears and bottoms up!

TECHNOLOGY CORNER

SOCIAL NETWORKS FOR TRADERS

BY SIMON CARTER

Think social networks and you think of Facebook, Twitter and LinkedIn, but beyond these behemoths are a number of thriving online communities specifically for traders. Master Investor takes a look at the quirks, upsides, pitfalls and pluses of three of the biggest.

Scutify

Of all the sites reviewed in this column, Scutify is the closest there is to 'traditional' social networks combining features from Facebook and Twitter with stock market statistics to create an environment that you can quickly feel comfortable in.

When joining the site, Scutify will automatically follow a number of popular accounts for you. This may seem presumptuous, but the idea is to get you going on the site, and you can of course un-follow these accounts.

As with most social networks, you can post updates. Here, they're called Scuttles, and you can post up to 500 characters and an image. With this much room to express thoughts, Scutify comes across as a more intelligent, reasoned version of Twitter (where 140 characters is your limit).

There is also a market place, called Premium Scuttles, where users can sell content such as eBooks and trading strategies from as little as $0.99. Add Twitter integration, for you to create your own profile, a feature that allows you to state yourself as Bullish or Bearish on any company (as well as

"SCUTIFY COMES ACROSS AS A MORE INTELLIGENT, REASONED VERSION OF TWITTER."

see the overall community leaning) and you can see that Scutify is trying to be all things to all people.

One downside is that with all of these features, it's easy to find yourself spending so much time on the site that you forget to do any actual trading, but once you've mastered the layout and zoned in on your favourite features, Scutify could become a very useful addition to your trading toolset.

eToro

As opposed to a true social network – in fact the site includes links to other social networks – eToro is a self-styled social trading network. If you had to sum up what the site does in a few words it would be this: follow traders and copy their trades.

Before any automated trading alarm bells start ringing in your head, eToro approaches the idea with a policy of being completely open (more on which below), and provides risk management tools to help negate the worst side effects of automated trading.

Any trader can join eToro and while you can use the site in a number of different ways – for instance, using OpenBook to discuss trading in a Twitter-like environment – you're likely to fall into one of two camps. Camp one is to use eToro as a trading platform. This is a real 'put your money where your mouth is' way of trading as any user will be able to see what you have bought and how you've performed.

Camp two is where the majority of users tend to sit. From this side, you are more likely to follow the more successful traders from camp one, perhaps taking their tips and using them as part of your own trading strategy. However, the big selling point here is that if you like a trader enough, you can simply click 'Copy' and your account will move into automated mode and mirror the moves made by your chosen trader(s).

You can, of course, put in your own caveats, stops and limitations meaning that if your trader suddenly loses his or her touch, you aren't going to go to the wall.

Moreover, the fact that you can follow as many traders as you wish means that you can spread your investments between high and low risk strategies.

eToro Trading Starts Here

Reviews of eToro are generally good, and users seem reportedly happy with the returns. If you ignore those posting 300-400% returns (as usually this indicates a high-risk strategy that will have burned out before you get to it), then eToro could potentially generate a tidy little return.

Collective2

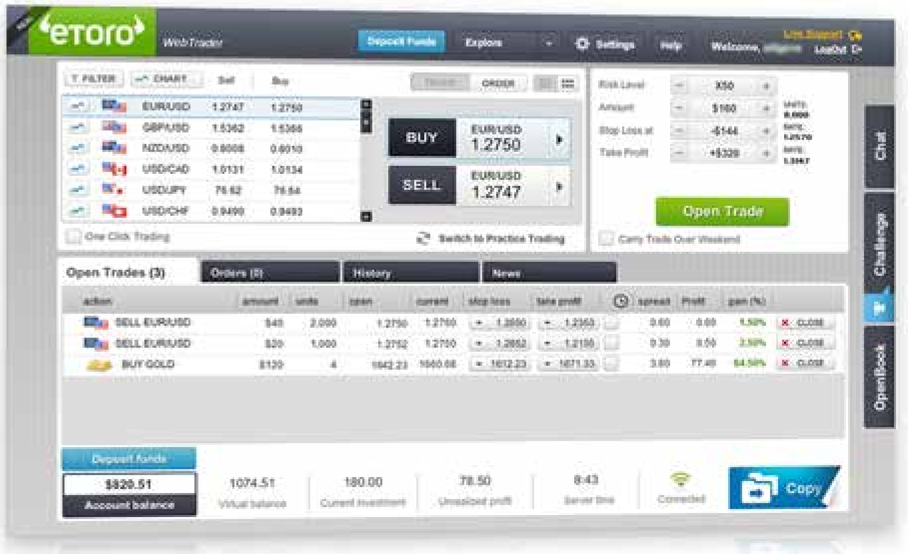
Collective2, or C2, is one of the biggest social trading networks in terms of numbers of users, and numbers of trades made, but of all three reviewed today, the site is the highest risk, and the least rewarding from a social point of view.

The idea behind the site is that traders can discuss and develop strategies which can be back tested with real data (what strategy *doesn't* work with old data?!) and then put into a market place where other users can subscribe and automate their own trading using that strategy.

For instance, at the time of writing, the strategy at the top of the list has been back tested to February 2005 and has a 41.3% annual return on the stock market. And for $100 a month, you too could use that strategy.

While on the surface this appears to be very similar to eToro, there is no charge on that site for following traders.

Furthermore, eToro's results are based on a history of actual trades as opposed



"COLLECTIVE2, OR C2, IS ONE OF THE BIGGEST SOCIAL TRADING NETWORKS IN TERMS OF NUMBERS OF USERS."

to theoretical results of strategies. All of that said, it's not impossible to make money or to get strategy ideas from C2, and a number of the strategies do come with a free trial. However, in terms of the social aspect, there are certainly better options out there.

collective2

BEST OF THE BLOG

APRIL 2015

BEST OF THE BLOG

> **"GSK IN ITS LATEST CORPORATE MANIFESTATION, HAS BEEN RESOLVED INTO THREE DISTINCT AREAS OF BUSINESS ACTIVITIES: THE DISCOVERY OF PHARMACEUTICAL THERAPIES; VACCINES AND HEALTHCARE."**

Robert Sutherland-Smith on GlaxoSmithKline: a share supported by a good yield, a potential special shareholder return and potentially supportive news flow.

When I first started to put pen to paper on this pre-trading statement appreciation of GlaxoSmithKline, the share price was 1626. In terms of years, Shakespeare was dead and buried by 1626. The share price now, as I resume the task, is 1576 – a year when Will Shakespeare was alive but before he had commenced his career as a playwright and shareholder in the Globe theatre company.

So, do I press on in a conviction that GlaxoSmithKline is good value or take heed of the weakness in the share price? Is this a share that should be taken in a 1576p flood or left to float down river for a better opportunity?

Looking at the share price chart, I see that it has reached a support level on an uptrend that began in January and off which it seems ready to bounce; a not unreasonable speculative prognosis when the historic dividend yield is 5% despite the fact that in the last six months the share price rise of 22% has outpaced the 14% increase in the FTSE 100 Index. That after all, is the thing that is responsible for the new up-trend.

The Q3 statement for the year ended 31st December 2014 (it was published in October) stated that core earnings per share rose 5% to 27.9p before the payment of dividends and the benefit, or otherwise, if disinvestment.

The Q3 dividend was in fact maintained at 13p.

It is estimated that the dividend payout for Q4 will be increased by 3% making an annual dividend of 80p; hence the annual dividend yield of 5% for last year.

GSK in its latest corporate manifestation, has been resolved into three distinct areas of business activities: the discovery of pharmaceutical therapies; vaccines and healthcare.

To read the full article visit...

http://www.masterinvestormagazine.co.uk/latest/glaxosmithkline-a-share-supported-by-a-good-yield-a-potential-special-shareholder-return-and-potentially-supportive-news-flow/

Zak Mir's AIM Stocks Momentum Plays: Clinigen, GW Pharma, Ithaca

While some may find that life on AIM can be a little rocky at times, my take on the best way to flourish in this particular space is to focus on situations where the market has already got the bit between its teeth – momentum plays. This may mean that one is focusing on the technical side, rather than the fundamentals, but going with the flow/trend is a form of investing which has historically proved to be effective, or at least simple. Of course, the trick here is not to be shy in terms of pulling the plug on a position if the money management parameters set when the stock was bought suddenly change.

"WE HAVE WITNESSED AN AS YET UNTESTED BREAK OF THE KEY 200 DAY MOVING AVERAGE NOW AT 488P, SOMETHING WHICH SUGGESTS THAT WE ARE LOOKING AT AN EXCEPTIONALLY ROBUST BULL RUN."

We kick off with a solid looking contender which comes in the form of Clinigen (CLIN). Here it can be seen how the stock kick started an extended bull run with an as yet unfilled gap to the upside in August. Since then we have witnessed an as yet untested break of the key 200 day moving average now at 488p, something which suggests that we are looking at an exceptionally robust bull run, one for which the post November consolidation between 480p – 580p should break convincingly to the upside. The favoured scenario at this stage is that while there is no end of day close back below the 10 day moving average at 552p, the upside here could be as great as the August price channel top at 700p over the next 1-2 months.

Any dips towards the 10 day line in the interim are regarded as a buy opportunity on a technical basis.

To read the full article visit...

http://www.masterinvestor-magazine.co.uk/latest/aim-stocks-momentum-plays-clinigen-gw-pharma-ithaca/

Sarao: Making A Monkey Of The Markets And The Regulators

I have only been to the U.S. once. It was in 1991, to Los Angeles, just before Rodney King was beaten up. California, apart from the LAPD, struck me as a great place. But you would not want to get on the wrong side of the law. Indeed, given the totally one-sided extradition rules, even those of us Brits who may even accidentally find ourselves in the gaze of the U.S. authorities will find that a one way trip Stateside will be served up quicker than you can say Star Spangled Banner. This is not necessarily a reason to quibble; it is just the way it is.

Those of us interested in the financial markets are reminded of this in the wake of the alleged Flash Crash perpetrator Navinder Singh Sarao. The Flash Crash was five years ago, while the US Commodity Futures Trading Commission (CFTC) is focusing on Sarao only now.

If there was a systemic weakness in the index trading it is quite pathetic it has taken so long to catch up with the Hound of Hounslow – there could have been a flash crash every month in the meantime.

What market observers and indeed the general public are now being led to believe is that Sarao is yet another in a long line of rogue traders who started off with Nick Leeson 20 years ago. This may be the case. But it actually looks as though it is the usual phenomenon we see with "crimes" in the financial markets: a mixture of envy, scapegoating, ignorance and above all, the rush to close a stable door after the horse has bolted.

We are reminded once again that regulators seem to be skilled in punishing/fining the results of their own incompetence. There will probably be more to emerge from the Sarao episode apart from a British citizen being thrown to the lions – the Department of Justice. It is that he will be given a disproportionately tough punishment, and when it comes to trading, the "house" always wins.

To read the full article visit...

http://www.masterinvestor-magazine.co.uk/latest/sarao-making-a-monkey-of-the-markets-and-the-regulators/

Time For The Loonie To Pick Up The Dollar Baton

As London traders bask in the mini spring heat wave, financial markets are also enjoying a little quiet. The S&P 500 is still banging on the door of the record highs set earlier in the year, but there is no sense of urgency right now.

The same can be said of the US Dollar. The second half of 2014 saw a near relentless rise in the Greenback, but now the dollar index isn't sure where to go. The US is still likely to be one of the first Western nations to raise interest rates, but expectations are now edging further into 2016 for this to happen. Below par US unemployment claims, flash manufacturing PMI and new home sales on Thursday all added to the dollar's heavy burden.

During this time, the euro has steadfastly refused to collapse despite the

"THE SECOND HALF OF 2014 SAW A NEAR RELENTLESS RISE IN THE GREENBACK, BUT NOW THE DOLLAR INDEX ISN'T SURE WHERE TO GO."

precarious satiation in Greece. At the same time, oil prices have steadily climbed off the March lows just above $40 barrel.

The latter has been of particular significance as collapsing oil prices (as measured in US dollars) have been a significant factor in the dollar inflation of 2014. Oil prices still have some way to go to recover the highs of June 2014 of over $105 a barrel, but the recovery has been consistent over the past six weeks.

This recovery has been a balm for the beleaguered Canadian dollar, which relies heavily on oil prices as part of its export portfolio.

In fact, the Canadian dollar is the best performing dollar pair over the last 20 trading days.

To read the full article visit...

http://www.masterinvestor-magazine.co.uk/latest/time-for-the-loonie-to-pick-up-the-dollar-baton/

READ TO SUCCEED

WHY AIM WILL BE THE WORLD'S BEST MARKET BEYOND THE CREDIT BOOM

BY GERVAIS WILLIAMS

A BOOK REVIEW BY SWEN LORENZ

Harriman House, GBP 16.99. Available on Amazon.co.uk

One of the great advantages of working for Master Investor is that you get to personally meet an incredible array of high profile experts and investors – most notably at our yearly Master Investor show, where one of our keynote speakers was Gervais Williams, the award winning fund manager and small cap expert.

Having spent a fair bit of time sitting next to Gervais and discussing the presentations of the other keynote speakers of Master Investor, I spent the following Sunday reading his book, which has actually been on the market since last November. Whereas my review might be considered slightly late, it's all the more timely.

Shares of small companies have been lagging behind those of blue chips by a great degree, and if Gervais Williams' insights are anything to go by, this is going to change dramatically.

"The Future is small" contains an incredibly broad, but also incredibly clear, set of hard data about small cap stocks and how they compare with other investments.

Williams naturally has a bias, given that he manages £3 billion in client assets that are mostly invested in this sector. However, his track record of successful investments and his experience in the sector should make everyone listen up. This is a book written by someone who knows the market for smaller companies like the back of his hand.

There are a number of compelling reasons why small caps are going to outperform their larger peers. For a start, the Law of Large Numbers works against large corporations. It's so much harder to grow a bureaucratic, vast enterprise than it is to grow a smaller, more nimble one. Large companies are poor at innovation, whereas small companies can easily foster a culture of innovation and disruption. Large companies grow through acquisitions, whereas smaller companies tend to grow through organic growth, which is much more lucrative for investors. All of this comes together to make a compelling case for investing in smaller companies, especially during times of depressed valuations.

Williams spells out the principle reasons for investigating AIM listed smaller companies in greater detail – ranging from the greater scope for misvaluation and opportunities to strike bargains, to a projected increase in institutional capital flowing into the sector – all of which is backed up by data, and written in a style that is comprehensible even for those with relatively little experience.

Whereas some authors argue that attractively priced investments can now only be found in exotic countries or have to involve complex financial instruments, Gervais Williams shows that they might also quite simply be hiding in plain sight. The smaller companies listed on AIM are easy to access for UK investors, and may just hold a bigger array of opportunities than most investors currently realise.

Master Investor rating: A highly readable book that makes a convincing case, doesn't take more than an afternoon to read in detail, and provides a real call to action for investors. It's a book I'll get out again in the future.

"THIS IS A BOOK WRITTEN BY SOMEONE WHO KNOWS THE MARKET FOR SMALLER COMPANIES LIKE THE BACK OF HIS HAND."

Win Gervais William's book: on 30th May, we will give away 3 copies of this book to our Facebook community. Friend us on www.facebook.com/masterinvestor for a chance to win a copy.

THE FINAL WORD

FTSE, OR NOT FTSE?

BY ADRIAN KEMPTON-CUMBER

Two-party politics has meant that, since the war, we've largely had an elected dictatorship (aka 'majority government'). We had the chance to change that, but a majority voted against the only electoral reform referendum we've had, effectively shutting down the debate.

'First past the post' is not even-handed, and apparently we like it like that. For a country that has been so innovative in the past, practically inventing the modern system of government, we seem reluctant to replace it with a better one. Party politics is like football teams here. It's seen as disloyal if you defect, even if you no longer agree with the party's values. Or, in the case of New Labour, if they themselves no longer agree with their own party's values!

But things could be changing. I hope we'll never see a majority government here again. I want every administration to have to negotiate on every policy. The Lib Dems squandered their chance to hold sway in the Coalition, sacrificing many of their key policies. This year the SNP could hold the balance of power. If the Tories had supported Scottish Independence (as I do), they would now win every election for Westminster for the foreseeable future, so I don't quite understand why they didn't.

The ironic thing is that Scotland has, at least for the purposes of a joke, become a third world country since then: ebola, no income thanks to low oil prices. Yet they could now be ruling the whole UK from Holyrood!

> **"SINCE THE WAR, WE'VE LARGELY HAD AN ELECTED DICTATORSHIP (AKA 'MAJORITY GOVERNMENT')."**

The popular left wing, right wing idea of politics is totally out-dated. In 1945, it was quite reasonable to be a socialist, support the establishment of the welfare state, the NHS and so forth. But now that's long since been done. Life is much more sophisticated nowadays. Everyone should have views that occupy right, left, centre and more. As a result, policies, not parties or politicians, are what should be focussed on.

I'd like to see a system where the ideas are celebrities, chosen by existing systems (YouGov, 38degrees), a sequence of electronic multiple referenda on each until we reach a consensus most can live with. What we get now is often something most don't want, but will reluctantly live with. I'd abolish MPs: they'd be obsolete. Each individual would have to pass a rudimentary exam to establish that they understand what their vote does, how our political system works, and how to evaluate policies before they'd get to have a vote.

One thing's for certain though: if you want fairness in the UK then you have to start at the top and abolish the monarchy. They represent privilege and have more secrecy than, well than you or I are allowed to know about. We don't even need a head of state.

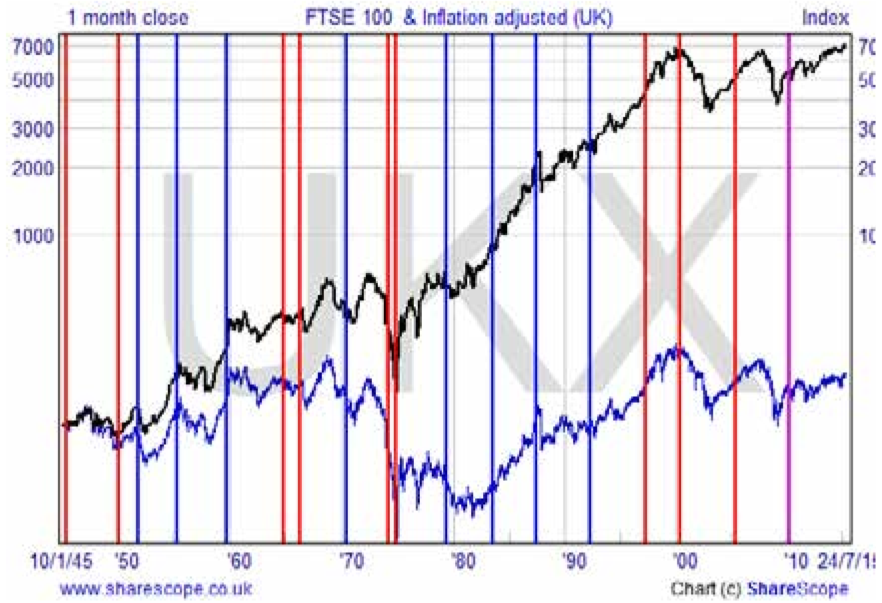
If you can't imagine that then read The Spider and the Starfish by Ori Brafman and Rod Beckstrom. The royals do interfere in politics behind closed doors, and they are above the law. If you can't imagine that then visit republic.org.uk and prepare yourself for a brutal re-education!

Want a fair world? Then forget buying Fair Trade products at the risk of destabilising a local economy half-way round the world by creating income inequality there, whilst feeling smug yourself.

In a fair world you'll be losing the majority of all you have, because globally we are, in relative terms, the 1%. Each of us has around 5 times the global average.

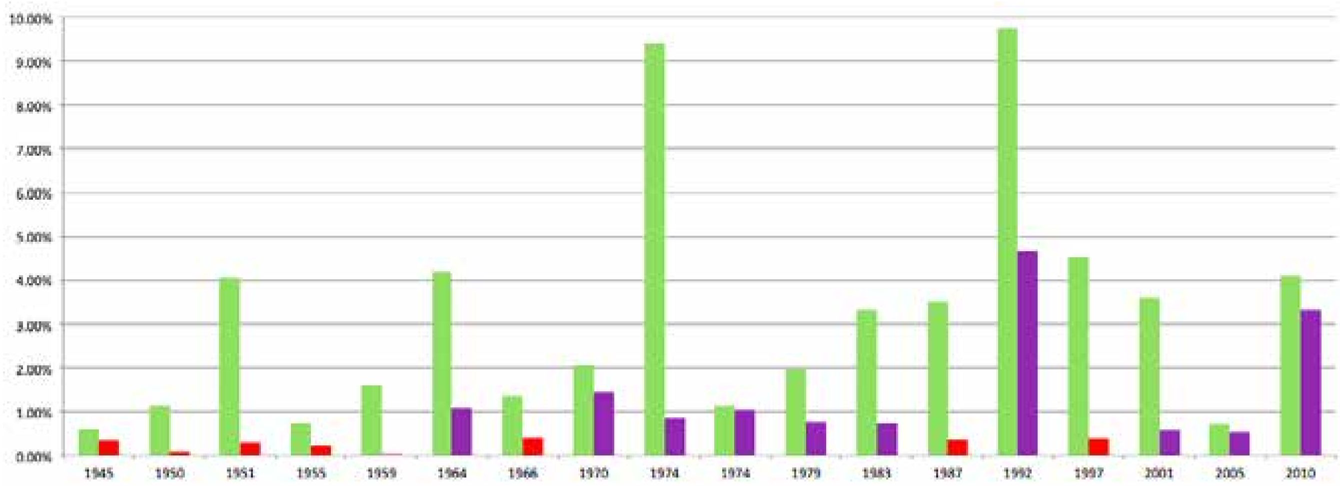
Meanwhile, we are stuck with things as they are, at least until 7th May 2015.

I looked back at how the 18 General Elections since the war have affected the FTSE100.



Overall they haven't. The market's movement reflects the global economy, and using the Dow Jones as a proxy for that, there's a clear correlation. It's fairly obvious that correlation isn't caused by the UK government! Usually the market continues in the same direction.

We're in a bull market so we shouldn't expect the FTSE 100 to break that trend unless other markets do, which seems unlikely before mid-May.



The histogram shows the max variance from the last 18 election-day FTSE 100 closing prices over the following 5 trading days. They are absolute values (i.e. one represents the lowest intra-day price, one the highest, so a minimum of -1.2% will show as a positive variance of 1.2% because we're only interested in the variance).

- 18 out of 18 have at least 0.5% max variance
- 15 out of 18 have at least 1.0% max variance

Since 1964 there have only been 3 times out of 13 that the lesser of the pair has been less than 0.5% (before that all were negligible), although to be fair they could be in the same direction. So we can be as certain as we're ever likely to be that a move of 0.5% is on. Uncertainty is priced in, but for little reason since the inevitable tracking of global markets then prevails.

How can we jump all over that? Well, a fixed odds boundary bet would be a good strategy. In other words, betting the market will touch either 0.5% above or 0.5% below the closing price on May 7th. Another way to play it would be to take two Covered Warrants, or two option contracts, one in each direction (one put and one call). That way whichever direction the market moves your contract is moving faster in the direction of the market than the other loses. Basically, a leveraged hedge trade. You would have to decide your risk profile to choose your strike prices and dates. However, a hedged trade would be great if there were any significant market moves during those days. Unlike the fixed odds bet, it would give you greater returns for a larger move than 0.5%. The market could, of course, go nowhere, for the first time in 70 years of General Elections. That would be rather unfortunate!

"WHAT WOULD GORDON GEKKO SAY? "THE FTSE 100 IS A DOG WITH FLEAS."

One final note though, as regards the FTSE 100 generally. The DAX has consistently out-performed the FTSE, as have the main US markets. As you can see from the FTSE price chart, it hasn't even really hit a new all time high if you consider mitigating factors. Adjusting for inflation, it's slightly above where it was in 1945! What would Gordon Gekko say? "The FTSE 100 is a dog with fleas."

Until next time, Adrian K-C

Description of charts

Histogram showing absolute high and low variance over the 5 trading days following each General Election.

The Price chart shows FTSE 100 and Inflation Adjusted FTSE 100. Vertical lines show the election winners, red for Labour, blue for Tories and magenta for the 2010 Coalition on a log scale. Opening price 138.1

MARKETS IN FOCUS
APRIL 2015

FOREX

Forex	1M %	YTD %
EUR/USD	4.4	-7.3
EUR/JPY	4.0	-7.5
GBP/US	3.5	-1.4
EUR/GBP	0.8	-6.0
EUR/CHF	0.2	-13.0
GBP/AUD	-0.2	1.9
USD/JPY	-0.4	-0.2
AUD/CAD	-1.3	0.4
USD/CHF	-4.0	-6.1
USD/CAD	-4.8	4.0

INTEREST RATES

Central Bank	Key Rate	Next Meeting
BOE	0.50%	May 11
ECB	0.05%	Jun 3
FED	0.25%	Jun 17
BOJ	0.10%	May 22
SNB	-0.75%	Jun 18
BOC	0.75%	May 27
RBA	2.25%	May 5
RBNZ	3.50%	Jun 11
BOS	-0.25%	Jul 2
BON	1.25%	May 7

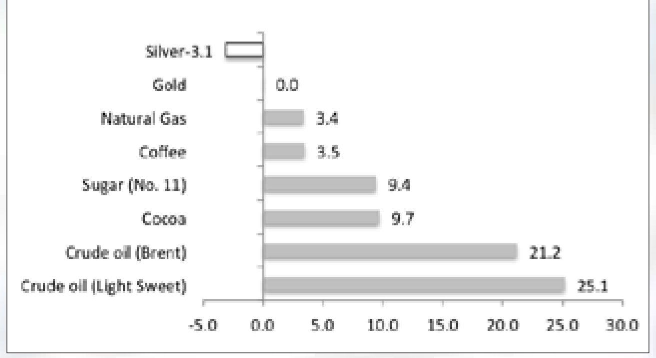
GLOBAL INDEXES

Index	1M %	YTD %
Russian Trading System	17.0	31.3
Hang Seng	13.0	19.2
Bovespa	9.9	12.4
FTSE 100	2.8	6.0
NASDAQ 100	1.9	4.2
Nikkei 225	1.6	11.9
S&P 500	0.9	1.3
Dow Jone	0.4	0.1
CAC 40	0.3	18.1
Euronext 100	-0.1	17.2
FTSE MIB	-0.5	21.2
IBEX 35	-1.2	10.8
S&P/ASX 200	-1.7	7.0
DAX (Xetra)	-4.3	16.8

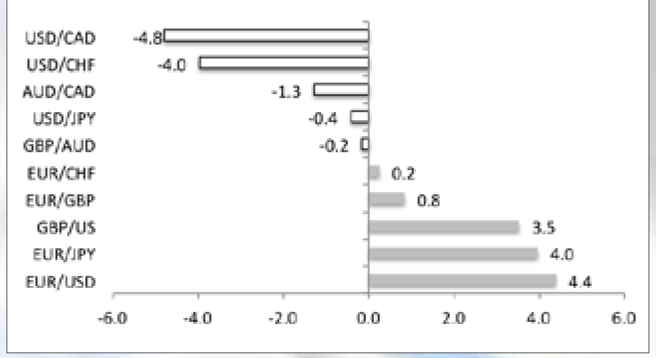
COMMODITIES

Commodity	1M %	YTD %
Crude oil (Light Sweet)	25.1	10.9
Crude oil (Brent)	21.2	15.5
Cocoa	9.7	-0.4
Sugar (No. 11)	9.4	-9.3
Coffee	3.5	-14.9
Natural Gas	3.4	-6.3
Gold	0.0	0.0
Silver	-3.1	2.6

COMMODITIES 1M%



FOREX 1M%



FTSE 350 BOTTOM

Sector	1M %	YTD %
Spire Healthcare Group PLC	-14.3	-15.7
Poundland Group PLC	-14.1	-4.6
Petra Diamonds Ltd	-13.4	-18.6
IP Group PLC	-12.8	-3.9
Telecom plus PLC	-11.8	-39.2

FTSE 350 SECTORS BOTTOM

Sector	1M %	YTD %
Food & Drug Retailers	-4.6	10.8
Life Insurance	-2.4	10.0
Automobiles & Parts	-2.0	2.1
Pharmaceuticals & Biotechnology	-1.9	7.0
Beverages	-1.9	0.6

FTSE 350 TOP

Sector	1M %	YTD %
Tullow Oil PLC	46.2	0.0
BG Group PLC	42.6	36.7
Premier Oil PLC	33.3	4.9
Vedanta Resources PLC	25.7	9.4
Lonmin PLC	22.6	-19.0

FTSE 350 SECTORS TOP

Sector	1M %	YTD %
Oil & Gas Producers	8.9	5.5
Banks	6.8	5.0
Mining	6.4	2.0
Mobile Telecommunications	4.9	4.8
Software & Computer Services	4.7	8.9