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WELCOME

Back in May, at a dinner in Hong Kong, I was seated next to one of the biggest private financiers of the former Crown Colony. I couldn't have claimed to have previously known him. His fiancée is a friend of a friend, and the hostess figured that he and I would have plenty to talk about over dinner: money, that is.

Said financier had a simple but effective way for earning yet more money. He floated shell companies on the Hong Kong market, and sold them at a hefty premium to Chinese entrepreneurs who needed to take their companies public and wanted to do so quickly. Using a listed shell, you can avoid the entire rigmarole of listing procedures and instead simply merge the company that wants to be listed into the listed shell. Done and dusted!

Prices for such shells had recently risen to insane levels. Whereas in Europe and the US a listed entity doesn't need to cost much more than a couple of hundred thousand dollars, in China prices had risen to up to $30 million! That's a high price to pay for saving a bit of time and avoiding the hassle of hiring lawyers and accountants...

Back then, it was obvious to me that China had entered dangerous bubble territory. The Chinese public was obsessed with IPOs, pouring money into each new issue and topping it all up with leverage.

But not everyone bought into the notion of the never-ending boom. As my dinner companion told me, "I have sold everything!" Following years of building up his business and his portfolio, he had just taken all his chips off the table. Clearly, the 1992 Chevalier-Montrachet Grand Cru (£800 a bottle) made him give me a very honest assessment. In vino veritas, as they say.

Over the subsequent pre-Castro cigars (I did not dare to even check the price), more advice and market insights came my way: "China will experience an even bigger investment boom. But first, we need a shake-out. I am holding on to my cash, but will go back in when there is nothing but desperation."

Exactly when that point will arrive is the Million Dollar question. For now, and following the generally cautious stance we have had towards China for a long time, we continue to stay clear.

As to my new friend and his perfect timing, I'll arrange another dinner later this year and let you know the follow-up.

Stay tuned for more, and don't hesitate to send your feedback to **swen@masterinvestor.co.uk**

Until next month, Best regards,

Swen Lorenz, Editor

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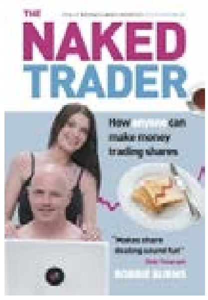

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JAPAN ARTICLES

MELLON ON THE MARKETS

BY JIM MELLON

Sweltering in my Spanish hideaway, I have followed the Greek saga with interest – but not surprise. As expected, a Eurofudge emerged at the last minute, with a sort of elaborate money laundering exercise, in which Greece gets very little money, is forced into quasi reforms, and the creditors can pretend that they get repaid. Which they won't! Ever!

Robert Reich, former Labor Secretary in the USA has written a damning account of how Goldman Sachs helped Greece to fiddle its accounts to get into the Eurozone in the first place, and in the process added to its debt and allowed the country to pursue a scheme of mass patronage and reward, early retirement and ouzo drinking subsidised by the Germanic speaking countries of the benighted Euro Reich.

Greece has learnt that the Zone of Misery is like Hotel California – you can check in, but you can never, ever check out. That is, until the whole edifice falls into the sea. As I said last month, I am a buyer of Greek assets – the stock market will surely be buoyed, when it reopens, by diaspora buying and acquisitive corporates. Sometimes, even the lousiest investments look too cheap. To reiterate, **Hellenic Petroleum** and **Hellenic Telecom** are the ones to go for.

So Greece – and the Euro – lives for another day, but the repercussions are large. The debt trap that Greece has been in for a while is now one that Italy and possibly France find themselves in; this means that because those countries are in effect in a deflationary bust, and notwithstanding ludicrously low interest rates on their sovereign bonds, they won't be able to repay their loans in the long term, and the percentage of GDP represented by debt will keep rising.

"GREECE HAS LEARNT THAT THE ZONE OF MISERY IS LIKE HOTEL CALIFORNIA – YOU CAN CHECK IN, BUT YOU CAN NEVER, EVER CHECK OUT. AGE OF GDP OF ANY MARKET IN THE WORLD, AND THAT'S AFTER A CRUSHING DEPRESSION."

This would probably be OK in a country like Japan, where almost all debt is held by locals, but now that the ECB is basically buying up all the government debt of Europe, it creates a potentially black hole someway down the line. But, hey, who cares, if it's a long way off?! (Not.)

Meantime, the **Euro**, only just over a year ago as strong as an ox against the US dollar, has continued to fall, though as usual the pundits suggesting parity post Greece have got it wrong. The Euro, to my mind, is approaching buy territory, particularly for British investors, where the strength of the pound is baffling in the face of our own enormous twin deficits. Buy Euros while you can!

The Euro's weakness has of course been a great boon to exporters in the Eurozone, particularly German ones. But the remarkable thing is that, partly as a result of the single currency's weakness, European companies now export half of their turnover, and about half of those exports are to non-EU countries, making Euro com-

"THE EURO, TO MY MIND, IS APPROACHING BUY TERRITORY, PARTICULARLY FOR BRITISH INVESTORS, WHERE THE STRENGTH OF THE POUND IS BAFFLING IN THE FACE OF OUR OWN ENORMOUS TWIN DEFICITS."

panies the most globalised in the world. In contrast about one third of US companies' turnover is represented by exports, and in the Emerging Markets, about 38%. This makes some Euro stocks relatively attractive, and I will mention a couple of names at the end of this missive.

So, in brief I think the Euro is reaching a bottom; it might be around the 1.05 level against the dollar, and our option strategy is pitched at this level. But, if you have the stomach, I would actually start buying euros against the pound and dollar right now.

On the subject of currencies, I think that the **Japanese yen** is cheap; and the Economist Big Mac index backs this view up. Japan doesn't need a weaker currency, and I think comments from officials are pointing towards a 120-122 level against the dollar, versus about 124 now. It's not a lot, I know, but every little bit helps in FX.

I remain a committed buyer of the **Nikkei,** which keeps going up, and my new target for the index is 25,000. Buy any dips, and in terms of stocks to buy, my long term favourite is **Fanuc** and I am holding. By the way, it's curious that Nikkei, owner of the index, has bought the FT, owner of the FTSE index. I wonder what will evolve from that.

Generally, the forecasts I made at Master Investor have been OK to great, with one exception, which is **silver.**

It's down, and Gavekal have pointed out that when silver falls sharply it normally signals bad economic things, including a US recession. I don't think that is going to happen, but certainly the economic news is not particularly positive. China is faking its numbers, and probably grows at 3 to 4 percent this year, with bad implications for Australia, where I remain short the AUD against the USD. This has been a great trade, and I see AUD trading at 65 cents in the not too distant future.

Perhaps in revenge for the second test

"AUSTRALIA IS BASICALLY A RENTIER ECONOMY, WITH MILLIONS OF PEOPLE SITTING AROUND THE BIG MINE. WHEN THE MAIN CUSTOMER OF THE BIG MINE HAS ISSUES, THE RENTIERS HAVE DOUBLE TROUBLE."

results, one commentator even suggests that Australia may be the next Greece. That is an exaggeration, but it is true that Australia is basically a rentier economy, with millions of people sitting around the big mine. When the main customer of the big mine has issues, the rentiers have double trouble.

Meantime, I nurse my wounds in silver (and remember, silver has antibiotic properties) and hold. Some event somewhere will jack it and gold up big time within a year.

Mea culpa on that one.

But there was a silver lining – **Apple.** A conviction short at Master Investor, it fell by 7% in one day last week, after disappointing sales guidance. Now, the company continues to churn out cash, and people are buying iPhones in droves.

But the point is that Apple is totally dependent on the iPhone, and there is good quality and cheap competition out there, particularly from Huawei, the Chinese company. Meantime, Apple's main growth market, China, is having issues (and by the way, I didn't like the Chinese market, which has suffered the biggest bust of any market in recent history). A new iPhone will come out later this year, but Apple's best days are behind it. And as for that watch – mine made one outing from its box to be put right back in it, one day to be sold on eBay as a historical novelty. Bloody useless.

But there is no doubt that technology –and I don't mean from Apple– is really on the accelerating path. Every day, there are newly developed or approved drugs in life sciences; I really like **immunotherapy**, and I hope to have something for investors to look at in the near future. This week, a new generation of cholesterol drugs was approved in the US and Europe – the so called PCSK9 class, developed by Regeneron/Sanofi and Amgen. Combined sales of their products could exceed $10 billion per annum, putting these drugs in the super bestseller category with AbbVie's TNF Inhibitor Humira and Gilead's HCV drug Harvoni.

On a less spectacular scale, the recommendation I made last month of **Synergy Pharmaceuticals** in the US worked out pretty well. It's up over 60% after its drug was approved. Chronic constipation sufferers rejoice!

In other areas of technology, the bandwagon rolls on. **Uber** raised money at a $50 billion valuation; it is now an UBERcorn! It is also ridiculously expensive and falls into a category of company becoming quite prevalent in the US. It's too expensive for anyone else to acquire, and it's not certain that there would be any upside in an IPO, as even the most demented US retail investor might baulk at a price demanded by Uber's venture capital owners.

But overall, while there has been a pretty maniacal level of activity in the venture capital area of the US – and now in Europe – technology stocks, at an average of about 26x in the US, are not as ridiculously expensive as they were in 2000, prior to the first internet bust. That's why I don't see a huge fall coming in US markets – but I don't see much upside either. The US market has barely budged this year; share buybacks, the sustaining factor in the bull market of recent years are declining; and overall earnings are declining, too, albeit modestly. This has been heavily influenced by the strength of the US dollar, as well as by the energy sector's collapse, but there isn't a lot of traction in many sectors of the US – and that's why I prefer Japan.

I also bought a little China when the blood was flowing in the streets, but that's purely a short term trade. (For those, please follow me on Twitter at @jimmhk). And by the way also, I think crude oil might be due a bounce. Perhaps 5%. Most of the US shale producers are consumers of cash at current levels and Iranian oil won't flow in quantity for years.

The endless subject of discussion, of course, is when **interest rates** will go up. Who cares? They are going to rise, because the misallocation of capital that zero interest rates has caused with resulting falls in productivity is a disaster that even central bankers have recognised. That's why you should sell bonds (except possibly very long-dated US bonds), and particularly gilts and Euro bonds – most notably, the bund, for which I remain a big bear.

A couple of stocks to consider... notwithstanding my comments on Oz, there is a bit more to it than sybarites and mining. A company which is very interesting is **Rhinomed.** I hosted the CEO at my lair in Ibiza recently, and in between rosados, became convinced that their anti-snoring technology is compelling. Load up on a few.

On a somewhat different scale, the Dutch Bank, **ING** looks cheap to me, and although the equivalent of flagellation for banks, fining, is proceeding at an unceasing pace, they seem to have weathered their canings and now it looks like a good franchise. Remember, there is a price for everything.

I would also buy the German company **Siemens**, as a dull but worthy participant in new medical technologies, the transport revolution and even the Internet of Things. I made some money buying the DAX low and then stupidly shorted it prematurely, but I think it's range-bound and you have to pick your German stocks. **Kuka** remains a top pick in robotics.

I am getting more convinced that **solar** will be a vital component of energy supplies worldwide very quickly and I intend to do research on it and present you with ideas in the next edition. Alan Steel has asked me to speak to his clients in Edinburgh when I'm up there for the Festival, and after the talk Master Investor Magazine will provide a link to the slides.

"THE MISALLOCATION OF CAPITAL THAT ZERO INTEREST RATES HAS CAUSED WITH RESULTING FALLS IN PRODUCTIVITY IS A DISASTER THAT EVEN CENTRAL BANKERS HAVE RECOGNISED."

Meantime, it's the weekend in Ibiza and a beach lunch beckons.

Happy Hunting!
Jim Mellon

Click HERE to follow Jim's trades on twitter

What Jim read this month...

Greece default: Why isn't gold budging?

The state of gold is still very much a hot topic. Those expecting a golden lining to the euro cloud were left disappointed and confused following Greece's default. Ansuya Harjani looks at what the commodities analysts are saying about gold's non-reaction to the continuing Greek crisis. Many are putting it down to market confidence and its overall poor long-term fundamentals, but is that the full story?

http://www.cnbc.com/2015/07/01/greece-default-why-isnt-gold-budging.html

The cancer sniffers: Dogs could be the best tool for diagnosis

Cash, drugs, explosives, missing persons, and now cancer... A dog's sense of smell is 1,000 to 10,000 times more acute than that of a human being and their super-powers are now being employed to diagnose the early stages of cancer, long before conventional methods. Good dog.

https://www.newscientist.com/article/mg22730280.300-the-cancer-sniffers-dogs-could-be-the-best-tool-for-diagnosis

Intel chief raises doubts over Moore's Law

Moore's Law, the prediction made by Intel's co-founder that computing power would double every two years, has showed signs of slowing according to Intel's very own chief executive, Brian Krzanich, and may never return to the pace that has supported the tech advancements of the last fifty years. "Someday it has to stop. No exponential like this goes on forever", he warns.

http://www.ft.com/cms/s/0/36b722bc-2b49-11e5-8613-e7aedbb7bdb7.html#axzz3g0UmWL6r

The Higher Life: A mindfulness guru for the tech set

Once the preserve of scruffy-looking folk who need to get over their gap-year in India and yummy-mummies with yoga mats who are yet to discover Valium and gin, meditation has hit the mainstream and we are all encouraged to take some time to wind down and find our inner peace. This article from the New Yorker looks at the new 'mindfulness app', Headspace, that is bringing meditation to the hectic world of Silicon Valley.

http://www.newyorker.com/magazine/2015/07/06/the-higher-life

Google AI robot answers the meaning of life and tells humans how to be good

If anyone's going to answer the meaning of life, we'd expect it to be Google. As for moral robots, working in this sector, I'm surprised it didn't come sooner. I'm pretty sure the first generation Furby had a better sense of right and wrong than half the market analysts who work for us. If you were wondering, the meaning of life is, according to Google's rather evil-looking automaton, "to serve the greater good". Humanity is doomed. Thanks, Google.

http://www.independent.co.uk/life-style/gadgets-and-tech/news/google-ai-robot-answers-the-meaning-of-life-and-tells-humans-how-to-be-good-10353668.html


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OPPORTUNITIES IN FOCUS

RUSSIA, CHINA AND IRAN

SHOULD WE EVER INVEST IN BAD BOYS?

BY VICTOR HILL

Emerging markets once lured investors with the promise of rich pickings. The BRICs (Brazil, Russia, India and China) were once sure to make us wealthy, or so Jim O'Neil, formerly chairman of Goldman Sachs Asset Management, assured us.

When they went off the boil he offered us MINTs (Mexico, Indonesia, Nigeria and Turkey). If you had invested in any of these over the last year or more you would have lost money.

Now I'm not going to offer you the written equivalent of a turgid PowerPoint presentation about why Burundi is a better bet than Malawi, or why the Vietnam stock exchange will outperform Indonesia this year. And, as a fully paid-up member of CASA (the Campaign for the Abolition of Silly Acronyms), I promise not to use any of Jim's four-letter words again.

I do want to ask if you can ever justify holding a part of your portfolio in bad-boy countries with whom we have poor relations and where people live according to different rules than we do. In particular, I want to focus on three countries: Russia, China and Iran. The first two have been investible for quite some time; but with the nuclear accord between the Big Six and Iran announced on 14 July, the doors of the Tehran Stock Exchange will surely open soon to Western investors.

But first, a health and safety announcement on emerging market investment generally.

The compelling investment logic of the emerging markets, advanced by Jim O'Neil and others, was growth. Developing economies generally grow faster than developed, mature economies. This is principally because they have a younger demographic and have large untapped labour reserves. In China, migration from the rural backwaters to the bright lights of the city is still a potent national theme.

But if economic growth were strongly positively correlated with stock market returns, investment would be easy: in fact anyone could do it. Unfortunately, it isn't, for all kinds of reasons, over the short to medium term at least.

> **"DEVELOPING ECONOMIES GENERALLY GROW FASTER THAN DEVELOPED, MATURE ECONOMIES."**

In fact, GDP growth is only very weakly correlated with stock market returns, even in top-tier developed countries. But in emerging and, still more so *frontier,* markets there are so many additional layers of risk, like the skins of an onion, in addition to economic risk.

There is exchange rate risk, political risk, regulatory risk, fiscal risk, transaction risk, settlement risk – you get my drift. You might find an outstanding high-tech growth stock in a country with a bad government and even worse corporate governance and never get your money back, thanks to inflation, depreciation, rogue taxes and outright theft (the company has been bought for a song by the President's wife).

Now what is interesting about Russia, China and Iran is that, unlike many emerging markets, they enjoy (if that is the correct word) a high degree of political stability. Putin is not going anywhere soon; and even if he fell under the proverbial Tomsk omnibus, he would be replaced by Medvedev, who shares his worldview. The Chinese politburo is unlikely to be overthrown by the Chinese equivalent of the storming of the Bastille. And the ruling clique of mullahs and Ayatollahs in Iran still exerts an iron grip on power. Of course, the very lack of transparency in these countries means that we never really know how much diversity of opinion obtains in the corridors of power. Their governments are all, probably, more conflicted than they look from the outside.

Another thing these three have in common is that they are all the modern embodiments of ancient empires. China and Iran have ruled roughly the same central landmasses since early antiquity; Russia by historical comparison is a new kid on the block: having originated in the 11th century, it only came to dominate the Steppes under Ivan the Terrible in the mid sixteenth century.

There's no space here, but we can't understand what these countries are today without understanding their long, complex histories and their magnificent cultures. Suffice to say, their imperial experiences, over so many centuries, have bequeathed them not just a sense of their own uniqueness, but an instinctive preference for strong, centralised government (order) over feeble, de-centralised government (chaos). They are also, let us not forget, multi-ethnic: only 80% of Russian citizens are Russians; just 90% of the citizens of the People's Republic of China are Han Chinese; and only 79% of Iranians speak Farsi dialects, the other 21% being largely Turkic minorities.

Much as we might desire it, none of these great countries is likely to turn into a bushy-tailed liberal democracy overnight. I remember an *Economist* cover story in the early 1990s entitled *Would a rich Russia be a cuddly Russia?* There was a cartoon on the cover of a huge genial bear having its tummy tickled by the West. Silly question, I thought.

> **"MUCH AS WE MIGHT DESIRE IT, NONE OF THESE GREAT COUNTRIES IS LIKELY TO TURN INTO A BUSHY-TAILED LIBERAL DEMOCRACY OVERNIGHT"**

Let's look at these three bad boys in turn.

First bad boy, Russia: the only one of these three, I admit, that I know well on the ground. Some killer facts: the biggest country in the world with a land area of 16.4 million square kilometres; a population of 144 million (and falling); its nominal GDP of about US$1.9 trillion is the tenth largest in the world. The market cap of the Moscow Stock Market is about US$770 billion, with 225 or so listings.

Actually, if there is one thing we need to know about Russia it is that its massive territory sits on unimaginable quantities of the world's most prized natural resources – even if it doesn't have many manufacturers or service companies whose products are in demand outside its borders.

The major reason for the current contention with Russia is that her government has backed a bloody clandestine war against Ukraine. The current spat erupted with the toppling of President Viktor Yanukovich by pro-Western elements in February last year (the *Ukrainian Revolution* for Ukrainians). The stated aim of the new Ukrainian government was to join NATO, as well as the EU.

Russia responded by seizing Crimea, then annexing it; and then launching a guerrilla war, amongst whose victims included the 298 unfortunate passengers and crew of Malaysia Airlines Flight 17 who perished on 17 July last year. Eastern Ukrainian cities such as Donetsk and Lugansk are now under de facto Russian control.

The Russians believe that Ukraine, which means *edge* in Russian, and which was always termed *Little Russia* in czarist times, was the birthplace of the Russian state, and that she is Russia's twin sister in the Slavic, Orthodox world. One senior Russian banker asked me last year: *How would the English feel if Scotland broke away and then opened negotiations with Russia to establish nuclear bases at Gretna Green?* It's political; and it's emotional.

The real issue is that Ukraine is really two countries: the Western part, known as Galicia, centred on Lviv is entirely Ukrainian speaking, but the area east of the river Dnieper is overwhelmingly Russian-speaking.

Crimea, by the way, was a province of Russia from 1783 until 1954 when Khrushchev signed it over to Ukraine. (Russians will tell you he was out of his mind on vodka at the time.) According to the BBC's John Simpson, most people who live in Crimea, where Russian is the predominant language, seem happy about *reunification* with Russia.

I am not saying that we should award Mr Putin the Nobel Peace Prize. But there are two sides to this argument. In time, a political solution will emerge, though at present the necessary goodwill for that outcome is absent.

Let's consider also that most Russians do not feel that they are living under tyranny; in fact many feel freer and more prosperous than at any time in their history. Unlike China and Iran, there are very few judicial executions in Russia; and most Russians think that the *Pussy Riot* protestors were treated leniently. Mr Putin was elected.

What of Russia's investment potential? Investible Russian stocks are relatively few; they are all commodities-based; some of them are incredible cash cows, and they are going cheap. Gazprom, which is said to control 15% of known global reserves of natural gas, has a net profit margin of nearly 30% and a return on equity of 13%, is currently trading on a multiple of 20. Compare that with BP's multiple of 40. Or, Norilsk Nickel, the world's largest producer of strategically vital *platinum group metals* (PGMs) and which is sitting on about 40% of the world's nickel reserves, is trading on a multiple of just 15.

There are plenty of Russia funds available. One is the J**P Morgan Russia Securities PLC Investment Trust (JRS)**, run by Oleg Biryulyov, who is based in Moscow. He has created a kind of Russian market tracker fund. The top six holdings are the top stocks of the Russian market, led by Lukoil, Sberbank, Magnit, Novatek, Norilsk Nickel and Gazprom. Many of the underlying holdings, like Lukoil, are already listed on the London market, so a high degree of transparency is assured.

Second bad boy: China. For now (India is catching up) China is the most populous nation in the world with 1.36 billion inhabitants within a land mass of 9.4 million square kilometres (a whisker bigger than the USA). As everybody knows, China's is the second largest economy in the world. It will have a nominal GDP of $11.2 trillion this year. Some people will tell you that on a purchasing power parity (PPP) basis China's economy is already bigger than America's, though, personally, I am sceptical. (There are methodological problems.)

The Shanghai Stock Market is currently the fifth largest in the world with a market cap of around $4 trillion and with over one thousand listings. Many predict that it will overtake the NYSE in a few years. The Shenzhen (Guangdong province) Stock Exchange is the eighth largest in the world with a market cap of $2.2 trillion with nearly fifteen hundred listings. (Not forgetting the Hong Kong market which has a market cap of $3.3 trillion.)

It is one of the greatest paradoxes of modern times that the most in-your-face capitalist economy on the planet, which has racked up near double digit growth for the last three decades, is run by a political party which is still theoretically Marxist. China is a one-party state with no commitment to human rights. Quite apart from its suppression of ethnic and religious minorities, of which

Chinese rule in Tibet is a case in point, China is beginning to throw its weight about in its own back yard. China's construction of bases in the Spratly Islands in the South China Sea (which are claimed by other countries, not least the Philippines) betokens a more aggressive stance.

The real reason why we in the West fear China is that it is the only country that might be able to challenge America's military and economic pre-eminence in world affairs by the middle of this century. We can't really imagine what a world with China at the top might be like, but we suspect it would be inimical to our interests. China is already winning the race to shore up the world's major resources, agricultural and manufacturing, with the astonishing penetration of the African continent by its major companies, mining firms at the forefront.

"SOME PEOPLE WILL TELL YOU THAT ON A PURCHASING POWER PARITY (PPP) BASIS CHINA'S ECONOMY IS ALREADY BIGGER THAN AMERICA'S, THOUGH, PERSONALLY, I AM SCEPTICAL."

But actually, China has never committed an act of aggression against a western power – she fought alongside the allies in WWII – though she has often been violated by us westerners. We shall draw a veil over the Opium War (1839-42), the Anglo-French expedition to China which culminated in the burning of the Summer Palace (1860), and the alliance of eight western powers which suppressed the Boxer Rebellion (1900). As China sees it, she has pursued her interests peacefully since the foundation of the People's Republic in 1949, never deploying the People's Liberation Army outside China's historic borders.

Now in recent weeks we have lived through the *Great Fall of China* as the Shanghai market lost 30% or so of its mid-June value, having gained 140% in the previous twelve months. It is now back roughly to where it was in March. But most commentators think this is a market correction which could be a buying opportunity before China's bull market resumes.

Investing in Chinese equities is complicated by different share classes. There are restrictions on foreign investors buying "A" shares, which are listed directly on Chinese bourses. But one fund which has one third of its exposure in A shares is **Fidelity China Special Situations (FCSS).** This fund has performed well under the management of Dave Nichols.

Our third bad boy, Iran, is a country that was perhaps better known to our grandparents' generation than to ours because it has been in relative isolation since the Islamic Revolution of 1979.

Iran is big, though not vast like the other two, with land mass of 1.6 million square kilometres and a population of just under 80 million. This year its nominal GDP is expected to be US$437 billion (half the size of Turkey's), making it the world's 27th largest economy. The market cap of the Tehran Stock Exchange (TSE) is about US$170 billion with 339 listings.

Iran has been standing on the international naughty step for so long now that it is worth recalling why they were put there. Iran has been a compulsive backer of terrorist groups since the foundation of the Islamic Republic. Hezbollah, based in Lebanon, an implacable opponent of Israel, is backed by Iran. Iran has played an active and sinister role in the Syrian civil war.

Although not an Arab state, the Islamic Republic became Israel's most intractable enemy. Iran's virulently anti-Israeli rhetoric reached a fever-pitch under President Ahmadinejad, although it has abated since his departure in August 2013.

But Iran's greatest crime in American eyes was to aspire to the possession of nuclear weapons. This would have represented an existential threat to Israel and would have triggered an arms race across the region. There is still the risk that Saudi Arabia will make a bid to become a nuclear power, in which case the Iranians might decide that the recent accord no longer suits them.

The other point of contention is that Iran has a dismal human rights record. They persecute minorities (like followers of the Baha'i faith), imprison suspected subversives, torture people, and they even execute gays. The media is rigidly controlled. A theocracy, the Iranian regime brooks no opposition since it believes that it is divinely inspired. The millennial aspects of forms of Shia Islam – they await the return of the *Mahdi*, the last imam – also gives rise to extremist ideas about geopolitics (America and Israel as Satanic, and so on).

And yet it calls itself a democracy because it holds elections. Iranians say that they have been demonised for defying the imperialists. The British occupied Iran during WWII. Then, the popular, reformist Prime Minister Mohammed Mosaddegh was overthrown by an Anglo-American inspired coup in 1953 because he nationalised the Anglo-Persian Oil Company.

The fundamental reason for Washington's willingness to mend fences with Iran is that both countries, for very different reasons, share a determination to exterminate the so-called Islamic State. So long as that threat exists, we can expect a normalisation of relations with Iran which will inevitably include foreign funds finding their way to the TSE.

Turquoise Partners in Tehran publishes *Iran Investment Monthly*[1]. Mehrafarin Brokerage Company became the first Iranian broker to open an office in London last year. An outfit called ACL Limited in London says it plans to launch an Iran fund when sanctions are lifted. The rumour mill reports that a stream of hedge fund managers has been heading down to Tehran this year.

Moralists argue that one should never support wicked regimes and that trade and investment equals support. Pragmatists retort that only by maintaining a dialogue with one's opponents can one have any hope of influencing them to change their behaviour for the better. Trade and investment stimulate dialogue.

Historically, the pragmatists usually win: though the sanctions regime against Apartheid South Africa was an example of where the moralists held sway. It is arguable that sanctions were the critical factor in the fall of Apartheid. It is also doubtful if the sanctions against Iran actually succeeded; or whether the current regime of half-heated sanctions against Putin's Russia has had any meaningful impact.

These three empires are geopolitical constants. Their histories and political cultures incline them towards authoritarianism and it is unlikely that they will ever correspond to our model of liberal democracy, though they may well become more open. Moreover, their geographies, as they see it, require them to meddle in the affairs of their neighbours. That is unlikely to change. And they all bear historical grudges against the Western powers (particularly America, but also Britain) who have tried to intervene in their internal affairs, and those of their close neighbours, usually with negative consequences.

I am not saying that we should turn a blind eye to their shortcomings. On the contrary, we should keep them under the closest scrutiny and feed a constant stream of information about what is going on in their countries back to them – something the UK, with superlative soft power, can do. The BBC's Persian (Farsi) language service apparently has more listeners than any other foreign language service – millions listening in defiance of their masters. Russians still devour books by British authors. Young, affluent Chinese come to British universities in record numbers.

"DIPLOMACY, TRADE AND CROSS-BORDER INVESTMENT ARE THE THREE LEGS OF THE TRIPOD ON WHICH THE FRAGILE EDIFICE OF OUR NEW WORLD ORDER IS PERCHED. KICK ONE LEG OUT AND THE TRIPOD TUMBLES."

But we should manage our expectations. We'll never change them with disapproval alone. Diplomacy, trade and cross-border investment are the three legs of the tripod on which the fragile edifice of our new world order is perched. Kick one leg out and the tripod tumbles.

And one day you might kick yourself if you don't keep these three bad boys on the radar. Should we ever invest in bad boys? Of course we should, but with eyes wide open.

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

1. *Access at: http://www.turquoisepartners.com/iraninvestment/*

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AN INTERVIEW WITH RICHARD WOLANSKI

FINANCE DIRECTOR OF AVATION

Master Investor: Good morning, Richard, and thanks for taking the time to give our readers an opportunity to get to know Avation (AVAP) better. Could you begin by giving our readers a brief overview of Avation and its history for the benefit of the uninitiated?

RW: Avation PLC (AVAP) is a Singapore based commercial aircraft lessor. The company owns a fleet of 29 commercial passenger aircraft which are on operating leases to seven airlines in the Asia/Pacific region and Europe. Aircraft are typically leased to airlines for periods as long as 12 years, resulting in high visibility of future earnings.

The company was founded in 2006 by Executive Chairman Jeff Chatfield, the former Executive Chairman of a regional Australian airline, Skywest Airlines. Avation was originally formed to provide leasing facilities to Skywest. When Skywest was acquired by Virgin Australia in 2013, this provided Chatfield with the time and focus to evolve Avation into a high-growth global aircraft-leasing company. While the company had developed a very profitable business model, the step into the global leasing market resulted in high fleet-growth and a dramatic increase in revenues and earnings in recent years.

Avation is about to enter the fastest phase of fleet-growth in the history of the company, with contracts in place set to expand the fleet by at least 60% over the next 18 months.

"MOST PEOPLE ARE UNAWARE THAT TODAY EVERY 2ND NEW AIRCRAFT DELIVERED TO AIRLINES IS OWNED BY AN AIRCRAFT LEASING COMPANY."

MI: Warren Buffett famously observed that the airline industry as a whole has never made a profit. Nevertheless, the International Civil Aviation Organization estimates that air travel is set to double over the next fifteen years. Would it be fair to describe Avation as a 'picks and shovels' play on that growth? What specific attributes does the aircraft leasing business have that are attractive to equity investors?

RW: The airline industry has endured a difficult 15-year period but proved to be resilient in the face of high fuel prices and business cycle downturns, as well as exogenous factors such as the terrorist attacks of 9/11 and international epidemics such as SARS and Ebola. This resilience has been driven by a doubling of passenger traffic in the same period, which has resulted in high demand for new aircraft, with the trend set to continue for the longer term. As such the aircraft leasing industry has benefited from the dual drivers of a requirement for much greater numbers of aircraft but also a trend for airlines to prefer leasing aircraft over owning assets. Most people are unaware that today every second new aircraft delivered to airlines is owned by an aircraft leasing company.

"AVATION IS ABOUT TO ENTER THE FASTEST PHASE OF FLEET-GROWTH IN THE HISTORY OF THE COMPANY, WITH CONTRACTS IN PLACE SET TO EXPAND THE FLEET BY AT LEAST 60% OVER THE NEXT 18 MONTHS."

This is beyond 'picks and shovels'; this is an industry shift such that aircraft lessors are now intrinsic in the supply of assets to the industry.

For equity investors, our business is able to provide the holy grail of both high profitability and high growth. Investors have a tangible connection to aircraft assets and have the comfort of knowing the assets of which they are the effective owners. These assets are deployed for long-term leases to generate long-term returns. Our fleet growth is highly visible through announcements of new aircraft being added to the fleet every 6-8 weeks, so investors will have regular confirmation of the building of our business. They also know that while many airlines themselves may not always be profitable, Avation, and indeed the aircraft leasing industry as a whole, has a very strong history of growth and profitability.

MI: In order to give readers a feel for the mechanics of the business, can you take us through, step by step, the life cycle of a typical lease contract?

"A KEY GOAL OF THE COMPANY IS TO CONTINUE TO ADD NEW AIRLINE CUSTOMERS TO CONTINUE DIVERSIFICATION OF REVENUE SOURCES."

RW: *Our business model is very simple. Aircraft have an economic life of around 25 years. Income is earned on the lease rate (which may be contracted for up to 12 years), less expenses related to the depreciation of the aircraft over time as well as the financing costs related to the acquisition and capitalisation of the aircraft fleet and the administration of the leasing operations. As a result, the long-term, fixed-rate cash flows generated by the leasing model lend themselves to relatively high earnings visibility. After the initial lease period the aircraft are re-leased or can be sold. Avation's business model is such that the aircraft are typically fully owned before the first lease has expired,*

which is less than half way through the asset's economic life. The aircraft can then generate unlevered returns for the remainder of its life or can be refinanced to release capital to fund further growth.

It is important to note that the airline is responsible for all other costs including maintenance, insurance, fuel, pilots and crew.

avation
AIRCRAFT LEASING | PROCUREMENT

MI: Nineteen out of the 29 aircraft that make up the current Avation fleet are ATR-72s, and the firm has orders for a further ten of these aircraft. What is it that makes the ATR-72 so attractive to Avation and its customers?

RW: *Avation was instrumental in introducing the ATR-72 aircraft to the Asia-Pacific region as a result of its leasing activity with Virgin Australia, and the company is the second largest ATR lessor in the Asia-Pacific region.*

The ATR-72 is the best-selling under-90-seat regional aircraft in the world since 2005. ATR has sold more than 1,500 aircraft since its inception generating more than 25 million flight hours. ATRs are currently flown by over 190 operators in more than 90 countries at more than 5,000 flights per day.

Since introducing the ATR-72 model in 1988, ATR has delivered 750 ATR-72s world-wide, and the model has proven to be a cost-effective short-haul aircraft with high residual value. Demand for the ATR aircraft has led to a current production backlog of 300 aircraft (90% of which comprise ATR-72s), or more than three years at the current production rate.

Looking beyond the contracted growth of 11 aircraft before the end of 2016, Avation also holds options on 22 additional ATR-72s that the company can exercise starting in 2017. These further aircraft will be a source of meaningful growth over the next several years and continue to support Avation's growth story.

MI: Lessors have been big beneficiaries of cheap liquidity in recent years. With interest rates looking set to begin to rise from historic lows – and with the cost of debt being the group's single largest operating expense – how is Avation positioning itself for such a development?

RW: *Because lease rates are generally fixed over the term of the lease, financing also tends to be fixed rate. This means that each aircraft when financed and deployed has no exposure to interest rate rises over the term of the lease.*

Over the longer term the industry has seen lease rates increase with increased interest rates as typically improving economies result in better economics for airlines which in turn drives demand for aircraft and resultant lease rates. A fundamental objective of the business is to protect the net margin (the difference between the lease yield on the asset and the cost of debt used to acquire that aircraft), which is supported by the correlation between lease rates and interest rates.

MI: Historically, Avation has been very reliant on a single customer (Virgin Australia/Skywest). However, more recently the company has been successful in diversifying its customer base. How is the firm currently positioned in terms of its customer base and its geographical footprint, and how can we expect these to evolve in future?

RW: *Given the origin of the company the concentration with Virgin Australia is understandable. The strong order book for the next year will see a minimum of the next seven fleet additions to other airlines, thereby significantly reducing this concentration through natural growth. A key goal of the company is to continue to add new airline customers to continue diversification of revenue sources. Virgin Australia are a strong, profitable well run airline in a friendly jurisdiction, so we look forward to continuing to supply aircraft in the future as the airline continues to grow, as we do with all our partner airlines.*

MI: Speaking of evolution, Avation recently successfully accessed the US debt markets for the first time and raised US$100m. How significant is this for the company's future?

RW: *This is a great question. The successful US debt issue is a massive step forward for the company. Aircraft lessors use debt to fund aircraft purchases and the US bond market is the largest wholesale debt market on the planet. The successful debt issue means that Avation has all but eliminated the financing risk associated with the aggressive fleet growth that it has contracted over the next 18 months, and also has a future source of funding from 2017 and beyond. This means that we have the planes ordered, the airlines waiting to take delivery of them, and we now have the financing to fund the 11 aircraft on order. Furthermore we have the ability to access capital to grow beyond the 11 contracted aircraft we have for delivery by the end of 2016, so our growth could easily exceed our expectations through opportunistic acquisition of additional aircraft.*

MI: According to the International Air Transport Association, returns from leasing aircraft were 9% a year on average from 2004 through 2011, while those from running an airline were just 4%; and yet it is the latter that captures the imaginations of investors. Is there anything on the horizon that could change investors' perceptions of the aircraft leasing industry?

RW: *I think it simply comes down to investor awareness. Our experience is that a significant proportion of investors have very little knowledge or understanding of the aircraft leasing industry even though on a yearly basis it funds approximately US$60 Billion of aircraft purchases. I would invite investors to review our financials which can be found at* **www.avation.net** *and they will see that our returns have historically been significantly higher than the industry average.*

In the last couple of years we have looked for new methods of building investor awareness with an increasingly sophisticated retail investor market and have found events like Master Investor and direct to investor publications such as this an increasingly important mechanism for building investor awareness.

MI: Many industry commentators and participants believe that M&A activity is likely to accelerate in the sector in the coming years. Is Avation significant enough to become a target, or indeed might it even play the role of consolidator itself?

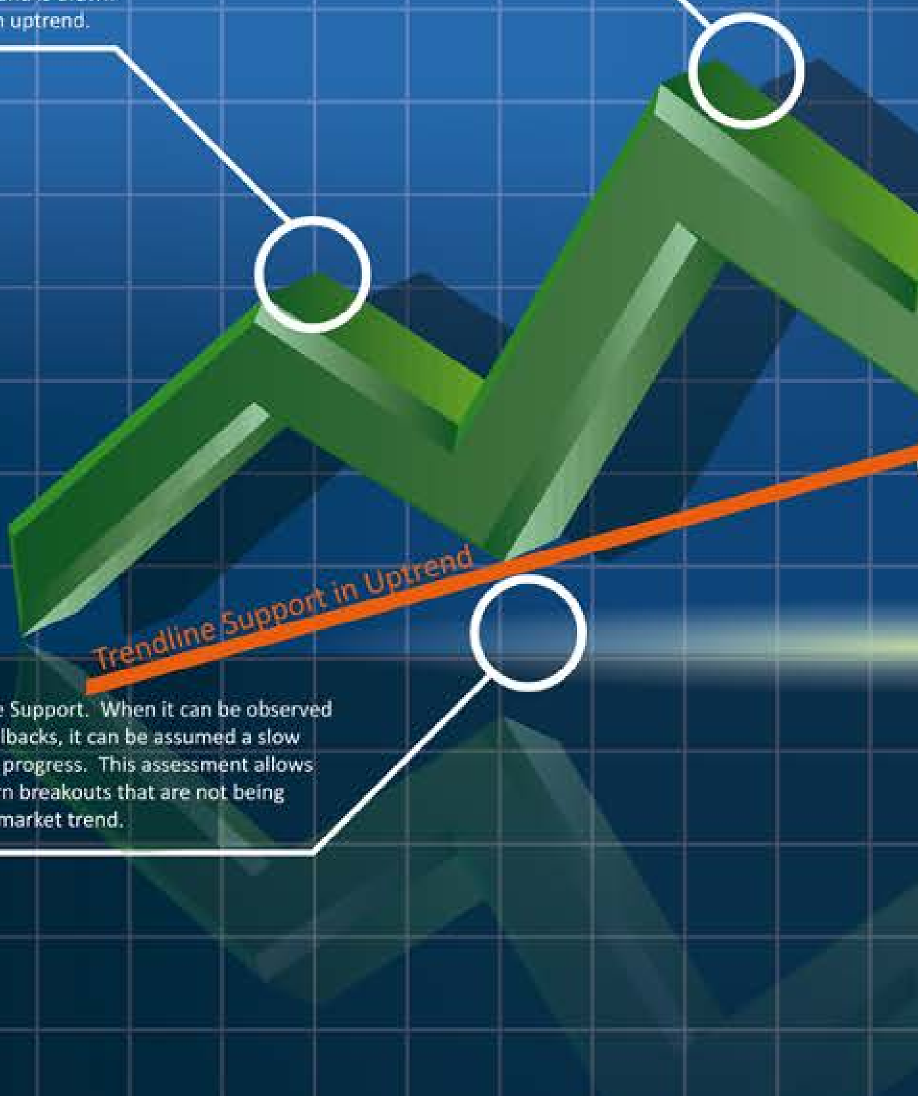
RW: *Avation is focused on delivering its bold growth targets to deliver continued revenue and earnings growth for shareholders. As it does this there is real potential for economies of scale to improve shareholder returns. Our role is to maximise shareholder returns through increased earnings and dividends and provide liquidity as we grow. We believe there is enough organic growth in our industry for years to come. As for the aspirations of the other players, I can't comment.*

Mr Richard Wolanski, B.Com, ACA, is a Chartered Accountant and his qualifications include a Bachelor of Commerce from the University of Western Australia. Mr Wolanski has extensive professional experience in the international finance industry. He has provided corporate, strategic and financial advisory assistance to public companies in Australia, Singapore and the United Kingdom. Mr Wolanski has significant corporate experience during his career serving in a range of Executive Director Chief and Financial Officer Company roles. In his current role as Finance Director at Avation Plc he is primarily responsible for maintaining access to capital, debt and equity profile and cost of debt capital.

Newsflash! Uptrends don't come in a straight li
The market can go down. The prices are a bit t
to be a buyer now. The easy money has alread
made at this point. We BUY LOW and SELL HIG
A good time to take some profits.

Good sell points are when the market nears the top of the channel...a fall to the bottom of the channel is VERY likely at some point.

Clear and Strong Uptrend. An up trendline is a straight line which slopes upwards and is drawn to touch successive low points in an uptrend.



Lowest Low, Start of Trendline Support. When it can be observed that the Bulls step in after pullbacks, it can be assumed a slow steady uptrend will remain in progress. This assessment allows for taking advantage of pattern breakouts that are not being disrupted by a change of the market trend.

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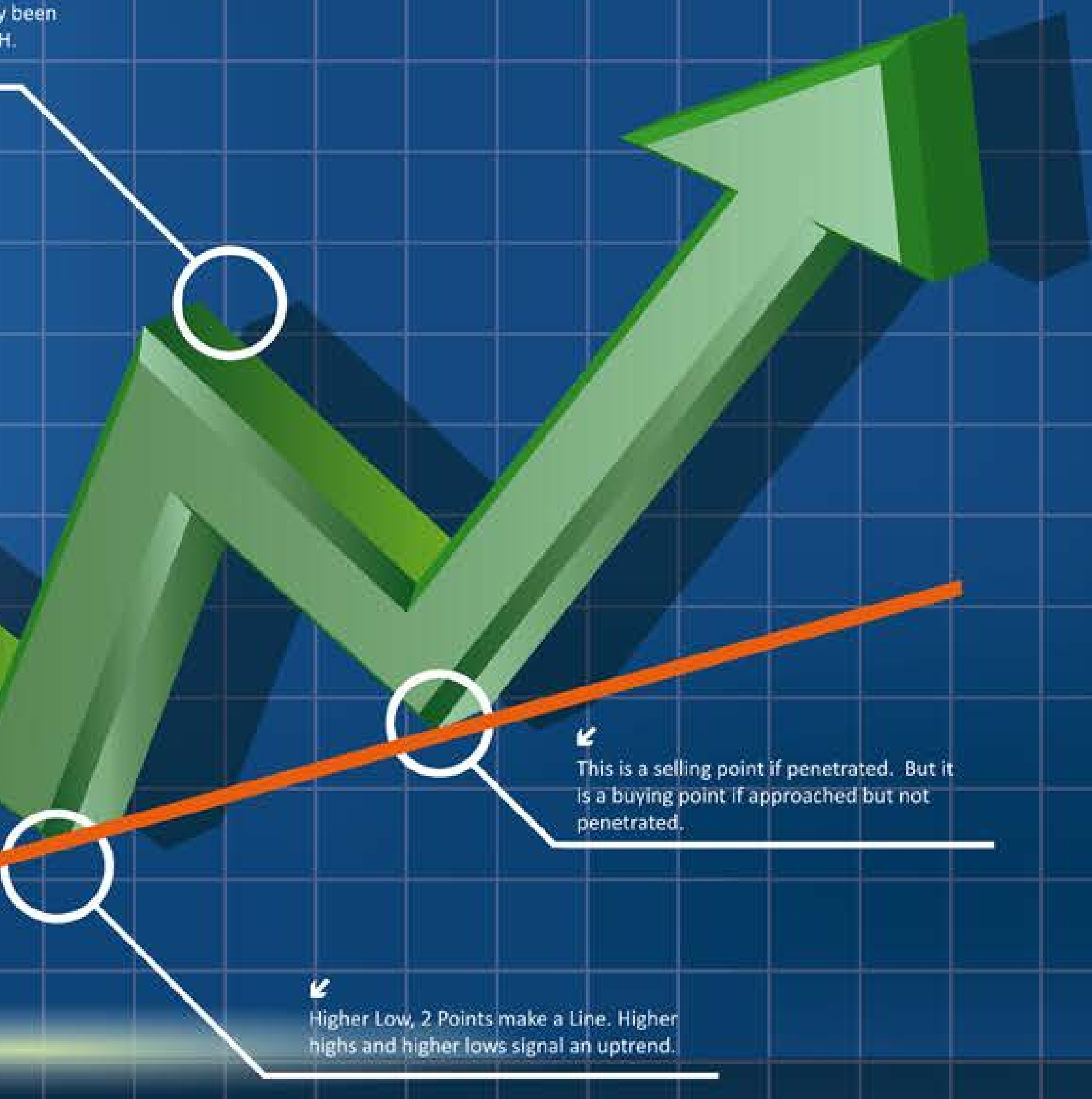

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THE LAND OF THE RISING STOCK MARKET

BY ROWAN CHAPLIN

Investment case for Japan

Following the December 2012 re-election of Prime Minister Shinzo Abe, the prospects for investors in Japan look far more attractive than at any time since the bursting of the Japan bubble. With the clear support of industry and shareholders alike, a combination of "Abenomics" – namely, fiscal stimulus, monetary easing and structural reforms – and the looser monetary policy advocated by BoJ Governor Kuroda, the investment case is viewed by many as compelling. The historic reasons for avoiding investment in Japan are being removed at pace and the August 2013 introduction of the JPX 400 Index (admitting only those companies that adhere to global investment standards and the Corporate Governance code introduced in June 2015) is having the desired effect of raising management awareness of the need for Japanese corporations to compete in the global marketplace.

The market rallied after the election of Mr Abe in 2012 due to the hope that there would be change, but few could have envisaged the amount and scale of positive change that has occurred. Rather than carrying on with the same monetary policy and the Yen becoming ever stronger and hurting the manufacturing base, Mr Abe and Mr Kuroda decided it was time for change.

It could be argued that at some point, even though Japanese bond issuance was a largely Japanese affair, there were questions as to how long economic stagnation and government deficits could go on for. Abenomics seeks to boost the economy and benefit from increasing tax revenues and closing the fiscal deficit. The benefits from increasing wages should feed down to consumption and put an end to fears of stagnation and delayed spending.

"THE PROSPECTS FOR INVESTORS IN JAPAN LOOK FAR MORE ATTRACTIVE THAN AT ANY TIME SINCE THE BURSTING OF THE JAPAN BUBBLE."

Quantitative Easing (QE) had been adopted by most central banks as a way of stimulating their economies and weakening the associated currencies to improve export competitiveness. It had bought time everywhere else, why could this not work in Japan? QE was finally adopted by the BoJ, copied and renamed QQE, Qualitative and Quantitative Easing. Combined with reform, the Japanese economy was going to be revitalised.

After the initial easing in April 2013, Mr Kuroda surprised the market again in October 2014, by increasing government bond purchases to ¥ 80 trillion and extending the duration by three years, to enable the BoJ to buy in the 7 to 10 year maturity range. Rather than forcing the various public pensions to support the JGB market at yields that were going to ensure a capital loss if deflation was defeated, the economy picked up, and the stock market took off, the GPIF (see below) was given the freedom to optimise its investment strategy.

Much has been written about how disappointing and ineffectual the third arrow of Abenomics (promised structural reforms) has been, but maybe investors are confusing arrows and 'silver bullets'. The problems of Japan were many years in the making; their undoing was never going to happen overnight.

"THE INTRODUCTION OF THE JPX-400, AN INDEX CONSTRUCTED AS A RESULT OF MEETING QUALITY AND PROFITABILITY CRITERIA, ROE (RETURN ON EQUITY) AND OTHER PROFITABILITY MEASURES, PLAYS ON A SOCIETAL TRAIT OF WANTING TO CONFORM AND BE INCLUDED."

As Martin Malone of Mint Partners Ltd. said in his piece, "Turbocharging Japan's Gameplan", "Overall the 2013-2016 period will see an impact equivalent to 200% of Japanese GDP or in dollar terms equivalent to US$ 10 trillion." Let's not be too downbeat about the pace of change while many of the policy levers are still being pulled and their effects are not yet completely felt.

Corporate Governance

Corporate governance in Japan has been a problem area for investors for many years. T Boone Pickens famously tried to take on Koito Manufacturing, giving up in 1991. In the early 2000s more aggressive shareholder activism hardened Japanese resolve not to yield to outside forces. Investors felt that while Japan seemed cheap it was unlikely that management would act in shareholder interests. Many investors had been frustrated over the years by many false dawns of recovery in Japan and a sense of 'won't be fooled again' presided over many participants. Japan had disappointed again and again, which helps to explain why some investors retain a degree of caution towards Abenomics today.

Real Change

The introduction of the JPX-400, an index constructed as a result of meeting quality and profitability criteria, ROE (return on equity) and other profitability measures, plays on a societal trait of wanting to conform and be included. The 'shame' of being excluded from this index has resulted in a dramatic change of company strategy and planned shareholder returns. Amada, a machine tool maker was one of the first to change and Fanuc, the traditionally shareholder 'unfriendly' company surprisingly responded to outside pressure from a US Investor. Dividends and buybacks rose dramatically and an investor relations department was created. It seems that corporate governance has been embraced officially, and now investors are pushing on an open door in Japan. Additionally a code for corporate governance was announced by the Ito commission and implemented in June 2015.

The Code outlines:

- The need to treat all shareholders equally, particularly minority and foreign shareholders.

- Co-operation with stakeholders other than shareholders.

- Appropriate information disclosure and transparency to build a useful dialogue with shareholders.

- Fiduciary responsibilities of the board.

In the past there was less confidence that profits would fall to the bottom line and that management would act in the best interests of shareholders. Companies argued that they invested for the long term and this often hid a lack of strategy. Michael Porter in his book 'Can Japan Compete?', written with Hirotaka Takeuchi and Mariko Sakakibara, outlines how many companies in Japan focus on operational efficiency in their

businesses, rather than questioning whether they should be in those businesses at all.

Investment Themes

Over the years, there have been many sustainable investment themes and sources of competitive advantage in Japan, and many of them still exist now. After the bubble, foreign investors focused on industries where Japan was taking market share and as earnings grew valuations tended to move towards those of global peers. The global sectors were Auto, Pharmaceuticals and Electronics. These sectors also had the advantage of being immune to the strong Yen and were seen as much more competitive when compared to some of the sleepier more domestic related sectors in Japan. Japanese automobile manufacturers have done incredibly well in North America during a time of high fuel prices. Japanese cars are seen as very well made and fuel efficient. Toyota now has a 14.6% market share in the US (year to March 2015). Fuji Heavy (Subaru) has done well with its active safety, four-wheel drive systems and safety braking systems. Japanese companies have a 37.3% global market share in aggregate.

Spinoffs

Successful industries breed an efficient, leading edge supply chain and this is particularly true of the auto industry. Supplying to leading car companies also creates a leading auto parts industry. US auto manufacturers and some struggling European auto companies are starting to benchmark themselves on their Asian rivals and they order parts from the likes of Denso and gearbox maker Aisin Seiki. Of course these dynamics change, but with the current theme being safety related car features, Japanese companies excel in this sub-sector in addition to just executing efficiently.

Hybrid technology is an area of expertise in Japan and there are many rival technologies to choose from. Hydrogen fuel cells as well as hybrid fuel / battery combinations provide manufacturers with options.

Battery technology is another strength in Japan, with Panasonic in a JV with-with Tesla, the US automaker, Sony for mobile phones, and of course GS Yuasa, the slightly accident prone Boeing supplier. Many of these hybrid related companies, like GS Yuasa, have not been helped by the collapse in the oil price, as demand for environmental cars is largely correlated to the price of oil. The current situation provides another opportunity to assess and invest in these companies again.

Electronic components are another source of competitive advantage in Japan. Miniaturisation is a key strength of the components industry and even if some of the older established Japanese electronics companies have lost their completive edge, the current leaders of Apple and Samsung have taken up the slack and have been major users of electronic components from the likes of Murata, Nidec and Alps Electric, who are just a few of the companies to benefit from the tablet and smartphone wave.

Making the next generation of consumer products also helps Japanese robotics companies such as Fanuc and Yaskawa Electric who equip the production lines of Hon Hai (Foxconn) in Taiwan and China, and who recently announced plans to expand production in India. An example of this would be mobile phone manufacturers sourcing high quality machine centre and robo-drills from Japan in response to consumer demand for better specification handsets and tablets.

Problem Sectors

Software companies in Japan generally do well from home-grown projects – for example, the ‘My Number’ social security system upgrade to simplify pension records. The upgrading of Japan’s banking system infrastructure also requires custom design and suits the more domestic IT contractors. NTT Data and Nippon Unisys are examples of firms benefiting from these contracts. These projects are often won by domestic firms, but question marks exist about their ability to win overseas contracts. After the implementation of these domestic projects, some analysts are revising down orders for some software firms, and with contract rates for engineers at all-time highs much of the good news could be in the price.

In smartphones and tablets nearly all the software is sourced in the US, with IoS and Android now dominating mobile handset software. Without control over the operating system, where much of the functionality and value added exists, it is possible that Sony and Samsung become ‘just’ hardware manufacturers and good though this is, is it enough? Sony withdrew from PCs, and smartphones are very similar products, so without scale what is the future for this division? Microsoft recently wrote off a portion of its Nokia acquisition, demonstrating continuing market share problems with Windows phone software and the importance it plays in business performance.

LCD

Having established an early lead in panels, there was a sense that investment in ever better screens would lead to a pot of gold. Sadly this particular pot remains firmly at the end of the rainbow and seemingly unattainable. Sharp and the LCD supply chain remain troubled and phone makers are happy to support them as sources of cheap screens. They invest in machinery to help them manufacture screens in hope of keeping them alive; otherwise the price of panels could increase dramatically.

Where to invest now?

Year to date the GPIF (Government Pension Investment Fund) has been moving out of JGBs (Government Bonds) and into equities using ‘Smart Beta’ which effectively means following JPX 400 selection criteria. Smart Beta involves assembling an index, not based solely on a market cap basis, and adding different, normally qualitative measures to picking investments.

Analysing the market quantitatively, unsurprisingly, value and quality factors exhibit outperformance year to date as investors follow or imitate the investment strategy adopted by the GPIF. Momentum as a factor also backs this up. Stocks with strong sensitivity to macro factors have not been happy places to invest as a combination of the Greek / Euro turmoil and wobbles in China have taken their toll.

Stocks we like

Topre 5975 JP

Topre has divisions in high tensile steel pressing technologies and refrigeration for temperature controlled logistics. Topre acquired the pressing business from Yachiyo, a Honda group company, in some well-timed consolidation of the Auto Parts sector. Traditionally Topre was a Nissan supplier so a cross Keiretsu acquisition (cross group) is seen as a progressive step in the right direction.

In food distribution, Topre's temperature controlled deliveries are part of 'safety' within distribution and should be a growth area for the future.

The company currently trades at a PBR (Price Book Ratio) of just over 1 times and a PER (price earnings ratio) just less than 10 times. ROE of 11.2% and cash dividend cover associated with the acquisition could come in lower than expected, making this company potentially even more interesting.

DAIFUKU

Always an Edge Ahead

Daifuku 6383

Daifuku operates in the material handling arena and automates smart warehouses to improve efficiency in customer inventory control. Daifuku previously used the strong Yen to purchase businesses in the US to improve its visibility there. Profitability will improve from here. Automotive factory automation is seen as a growth area, and some of the early plants set up by Toyota and Honda are nearly 30 years old and are being upgraded and replaced. Airline automated baggage handling is another area of expertise. Daifuku's exhibits ROE of 9.6% and dividend cover of 4 times. Analysts are forecasting record earnings for March 2016.

PIC PACIFIC INDUSTRIAL COMPANY

Pacific Industrial 7250

This company is a leading tyre valve manufacturer and has advanced safety related products to record tyre pressure in real time to alert the driver of any problems at an early stage. Safety, as mentioned above, is an area where automakers are trying to differentiate their products and Pacific industrial is well placed to benefit from this. The company has an ROE of 10.2%, a Price Book ratio of 0.85 times and dividend cover of 5.2 times.

About Rowan Chaplin

Rowan Chaplin is a Fund Manager at Stratton Street with more than 25 years' experience in investment management, with a focus on Japan. He is also a former Director and Head of Japanese Equity Desk, with both buy-side (F&C Asset Management and CQS) and sell-side experience (Mizuho). Rowan was AA rated by S&P in April 2000 when the FP Tokyo Trust fund was ranked 20/181 and 25/154 over three and five years, respectively. He joined Stratton Street in May 2014.

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ECONOMICS CORNER

BIG IN JAPAN

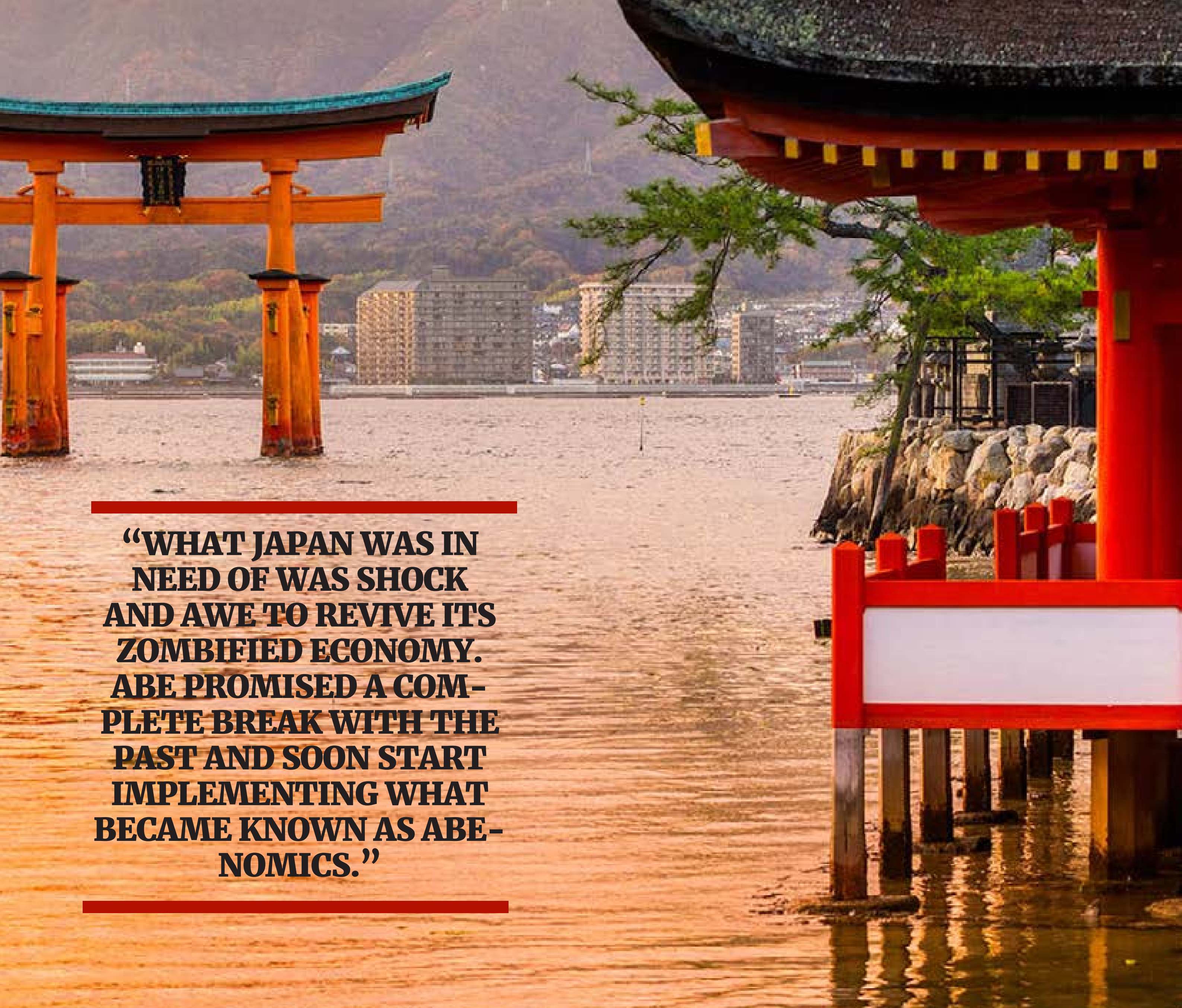
BY FILIPE R. COSTA

"With the strength of my entire cabinet, I will implement bold monetary policy, flexible fiscal policy and a growth strategy that encourages private investment, and with these three policy pillars, achieve results" - Shinzo Abe, 2012

16th December, 2012

It was the night of December 16th. The year was 2012. The future of Japan was about to be rewritten. Shinzo Abe appeared triumphant before the people who had just chosen him to command the fate of the country for the next few years. Disappointed with more than a decade of stagnation, the people were looking for someone willing to throw everything but the kitchen sink at the economy to reflate it once and for all. No more gradual quantitative easing, no more gradual fiscal policy, no more gradual anything. What Japan was in need of was *shock* and *awe* to revive its *zombified* economy. Abe promised a complete break with the past and soon start implementing what became known as *Abenomics.*

While the Bank of Japan (BoJ) is theoretically independent from the government, the pressure applied by Abe was so great that just four months after his election, the BoJ announced a new quantitative and qualitative easing programme (QQE) aimed at expanding its monetary base and reducing the returns on "risk-free" assets across the entire maturity spectrum. The idea was to, on the one hand, boost corporate investment, which would translate into employment creation, wage growth and more consumer spending; while, on the other hand, entice investors to replace their "risk-free" investments for higher-yield ones, which would lead to an increase in asset prices and, through a wealth effect, to more real investment, more employment, and growth.



"WHAT JAPAN WAS IN NEED OF WAS SHOCK AND AWE TO REVIVE ITS ZOMBIFIED ECONOMY. ABE PROMISED A COMPLETE BREAK WITH THE PAST AND SOON START IMPLEMENTING WHAT BECAME KNOWN AS ABENOMICS."

Inspired by Ben Bernanke and the US Federal Reserve, the new QQE adopted by the BoJ was aimed at creating the *shock* and *awe* that everyone was looking for and put an end to gradualist policies that were creating addiction without ever being effective.

On April 4, 2013 the BoJ announced the following measures:

• Increase the monetary base by JPY 60-70 trillion yearly;

• Purchase JPY 50 trillion of Japanese Government Bonds (JGB) yearly;

• Target an average duration for bonds around seven years;

• Purchase JPY 1 trillion of ETFs yearly;

• Purchase JPY 30 billion of J-REITs yearly;

Over the course of just less than two years, the central bank was expected to double the value of the assets on its balance sheet, which was seen as a bold step towards generating inflation and finally awakening the Japanese economy. With the BoJ injecting money into the economy, the Yen was expected to weaken and help stimulate an export-oriented recovery. While trade (imports plus exports) for the Japanese economy represent just 35% of GDP (the same figure is more than 80% in Germany); in volume terms, Japan is the fourth largest exporter in the world. If the impact on the Yen were sufficiently strong, Abe could get a significant boost for the economy from external trade.

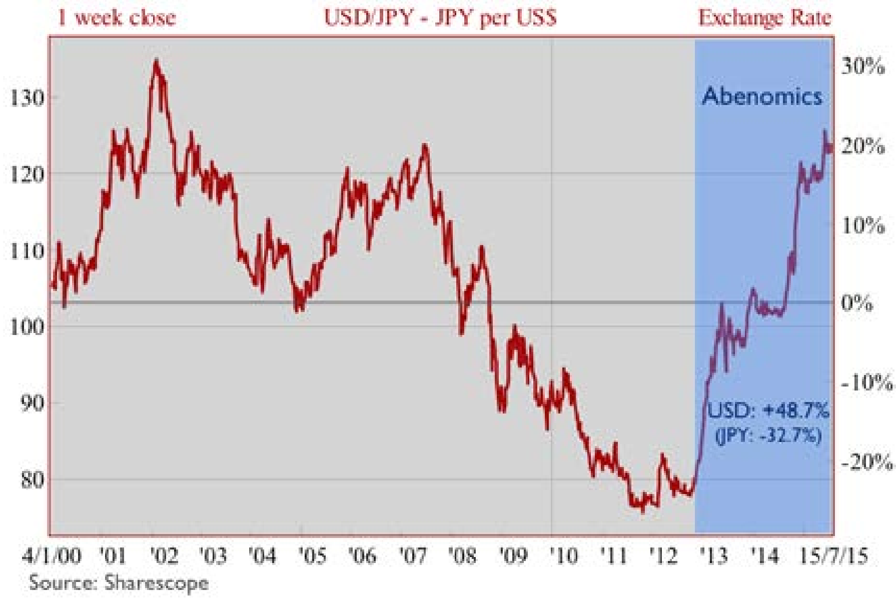
Abe's plan was based on a *three-arrow* policy, which comprised the following: 1) bold monetary policy action; 2) an active fiscal policy; and 3) structural reforms and growth strategies to promote private investment.

The Start of a Rebound

The reaction from financial markets to *Abenomics* was very positive. Japanese equities have rebounded strongly since

"THE NIKKEI 225 AND THE TOPIX ARE UP 112% AND 107% RESPECTIVELY SINCE DECEMBER 16, 2012. THAT IS A MASSIVE OUTPERFORMANCE WHEN COMPARED WITH ALMOST ANY OTHER MARKET AND IT IS CLEAR PROOF THAT ABOVE ALL QUANTITATIVE EASING LEADS TO HIGHER EQUITY PRICES."

Abe came to power (in fact the rebound started one month before as the odds for Abe being elected were already high by then). The Nikkei 225 and the TOPIX are up 112% and 107% respectively since December 16, 2012. That is a massive outperformance when compared with almost any other market and it is clear proof that above all quantitative easing leads to higher equity prices. The Yen reversed its long-term bull trend and lost almost 33% of its value against the US Dollar.



In 2014, however, with the introduction of a planned consumption tax increase from 5% to 8% (which occurred in April), GDP plunged and investor sentiment turned momentarily negative. With oil prices largely declining and negatively impacting inflation while the tax increase was leading towards recession, investors feared a derailment in *Abenomics* and abandoned equities. But the positive sentiment was recovered and the bull market resumed later in the year, mainly due to three events: firstly, Shinzo Abe strategically dissolved the lower house of Japan's legislature to call a general election and through this extend his mandate; secondly, Abe decided to postpone a second planned hike in consumption tax to April 2017; and thirdly, the BoJ announced in October a second version for its QQE programme, which was even bolder than the first. On October 17th of last year equities hit a turning point, resuming the bull market to climb 40% until today, in a very strong move.

When we compare the performance observed in the Japanese equity market with the performance in the European and the US markets, we quickly realise how strong and influential *Abenomics* has been. For the last five years Japan tops the table of returns, and the advantage is in particular more pronounced for the last three years (or for the period coinciding with the *Abenomics* implementation).

In parallel, the effect on the Yen was also very strong, as the currency declined by 32.7%, 30.4% and 18.7% against the US Dollar, Pound Sterling and Euro respectively during the Abenomics period.

On one hand, the weakening of the Yen had an important impact on exports and imports, helping boost employment and growth, while pressing internal prices higher. But, awkwardly, this weakness acts as a threat for foreign investors at the time they wish to convert their profits into their original currencies. With the yen losing more than 30% of its value against the US Dollar and Sterling, the excess returns obtained from investing in Japanese equities can be severely reduced or even impaired. But when we compare the Nikkei's performance during the Abenomics period with those of the S&P 500 and FTSE 100, we see outperformance of 61.3% and 96.8% respectively, which even after discounting for the weaker Yen, still represents massive outperformance.

Equity Index Returns (%)

Market	YTD	1-Year	3-Year	5-Year	10-Year	Since 16/12/12
DAX (Xetra)	19.5	18.8	78.5	94.0	148.6	54.2
DJIA	1.7	5.7	42.4	79.5	70.3	38.0
Euronext 100	19.6	20.5	63.2	57.9	N/A	47.0
FTSE 100	3.5	0.2	20.0	31.7	29.9	14.8
Nikkei 225	**18.1**	**34.0**	**136.1**	**119.0**	**75.2**	**111.6**
S&P 500	3.2	7.2	56.9	99.5	73.0	50.3
TOPIX	**18.0**	**30.4**	**122.5**	**97.6**	**N/A**	**107.3**

Source: Sharescope

Japanese Yen Returns Against Main Currencies

Pair	Price 16/07/15	Price 16/12/2012	Change (%)	Opposite Direction (%)
USD/JPY	124.2	83.5	48.7	-32.7
GBP/JPY	193.9	134.9	43.7	-30.4
EUR/JPY	135.2	109.9	23.0	-18.7

Source: Sharescope

What to Expect in the Near Future

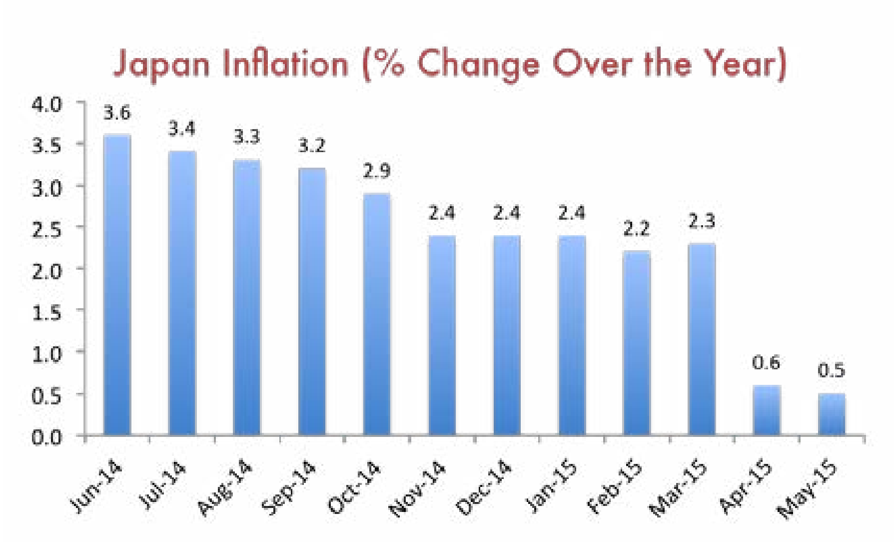
While the historical returns tell us a lot about the effectiveness of *Abenomics*, they don't help much when it comes to assessing the future. At this junction the question that remains is this: Are Japanese equities still worth an investment?

As became obvious over the past two and a half years, Abe is really serious (if not paranoid) about giving a direction to the economy. The initial steps taken in terms of monetary policy in 2013 were bold enough for us to perceive. Later, when the global economic outlook looked grimmer in 2014 and Abe feared a derailing of his main goals, further bold measures were taken. Abe dissolved the lower house and postponed the planned tax hike while the BoJ engaged in further easing. For the next few years, and as long as inflation remains below the 2% target and growth is not substantial, the BoJ will keep expanding its monetary base, now at a pace of JPY 80 trillion per year (an increase of JPY 10-20 trillion from QQE1) while purchasing JPY 80 trillion of JGB (an increase of JPY 30 trillion). At the same time the BoJ extended the target maturity for its JGB purchases from 7-10 years to 10 years and is expected to increase the purchase of ETFs and J-REITs by three-fold to JPY 3 trillion and JPY 90 billion respectively. These are very serious measures that will most likely continue to push equities higher over the next few months.

The government and the central bank want to reduce the temporary impact of decreasing oil prices on inflation and push Japan into a positive economic cycle at any cost. Fiscal soundness will be left for the future (much unlike what happens in the Eurozone where austerity comes in front of everything else). The idea is to lead companies to export more and to invest more, hence extending capacity and hiring, which thereafter is expected to contribute to wage growth and higher consumption.

While the first arrow of *Abenomics* unfolds, the government has also been preparing a few structural reforms that will start playing out in the near future. An example of this is the introduction of the Stewardship Code (in February 2014) and the introduction of the Corporate Governance Code (in June 2015). Under the new law, investors will find it easier to reach the companies they invest in. The law will mitigate agency costs that arise between management and ownership and hence help to increase corporate value through enhanced ROE, increased dividends and share repurchases. It is widely expected that corporate Japan will become more efficient over the next few years.

In terms of the government goal regarding stable inflation near the 2% level, I really don't know how easily that will be achieved. In my view, when a central bank expands its monetary base through asset purchases, it creates inflation. But the inflation that is created is asset inflation, or a generalised increase in the price of financial assets and real estate, which is not coincident with the consumer inflation the bank establishes in its goals. Whether or not inflation will extend to consumer products remains to be seen. But for the sake of equity investment, it doesn't even matter much at this point because, as long as the BoJ continues with its QQE2 programme, the pressure on financial assets and real estate will continue and thus provide investors with enhanced returns. A problem that could arise here is the risk of creating an asset bubble. But on that field Japan is in a much better position than the US, as corporate valuations are still below historical average and are well below the mean valuation of the S&P 500 components. The projected P/E for Japanese equities is around 16.6x while the same is around 27.3x for the S&P 500 equities. This provides a layer of safety for investors in Japan.



"THE PROJECTED P/E FOR JAPANESE EQUITIES IS AROUND 16.6X WHILE THE SAME IS AROUND 27.3X FOR THE S&P 500 EQUITIES. THIS PROVIDES A LAYER OF SAFETY FOR INVESTORS IN JAPAN."

Additionally, while the Nikkei 225 has been outperforming other markets during the last few years, the market is still lagging behind other markets over the longer-term. If we rewind around 20 years to 1995 we find that the performance for the index has been almost flat as opposed to around 100% for the FTSE 100 and 250% for the S&P 500.

Source: Sharescope

Japan will also benefit from the weakness in oil markets. While a decreasing oil price reduces inflation in the short term, and thus may negatively impact the goal of boosting consumer prices, this effect is just transitory. But a low oil price is very healthy for an economy that heavily depends on imports of oil, as it will enhance the competitiveness of export companies.

Lastly, we should also weight the differential in monetary policy, in particular between Japan and the UK and the US. A few days ago Mark Carney and Janet Yellen raised the possibility of hiking rates this year, something that is not going to happen in Japan and hence will give extra leverage to the economy through a weakening yen.

Some Final Words

At a time when the equity bull market in the US seems exhausted and Europe is in trouble, investing in Japan represents a good opportunity for investors. The bold actions Abe is willing to take are an assurance of a lasting bull market. At the same time, with projected valuations still below average and well below their US equivalent, investors have another more material reason to purchase equities: fundamental value is still above price.

"AT A TIME WHEN THE EQUITY BULL MARKET IN THE US SEEMS EXHAUSTED AND EUROPE IS IN TROUBLE, INVESTING IN JAPAN REPRESENTS A GOOD OPPORTUNITY FOR INVESTORS."

There's definitely value to be unlocked in Japanese equities, which is a good reason to go big in Japan. But remember, the Yen is under pressure and its weakness may undermine any gains. Hedging against currency risk is therefore key.

AROUND THE WORLD IN A DOZEN PROPERTIES (PART 5)

IS JAPAN THE INDUSTRIAL WORLD'S ULTIMATE PROPERTY BARGAIN?

BY SWEN LORENZ

A 12-part series of articles by Swen Lorenz, reporting about easy-to-access investment opportunities in high quality real estate around the world.

Successful investing doesn't necessarily require academic skills. Common sense, a healthy sense of observation, and an open mind are at least just as valuable as an ability to analyse policies of central banks and interest rate trends.

My colleague, Filipe R. Costa, has already taken care of analysing the macro environment of Japan's economy. That's why I'll focus on what I do best: scoping the world for opportunities that I believe are undervalued and which offer a good risk/reward ratio.

As it happens, the subject of our cover story, Japan, fits right into the profile I target for property investments. I even found a quoted company that offers pure, unadulterated exposure to Japanese property, and which currently pays a yield of 6.7%.

But more on that later. Let's first look at some of the telltale signs of a property market being so undervalued that the only way for it is up.

"TOKYO ONCE WAS REGULARLY LISTED AS ONE OF THE WORLD'S MOST EXPENSIVE CITIES; HOWEVER, NOWADAYS THE JAPANESE CAPITAL DOESN'T EVEN APPEAR AMONG THE WORLD'S TOP 10."

Recollecting the German opportunity

Whether a property market is cheap and worthy of an investment can often be checked against a simple, but effective check-list:

- Can properties be bought for less than their replacement value?

- When you visit the country, does it appear "cheap" on the basis of day-to-day living expenses?

- Do rental yields offer a return of at least 5% or possibly even more than that?

> **"AT ONE POINT, PRIME REAL ESTATE IN TOKYO WAS 350 TIMES MORE EXPENSIVE THAN COMPARABLE LAND IN NEW YORK'S MANHATTAN."**

All of these factors held true in Germany back in 2005. This was the time when the German property market started to gather steam for what was to become an incredible ten-year rally. Residential property in Berlin was cheaper than reconstruction cost, yields were incredibly attractive, and for buyers with more exotic taste, it was possible to buy a lake-side holiday dacha just 25 minutes from the centre of Berlin for less than $10,000. The market ticked all the right boxes.

Parts of the German property market have since then risen severalfold in value, and the market as a whole is up considerably no matter which area of the country you look at.

The problem was, few investors believed in the opportunity when prices were cheapest. Even those who did, often found it difficult to find the right investment vehicle to invest in the country's real estate sector, outside of doing the cumbersome work to buy properties themselves.

Anyone who missed the bargain-basement prices of Germany in 2005 might now be interested in another opportunity to latch onto: residential property in Japan!

What happened after the 1980s bubble?

No analysis of Japan's property market would be complete without looking at it in the historic context of the 1980s bubble. To this day, the bubble economy that Japan experienced three decades ago has profound economic effects on the country, and to some extend it provides the framework for today's investment climate.

In the 1980s, following several decades of successfully rebuilding its economy after the end of the war, Japan entered what to this day ranks as one of the most outstanding bubbles of recent history.

Between 1984 and 1989, the Nikkei Index rose nearly fourfold. At its peak, the market capitalisation of Japanese companies made up nearly one third of the value of all public companies in the world. Curiously, in 1989 a survey of institutional investors showed that the majority of them did not believe that the Nikkei was overvalued! So much for the ability of institutional investors to assess broad market trends and identify warning signals.

The asset bubble in the Japanese real estate market was even more astounding. At one point, prime real estate in Tokyo was 350 times more expensive than comparable land in New York's Manhattan. Anyone who lived through this period will remember how the international press noticed that the land underneath the Tokyo Imperial Palace

was effectively worth more than the entire state of California.

Clearly, Japan had entered a bubble, and an almighty one for that matter. The subsequent deflating was painful and, in some ways, equally astounding. During the following 15 years, residential real estate in Tokyo lost up to 90% of its value. Prices for land in Tokyo's Ginza district even dropped 99% compared to the 1989 peak. So much for property "only ever going up"!

Today, Japan simply appears cheap

Tokyo once was regularly listed as one of the world's most expensive cities; however, nowadays the Japanese capital doesn't even appear among the world'sTop 10. Indeed, as anyone who visited Japan recently will be able to attest, in comparison to other major world capitals Tokyo has actually become a bit of a bargain.

Quality hotels? Whereas in New York or London it costs $300 and upwards to get a decent hotel room, in Tokyo you can nowadays comfortably rest your head for less than $100 a night.

Taxis, food, train tickets - much of daily life in Japan nowadays compares favor-

ably to the costs you'd have to pay in other major metropolitan areas around the world. That's despite the fact that with 37m inhabitants, the greater metropolitan area of Tokyo still makes it one of the truly large capitals of the world.

The economy has also turned the corner, in some ways at least, and this long-term turnaround has started to show in residential property prices. In the past couple of years, the broad index for residential property in Tokyo has risen by about 20%, and by up to 50% in some of the swankier areas. Still, the market remains cheap, given how prices recovered from a low level. Altogether, prices for residential property in key areas of Japan are still only half of what they were in 1991. Whereas other parts of the world have seen prices rise significantly during the past 24 years, in Japan they have halved!

In some areas of Japan, you can actually get residential property at incredible bargain prices. Whereas Tokyo, Osaka and Nagoya are seeing a net inflow of residents, other parts of the country are suffering under negative population growth. In Kyoto, regularly cited as the country's no. 1 city for tourists keen to experience Japanese history and culture, classic wooden "machiya" homes can now be picked up for $200,000 to $500,000. At the upper end of this price range, you get a fully refurbished two bedroom house in the historic district of Kyoto. Try buying a similar building in Bath or Edinburgh.

How to get in on the game, without having to travel to Japan and go through the hassle of purchasing a property and then renting it out?

An AIM-listed property fund

The aptly-named **Japan Residential Investment Co. (JRIC)** was floated in 2006 and offers investors an easy way to get exposure to the residential real estate market of Japan's biggest cities.

At last count, JRIC owned 57 properties with 2,697 rentable units, spread mostly across Tokyo, Osaka and Nagoya. The average size of the rental units was 33 sqm, making them easy to rent out to singles and couples. Average monthly rent was £550, which is about a third or a quarter of what a comparable property would rent for in London. Occupancy stood at 95%, which is close to the maximum that any property company can achieve given that there is always a degree of fluctuation among tenants and the occasional need for refurbishment.

JRIC offers a pure and relatively low risk exposure to residential property in Japan. Gearing is 50%, and average interest cost for its outstanding borrowings is 0.9%. The company is effectively a conservatively managed portfolio of quality residential property in the major metropolitan areas of Japan.

Factors that influence the company's performance (and its share price) include the fluctuation of the Yen. During the past three years, the Yen has lost about a third of its value compared to the British Pound Sterling. Had you invested into JRIC three years ago, currency loss would have eaten up much of the increased value of the properties. Not surprisingly, the share price is still trading at exactly the same level where it was in 2012, despite the appreciation of property values in Japan since then.

Anyone coming into the game now can benefit from the Yen essentially being an undervalued currency for buying into an undervalued market. Also, based on the most recent dividend payout, the share comes with a dividend yield of 6.7%. Dividends were 3.6p per share both for 2014 and 2013, compared to a current share price of 53p per share. The shares are trading slightly below the net asset value of the properties, further adding to the attractive nature of the investment.

Tokyo, Osaka and Nagoya are cities where long-term trends are likely to increase property values over the years to come. Supply of residential rental housing in these major population centres is constrained by factors such as limited land availability, and wage growth is stimulating the purchasing power of the population as well as construction costs. Add to this the ongoing trend of Japan's population moving to the country's biggest economic centres. The population of Japan is declining by almost 300,000 per year, yet Tokyo saw net inward migration of 590,000 people over the past decade (an increase of approximately 0.5% annually). Throw in the trend towards ever-more single person households due to delayed marriages and rising divorce rates. The number of households in Tokyo has steadily risen from 4.3 million in 1980 to 6.4 million in 2010 (a 49% increase) and is anticipated to continue increasing gradually through to 2025.

Conclusion: Low property valuations, the weak Yen and solid long-term trends make Japan one of the world's best markets to get your foot onto the property ladder. JRIC makes it possible to invest (and sell) at the push of a button. Waiting for capital appreciation to take hold is made all the more bearable through the 6.7% p.a. dividend yield.

Next month: Swen pays a visit to Spain to check out opportunities on offer there.

CURRENCY CORNER

RE-EVALUATE MY YEN BIAS?

PERHAPS, BUT THEN AGAIN...

BY SAMUEL J. RAE

Back in June, the USD/JPY reached 125 flat for the first time since December 2002, and posted its highest rate since February of the same year. The systemic weakening of the yen has come about as a result of Japanese efforts to combine monetary and fiscal policy towards a unified target of weakness, with the goal of making Japanese exports cheaper, and in turn boosting international trade.

For a couple of years now, we have seen so-called Abenomics dictate the state of the Japanese economy, but based on a number of recent factors, many are arguing that we could see the Japanese government and central bank loosen its grip on the yen, and allow it to – in the near-term at least – regain some strength.

However, these factors aside, there are also a number of macroeconomic fundamental concerns that point towards further yen weakening, going as far as to suggest even, that irrespective of the actions of the Japanese government and the bank of Japan (BoJ), further yen weakness is inevitable. In my own personal trading, I have held a short bias in the yen for a long time, and have published material reinforcing this bias on numerous occasions. However, as we head into the latter half of 2015, the situation is not so clear-cut. So with that said, let's address both sides of the argument, and try to come down on one side of a definitive bias.

> **"AS WE APPROACH 125, WE COULD VERY EASILY SEE MEDIUM-TERM LONG ENTRY PROFIT TAKING, TO THE EXTENT THAT IT INITIATES ANOTHER DOWNSIDE CORRECTION."**

First, let's look at the argument for near-term yen strength. From a technical perspective, 125 flat presents strong resistance on the higher timeframes (see chart). Having broken this level back in June, the USD/JPY quickly reversed to trade lower and corrected all the way back down to 120 flat before bouncing to current levels of around 123. As we approach 125, we could very easily see medium-term long entry profit taking, to the extent that it initiates another downside correction. Looking at things from a fundamental perspective, Bank of Japan Governor Haruhiko Kuroda said mid-June (around the time of the aforementioned correction, as it happens) that he felt that *"it is hard to see the [Yen's] real effective rate falling further"*. In the interest of balance, it is worth noting that he has since commented on this statement as being misinterpreted, but whether there is any validity in this redaction is debatable.

There are also the ongoing Transpacific Partnership ("TPP") trade talks to take into consideration. For a while now we have heard arguments from a number of the nations involved in these trade talks, which call for provisions against

"AT CLOSE TO $125, THE CURRENT YEN VALUATION PUTS JAPAN IN A PARTICULARLY PRECARIOUS POSITION FROM A POLITICAL PERSPECTIVE, ESPECIALLY WHEN WE CONSIDER THAT THE TPP IS VERY MUCH AN INTEGRAL PART OF JAPANESE PRIME MINISTER SHINZO ABE'S THREE ARROWS POLICY."

currency market manipulation to be implemented in any potential trade agreements. At close to $125, the current yen valuation puts Japan in a particularly precarious position from a political perspective, especially when we consider that the TPP is very much an integral part of Japanese Prime Minister Shinzo Abe's three arrows policy. The avoiding of political cross-nation friction within TPP negotiations could viably be enough in itself to make Japanese policymakers think twice about the current yen situation.

However, with all this said, and as we have mentioned, the situation may already be out of Japanese hands. It is now looking increasingly likely that we will get an interest rate hike in the US this September. Fed chair Janet Yellen has hinted at an interest rate rise before the end of the year, and she has two potential dates at which to make good on this intent – September and December. As far as I'm concerned, December is out of the question. An interest rate hike just before New Year make it very difficult

for certain aspects of the US financial framework – and in particular, repo desks – to refinance according to the altered rate. With what has the potential to be a pretty disruptive hike anyway (coming at a time when inflation is zero or negative, as is quarterly GDP in the US), Yellen will want to avoid further complicating the matter. Therefore, this puts September as pretty much a shoo-in for an interest rate hike in the US. In the run-up to this, and post hike, there will inevitably be some dollar strengthening and, in turn, further weakness in the yen. If we break 125, 135 flat (last seen in January, February 2002) will be the level to watch to the upside, and all bets will be off for Abe and Kuroda.

So on which side of this debate does my bias fall? Well, I'd like to think that the yen has weakened about as far as it can, and that the upcoming trade negotiations will spur Japanese policymakers into initiating a reversal. However, with a potential US rate hike looking more and more likely for September, it is very difficult to see how Shinzo Abe can effectively regain control of the Yen – at least in the near to medium term. It is the latter of these two arguments that sways my bias, therefore, so I remain, bearish yen.

FUND CORNER

ABENOMICS

THE NOT SO DISMAL SCIENCE

BY NICK SUDBURY

The land of the rising sun has had more false dawns than most investors can remember, but the election of Prime Minister Shinzo Abe in December 2012 could go down in history as the point when it all changed. His radical policies that have come to be known as Abenomics are designed to breathe new life into the economy and have helped the Nikkei 225 to more than double in value since he took office.

There are plenty of ways to take advantage of the resurgence of the Japanese stock market as there are more than 60 open-ended funds operating in the sector, as well as numerous ETFs and a handful of investment trusts.

According to FE Trustnet, the average Japanese OEIC and unit trust has returned 51.2% in the last three years. Only three of them have got anywhere near the 137% increase in the main stock market index, the Nikkei 225, with the rest producing gains of between 24.8% and 73.2%.

The top performer over the period was Lindsell Train Japanese Equity Hedged with a return of 132.7%. This Dublin registered OEIC has £56.5m in assets under management and holds a highly concentrated portfolio of between 20 and 35 stocks with very little turnover.

I have a high regard for Lindsell Train, but the main reason for the outperformance was the currency hedging, as the unhedged A shares were only up 50.4% over the three years. During this time the yen has depreciated from around 125 to the pound to 190, which represents a fall of about 34%.

> **"THERE ARE MORE THAN 60 OPEN-ENDED FUNDS OPERATING IN THE SECTOR, AS WELL AS NUMEROUS ETFS AND A HANDFUL OF INVESTMENT TRUSTS."**

The main reason for the massive decline in the value of the currency is the programme of Quantitative Easing that is one of the main elements of Abenomics. This has been a major benefit to Japan's large export industry because it makes it more competitive, but the government is now trying to stabilise the exchange rate as it is afraid of the impact of higher import prices on its domestic businesses.

In second place on the list is **Legg Mason Japan Equity** with a three-year return of 126.1%. It is another concentrated fund with the £283m of assets under management being divided between 36 different holdings. The portfolio is highly skewed in favour of Health Care and Information Technology with these two sectors accounting for 60% of the exposure.

Hideo Shiozumi, the fund manager, is a growth orientated stock-picker and he has put together a highly idiosyncratic portfolio that has proved to be extremely successful. There is also a separate hedged share class for those that want it.

The other noteworthy performance came from **Neptune Japan Opportunities** with a gain of 103.3% over three years. It is a bit more diversified than

the Lindsell Train and Legg Mason funds and has a different emphasis with the main sector weighting being the 30.7% exposure to Industrial companies.

Chris Taylor, the manager, has a bias towards large- and mid-cap stocks and currently favours the multi-nationals that earn the majority of their revenues overseas. He is able to hedge the currency back to sterling whenever he thinks it would be appropriate and has kept the hedge in place since 2009, which will have contributed to the positive performance. He also has the freedom to use derivatives to limit the downside risk.

Smaller companies funds

The Japanese smaller company funds have done even better than their large-cap equivalents, with an average three-year return of 60.2%. This is quite normal in a bull market, although they would be more vulnerable whenever conditions deteriorate.

There are only five open-ended funds in the sector with the top performer being **Baillie Gifford Japanese Smaller Companies** with a gain of 90.1% over the last three years. It is managed by John MacDougall, who invests in attractively valued small companies that offer decent growth opportunities.

A good example is Cookpad, which operates a popular recipe website. This has been one of the fund's strongest performers due to the increased marketing by food producers and supermarkets. The fund has also benefited from its holding in the blood testing company, Sysmex, whose latest machines have been selling well in countries such as the US and China.

MacDougall invests for the long-term and there is very little turnover in the portfolio, although he has recently bought into the biotech companies Peptidream and Nanocarrier. These are typical of the smaller, innovative businesses that he likes to target.

Max Godwin, the manager of the **M&G Japan Smaller Companies** fund, is a value investor and targets businesses that are out of favour with the market.

He has recently topped up his holding in Cocokara Fine, which is one of the five largest nationwide drugstore chains in the country. The business is currently undergoing a restructuring to try to address various inefficiencies and appears to be undervalued.

Another recent purchase is the regional bank, Tokyo TY Financial Group. The company is struggling due to the low interest rates, but Godwin believes that the shares are cheap relative to the expected earnings and that it has a well-diversified loan book. His fund has a total of 50 holdings and has returned 66.4% in the last three years.

A passive alternative

FE Trustnet lists 48 passively managed ETFs in the sector. The majority of them track the MSCI Japan index and have produced returns of between 40% and 50% over the last three years, with the two standout performers both hedging the currency.

Leading the way is **iShares Japan Fundamental Index CAD Hedged** with a gain of 143.7%. It is managed by BlackRock and is a really unusual fund with the index having a value tilt and thecurrency hedged back into Canadian dollars.

In second place is **iShares MSCI Japan EUR Hedged UCITS ETF**, with a three-year return of 105.1%. This uses physical replication and is fully hedged back into euros. It has assets under management of €4bn, 314 underlying holdings and a Total Expense Ratio of 0.64%.

The other top performer is a leveraged ETF called **ProShares Ultra MSCI Japan.** It is designed to pay twice the daily return of the MSCI Japan index and would obviously be a lot more vulnerable than the others in the event of any market weakness.

There are also three small cap ETFs, although the performance has not been that impressive with an average three-year return of 48.7%. If you want exposure to this part of the market an actively managed fund would be the better option as the managers have plenty of scope to add value.

Investment trusts

There are only four investment trusts that provide exposure to large cap Japanese equities, but they have an excellent track record with an average 3-year return of 121.1%. One of the main reasons that the investment trusts have outperformed their open-ended counterparts

is because the discounts to NAV have narrowed as the sector has come back into fashion. There is much less scope for this to play a role going forwards as the discounts are now all less than 10%.

The best performer over the last three years is the **Baillie Gifford Japan Trust** with an impressive return of 137.8%. This invests mainly in small- and mid-sized companies with the two most significant sector exposures being commerce & services and manufacturing & machinery.

Sarah Whitley, the manager, invests in between 40 and 70 individual stocks that she believes offer long-term growth potential on a three- to five-year time horizon. She also has the scope to hedge the currency if she thinks that it is appropriate.

Another fund with a decent track record is the **JP Morgan Japanese Investment Trust**, yet despite this it has the largest discount to NAV in the sector of 9.7%. The manager has positioned the portfolio to benefit from the increasing number of tourists visiting the country due to the weaker currency and the rising income levels across the rest of Asia.

The five smaller company investment trusts have lagged behind their large-cap peers, although once again it is the Baillie Gifford product, **Shin Nippon**, which tops the table. It is managed by John MacDougall, who also runs their open-ended small cap fund.

MacDougall holds a portfolio of 40 to 75 attractively valued smaller companies that offer good growth prospects on a 3 to 5 year view. Many of the top holdings are the same in both of his funds, but it is the investment trust that has the best three-year record with a return of 131.2% versus the 90.1% from Baillie Gifford Japanese Smaller Companies, although part of this is due to the narrowing discount.

"THE JAPANESE SMALLER COMPANY FUNDS HAVE DONE EVEN BETTER THAN THEIR LARGE-CAP EQUIVALENTS, WITH AN AVERAGE THREE-YEAR RETURN OF 60.2%."

THE LIMPOPO DISPATCHES

BUY THE BANKS?

BY ROBERT SUTHERLAND SMITH

Life here goes on in its usual magical way; a bit like Prospero's magical Isle – as Mr. W. Shakespeare of Stratford on Avon would have put it. Things happen and you do not quite know how or sometimes why; a bit like the internet or even life itself.

However, there are notes in bottles from the Editor from time to time. There are also arrivals to the Limpopo *Shangri la* from the outside world, to keep one in touch with the great conflicted universal reality beyond these happy harmonious shores.

Immigrant bankers usually arrive at dead of night, and always leave very early. They have been coming and going in rhythm with the ebb and flow of regulatory enquiries and solicitors' letters from former bank customers who feel that banks have been less than helpful to them at various times. A classic example being those SME companies who felt that they had been put out of business by their banks allegedly in exchange for thirty pieces of silver of banking fees and subsequent profit margins. In the case of state owned RBS, the Bank of England reportedly said that they found no evidence of wrongdoing but added that the bank's customers had been "let down." A bit like the tyre of a Formula I racing car in a winning lap.

> **"I HAVE COME TO THE CONCLUSION THAT THEY ARE STILL GOOD VALUE."**

It is astonishing how such complaints continue to burst through the lawn of the bankers' garden like knot weed. The dilemma is to know how to eradicate the pernicious growth of weedy, unacceptable conduct. Bring back the Quakers is my own suggestion.

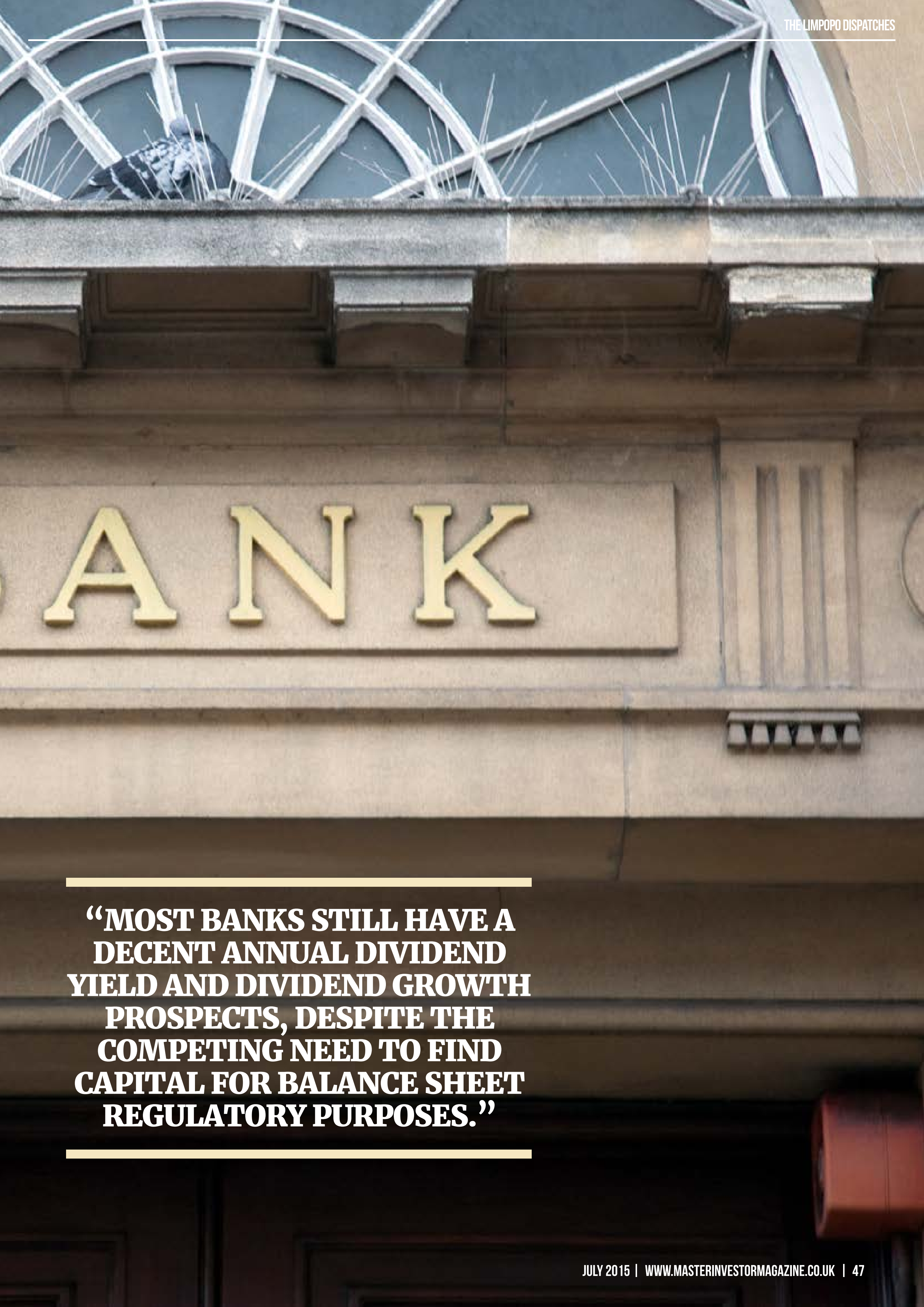
These thoughts of banks and bankers have prompted me to ease up on the jungle juice and have a look at UK banking shares from the perspective of the equity investor. I have come to the conclusion that they are still good value. Putting down my cocoa nut shell of a splendid Limpopo cocktail containing its brightly coloured mini sunshade umbrella, I now offer reasons why.

Why banks are attractive

Most banks, despite their chronic public relations problems have put in a solid performance in terms of share price.

However, they still look appealing for the following reasons:

- Above average dividend yields.
- Banks sell near to or sometimes above balance sheet book value.
- They are a geared/leveraged play on economic growth.
- Bank ratings are still influenced by past fears.



"MOST BANKS STILL HAVE A DECENT ANNUAL DIVIDEND YIELD AND DIVIDEND GROWTH PROSPECTS, DESPITE THE COMPETING NEED TO FIND CAPITAL FOR BALANCE SHEET REGULATORY PURPOSES."

The capital versus dividends debate

Most banks still have a decent annual dividend yield and dividend growth prospects, despite the competing need to find capital for balance sheet regulatory purposes. The boards of banks wish to reward investors (including themselves through share incentive schemes) with dividend increases. Against that, governments, banking regulators and academics constantly worry about another banking crisis and want banks to put more capital onto their balance sheets to reduce their gearing and risk.

There are innumerable ideas as to what that should be in terms of balance sheet percentage; some critics for example, going as high as 16%. The idea that banks should be left, even under the current *Basel Treaty* regulations, to identify and measure levels of risk in relation to the different types of lending and then weight the balance sheet with the exactly appropriate level of capital to reasonably absorb that risk does not win everybody over, for a number of fairly obvious reasons. There is a more simplistic, plain gearing pressure group which believes that the risk weighted malarkey is too theoretical and subjective a process to be sufficiently reliable. Their view tends to favour the strength and reliability of simplicity; for each and every pound of lending and obligation a given level of capital with no mucking about.

Capital requirement, remains a tug of war of professional opinion between regulatory puritans, pulling for the biggest amount of capital to anchor bank balance sheets, and the economic policy pragmatists (and bankers of course), who pull for the smallest amount. So banks, as equity investments, are in a constant state of mixed apprehension as the two sides continue to pull against each other. It is a tug of war in which there will be no outright winners. It is always in a state of flux and moving compromise.

"MOST BANKS STILL HAVE A DECENT ANNUAL DIVIDEND YIELD AND DIVIDEND GROWTH PROSPECTS, DESPITE THE COMPETING NEED TO FIND CAPITAL FOR BALANCE SHEET REGULATORY PURPOSES."

There is also the matter of the Chancellor's special tax on bank profits as a means of reducing the national deficit. Banks complain about that on top of normal regulatory costs, but it will not be unpopular with the voting public, who reckon it to be fair and just desserts. Banks argue that special bank taxation is too onerous on top of the costs of meeting the demand that they separate 'traditional' clearing bank deposit and lending activities from 'casino' investment banking.

As investors should we expect more financial security with more capital requirements but less profit and dividend growth; or should we expect earnings and dividend growth because we have reached the high water mark of regulatory capital requirements and special bank taxes? That is the question, to which the answer is a matter of individual judgement.

It is not an easy matter to judge. Universal experience shows compromise and short term expedience, a powerful influence in the world's affairs. Politicians and government policy makers have short term spans of interest and will likely give weight to a growing GDP, helped by maximum bank lending. The possibly longer term threat of another banking collapse looks a bit more of a luxury option compared with short term GDP attraction. The extreme puritan highest capital solution will not be adopted. The target will always be a compromise figure hovering between extremes.

Banks still wield an enormous amount of influence through lobbying and political influence and connections. To prove the point, investment banks have not been statutorily and corporately separated from the common ownership of their deposit and lending arms, as they were in the US after the great crash of 1929. They have had to agree to separating 'casino' investment banking from deposit and lending banking into separate subsidiary operations and make arrangements whereby - in the event of another mishap - the investment banking bit can collapse without dragging down depositors, borrowers and the economy at the same time. These arrangements are known as 'living wills'.

It is not walls but swing doors that separate the world of politics and banking. People wander out of one into the other all the time even if there might be chanting anti-banking, anti-capitalist groups protesting outside the windows.

Dividend yield and dividend expectations

That is evidently the conclusion of the consensus market of banking share forecasters. The majority of the consensus estimates for the dividends of the FTSE100 banks, with the exception of Standard Chartered, show them as growing.

Below are the market consensus estimated dividend yields for last year (2014), this year and next year:

HSBC: 5.3% for last year; 5.7% for this year; and 5.9% for next year.

Barclays: 2.3% for last year; 2.9% for this year; and 3.8% for next year.

Lloyds: 0.75% for last year; 3.1% for this year; and 4.7% for next year.

RBS: nothing for last year; 0.4% for next year; and 1.55% for next year.

Standard Chartered: 5.7% for last year; 4.4% for this year; and 4.6% for next year.

Share price versus book (net asset) value

Price to book is the classic value investor measure of basic equity value against

price paid. Below I provide recent reported price and estimated book figures for the main UK banks (all these are reported figures):

HSBC: at a share price of 586p, a book value of a reported 624p.

Barclays: at a share price of 383p, an estimated book value of 363p.

Lloyds: at share price of 88p, an estimated book value of 70p.

RBS: at a share price of 361p, an estimated book value of 495p.

Standard Chartered: at a price of 1,022p, an estimated book value of 1,206p.

GDP Gearing

Banks as lending institutions gain both operationally (more activity) and financially (higher interest rate margins and lower bad debts) from rising economic activity. As 'investment banks' they like to think they can benefit from either growing or shrinking economies, by use of hedging through financial derivatives earning them the sobriquet *Masters of the Universe.* (I only add that when a banker rules the universe, rather than God or physics, we are likely to be in for trouble. An imploding economy is one thing but an imploding universe would be something else entirely.)

Are banks geared to economic growth or decline?

The UK economy seems to be in strong form to judge from recent motor vehicle production and labour market statistics. The latest consensus economist forecasts are for UK GDP growth of 2.4% this year. Still the world's largest economy, US GDP is forecast to put on another 2.3% of growth this year. For China, which is trying to build a large consumer and industrial economy, the estimate is for growth of 7%. If the Euro area does achieve the forecast 1.5% GDP growth this year it will add its own more modest contribution to a healthier picture of economic activity.

Bedtime conclusions

My head and heart aching after thinking about banks and bank shares for so long, I climb the steps to the veranda of my Limpopo bungalow. As I slump into deck chair, coconut shell in hand, Polly the parrot appears for some evening conversation. I explain about the banks, and she replies:

"Ok, what do I do?" referring to her own portfolio of shares, naturally!

There is something about her manner which makes me think that she may have been drinking in my absence, when I was dutifully thinking about banks. The wrong sort of attitude, I think. I lean back, give her a long questioning gaze and make my fermented jungle juice fortified reply:

"In a market of high price earnings ratios and low asset backing, bank shares have clear relative fundamental investor attractions. Their valuation is still coloured to some extent by the fears of past events as well as the ongoing crime and punishment routine between banks and regulators which, like the old Windmill Theatre, Piccadilly, never seems to close. To judge from the low yields on short maturity gilts, no one is expecting, either here in the UK or in the US, that short term interest rates are going to rise too fast to kill off recovering economies. Moreover, the Euro version of quantitative easing is in its early rather than late stages."

I glance at Polly. Her eyes are beginning to glaze over but I attribute that more to her obvious intake of fermented jungle juice than my clearly scintillating explanation of banking facts and probabilities. I continue:

"You have two clear choices on the London Stock Exchange. There are the more diversified international bank shares like those of HSBC and Barclays and Standard Chartered, which tend to be selling at well below the "book" asset value figure. And then there are the two now largely domestic facing banks, Lloyds and RBS, which have been largely shorn of their earlier investment banking activities, are lower yielding and sell at a premium to the book value of net assets."

Polly by now has fallen over but retains a serious expression and a strong clawed grip on the cocoanut shell. Her eyes are still open in a swivelling sort of way so I continue, expecting to still reach her inner avian consciousness.

"The first question is this: Which are riskier with greater dividend unfriendly regulatory hurdles, the international brigade of HSBC, Barclays and Standard Chartered, with attached investment banking wings, or the home fires loving Lloyds and RBS?

The second question is this: Which look better value in terms of dividends and assets in a bird in the hand approach?"

Polly nods at this point.

"The fact is that no one knows the answer to the first question about risk. Whatever that is, it seems to be discounted to some extent or another by the high dividend yields and asset backing. So on that simple basis of value, HSBC and Barclays appear to be the better fundamental value buys.

The fact that Lloyds has both lower asset backing and dividend yield tends to suggest that its shares may be relatively overpriced to some extent or that possibly they have too little capital. One or the other. In the good old days banks often had rights issues from time to time to cope with bankers' bad luck in lending. Ironically, in those days Lloyds seldom did; under Brian Pitman, CEO the bank was run for cash and avoided empire building."

By now my parrot and best friend Polly is snoring, as I shall soon be. Before then I glance at the share price chart for an indication of what might happen next. They all look fairly close to previous share price support levels or trend line support. Around 260p, I guess for Barclays; around 550p, my guess for HSBC; around 85p, my guess for Lloyds; around 340p for RBS; and around 960p for Standard Chartered. Chart reading may be called technical, but it is always a subjective art, so have a look at the chart yourself. Don't forget we are in summer thin markets even after many brokers have left for the sun tanning of those dark pools loved by institutional dealers. Goodnight!

""IN A MARKET OF HIGH PRICE EARNINGS RATIOS AND LOW ASSET BACKING, BANK SHARES HAVE CLEAR RELATIVE FUNDAMENTAL INVESTOR ATTRACTIONS."

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TECHNICAL CORNER
DIRECTOR INDEX: DAVID LENIGAS

BY ADRIAN KEMPTON-CUMBER

Particularly with start-ups, anything to do with new technology, or exploration in areas like mining, the directors can be key to the operation. Being a regular attendee of the Oil Barrel conferences over the years, I'm familiar with the name David Lenigas, director of seemingly countless companies involved in oil and mining in particular. And I have become interested in a number of the companies he's on the board of during that time.

You might expect some biographical content here since I'm talking about an individual, but that's not the case. I know very little about David Lenigas. I understand he's Australian. I know he's middle aged. But that's about it apart from, like me, he could probably stand to go on a diet for a bit.

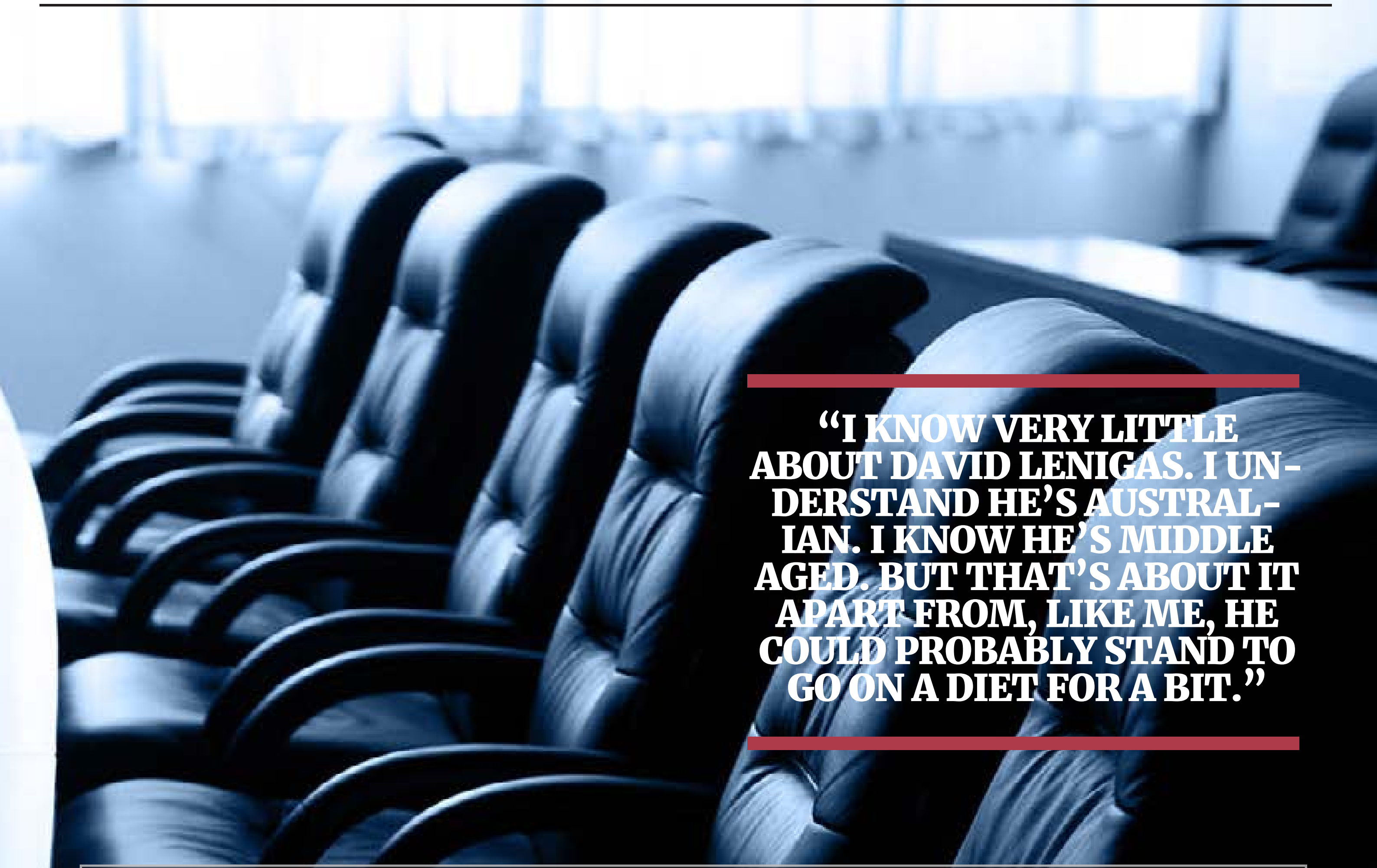
So what is the article about then? Detailed analysis company by company? Again, no. I wanted a litmus test for Lenigas the director, and I wondered how I could assess him and his ability to spot a bargain, which in turn could be a bargain for me if I bought the shares.

Then why not regard David Lenigas as a company? I could analyse his effectiveness by creating a chart of him. An index of the companies he's director of, and then perform Technical Analysis on that. Obviously company director information is publicly available. ShareScope also lists directors.

Here we run into all kinds of possible approaches. Should I weight the index based on his shareholding or the capital value of the companies? Perhaps how long he stays a director? I don't think a lot of those tweaks provide much useful information. I prefer to start with a pretty 'native' set of data and then tweak it to focus on particular areas I want to identify specifically.

Of course, you can repeat this exercise for any similar entrepreneur. See the inset for instructions.

Now we aren't trying to work out how successful Lenigas has been for himself. No account of the number of shares he may have bought or sold, nor any remuneration he may have received, is considered here at all. Unless you want to have a shareholding mimicking his, then it's irrelevant.



> **"I KNOW VERY LITTLE ABOUT DAVID LENIGAS. I UNDERSTAND HE'S AUSTRALIAN. I KNOW HE'S MIDDLE AGED. BUT THAT'S ABOUT IT APART FROM, LIKE ME, HE COULD PROBABLY STAND TO GO ON A DIET FOR A BIT."**

How to create a director index

First you need a list of all directorships held. There are plenty of sources for that – just search online. This will return not only the companies that are listed, but also private limited companies too, which can be a bit of interesting reading but not much use in this exercise. Having got your list of companies, make a note of the start and finish dates for his/her time as a director at each. I do this on an Excel spread sheet.

From this list go to ShareScope and download the price history for each company. This can be done equally well using Yahoo Finance.

Start a new tab, or spreadsheet, and list the company EPIC codes along the top, and the dates down the side (using a price history so it excludes bank holidays etc. and will be consistent with the other downloaded price histories, assuming they're all on the same country's exchange/s). You then populate the columns with the prices that relate only to the time he/she was a director. NB: Be careful as sometimes EPIC codes are reused. Make sure you have the right price history. INSP is such a case as is STG.

What I'm doing here is treating David Lenigas as a holding company. Now we can start to get to the meat of the act. How good is he, and what is the trend of his activities?

We need an index, so we start with the oldest date, and either use the one company price as 100 to start the index, or once there's more than one company then use the geometric mean. The FT30 is calculated using the geometric mean. The formula needs to be amended each time there's a change in the number of elements, or that needs to be allowed for in the formula. I generally prefer an active approach as blank cells have a habit of messing up results by being easily overlooked. I have an extra column for changes in the number of companies. That I call 'Index Point' and post the value there which will be the new relative index value for subsequent calculations until there's another change in the number of directorships, up or down.

Once you have the index values, that column will be the basis of your price history for Director: David Lenigas. You can then import that into ShareScope, or in my case TradeStation (which is an American equivalent), and start to apply TA just as you would for any price history.

Lenigas' director appointments go back over ten years. That's quite enough of a history to start making some real conclusions. If you have less than five years you'd have to consider the market conditions. For example, if all the price history exists only in a bull market then you'd have to take that into account. It wouldn't really give you a full picture as you can't see if they have any skills at handling adverse market conditions.

And so we come to the chart. Your chart may differ to mine if you haven't used the exact same criteria, but as long as you're consistent it's a guide, and that's what we want. Being an index the chart starts at 100. Over ten years later we can say that at 43.91 it's not a huge success.

The index 100 level is marked with the dark blue dashed line. A cyan line below that shows the resistance level that the index has touched and failed at twice now. The pink and grey wiggly lines represent the Ichimoku cloud. It's well below it, and that is a sign of weakness. I've put some Gann lines on from the ATH back in '05. We need Gann to be precise or it's not working. Few packages have adequate Gann facilities on them and the so-called Gann Fan I've used here is not perfect, but it will suffice. The dark red line is marked 1x8 and that is what's called the first reaction. The 1x4 is ineffective meaning we should expect to see a reaction at the 1x2 and we do. Most recently the second att-

empt on the resistance level around 90 coincides with the 1x1. To fall back out of the cloud like that without crossing it is unusual. I'd take this as a very weak sign.

Looking back, basically it's a series of lower highs over the years. A failure (twice) at the resistance level (previously support) at around 194, and then once the cloud kicks in (it needs a lot of data points before it calculates) the price is never above it. The MACD doesn't look too exciting either. A break above the cloud and that resistance around 90 and I'm interested.

This method is as useful as sector analysis in my view. As I said earlier, it's not necessarily a reflection of the personal financial success of the individual concerned, but will give you a good idea of the underlying instrument, which in this case is the individual in terms of our ability to buy them as a product.

"IT'S NOT NECESSARILY A REFLECTION OF THE PERSONAL FINANCIAL SUCCESS OF THE INDIVIDUAL CONCERNED, BUT WILL GIVE YOU A GOOD IDEA OF THE UNDERLYING INSTRUMENT."

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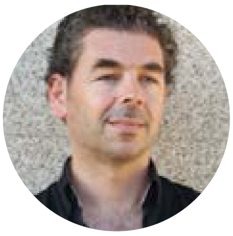
LEON COOPERMAN

BY FILIPE R. COSTA



"The way to be successful is do what you love and love what you do...I get paid normally a lot of money for basically doing something I enjoy doing. And what I enjoy is to hunt—finding something somebody else doesn't see, making a bet and having Mr. Market prove me right."
- Leon Cooperman

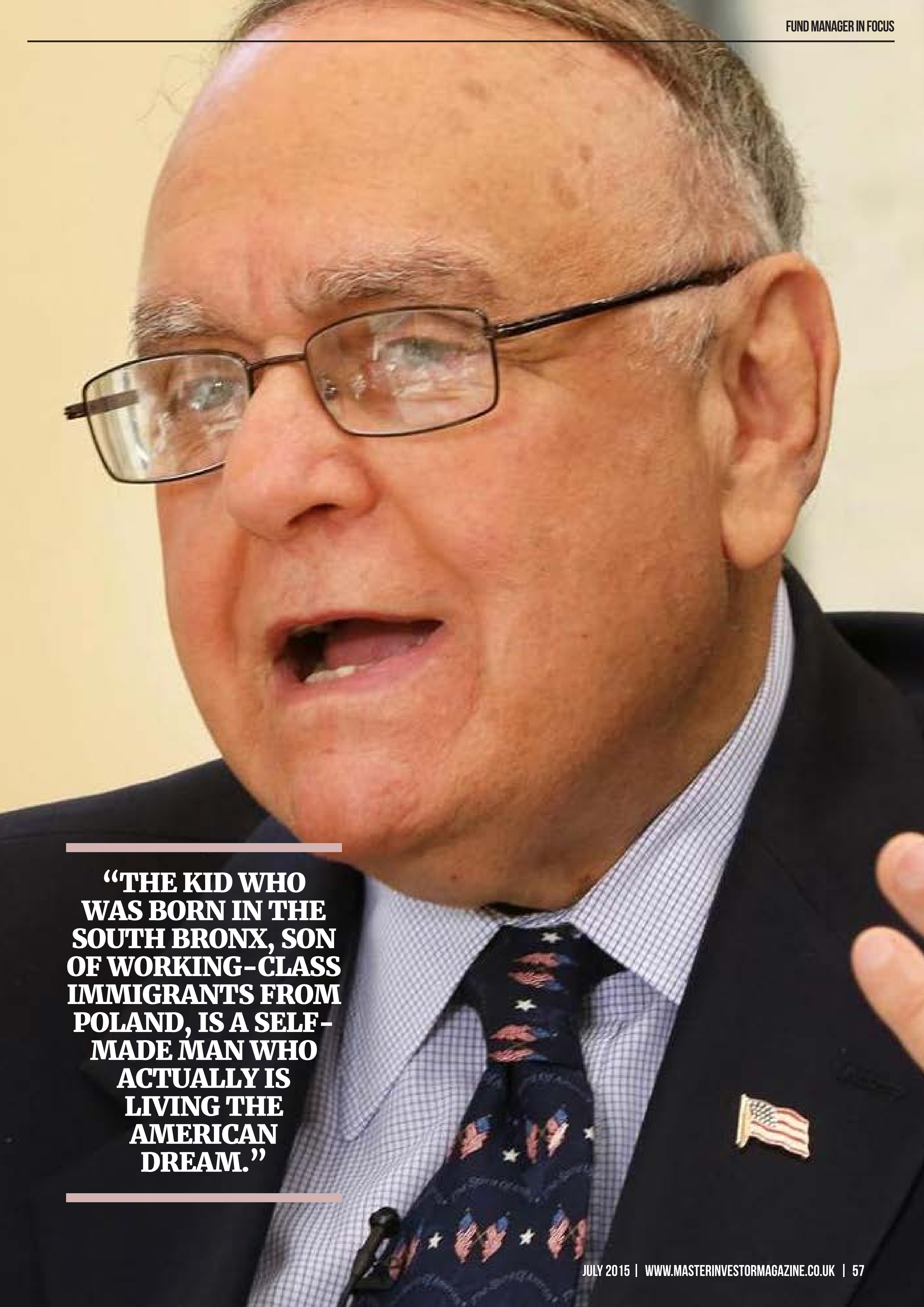
Living the American Dream

Leon G. "Lee" Cooperman is a hard-worker who wakes up before sunrise to spend more than 12 hours of his day analysing investments and seeking out new opportunities. With a strong passion for what he does and a desire to see those who work with him succeed, he wakes up before everybody and knows as much about his investments as the CFOs of the companies he invests in. *"I don't think he puts in long hours, I think he works around the clock. I don't care whether he's on a plane or car or in Florida presumably on vacation - he's working"*, explains Robert Salomon Jr., former head of Salomon Brothers Asset Management and friend with Cooperman for more than 50 years.

At 72, Cooperman's career stretches nearly 50 years and he exhibits the same dedication to his wife, Toby, whom he met while at college. Rather than living on 432 Park Avenue and being chauffeured through the streets of New York City, he is more likely to be found on the ferry commuting from his house in the Short Hills, New Jersey, where he lived for 36 years, to his office in New York. The kid who was born in the South Bronx, son of working-class immigrants from Poland, is a self-made man who actually is living the American Dream. With no money in his pocket, a student loan to repay, a wife and a six-month child to feed, Cooperman started working hard in his early twenties. Fifty years later, he made it to the billions and is now ranked #462 on Forbes' Billionaires list. He feels lucky and grateful for his life and is giving back millions to society. But he feels disgruntled with the treatment the current administration has been giving to the nation's wealthiest – indeed, he once wrote an open letter to President Obama expressing his feelings on this matter. Unlike many of the wealthiest 1%, he very well knows how rough life can be at times and how hard it is to start underwater and build a life with one's bare hands. It's kind of unfair to be *punished* for succeeding...

A Dental Mistake

Son of a low-income plumber, living in a one-bedroom apartment in the South Bronx, Cooperman grew up poor. He went to the Hunter College where he graduated in economics and met his wife, being the first in his family to earn a college degree. But odd as it may sound



"THE KID WHO WAS BORN IN THE SOUTH BRONX, SON OF WORKING-CLASS IMMIGRANTS FROM POLAND, IS A SELF-MADE MAN WHO ACTUALLY IS LIVING THE AMERICAN DREAM."

he could now be known for his ability to treat teeth - not investments - as he started out at dental school. Only later did he redirect his studies to economics and business.

After graduating, Cooperman went to work at Xerox as a quality control engineer but soon decided to enrol at the Columbia Business School for an MBA, which he completed in January 1967. Without any money, he got a student loan from the National Defense Education Act that allowed him to apply for the MBA. While at Columbia he learned the rules of value investing that would be always present in is his approach to investment. He learned value investing with Benjamin Graham and David Dodd, both of whom are considered fathers of the art. This explains why Cooperman adopts a bottom-up analysis, based on intense and deep company research, which is aimed at unlocking fundamental value from companies. A notable investor who went through the same Columbia MBA is Warren Buffet. The buy-and-hold strategy, which looks at a market downturn as another opportunity to buy more shares on the cheap, is the old-fashioned way the guys from Columbia make money. Cooperman is no exception, which explains why his Omega Advisors has been able to systematically outpace the S&P 500 with lower volatility.

Life at Goldman Sachs

Cooperman is not the kind of man who is willing to wait for anything. The day after he earned his MBA, he headed to Goldman Sachs to start working, where he spent 25 years of his life doing several tasks involving investment. He quickly rose through the ranks and was made partner in charge of research in 1976. Twenty-two years after being hired by Goldman, he assumed an even more important role that would change the company's future: he helped set up its investment unit - Goldman Sachs Asset Management - for which he served as chairman and chief executive. But, three years later, when the investment bank didn't acquiesce to his wish to set up a hedge fund, he decided to leave the company to set up his own shop. Omega Advisors was about to be born in 1991, and of course, that happened the day after Cooperman left Goldman.

Founding Omega Advisors

Having learned the fundamental precepts of value investing from the brilliant minds at Columbia and having accumulated 25 years of invaluable experience from Goldman, Cooperman had everything he needed to set up his own hedge fund business - Omega Advisors. Its approach to investment was simple: deeply research through the depths of financial statements and find valuable businesses that are able to deliver more than the market thinks they are. As Cooperman patiently explains to any potential new investor in the fund, he likes to beat the S&P 500 with less volatility than the index offers while trying to mitigate any downturn suffered by the index. *Leverage?* Not much, if any at all. *Short selling?* Eventually some on overvalued shares, but just a fraction of what long/short hedge funds engage in.

Cooperman wakes up at 05:15 every weekday and arrives in the office around 06:30. He has a working lunch at the office and usually dines with a few chief executives and fellow investors at around 18:30. He finally comes home but doesn't go to bed before taking a final glimpse at a Bloomberg terminal (usually around 23h00). He has a frugal life, guided by ethics and hard work. No matter how much his social condition improves, he always sticks to the same key principles in life.

Omega currently manages $9.5 billion (£6.1 billion) and is one of the most respected hedge funds. Unlike many of its peers, where management keeps tight redemption rules to keep investors gated during difficult times (as in the Lehman collapse, for example), Omega allows investors to convert their investments into cash whenever they want to. Unlike what happens with other hedge funds, Omega's investors are less nervous about any losses, as they very well know that Cooperman is particularly good at recovering from them. Any down year is usually easily reversed over the next year. Any anxious investor withdrawing money after a down year would certainly curse himself over the next year for having done that.

"IN 1996 HE SPENT $11.4 MILLION ON DEFAULTED DEBT FROM PERU, ONLY TO SUCCESSFULLY SUE THE SOVEREIGN AND EXTRACT $58 MILLION ON HIS STAKE IN 2000."

A Stellar Performance in the Long Run

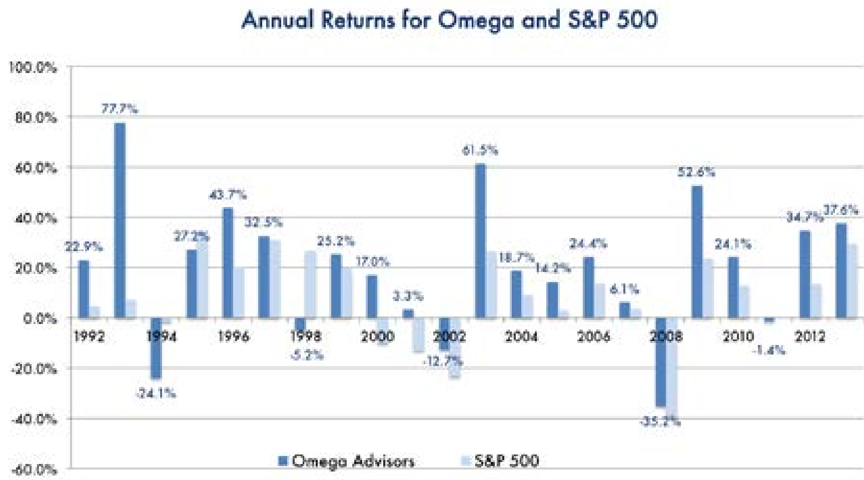
Value investing is good at unlocking profit potential from financial statements and delivering long-term profits but isn't a good strategy at protecting against short-term downside risks. During recessions and market crashes, Omega reduces its exposure to the market, in an attempt to mitigate any pot ential losses. But Omega is not exactly a long/short fund prepared to profit from the downside, so it is exposed to the market cycle. And there are, in fact, down years for Omega.

But, what Omega does very well is position itself to profit the most from any recovery. It is common for the fund to more than double the performance recorded by the market during the first years of a recovery. That happened in 1992, 1993, 2003 and 2009.

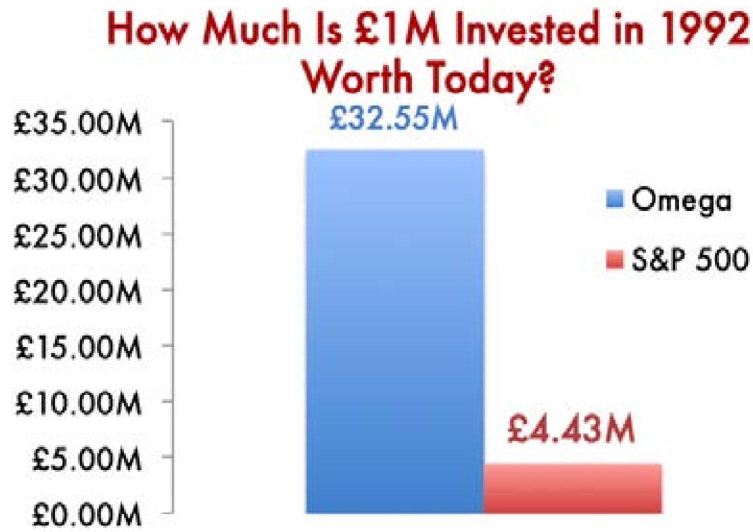
Omega shows just five down years in the period between 1992 and 2013 (22 years) and recorded a CAGR of 17.15%. During the same period, the S&P 500 returned a CAGR of 7.00%. Someone who invested £1 million at inception (at the end of 1991/beginning of 1992) would by now

have accumulated £32.55 million, which certainly covers any inflation during the period. The same £1 million invested in the S&P 500 would now be worth £4.43 million.

Nevertheless, Omega has a bullish bias due to the adopted value investing strategy. This makes the fund prone to the downturns observed by the U.S. economy. But Omega has been able to either reduce the loss of the fund relative to



Source: Data from private Omega client materials obtained by CNBC



the market during such downturns and/or to recover quicker than the market does. That said, Omega wasn't able to avoid a few bad bets in 1994, the 2002 downturn, the 1998 emerging markets crisis precipitated by the Russia default, and the 2008 financial crisis led by the Lehman collapse. In 2008, the fund lost 35.2% when the market declined 38.5%. But over the next year, in 2009, the fund gained 52.6% when the market rose 23.5% and gained another 24.1% in the following year, when the market recorded a gain of 12.8%. Omega is good at betting big on recoveries, after sell-offs.

Five annual losses in 22 years, with an annual return around 17% is quite an excellent performance, particularly when considering that Omega has achieved this with a low degree of leverage and a high degree of ethics. When asked about his worst moment at Omega, Cooperman doesn't mention the 2008 loss but rather he seems more perturbed with a fraud episode involving one of Omega's employees that ended with the company paying a $500,000 fine to the U.S. Justice Department to settle the case. At that time, Omega was in a position to profit from the selling of a state-owned oil company in Azerbaijan, which involved alleged bribery of officials in the country. Clayton Lewis, an Omega executive at that time, was aware of it and hadn't reported the case. Cooperman was really upset by the episode.

An Example to Follow?

Cooperman always remembers how tough life can be at times and how hard it is for someone coming from a low-income family to set up and make a living. Rather than aligning his habits with the amount of money he earns, he likes to contribute to help improve society. He has created a number of scholarships to help students with financial difficulties; he has donated a few million to Columbia, for the school to expand the campus; and he is involved in several other philanthropic activities. He and his wife Toby, who recently retired from a 25-year career as a teacher for special-needs children, founded the *Leon and Toby Foundation*, which has been contributing for several causes and currently owns $200 million (£128.6 million) in assets. He also signed the Giving Pledge in 2010 to give a majority of his wealth to charity, "to ensure that [his] money, properly stewarded, continues to do some good after [he's] gone".

"I have nothing to apologise for. I've made a lot of money. I'm giving it all back to society", he observes.

"I HAVE NOTHING TO APOLOGISE FOR. I'VE MADE A LOT OF MONEY. I'M GIVING IT ALL BACK TO SOCIETY."

OMEGA ADVISORS TOP 10 PORTFOLIO HOLDINGS

Security	Ticker	Value (x$1000)	% Port.
Actavis Plc	ACT	$277,821	4.42%
Citigroup Inc	C	$221,564	3.53%
Sirius Xm Holdings Inc	SIRI	$213,521	3.40%
American Int Group Inc	AIG	$212,285	3.38%
Sunedison Inc	SUNE	$211,115	3.36%
United Continental Hldgs Inc	UAL	$190,669	3.03%
Chimera Investment Corp	CIM	$188,988	3.01%
Targa Resources Corp	TRGP	$187,812	2.99%
Motorola Solutions Inc	MSI	$180,567	2.87%
Aercap Holdings NV	AER	$176,021	2.80%

Source: 13F-HR Filing 1Q2015

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ALTERNATIVE INVESTMENTS

CAN INVESTORS BENEFIT FROM THE GOLDEN AGE OF THE THEATRICAL DOCUMENTARY?

SWEN LORENZ INTERVIEWS AMIR AMIRIANI

The world of film regularly makes for incredible headlines about commercial success, such as the new *Jurassic Park* grossing an incredible $511 million during the first weekend alone, which set a new record. Investors who funded the sequel to the wildly successful 1990s movie no doubt made a killing. However, regular bombastic headlines about box office hits aside, the world of film is not an easy one to make money in.

Falling advertising revenues, competition amongst a plethora of media channels, digital piracy, and broadcasters like the BBC having to cut spending to make up for decreasing TV licence income, all conspire to make life for filmmakers even more difficult - and also, more complex - than it used to be. Outside of the rarified world of Steven Spielberg and George Lucas, filmmakers struggle to raise funds, and investors in turn struggle to make money out of films.

Yet there are opportunities to be exploited, and the changing times work in favour of some operators. One of the areas getting increasing attention is the funding of high quality documentaries for release in cinemas. Here, a growing number of stunning financial success stories has been observed during the past 10 years, which in turn has heightened investors' attention. Although creative and innovative long-form documentaries have largely disappeared from our TV screens, in the cinema they have seen an unprecedented and perhaps surprising revival over the last decade.

> **"ALTHOUGH CREATIVE AND INNOVATIVE LONG-FORM DOCUMENTARIES HAVE LARGELY DISAPPEARED FROM OUR TV SCREENS, IN THE CINEMA THEY HAVE SEEN AN UNPRECEDENTED AND PERHAPS SURPRISING REVIVAL OVER THE LAST DECADE."**

Master Investor came across the interesting case of Amir Amirani, a London-based filmmaker who has succeeded in using some aspects of the brave new world the film industry is experiencing to his advantage. Using technology to keep production costs low, utilising celebrity backing on social media to build his audience, and incorporating crowd funding into the early phase of his project funding: Amir's work ticks all the right boxes.

He is looking to raise another round of funding to properly launch his movie onto the big screen around the world. With his current project already being part-funded by several industry professionals, we grew curious and went to investigate.

Our editor, Swen Lorenz, caught up with Amir to get his view of the world of film funding in general, and the inside scoop about his own upcoming funding round.

MI: Your movie "We Are Many" has already hit cinemas in the UK. Tell us what your film is about.

AA: *"We Are Many" is a feature length documentary on the story and legacy of the biggest protest in history, which took place on 15 February 2003. That day that saw an estimated 30 million people in over 700 cities around the world come together to demonstrate against a second Iraq war. Rome was the scene of the biggest demonstration of them all, with around three million people hitting the streets. London had about two million people. This was a pivotal moment in recent history, and one that gave birth to a new global social movement. My film documents unknown ordinary people reaching for the extraordinary, and achieving it!*

Biography:

Amir Amirani is a London based film maker of Iranian origin. Over the last 15 years Amir has made films for some of British television's most prestigious series, including Arena, Timewatch, Picture This, Correspondent and Newsnight. In films that have received critical acclaim, Amir has covered the life and death of Concorde, the crazy world of awards and awards ceremonies, Jimi Hendrix's house in London, music under Apartheid, the arms trade with the writer Will Self, the challenges of sex change in Iran, and the horrors of chemical warfare in the Iran-Iraq war. Two of his documentaries have been nominated for an Amnesty International Award and One World Broadcasting Trust Award. He went to the BBC in 1992 as a Graduate Production Trainee and two years later joined his brother Taghi in setting up Amirani Films. Amir has produced and presented programmes for BBC Radio 4. They include In Business, From Our Own Correspondent and documentaries on Iranian comedy and poetry. His journalism includes writing for The Guardian, New Statesman, New Scientist, Business Traveller Asia and the Economist Intelligence Unit. He has a First Class (Hons.) degree in Biology from Nottingham University, and an M.Phil in International Relations from Cambridge University.

MI: Given how close this entire subject matter is to the heart of many people in the UK, you decided to take a new approach to funding the movie. Tell us about the Kickstarter campaign you created in 2011 to raise the seed funding.

AA: *"We Are Many" became the first significant UK film to carry out a major crowdfunding campaign. At the time, raising $25,000 for a film through crowdfunding was considered the absolute maximum. I reached for $70,000. Given that I had to achieve an overall budget of closer to $1 million to create a quality film, it seemed I should aim high in order to make a significant step forward.*

MI: What happened then?

AA: *It was incredible. Stephen Fry tweeted a call to action to his nine million followers to support our fundraising campaign. The actor/comedian Omid Djalili saw it and committed to matching whatever we raised on Kickstarter. Richard O'Brien, the writer of the Rocky Horror Picture Show, stepped forward with a similar message and donated. Even the Hollywood film maker, Oliver Stone, backed our campaign. In the end, we raised $92,000 from 658 backers on the Internet. No one had done anything similar for a British film product. One of our donors on Kickstarter turned out to be the inventor of Google Maps.*

MI: Backers of a Kickstarter campaign can get merchandise, VIP tickets, and similar non-financial returns. However, they don't get their money back nor do they get a conventional investment return. Following this initial step, you raised money from conventional investors who are looking for a return. How did this phase of the funding work?

AA: I set up a limited company and registered it with the Enterprise Investment Scheme (EIS). Based on a business plan for the entire film project, I raised £580,000 from nine investors, ranging in size from £10,000 to £200,000. I did the entire fundraising myself using my network and building on some of the incredible endorsements I had received by then. Of course, the legal and finance legwork was handled by lawyers and accountants.

MI: What are the basic terms under which they are investing?

AA: *The nine investors are all sitting alongside each other, and additionally there is my own production company as a stakeholder. Any revenue from the movie will first have to repay the original investment and a deferred salary for myself. Once that has been paid up, all further revenue is split 50/50 between the investors and my company.*

MI: You raised a serious amount of money for what is an entirely illiquid investment. Surely there must have been the expectation of a potentially significant return on investment? How much money is there to be made from producing a successful documentary for release in cinemas?

AA: *You have to realise that in amidst all the changes in the media landscape, documentaries have actually done fairly well, in a peculiar way. Whereas broadcaster funding for TV documentaries has become much harder to come by, funding for documentaries that are shown in cinemas has actually been on the up. The 1990s saw a number of documentaries launched in cinemas, albeit with generally quite limited success. Since the early 2000s, however, you have had a number of game-changing success stories in this field. The most prominent one, of course, being Michael Moore's "Fahrenheit 9/11", which grossed $119 million globally. Moore also produced "Bowling for Columbine", which brought in $25 million, and "Sicko", which had takings of $22 million. The budgets for these movies weren't particularly high, or put another way, investors did make a killing.*

> **"I REMORTGAGED MY HOUSE SEVERAL TIMES AND LIVED OFF £20,000 PER YEAR, WHICH IN LONDON IS EXTREMELY TOUGH."**

MI: What are the obstacles to producing such a success story?

AA: *The lead time for producing a top-quality documentary can be very long. In my case, I had to dedicate seven years of my life to the project. Film funding doesn't come with high overhead rates, which limits the amount of salary you can expect before a film has become a success. During this period, I remortgaged my house several times and lived off £20,000 per year, which in London is extremely tough. The biggest hurdle to achieving success, once you have actually produced the film, is distribution and marketing – how to get the film in front of a large audience, and how to make sure this audience is interested in the first place. This requires further investment, because distributors want to see the producers of the movie to play a role in funding the marketing costs.*

MI: Your film has actually already launched. Explain to us the different steps and phases to a film launch.

AA: *During 2014, "We Are Many" was shown at a number of festivals, and won plaudits. In May 2015, the film launched officially in cinemas the UK, and it has since then been shown in over 100 cinemas across the entire UK. However, this was done without a major film distributor backing us. This limited release has produced enthusiastic reactions from the media, from celebrities, and from a large number of movie watchers. But it has not yet been the massive rollout that you'd have to carry out to achieve a global presence in cinemas and achieve the maximum return for the investors.*

MI: You are now working to raise funding for marketing and a global distribution deal...

AA: *Just like in other areas, funding for independent films is raised based on achieving milestones. The repeated celebrity endorsements "We Are Many" received and the reaction from media and audience showed that there is a market for it. But the window of opportunity for a global marketing push is limited. The story is "hot" now, not the least because of the current developments in the Middle East, which tie right in with the film and link back to that day in February 2003. I now have to strike this iron while it's hot.*

MI: What are your next steps then?

AA: *I have already received tentative offers from distribution partners that would like to purchase the rights for the rest of the world, including cinema and ancillary rights: TV, DVD, online, etc. With the US Presidential elections coming up next year, and Jeb Bush potentially running for President, the timing couldn't be better. "We Are Many" is, after all, a political movie. To achieve maximum attention and success, we now need to raise the funds for a global marketing and distribution campaign in late 2015 and 2016. We will need to raise $500,000 to $1 million in "marketing", or what in film terms is called Print and Advertising costs ("P&A") to support a global launch across different platforms. I am looking at the possibility of getting this funded through sponsorship or donations, but I am also looking at the possibility of raising conventional investment. In any case, this is the order of magnitude of funds I am now working to raise, i.e. it basically requires a doubling of the original budget, but could lead to a multiplying of the revenue the film generates.*

MI: What sort of return can investors expect?

AA: *I have a finished product, i.e. there is no more risk to the production actually not getting finished. I have incredible feedback from those who have seen the movie. Among my early investors are people like Callum McDougall, one of the Executive Producers of James Bond's Skyfall movie, Pippa Harris of Neal Street Productions (Revolutionary Road, Jarhead), Omid Djalili (The Infidel, Gladiator), and later supporters include Signe Sorenson (Producer of the Oscar Nominated The Act of Killing). With what we have achieved during the past years, I have de-risked this project to a large extent and now it needs to be scaled up. If we turned this into a similar success to An Inconvenient Truth, Al Gore's movie about climate change, we'd be looking at a total investment of around $2 million and revenue of $25 million. A more modest example to compare the movie to is Inside Job, the documentary about the financial crisis of 2008, which brought in $4.3 million and presumably must have been quite lucrative for its backers.*

Most of the investors I got onboard for the first phase simply liked the project and whereas they hope and expect to recoup their capital, they primarily wanted to be part of a high end documentary. Their primary aim hasn't been a financial killing, but we hope of course that it makes a good profit and funding the next phase through conventional investment is definitely an option I am looking at.

Obviously, with investors that show a concrete interest I am happy to share revenue projections and scenarios. Returns can range from a double digit percentage gain to multiplying the investors' funds.

MI: Are you going to ask your existing investors for top-up funding?

AA: *Yes, they will of course have a right of first refusal for further funding rounds. They funded the truly risky part, so now that it becomes commercially more interesting to invest because there might be a relatively quick pay-off, I'll have to offer existing investors the opportunity to up their investment. Nevertheless, new investors are welcome.*

MI: How can investors who are interested in your project get in touch with you?

AA: *Being an avid user of digital technology, you can find me on LinkedIn or reach out to me via email: info@wearemany.com*

MI: One last question! There were two million people on the streets in London. Wouldn't it make sense to reach out to them and say, "Hey, what you participated in back in 2003 is now hitting the cinema. Go and watch it!" Could this be a marketing angle to get lots and lots of people into the cinema?

AA: *Count on us doing just that!*

MI: Thank you for the general insights into the industry and the background about your project. Good luck! And as someone who has actually seen your movie already, all I can do now is to recommend to our readers to see it for themselves. The trailer is on YouTube, and even these 90 seconds are a powerful cinematic experience: https://www.youtube.com/watch?v=yOpa8y2TIy8

Where to see "We Are Many" in the UK:
WEBSITE: www.wearemany.com


Tony Benn
Brian Eno
Danny Glover
Richard Branson
Jesse Jackson
Ken Loach
Damon Albarn
A film by Ami
WE
MA
“Rousing & moving, it’s a film that should be seen by the many”
★★★★
Radio Times
“A work of beautiful rage...provokes anger and goosebumps”
★★★★
Empire
Stop the War coali
The largest protest in histo
AN AMIRANI MEDIA PRODUCTION IN ASSOCIATION WITH IAMBIC DREAM FILMS AN AMIR AMIRANI FILM 'WE ARE MANY'
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Ron Kovic
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Hans Blix
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ARE
NY
“Consistently intelligent and nuanced”
Variety
“The only film I’ve ever watched where the audience started clapping halfway through...”
★★★★★
Caroline Frost, Huffington Post
12A MODERATE INJURY DETAIL, PARTIALLY OBSCURED STRONG LANGUAGE
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MIKE ROBINSON CO-PRODUCERS JENS EILSTRUP RASMUSSEN IARA LEE ROGER ROSS EXECUTIVE PRODUCERS WAËL KABBANI OMID DJALILI
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SCHOOL CORNER

SUMMER IN THE MARKETS – IS IT WORTH IT?

BY MARIA PSARRA

This is the eighth in the series of my educational articles, all of which are focussed on the best habits of winning traders and investors, the most common mistakes traders make and the best ways to avoid them.

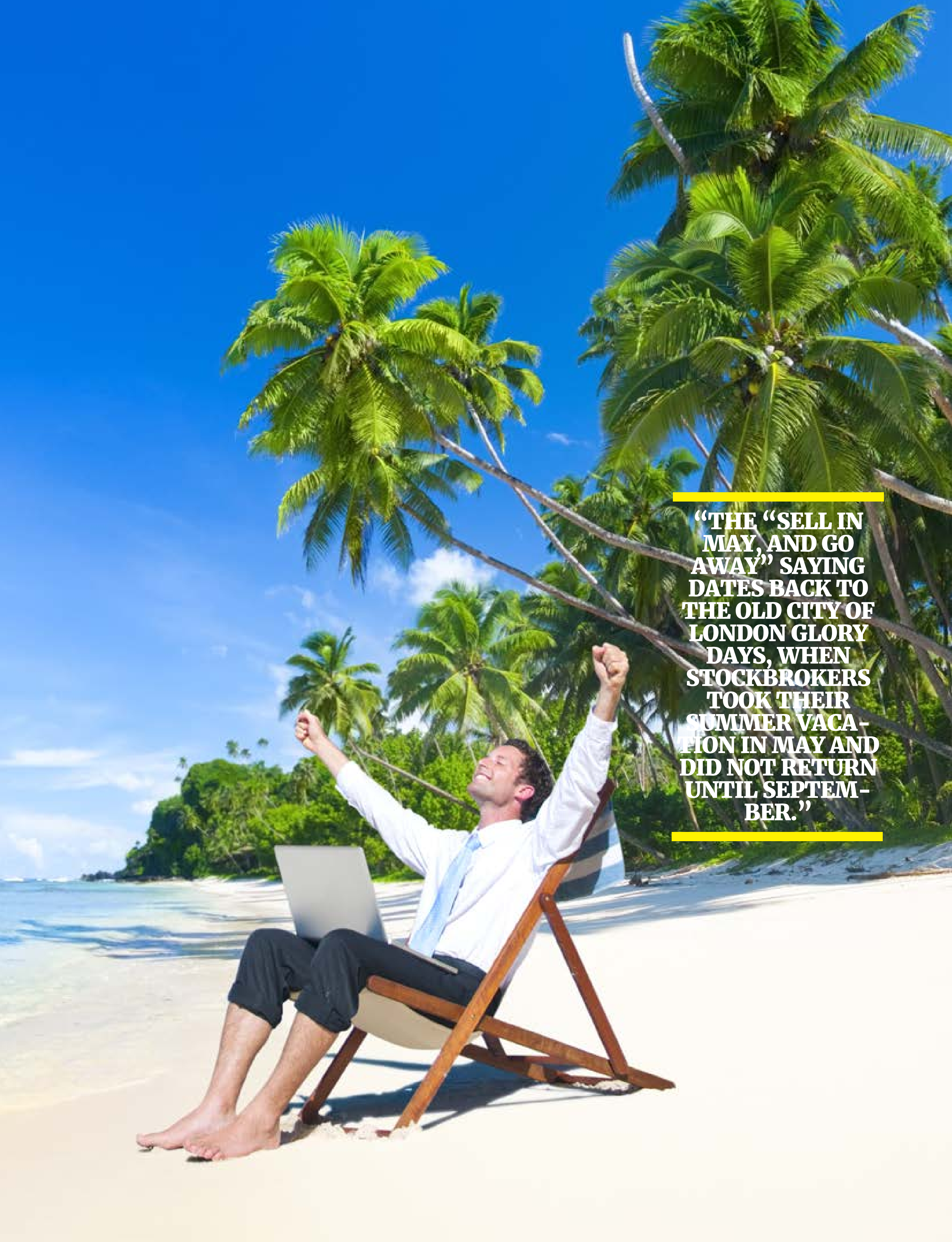
Is trading and investing during the summer really worth it? This is a question I hear from investors every single year anytime from May onward. It is also a very popular argument in both investors' and professional traders' circles.

I am sure you are all familiar with the old adage "sell in May, and go away", but for many of you the question still remains: "Should I sell out of my entire portfolio at the beginning of summer, and only look to re-invest come next autumn?". Let's look at a bit of history first.

The "Sell in May, and Go Away" saying dates back to the old City of London glory days, when stockbrokers took their summer vacation in May and did not return until September. Their time away was directly linked to the English horse racing season, which begins in early June, with the final horse race of the season taking place on St. Leger's Day in September. As stockbrokers were absent during this time, the market was illiquid and pretty flat. "Those were the days", I hear many of you saying upon reading this. I can assure you that there are times when I feel exactly the same, but to be fair, even though trading volumes tend to decrease over the summer, no stockbroker or trader is entitled to such long holidays anymore.

Furthermore, the financial products available to investors have greatly changed since this old City adage was coined, with more flexible products having become freely available to everyone – products providing both institutional and individual investors with opportunities to profit from both rising and falling markets in every major asset class. This means that even in the years when the stock markets do move lower between May and September, you can still make money by being short an index CFD or future.

This year is a good example of this. I have included here a chart of the FTSE 100 Index, where you can see that had you taken a short position using a FTSE CFD or Futures Contract at the 7,000 level last May, you would be "up" by 550 points when the index hit 6,450 recently. In monetary terms, assuming that you had used a CFD to take a £100 per

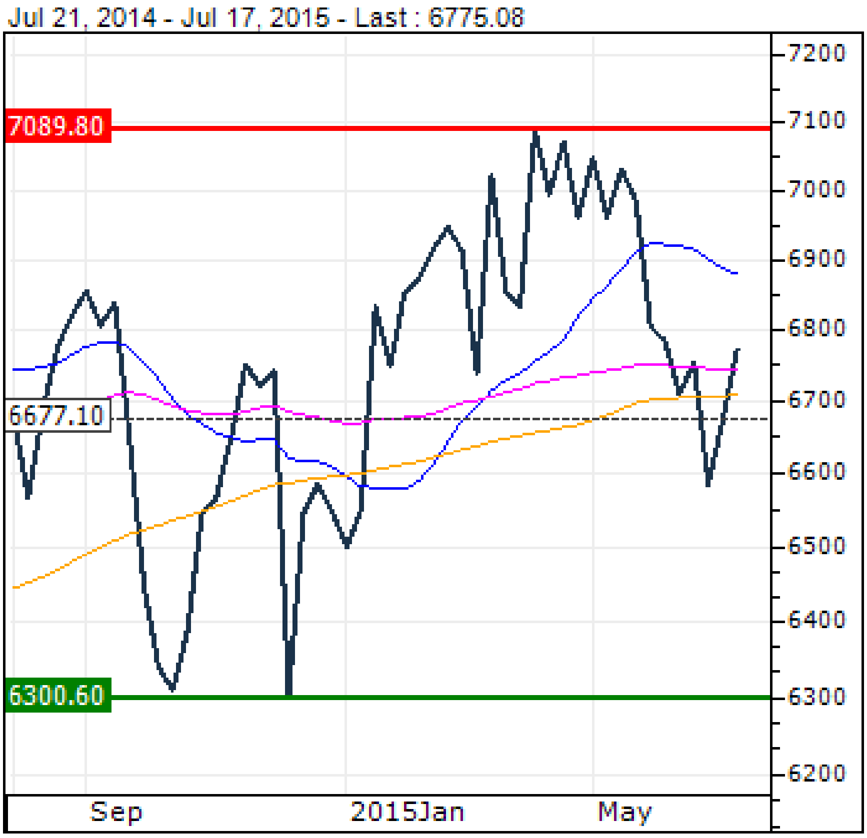


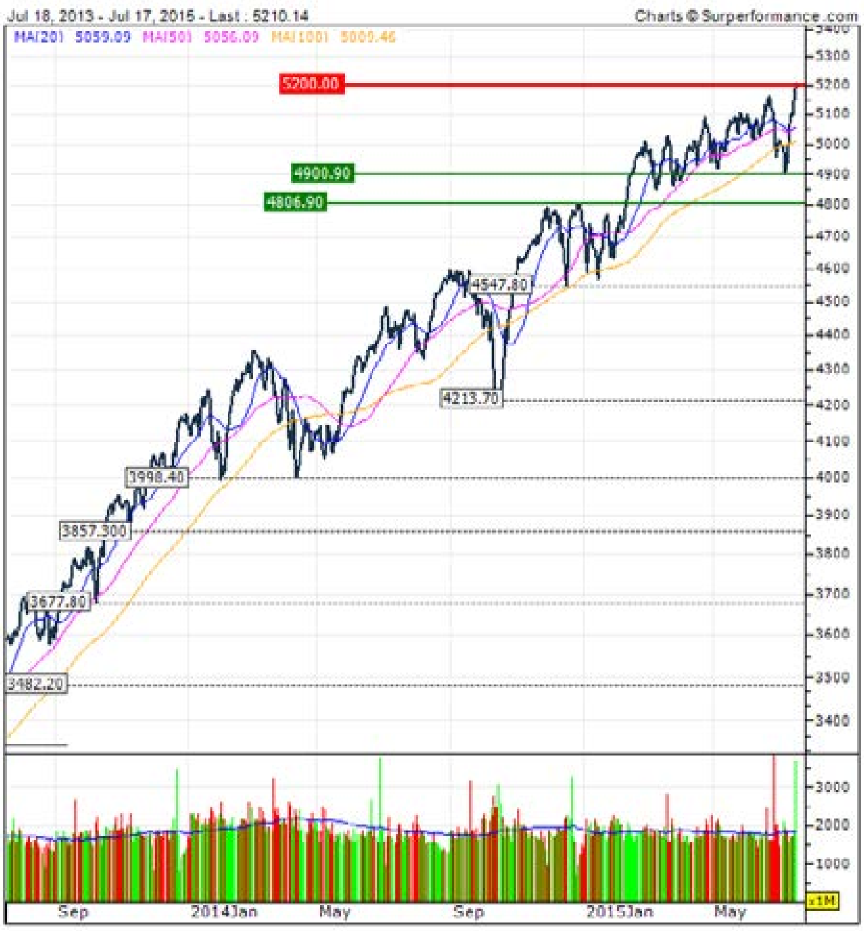
> **"THE "SELL IN MAY, AND GO AWAY" SAYING DATES BACK TO THE OLD CITY OF LONDON GLORY DAYS, WHEN STOCKBROKERS TOOK THEIR SUMMER VACATION IN MAY AND DID NOT RETURN UNTIL SEPTEMBER."**

point short position at 7,000, you would have a £5,500 gross profit when the index reached 6,450. So this year, the "Sell in May" theory worked on an overall market level. In fact, according to research, it has worked in most years since 1950 both for the FTSE 100 and for the US Indices.

There is however a catch: the theory does not always work. The stock markets do not always go down in the summer, and therefore simply selling in May is not a full-proof strategy. To show this, I have included here a chart of the Nasdaq Index, where you can see that going short, or alternatively selling out of all of your Nasdaq stocks in May 2014, would have been the wrong thing to do. As seen on the chart, if you had shorted the Nasdaq at 3,550 that May, you would have been "down" by 450 points when it hit 4,000 in September 2014. Hopefully, if you were indeed short, you would have exited at a loss before then. Alternatively, if you had sold all of your Nasdaq stocks that May, you would probably be pretty angry with yourself come September.

Having looked at all this, let us now focus on you. What should YOU do in the summer? Well for starters, you neither have to exit all of your stock positions in May, nor do you necessarily have to go short. As is always the case with the markets, you should base all of your investing and trading decisions on facts, reason, and your assessment of the current market and greater economic environment. You should do this regardless





"YOU WILL HAVE TO LEARN TO BE HAPPY WITH ACHIEVING THESE SMALL SUCCESSES, BECAUSE THE TRUTH OF THE MATTER IS THAT AS LONG AS YOU MANAGE YOUR RISKS PROPERLY, THESE WILL ENSURE YOU MAKE CONSISTENT MONEY OVER TIME."

of the season, not only in the summertime. If you do this right, you will know that there are Mays when you will be best off selling, and Mays when you will not, and then you will just have to act accordingly.

Since we are talking about you though, let's stay on this topic, and discuss when you should stay away from the market in summer regardless of the market's direction. Let's start with the basics. I hope you agree that you should only make investment decisions when you can think clearly. This is most unlikely to happen after you have had your third vodka cocktail under the sun on a Mediterranean or Caribbean beach. Just because trading technology and wireless internet provision have improved enough to allow you to trade from "anywhere, anytime", it does not mean that you should do it. If there is a place and a time for everything in this life, the beach and your holidays in general are not the time and place for trading. So how about you do yourself a favour, and forget about the markets whilst you are away?

"But what about my existing open positions?" I hear some of you ask. Well, it is simpler than you think. In fact, I can summarise it in the following two rules:

1. Close your highly leveraged (CFD) positions before you go on holiday.

2. Ensure that all of your remaining open positions have protective stops in place. Use trailing stops if you wish to progressively "lock in" profits.

That IS the long and short of it ladies and gentlemen. It is not rocket science; it is just you applying the same exact principles that you should be applying all year round.

''Yes, but what if a major disaster strikes?" I now hear the unconvinced among you ask. "A new 9-11, a huge nuclear explosion, a new world war, the end of the world?" Well, believe it or not, if a major disaster were to happen, assuming that the markets do still exist and are open, and you have followed rules 1 and 2 above, you may hit your stops, you may have these filled at worse prices than you would otherwise, but you will not lose all of your money. It will NOT be the end of your trading/investing.

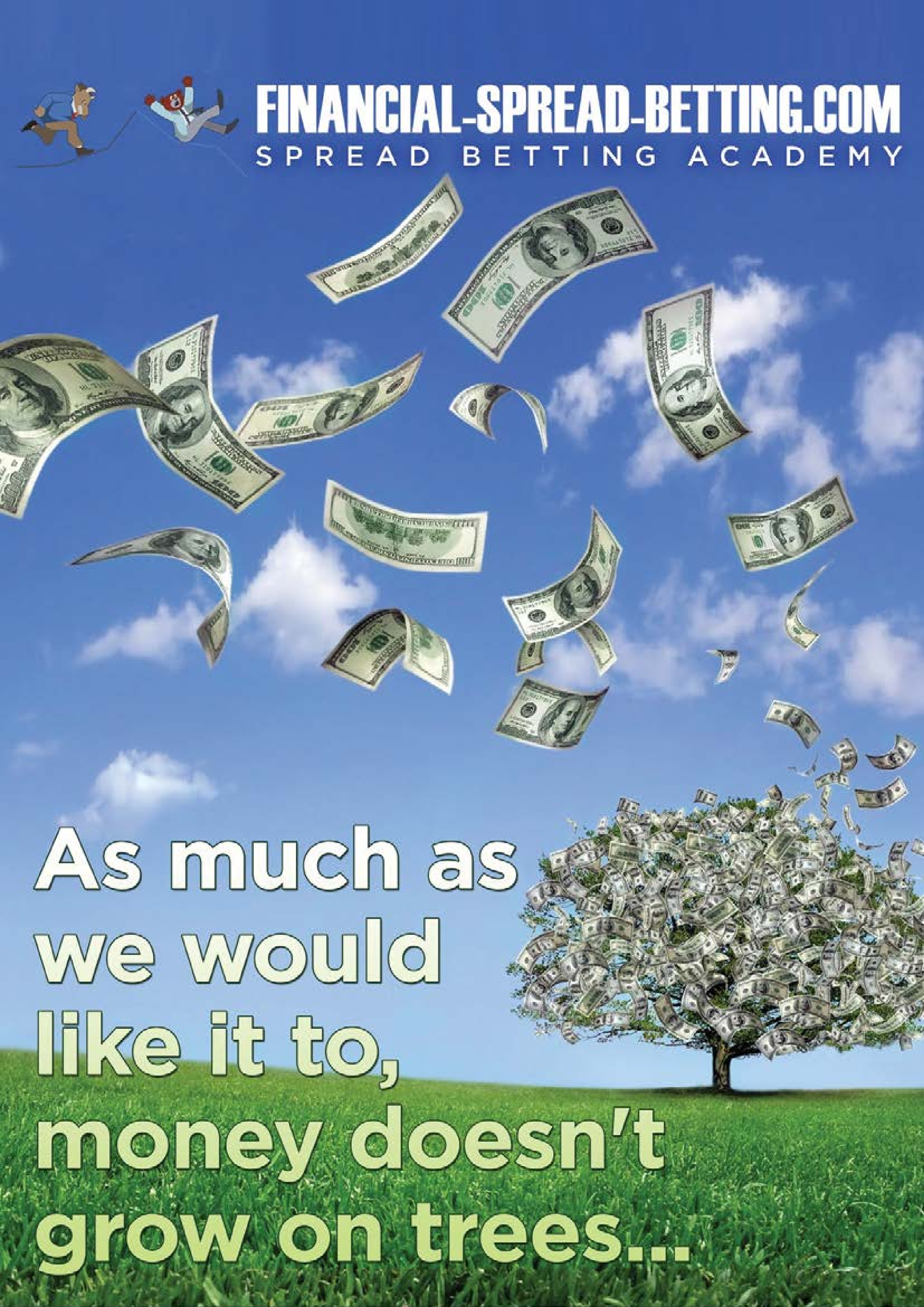
Now of course, if Armageddon were to kick off, may I suggest that you cut the holiday short, go home, sell your stocks at any price, and only look for ways to protect yourself and your family? In fact, in such a scenario, may I suggest that you stop caring about the markets altogether, and just enjoy your last moments? I know I would.

On a more positive note, I hope I have succeeded in showing you a way to enjoy a more relaxed and profitable summer this year.

Until next month, Happy trading and happy holidays everyone!

Maria is Head of Trading at ZAI Capital Markets. In her role at ZAI, Maria determines the company's trading strategy, supervises a team of experienced brokers, and advises 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 ZAI's clients. Typical portfolios primarily comprise of 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 London Master Investor Show, the London Trading Show, and the ETFs Europe conference.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...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.

First you must grasp a good understanding of basic market mechanics. Trading with trend lines for example is not rocket science, and is more akin to simple geometry - it does not take a genius to draw a line on a chart. Momentum ndicators require a few more brain cells, but any 10 year old can be taught to recognise a divergence of momentum indicator and price.

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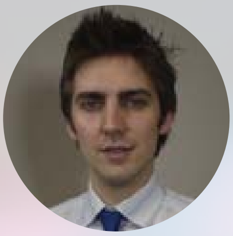
SMALL CAP CORNER

THE CONSOLIDATORS

BY RICHARD GILL, CFA



In the first of a new series on the small cap markets Richard Gill, CFA analyses three recent additions to AIM, all of which are looking to grow in fragmented retail markets.

Fishing Republic

Joining AIM in June and raising £1.5 million, Fishing Republic is one of the largest retailers of fishing tackle in the UK, operating from seven stores in the north of England and online. The company's physical stores are mainly in out of town industrial sites and as well as selling via its own websites the company also uses third party sites such as Amazon and eBay. All types of anglers are catered for - coarse, carp, game and sea fishing – with the firm selling a range of third party fishing tackle brands along with a range of higher margin own brand products.

Driving Fishing Republic is founder and CEO Steven Gross, who started the business in 1985. Gross is a keen fisherman, captained England's under-21 fly fishing team and is a true entrepreneur, having set up his first fishing accessories business aged just 13.

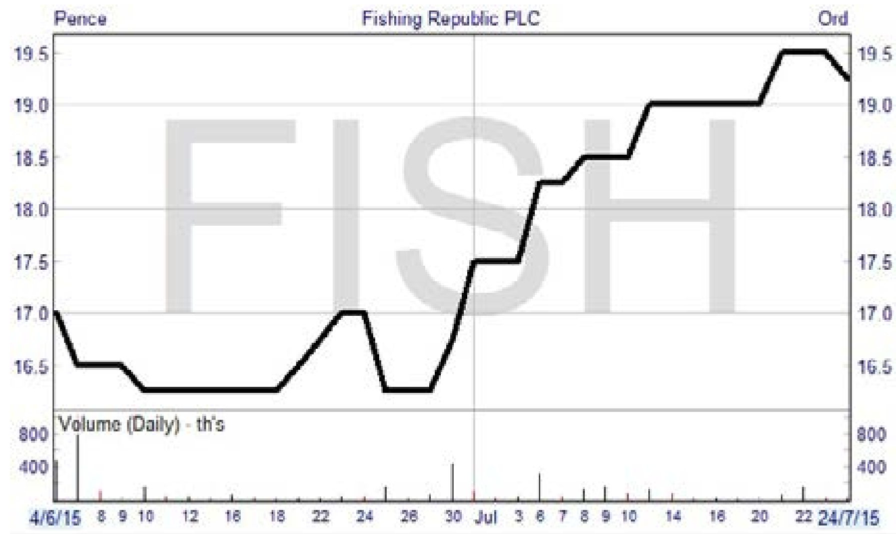
The key to the investment case here comes from the fact that the fishing tackle market is highly fragmented and that Fishing Republic is looking to act as the first market consolidator.

According to the Tackle Trade Survey 2011, around 2,500 specialist fishing tackle retailers operate in the UK, with the retail market value standing at £541 million for the year. With sales hovering at around the £3.4 million mark for the past three financial years, Fishing Republic still only has a small share of this market – less than 1% in fact. What stands out about the company is its clear market consolidation strategy and that it now has the advantage of a stock market listing (and paper currency) in order to execute it. Of the net £1.05 million IPO proceeds around £0.25 million has been set aside as an acquisition fund, which should be enough to net the company a couple of small deals.

I also like the firm's mixed physical and online growth strategy. Physical stores provide a "destination" for anglers where they can physically examine equipment before buying it. In this vein, £0.35 million of the IPOproceeds are being spent on opening a new store in Birmingham. On line sales amount to just under half of overall revenues and at present come mainly from third party sites. However, investment in the firm's own sites saw sales in this area up by 45% in the last financial year and up by 30% in the three months to March, a trend which should improve margins. Of the remaining IPO proceeds another £0.175 million is there for online marketing and brand development, with £0.2 million for working capital.

Life as a public company seems to be going well so far. A brief update in mid-July confirmed that trading in the six months to June was "good", with sales showing a small increase but with margins "improved considerably". All marketareas were said to have performed well, with online sales significantly ahead following the recent investment. Unfortunately the

"THE KEY TO THE INVESTMENT CASE HERE COMES FROM THE FACT THAT THE FISHING TACKLE MARKET IS HIGHLY FRAGMENTED AND THAT FISHING REPUBLIC IS LOOKING TO ACT AS THE FIRST MARKET CONSOLIDATOR."



update was lacking in any numbers. Into the second half and trading is said to have started well, with small acquisitions being looked at and progress being made on opening the Birmingham store.

> **"OVERALL, THIS IS NOT A STOCK FOR WIDOWS AND ORPHANS. HOWEVER, A WELL EXECUTED STRATEGY COULD SEE POTENTIAL MULTI-BAGGING RETURNS IN THE LONG TERM."**

Assessment

The smallest of the three stocks covered in this review, Fishing Republic is currently valued by the market at just £4.57 million. At the current 19.25p the shares are up by a healthy 28% on the IPO placing price of 15p. The accounts in the IPO admission document look sound, with the firm being profitable and cash generative over the past three years, with there being no significant borrowings.

The historic price earnings multiple of 19.3 times looks rather high at this juncture but the opportunity here is all about the future. Fishing Republic has ambitions to grow the value of the company tenfold and I think this looks entirely achievable if it can gain only a few percentage points of market share. With smaller retailers likely to be bought out much more cheaply than 19 times earnings the effect of any acquisitions should be highly earnings enhancing. Star small cap fund manager Gervais Williams seems to have recognised the opportunity, having taken a 14% stake in the business via his Miton Group.

On the downside, being such a small stock, with Stephen Gross and related parties having a 46.6% stake, there are obvious liquidity issues with Fishing Republic. Investors may also be concerned that Gross himself (rather than the company) owns the freeholds, or superior leaseholds, of the company's seven retail stores. These stores have previously been let to the firm at no cost but by 2017 the total rent will rise to £100,000 per annum. In contrast, the directors are very modestly remunerated compared to other public company directors, with Gross only being paid a salary of £50,000 per annum as CEO.

Overall, this is not a stock for widows and orphans. However, a well executed strategy could see potential multi-bagging returns in the long term.

Gear4music

Back in the late 1990s, when I was buying my first musical instruments, I would not have dreamed of buying a guitar online. It is a rite of passage for every young guitarist to go down to their local music shop and annoy the owners by playing a terrible version of Stairway to Heaven. Going into the shops is also important for musicians to make informed buying decisions about their instruments. While physical stores are still crucial in this respect, the internet is quickly making inroads into the sector. As another often covered musician sang, "The times they are a changin'". This is where my next selection, Gear4music, comes in.

The Business

Gear4music has a similar background to that of Fishing Republic, it being founded by its current CEO, who retains a large stake in the business. A keen pianist, Andrew Wass began the company in 1995 and retains a 41.1% stake.

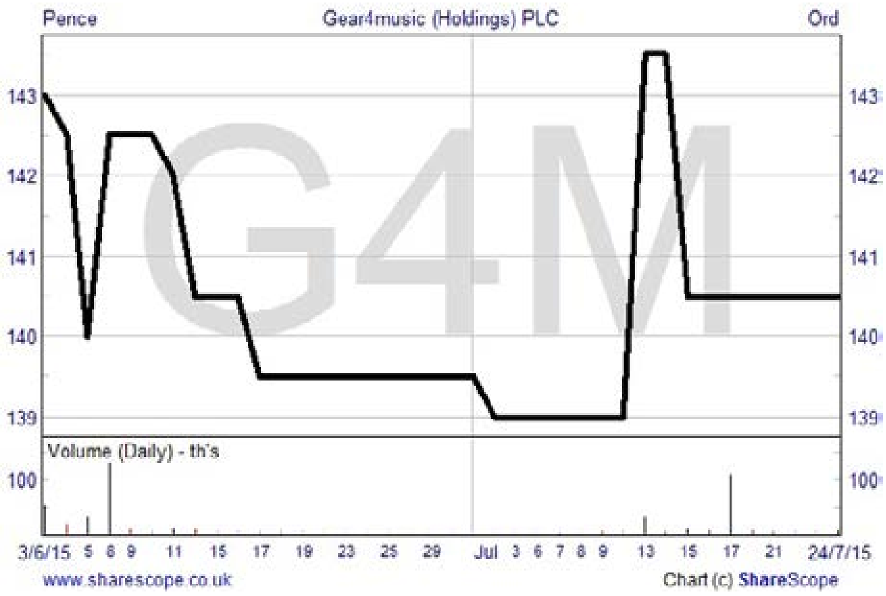
Operating from a newly refurbished 135,000 square foot warehouse and attached showroom in York, and via its own bespoke websites, Gear4music offers musicians a range of over 27,000 products from over 550 brands. Products range from accessories such as 25p guitar plectrums up to instruments such as guitars, pianos and drum kits which can cost several thousand pounds. While the majority of sales are of third party products, including the likes of Yamaha, Gibson and Roland, the company has also developed a range of over 1,400 own brand products. The firm currently operates 19 bespoke websites in a range of languages and currencies and has over 590,000 registered customers.

Revenue growth has been very strong in recent years. Following a £3.4 million capital injection from Key Capital Partners in 2012 turnover almost doubled, from £12.3 million to £24.2 million, over the two financial years to February 2015. This was driven by a 68% rise in UK sales and a more than fivefold increase in sales from Europe. Sales of own brand products grew by 27% on a like-for-like basis in 2015, providing enhanced margins for the business.

Market opportunity

The company's strategy is focussed on taking advantage of what is a fragmented market in the UK and the continuing shift from physical to online sales. Like the fishing tackle market, the UK retail market for musical instruments is dominated by independent retailers and there is no large market leader. According to the firm, the top six companies account for only 16% of a UK market which was estimated to be worth £750 million in 2014. The opportunity for online growth is demonstrated by the estimate that only around 20% of sales are currently made online, with the shift from the high street continuing to accelerate.

Crucially, the company has significant capacity to meet further growth within its existing facilities. The York warehouse is able to dispatch an estimated 10,000 orders per day. This is well ahead of the firm's peak dispatch day in December last year when 4,103 orders were shipped. Revenues of up to £50 million are thought to be achievable with the current facilities, which implies that



annual group turnover could more than double using the York facility alone.

Another key part of the company's strategy is focussed on further growth in European markets – the German and French markets are estimated to be worth over £2 billion in sales alone. Existing operations will be invested in and additional international websites are planned to be launched in the medium term. Back home, a flagship showroom in London is expected to be opened in the next 12 months, which should provide significant growth opportunities given that footfall will be much higher than in York. This also helps to provide an advantage over third party sites such as Amazon and eBay, as some suppliers can require that their products are displayed in face-to-face retail facilities.

Of the net £9 million IPO proceeds £4.3 million has been used to pay down loan-notes, leaving the firm with borrowings of around £1.5 million. That still leaves a large chunk of cash which the company will use to further invest in its website platform and marketing, to build up inventories and open the London showroom.

Assessment

Trading in Gear4music shares has been somewhat subdued since the firm listed on 3rd June. At the current 140.5p they are slightly ahead of the 139p IPO plac ing price, to capitalise the firm at £28.3 million. We have already seen that the company shares some similarities with Fishing Republic and again, this is not a stock that you would want to put anything more than a small part of your wealth into.

While the recent rise in sales has seen a move into profitability at the operating level, the company remains loss making overall, posting a net loss of £0.69 million for 2015. However, net operating cashflow was £1.55 million after a £2.2 million increase in trade payables. Strong growth in revenues has also continued into the new financial year, with like-for-like growth of 43% seen in the first two months and current trading being ahead of expectations.

"WITH A WELL RECOGNISED BRAND, STRONG REVENUE GROWTH BEING SEEN, SIGNIFICANT SPARE OPERATIONAL CAPACITY AND CASH FROM THE IPO TO FUND THE BUSINESS PLAN I BELIEVE THE SHARES ARE WORTHY OF A SPECULATIVE BUY.

With a well recognised brand, strong revenue growth being seen, significant spare operational capacity and cash from the IPO to fund the business plan I believe the shares are worthy of a speculative buy.

Applegreen

The largest stock covered in this review and the largest new listing on AIM this year is Applegreen, a Republic of Ireland based petrol forecourt retailer. By volume the firm has a 12% share of the motor fuel market in Ireland and at the end of 2014 had 96 sites in the country. In the UK Applegreen had another 54 sites, with two located in Long Island in the US. Site numbers have seen rapid growth since the company's foundation in 1992 and as at 15th June this year the total number of sites had risen to 174. These are divided into so called Service Area Sites – large sites with a significant retail offering located near to motorways – and the smaller Petrol Filling Stations (PFS).

The company's main source of revenues come from the sale of fuel but Applegreen also derives income from food via its own brands aCafé and Bakewell and concessions of international food brands such as Subway, Costa Coffee and Burger King. Other income comes from selling items such as tobacco, newspapers and the like. By revenues Applegreen is one of the largest on the whole of AIM, making €937.3 million in the year to December 2014, up by 18% compared to 2013 after increasing its total number of sites from 119 to 152. In fact, revenues have grown at a compound annual growth rate of 24% over the past four financial years.

Selling fuel is a low margin business, averaging just 6% in 2014. However, food is a lot more lucrative, with margins of 57%. This is demonstrated by the fact that fuel revenues in the Ireland business were ten times that of food during 2014, while gross margins from both were almost identical. At the bottom line Applegreen made a net profit of €12.3 million in 2014, although net cash from operations was better at €26.2 million.

Strategy

Applegreen has a simple strategy which is focussed on acquiring and developing new sites, along with upgrading and rebranding existing sites. At IPO the company raised €70 million (£51.1 million) for itself which will be used to accelerate the expansion of the estate in Ireland and the UK from the current c.20 sites a year. In its admission document the firm said that it had a "strong pipeline" of such new sites. The money will also be used to upgrade and refurbish up to 70 existing sites in order to generate long-term incremental income – the company estimates that a rebranding at a typical PFS site in Ireland costing €270,000 could add €100,000 to annual EBITDA. In the US, the firm is looking to have 10 sites operational in the north east of the country by the end of 2016. Opportunistic acquisitions will also be considered.

The strategy is focussed on taking advantage of structural changes in the retail fuel market, which has seen oil majors exit from front line fuel retailing to focus on exploration and production, thus providing opportunities for independent retailers. The strategy is also driven by the solid growth in GDP seen in the UK and Ireland in recent times and the growth in disposable income that comes with it. Notably, figures have just been released which show that Irish GDP grew by 1.4% quarter-on-quarter in the three months to March, and by 6.5% compared to a year ago. The economy grew by 5.2% in 2014, making it the best performing in the European Union. Also in Ireland, a recent policy document from the National Roads Authority (NRA) highlighted a total requirement

for 23 services areas in the Republic of Ireland to meet the needs of the motorist, compared to the current 12. With the NRA open to working with private companies to meet some of the requirements, Applegreen has further growth opportunities.

Assessment

From the IPO placing price of 277p Applegreen shares have since risen to 315p, to capitalise the firm at £248 million. The historic earnings multiple of 28.8 times looks high, with the enterprisevalue/EBITDA multiple also high at 17.6 times. The company's house broker has a €4.96 (349p) target for the shares which suggests 11% upside from here, although it does see upside potential to this target over time. Also, subject to the usual business requirements, the company intends to adopt a progressive dividend policy, with the first payment expected to be paid for the 2016 financial year.

With 59% of revenues coming from Ireland in the last financial year investors are of course exposed to exchange rate movements. Investors should also be aware that Applegreen's growth has been driven by borrowings, with net debt as at 30th April being €51 million (£35.7 million). But given that the debt has helped to drive growth this is not necessarily a bad thing. Net finance costs were comfortably covered (almost 10 times by EBITDA) in the last financial year and the proceeds from the IPO have strengthened the balance sheet.

While Applegreen's growth strategy is capital intensive, it has demonstrated good rates of return on capital. For example, while targeting a return on capital employed (ROCE) of around 20% it achieved figures of 36.6% and 35.2% in the last two financial years.

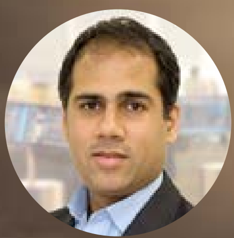
On balance, Applegreen is a solid growth business but with the valuation looking a little full I would prefer to keep this stock on the watch list for now.

"ON BALANCE, APPLEGREEN IS A SOLID GROWTH BUSINESS BUT WITH THE VALUATION LOOKING A LITTLE FULL I WOULD PREFER TO KEEP THIS STOCK ON THE WATCH LIST FOR NOW."

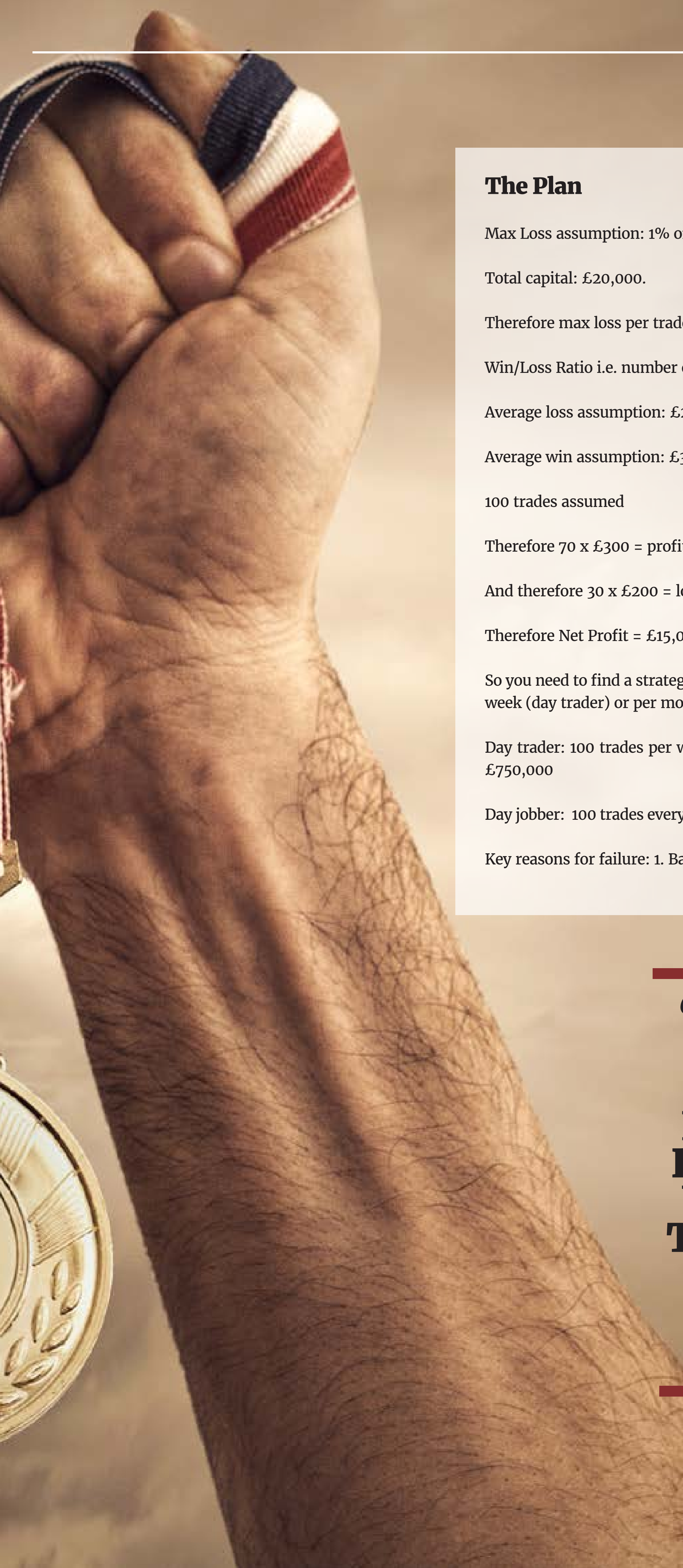
POWERLISTS FOR SPREADBETTING

4 WAYS TO FIND WINNING SPREAD BET TRADES FAST

BY ALPESH PATEL



Let's cut to the chase. You want to get rich trading. So you need to find good trades, fast. The maths of getting rich is shown below – it's a version of a business plan I made when I first left the Bar twenty years ago to trade full time – it worked, and so a decade ago set up my own asset management company.



The Plan

Max Loss assumption: 1% of total capital per trade.

Total capital: £20,000.

Therefore max loss per trade: £200

Win/Loss Ratio i.e. number of winning trades to losing trades: 70:30

Average loss assumption: £200

Average win assumption: £300

100 trades assumed

Therefore 70 x £300 = profits = £21,000

And therefore 30 x £200 = losses = £6,000

Therefore Net Profit = £15,000 per 100 trades

So you need to find a strategy which allows you to do 100 signals per day-week (day trader) or per month (day jobber).

Day trader: 100 trades per week x 50 weeks = 5,000 trades per annum = £750,000

Day jobber: 100 trades every 6 months = 200 trades per annum = £30,000

Key reasons for failure: 1. Bad teachers; 2. Bad Mentors; 3. Bad Strategies

"CLEARLY SPEED IS KEY TO FINDING TRADES. SO I HAVE A SIMPLE PROCESS. INDEED WHEN IT COMES TO FX SPREADBET TRADES I EVEN HAVE MY OWN ALGORITHM."

Clearly speed is key to finding trades. So I have a simple process. Indeed when it comes to FX spreadbet trades I even have my own algorithm (www.alpesh-patel.com/go) but for now let's assume we are looking at stocks only and are DIY:

So what are the four ways to find individual stocks, and which do I use?

Go for simple trends: At the moment the ones which catch my eye in the FTSE 350 are Dominos, Betfair, Ted Baker, SuperGroup, Direct Line and 3i. The advantage of this strategy is its simplicity. The downside is that the trend needs to continue and you are holding on for a number of weeks usually, not a quick in and out. To speed this up, you can look at the intraday charts and look for trends there.

Go for breakouts: Such trades have the advantage of momentum and allowing bigger moves quicker. At the moment, those catching my eye are Hikma, Dominos, Virgin Money, GKN and Informa.

Go for momentum: My favourite indicators for those who have attended my free webinars are MACD and Stochastics. Whichever time frame I am trading – e.g. day charts or one hour charts – I look at the time frame further out and its trends. Those of interest at the moment with rising weekly MACD suggesting any falls on the daily chart will resume back upwards are St Modwen, Standard Chartered (Short), Rio (Short), Riverstone (Short), Beazley and Big Yellow.

"MY FAVOURITE INDICATORS FOR THOSE WHO HAVE ATTENDED MY FREE WEBINARS ARE MACD AND STOCHASTICS."

Go for value: This only works if you are planning to hold companies for a month or more because it is based on the fundamentals of value of a company and it being undervalued. I rate mine based on my own algorithms on Sharescope.co.uk/alpesh based on their P/E, PEG and revenue growth as well as other indicators such as cash returned on capital invested. Companies here with the highest rating are: Carnival, Capita, Cineworld, Barratt, Bellway, Booker, Carillion, ITV, Next and Persimmon.

The best rule with all of these is ideally you want to have an upward trend in place and also want to diversify between sectors and a mixture of longs and shorts so you are diversified and hedged.

Alpesh Patel
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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

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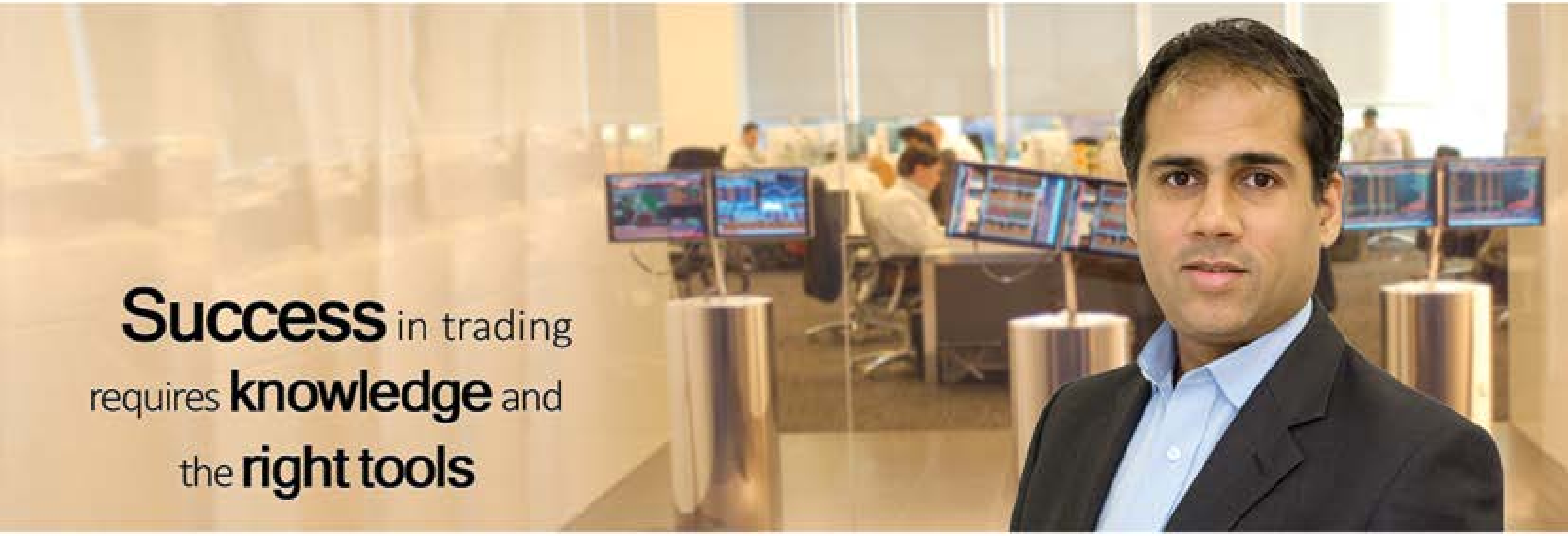

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EVIL KNIEVIL (AKA SIMON CAWKWELL)

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 July.

8th July

Clearly, the Chinese authorities have taken leave of their senses. King Canute demonstrated to his Court that resisting the tide is a mug's game (he is commonly of course decried as having sought in front of his Court to control the tide) the Chinese government has taken hard cash to stem the inevitable downdraft caused by the punters getting out. The figures are truly staggering. And the result must be markedly reduced consumer confidence. It'll spread across the world.

Closer to home, the Greek government ministers are really enjoying themselves. They know that, being communist, they will never have the EU in charge. They have hitherto only pretended that they will just so that they can get the money (which they regard as stolen from the workers in the first place). Now the money is no longer forthcoming and the end game is a parade of smiles to counter earnest protestations from the Europhiles. The end result must be bearish generally particularly including the Euro.

Chairman Mellon, who, I freely admit, is a master of index and currency trading, keeps sending me helpful advices as to when to short the Euro. I have not got his patience in observing limits but I am still making good money. Goodness knows what the chairman is making.

9th July

I have today received the following from a HK broker:

"The recent efforts of the Chinese authorities to prop up their stock market have been pretty comprehensive and widely commented upon. They are also getting imaginative. They include;

Forbidding short selling. Telling state pension funds to put 30% of their assets in stocks. Lowering interest rates. Telling brokers to give forbearance on margin calls – i.e. don't liquidate the punters just coz they can't pay (EK remarks that this is a truly staggering development). Forbidding major shareholders and directors of listed companies from selling for six months (the lock in). Getting brokers to use their own capital to buy and hold until the market goes back up. Getting fund managers to buy. Getting the owners of fund management companies to buy with their own cash Allowing companies to suspend exchange trading in their shares so that they cannot drop further. I've probably missed a few more.

"CLEARLY, THE CHINESE AUTHORITIES HAVE TAKEN LEAVE OF THEIR SENSES."

Now don't think that I am suggesting that this sort of thing never happens in the West. We all remember the Hong Kong Monetary Authority controversially using public money to prop up the stock market in 1998. We are still living with the cost of the Fed bailing out their mates at Goldman, Merrill, Morgan Stanley, etc. etc. to stop them going broke. Then back in 1980 Comex changed the rules of the silver market to screw Bunker Hunt and save the shirts of the big traders. In 1970 the Paris sugar market changed the rules when speculators were (for once) on the right side of a big price move which would have bankrupted exchange members. They simply declared the price rise to constitute force majeure and announced that all open trades would be closed out at a backdated, much lower, price which shafted the punters but kept the insiders solvent. So we have a long history of manipulative practices of our own.

"EVEN IF YOU, DEAR READER, ARE NATIONAL CHAIRMAN OF ATTILA THE HUN IS TOPS PARTY YOU CAN CONTACT THE LABOUR PARTY AND, FOR JUST £3, JOIN THE LABOUR PARTY AND THEREFORE VOTE IN THE LABOUR LEADER COMPETITION."

Interestingly, in this instance the Chinese are actually supporting the private punters at the expense of the big boys. This is true socialism. I love it.

14th July

Lucian has drawn my attention to **Home Capital Group (HCG on Toronto).** It closed at CAD35 last night and has been attacked by short-sellers. But Lucian advises that one should keep at it since this should eventuate to a zero. Apparently they lend money to over-leveraged buyers of Canadian residential property, itself a hugely overblown market.

*****

I am holding **Pantheon (PANR)** very tight. I am told that we are only days away from hitting pay dirt. If so, the current 24.5p could move north of 100p.

20th July

I know there are difficulties in shorting **World Acceptance (WRLD on Nasdaq)** here in London but yet another executive director has resigned which suggests that serious prosecution might be close. If so the share price could easily halve and more. Now $58.

*****

Afren (AFR) has an EGM on Friday. I am unclear as to what shape the outcome will take. But whatever it is Afren is finished. We can then await the lolly.

*****

Daniel Stewart (DAN) continues to gather adverse publicity on an astonishing scale. Since I reckon the Rob Terry malevolent influence phase is in general coming to an end it must be correct to short DAN down to 1p or less. Now 1.75p.

*****

ApplePay has stridden into London and scared off some **Proxama (PROX)** holders. Hargreave Hale as shareholder has not sold any – it is just that some of their private clients, trading on their own account, have sold 16m. This is quite a lot in a thin market. That means that 1.65p might be very cheap.

22nd July

It really is this simple. Even if you, dear reader, are national chairman of Attila The Hun is Tops party you can contact the Labour party and, for just £3, join the Labour party and therefore vote in the Labour leader competition. You then

vote for Jeremy Corbyn and, BINGO, the Labour party is out of office for the next twenty years. Crafty or what!

Those who happen to think that this A1 fully-paid-up lunatic will emerge as Leader can simply bet against him on Betfair. Corbyn is currently around 3/1 against. Strange but true.

*****

Gate Ventures (GATE) have this morning formally recognised their hopeless position in the matter of AIM listing. At least one broker has telephoned a short seller to advise that unless he delivers stock today he'll be bought in. This is of course pure phooey. And very probably mendacious with it.

The position in law is that where a stock is not quoted it cannot be bought in in terms of the LSE's rules. Put another way, the buying in rules fall away. The buyer can now sue the seller for damages arising through non-delivery. And having bought at 200p it will be very hard for the buyer to claim that any damages either have arisen or can arise.

Of course the shorts have yet to cover. This will take time. My local representative in HK, Mr Ying Tong Niddle Nai Poo, will shortly be knocking on the door of the fraudsters world HQ. I'll keep you informed.

24th July

Beximco Pharma (BXP) reported this morning on the half year to 30th June 2015. They are a really strong set of figures. As has been noted here many times before the GDR's, now 20p, enjoy underlying earnings of 4.3p p.a. At the GDR price BXP is capitalised at £75m as against tangible net assets of £178m. This is surely a very cheap share.

*****

Madagascar Oil (MOIL) did not offer an RNS yesterday as to its tie-up with Symbion in Madagascar. But this is hugely bullish. I bought a token further 125,000 at 8p. MOIL would like to get away a placing to raise perhaps $30m. But, absent that development, these extra deals/financings – there was a loan the other day of $5m – things are coming along. Sooner or later, or so I surmise, there'll be a rush to get in on this one and the stock will be bid only.

Finally, I have shorted **Globo (GBO)** again – this time at 47p. As a company it stinks and I regard this morning's IC enthusiasm as wholly misplaced.

Apparently the miners capitulated on Friday evening. If so, punters should write **Glencore (GLEN)** puts (that is what the chairman has been hard at) and hoover up miners at a discount – **Polo (POL)** springs to mind – OK, yawn if you wish. Another highlighted last week was GRIT – OK, hold your nose as you do so and overlook the low quality of the portfolio. But it is undoubtedly action time. Do not delay.

28th July

As is well known the BBC is fairly left wing and therefore has great difficulty understanding anything to do with business. Take the term 'secretive' as in secretive companies. The idea of an off the shelf company run by a lawyer in an offshore jurisdiction being secretive is risible. This is because a company cannot be secretive. It just has not got the wit to do anything of the sort. Further, the lawyer, who is the declared manager of the company, is also not secretive. He has merely undertaken to see that the beneficial owner of the company is kept secret. Certainly all clients of solicitors in this country expect their relationship with a solicitor to remain undisclosed unless circumstance or the law compels another result. That does not make them or the lawyers secretive. No, the BBC is merely engaged in misrepresentation in support of its political agenda. See Diaries passim.

However, Cameron is right now in the Far East announcing that he will seek to see that "dirty money" does not land up in the UK, purchasing properties. This is all very well but how on earth would his PRness check the source of the cash? After all, he cannot. So why suggest that he can? I can only suppose that he thinks he has an audience amongst the soft heads who make up the likes of the BBC.

There is another point (of which Cameron is perfectly well aware – he is not that simple) which is that in this country

"AS IS WELL KNOWN THE BBC IS FAIRLY LEFT WING AND THEREFORE HAS GREAT DIFFICULTY UNDERSTANDING ANYTHING TO DO WITH BUSINESS."

we sport an Annual Enveloped Properties Tax. This tax works out at about 1% p.a. and is directed at offshore companies – it is such a company that provides the "envelope". Let us be clear that on, say, a £5m property, ten years' tax comes to £500,000. I do not know about you, dear reader, but my bet is that the Chancellor would rather prefer to get his hands on this sort of dough. He just loves these "secretive" companies. He would be mad not to.

29th July

You could knock me over with a feather. As soon as I went through today's half year RNS from **Foxtons (FOXT)** I decided that the share price would go straight down through 200p. But, instead, at the time of writing, it is hovering around 240p. It is true that I do not like the cut of FOXT's gib (spivvy staff and very questionable practices in the management department) but earnings have declined on last year and there is no reason to believe they'll get better. Anyway, this is a slam dunk short up here.

JULY 2015

BEST OF THE BLOG

Sweden Is Heading Towards Disaster

It is always entertaining to listen to European officials speaking in a placid tone as if everything were under control. Greece is on the brink of leaving the Euro; austerity policies have wrecked a few peripheral economies; debt levels are higher than before the financial crisis; and output growth is languishing. But there are still reasons to believe they're following the path that leads to success. As European governments capped themselves in terms of fiscal intervention to save Europe, everyone is waiting for Mario Draghi to play his tricks and reignite growth... and he is doing exactly that. Draghi is attacking deflation with all the tools available, as he perceives it as the worst enemy, one that prevents growth from happening. Just imagine how worrying it is for all of us to pay less for the same products we buy every month! They say this leads to a downward spiral in prices, creating a mechanism that is self-fulfilling. But the British very well know how untrue that is, as they tend to increase their purchases as soon as they see a price drop. So, it is reasonable to ask how meritorious it is to tackle inflation with financial weapons of mass destruction. *Is it really true a consumer will delay purchases when prices are declining?* If that were the case, then the whole computer industry would have stalled long ago and I would be writing this article on a sheet of paper with the help of a pencil, waiting for laptop prices to finally stagnate...

"THROUGH TACKLING INFLATION WITH NEGATIVE DEPOSIT RATES, ZERO REFINANCING RATES AND A PILE OF DEBT PURCHASES, DRAGHI HAS CREATED A RADIOACTIVE CLOUD THAT IS FLYING OVER SWITZERLAND, DENMARK AND SWEDEN."

Through tackling inflation with negative deposit rates, zero refinancing rates and a pile of debt purchases, Draghi has created a radioactive cloud that is flying over Switzerland, Denmark and Sweden. Unlike in the UK, where monetary policy still has a good degree of autonomy, the Swedish, for example, are completely bound by the ECB's actions and have no other option than to follow it, even if it leads the country towards disaster. The pursuit of an inflation target by central bankers has become so imperative that they are willing to sacrifice everything else in search of it.

By Filipe R. Costa

To read the full article CLICK HERE

The Only Rival Google Fears

Microsoft changed our lives. I couldn't have written this article without their technology, and you couldn't read it. Some say that Apple is the technological touchstone. Then again, so many seem to be drawn to Facebook, like moths to a flame. Many others swear by Twitter.

Personally, there is one technology titan whose services I use so frequently that it has pretty much changed the way I think about everything. I use its portals scores of times a day. I check facts, pursue ideas and indulge my idle curiosity. I'm talking about Google.

Google's young founders, Sergey Brin and Larry Page, took Google from being just another internet start-up in 1998 to a company with a colossal market capitalisation of about US$365 billion today.

The Google story is one of the triumph of the intellect over a practical problem. The problem was how to find the web page we need, out of the billions available online. But that was only the start. As we know, Google then began to leverage its universal presence on the internet to become *an information company.*

Now, Google is evolving from an *information company* into a world leader in *artificial intelligence.* I woke up to this in January last year when Google purchased *DeepMind Technologies* from its founder, the British computer guru, neurologist and all-round genius, Demis Hassibis, for £400 million. (*DeepMind's* mission statement, by the way, speaks of nothing less than the replication of the human brain in machine form).

But I'm not going to sing Google's praises here. Rather, I want to tell you about the one company in the world which keeps the Google top execs awake at night.

Over in China, there is a dragon of the internet, which is just beginning to awaken. It has had astonishing success in its home market and it has shown a Google-like aptitude for developing technology. Some say it has a clear ambition to take on Google and to bestride the globe (just as China itself, many would contend, aspires to challenge the primacy of the USA, in time).

China, with around 600 million regular internet users, has nearly twice as many people connected to the internet as the USA. It also has more mobile phones per person – and about 500 million smartphones in China are connected to the net.

By Victor Hill

To read the full article CLICK HERE

Top of the Class

Neil Woodford's equity income fund has just celebrated its first birthday with a sector topping annual return of 17.2%. This was more than 10% higher than the average UK equity income fund and comfortably ahead of his two former Invesco Perpetual mandates.

Since it was launched on the 2nd of June 2014, CF Woodford Equity Income has attracted a colossal £6.1bn of assets under management. It is now the 39th largest open-ended fund covered by the UK Investment Association.

Woodford's objective is to provide long-term appreciation by investing mainly in UK stocks, although up to 20% can be allocated internationally. The fund is also targeting a 10% higher yield than the FTSE All-Share index and is currently paying 4% with quarterly distributions.

Its top 10 holdings account for 47% of the portfolio and include the health care companies AstraZeneca and GlaxoSmithKline, as well as the tobacco stocks Imperial Tobacco, British American Tobacco and Reynolds American. These are long-term positions, which is why the turnover is so low.

"CENTRICA IS ONE OF THOSE COMPANIES THAT SET OUT TO CONQUER THE WORLD."

The holdings reflect Woodford's cautious view of the global economy. He believes that corporate earnings and share prices will come under pressure, with the latter having been inflated by the central bank policies of quantitative easing. To guard against this he has selected attractively valued businesses that can deliver sustainable growth regardless of the economic conditions.

One of the things that sets the fund apart from its peer group is the large number of small growth stocks. Many of these are early-stage health care and biotech companies, although there are also a number of technology businesses. The individual positions are all quite small, but they are perfectly capable of delivering large enough returns to make a noticeable difference.

By Nick Sudbury

To read the full article CLICK HERE

The Utility Company That Thought it Was an Oil & Gas Company: A Cautionary Tale of Too Much Ambition and Enterprise

For your down to earth 'plain vanilla' investor like me, it is handy to have an abbreviated notion of what the company is, in a cluttered head. I like to know where it stands and thus, where I stand.

My rough and ready notion of an ideal utility is a company that operates in markets of pretty steady demand – give or take a warm winter or two – and that operates on low net profit margins and generally, therefore, offers an above average dividend yield to help us pay our utility bills in winter. Utilities are generally perceived as not very cyclical and therefore amongst the less risky of investments. If there is an above average dividend yield and that dividend looks relatively safe, that puts a floor under the share price.

Naturally, none of this is wholly true but such industrial and commercial generalised profiles help when you are looking for a piece to fit into the jigsaw of a portfolio of shares before looking at it closely to see if it actually fits the gap.

To most of us I presume, Centrica is domesticity and 'British Gas'; blue and white vans, domestic boilers and quarterly bills. But that is deceptive. Centrica is one of those companies that set out to conquer the world, by turning itself into an energy exploration and production company, operating on the high cost frontier of expensive energy, at a time when oil and gas prices were extraordinarily high.

It evidently regarded its dull but reliable energy supply business in the UK as a useful cash cow for such expansion. In the six years up to 2013, it made six acquisitions of oil and gas production companies for a total investment of a reported £5.4 billion, from the North Sea to Trinidad and Canada.

It was a big money, high stakes game which came unstuck when that same high cost of oil and gas – aided by advanced fracking technology – produced in response more supply than the world demanded; particularly when China was moving away from an 'infrastructure' building led growth model towards one of more domestic consumption. For Centrica, balance sheet debt has risen every year since 2010.

Last year to December 31st 2014, the total debt to equity gearing ratio was a massive 252%. A more than troublesome debt leverage figure when top line prices were put under monumental pressure, like that last year.

The Centrica share price peaked somewhere just above 400p in late 2013. It then tobogganed down to 234p in March from where it started to head north again. Last seen, the share price was 270p having, arguably, just about broken out of the big downtrend. Have a look! It is slight and recent, and thus tentative as well.

By Robert Sutherland-Smith

To read the full article CLICK HERE

READ TO SUCCEED

BEAT THE CROWD: HOW YOU CAN OUT-INVEST THE HERD BY THINKING DIFFERENTLY

BY KEN FISHER

A BOOK REVIEW BY JAMES FAULKNER

Wiley £16.58 on Amazon (Hardback)

In his tenth book, investor and Forbes columnist Ken Fisher sets out to lend a helping hand to investors looking to chart a path to prosperity whilst being bombarded by media hype and other 'noise' on a daily basis. *Beat the Crowd* reveals how most investors fit into Fisher's definition of 'the crowd' in one of two ways: either they succumb to the 'herd mentality' and simply follow the market consensus; or they are fooled into erroneously believing themselves to be a 'contrarian', simply because they take the opposite view to the current market consensus.

With a personal fortune of around $2.7 billion, Fisher is a successful investor in his own right and is certainly worthy of investors' attention. He is also CEO of Fisher Investments, a firm which has been referred to as the largest wealth manager in the US (with over $50 billion under management). According to Forbes, Fisher's investment recommendations made in his column for the magazine beat the S&P in eleven out of the fourteen years to 2010. Evidently a chip off the old block, Fisher is also the son of notable investor Philip A. Fisher, author of *Common Stocks and Uncommon-Profits.*

Fisher operates from the standpoint that the consensus view is always priced – thus it is highly unlikely to materialise. 'The Great Humiliator' (TGH), Fisher's apt pet name for the market, takes care of that. Instead of listening to what the financial media is talking about, Beat the Crowd urges us to ask what the market has overlooked. What is the 'elephant in the room'? The one that has been standing there for so long that no-one even notices it anymore.

In 2008, Fisher explains, the elephant wasn't the sub-prime mortgage crisis; it was the mark-to-market regulatory reforms brought in by Sarbanes-Oxley in 2002, which meant that banks and other financial institutions were forced to mark down 'held to maturity' assets and record massive losses, thus sparking a banking crisis. Yet the extent to which people are still misinformed as to the true nature of the financial crisis is revealing: most people still believe it was down to trading losses on the part of 'casino bankers', yet losses from proprietary trading made up a miniscule proportion of the total recapitalisation bill.

Similarly, the post-2009 recovery got economists and central bankers scratching their heads as to why it was so muted despite the fact that central bankers had initiated quantitative easing to lower borrowing costs and stimulate the economy. As Fisher explains, academically insulated central bankers had totally ignored the supply-side of the lending picture in their zealous commitment to QE. By pushing down long-term borrowing rates – i.e. flattening the long end of the yield curve – central bankers had denied commercial banks the ability to make a decent profit. No wonder then, that banks remained reluctant to lend more. All the while, the media frenzy was focused on the *inflationary* implications of QE, when in act-ual fact the real consequences were *deflationary* in nature. Again, that's TGH in action!

Readers looking for an actionable formula from *Beat the Crowd* may be disappointed, however. Rather, the book sets out to teach investors to question their preconceptions and biases, and it is particularly heavy on behavioural finance (which is not particularly surprising given that this is one of Fisher's specialties). Nevertheless, it is a truly worthwhile read, and Fisher conveys a real sense of insight and clarity in his writing that is quite rare in books of this type. On top of that, it is also an easy and light-hearted read, which again is something of a feat given the context; I managed to flick my way through in a few brief sessions stretched over a fortnightly period.

Master Investor Verdict: This book won't provide you with any hard-and-fast formulas to investing success, but it might just help you begin to approach investment with a more critical eye. Beat the Crowd won't bore you either; Fisher is a real veteran of the investment game and he's seen it all. Just remember, this time almost certainly isn't different!

"INSTEAD OF LISTENING TO WHAT THE FINANCIAL MEDIA IS TALKING ABOUT, BEAT THE CROWD URGES US TO ASK WHAT THE MARKET HAS OVERLOOKED."

THE FINAL WORD

WAR! WHAT IS IT GOOD FOR? ABSOLUTELY YOUR PENSION

BY ADRIAN KEMPTON-CUMBER

There's a Scandinavian theory that if a war is inevitable then postponing it will simply make it all the fiercer once it comes. In other words, peace comes at a price. And one we may not think is reasonable if we could be presented with the data. I wonder if, given the choice, Tito would have kept peace in the Balkans all those years if he could have sorted things out in the 1940s with much less bloodshed than happened after his death?

I have a theory that, whether war is inevitable or not, global peace – indeed any peace – certainly does come at a price. In fact, global peace is probably unachievable. Living as we do in a very sheltered and charmed environment here in the west, whatever your circumstances, it's all too easy to think that wars are something that happens elsewhere and really should be stopped. *After all, it's not like we're causing them! It's certainly nothing to do with us.* Well that's just naïve nonsense. But that's ok.

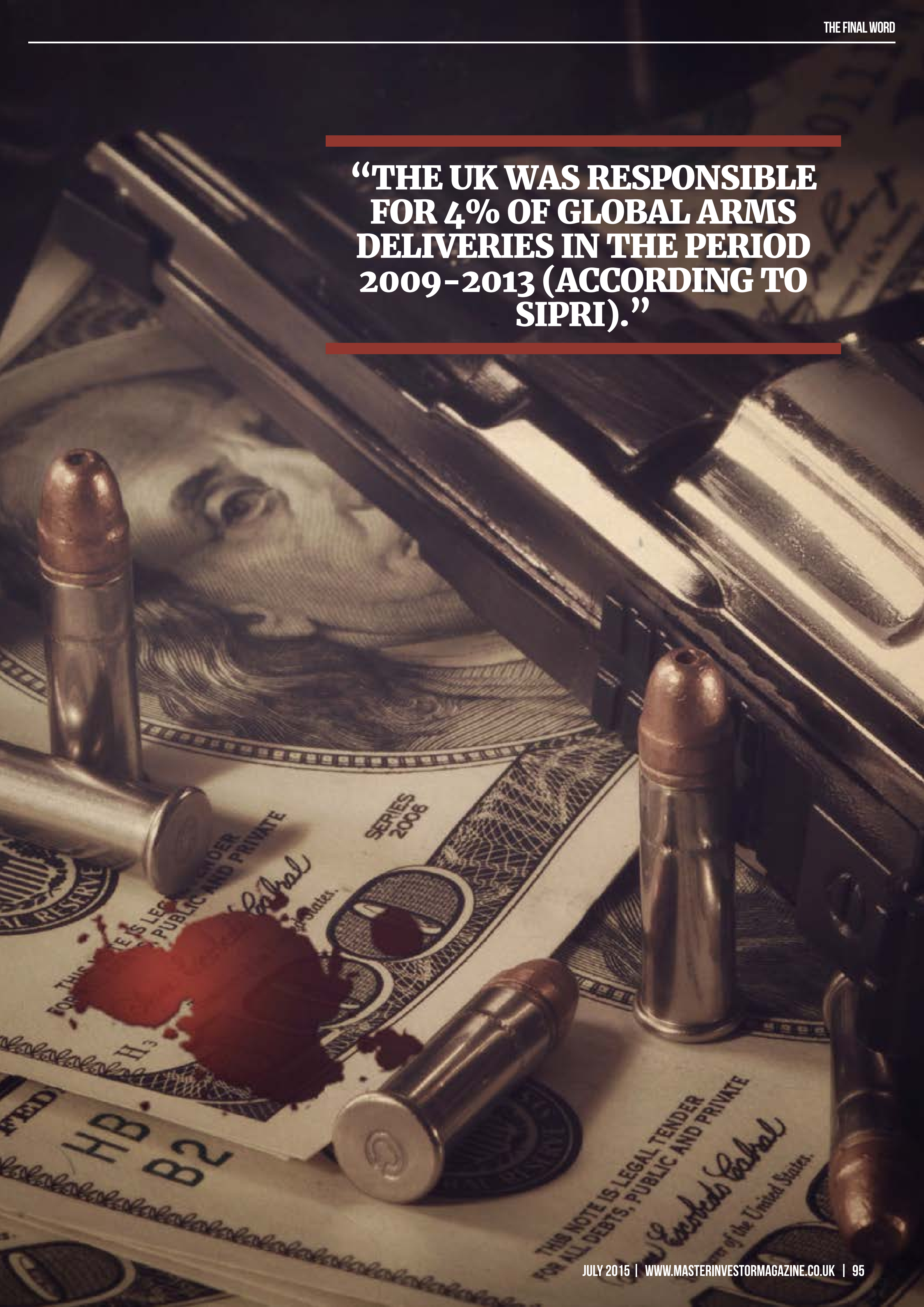
The UK, that is a *de facto* 'we', is a major arms exporter. So is Sweden by the way, as well as France and Germany. The UK was responsible for 4% of global arms deliveries in the period 2009-2013 (according to SIPRI). And globally defence is a growing business. Not only does it provide around 200,000 jobs for Brits, but of course if we didn't sell these arms someone else certainly would. So even if we stopped defence activity here, it would serve only to make us feel smug, it wouldn't actually change anything in the real world. Oh, and it would also serve to make 200,000 unemployed and impact the 'real functional expenditure' of over £35 billion. That is the reality not the dream.

I'm a big fan of Machiavelli. At a time when much of the preoccupation was with now defunct (did you but know it) superstitious rubbish, he wrote a manual for success which is still valid today. Hats off for Niccolò. I bet he wouldn't have considered any place for the 'Geneva Convention'! A ridiculous set of rules that offers no solution to your being disadvantaged by your opponent ignoring them. No. Machiavelli came out with these wise words, noticeably absent from the GC: *"If an injury has to be done to a man it should be so severe that his vengeance need not be feared." (The Prince).*

"MACHIAVELLI CAME OUT WITH THESE WISE WORDS, NOTICEABLY ABSENT FROM THE GC: "IF AN INJURY HAS TO BE DONE TO A MAN IT SHOULD BE SO SEVERE THAT HIS VENGEANCE NEED NOT BE FEARED.""

And to think that we can live without arms and without some sort of military, is to say we can live without a police force and just ask everyone to behave nicely.

"THE UK WAS RESPONSIBLE FOR 4% OF GLOBAL ARMS DELIVERIES IN THE PERIOD 2009-2013 (ACCORDING TO SIPRI)."



Countries around the world are becoming nervous for whatever reason, and we don't need to know or care why as investors. As a result they are tooling up. Even Japan is liberalising its laws on arming and just this week China got all bent out of shape because Japan enacted a law allowing them to deploy Japanese military overseas. Ironically, China itself has been arming at an alarming rate, and may well become the most heavily armed country on Earth. Mind you, a Republican in the White House won't let that happen, I dare say, and statistically that's what there'll be next year after the election.

As much as people moan about cuts (even though we all knew the mid-noughties were too good to be true) there'd be a lot more cuts if you weren't reading articles like this in the Guardian on 13th July that says: *"The Government has issued more than 3,000 export licences for military and intelligence equipment worth a total of £12.3bn to countries which are on its own official list for human rights abuses."* Surely the best business in the world must be 'glass houses', because we all live in them.

And yet, with all these arms about, it seems you are less likely to be killed in conflict today than at any point in history. Perhaps they actually work as a deterrent after all.

Mind you, as we move forward, more and more capability is put in the hands of smaller and smaller nations and groups and at a decreasing cost. You can 3D print a firearm. It'll probably kill you if you fire it, but some don't care. Today I read that US arms manufacturer Raytheon are manufacturing missile parts using 3D printers, and they say it won't be long before the whole missile can be 3D printed.

So how is this good for your pension? Given you're not that likely to be killed in conflict, rising life expectancy, and especially if interest rates stay low for decades (they have in Japan you know), you'll be needing as big a pot as you can get. A diverse defence portfolio in your arsenal is my suggestion for a bullet

proof future. Countries keep arming, either to keep up with Jones-land, or because it seems lots of ordnance has a 'best before' date these days.

I quite like the combo of commercial aircraft and defence. **Boeing** is an obvious contender as is **Lockheed Martin.**

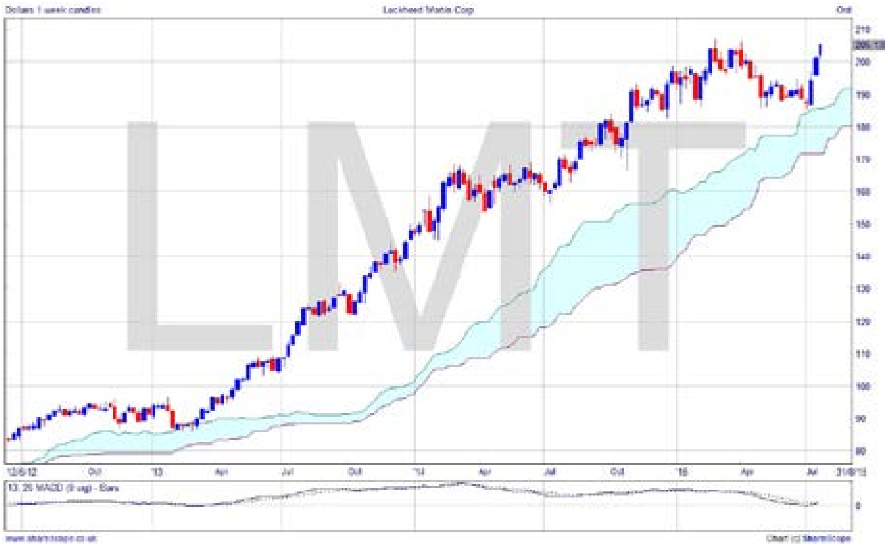
Both companies have great looking charts, with the obvious caveat that we've just seen six years of rising US markets. I think they're worthy of consideration. iShares do a **DJ US Aerospace and Defense** product listed on NYSE MKT, which has a chart to die for (counter-productive, and I use it only as a figure of speech).

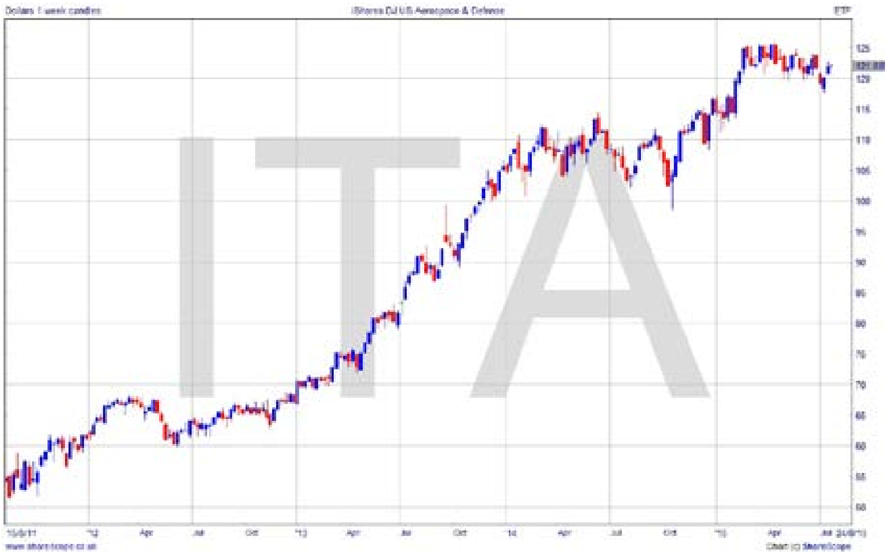
"A DIVERSE DEFENCE PORTFOLIO IN YOUR ARSENAL IS MY SUGGESTION FOR A BULLET PROOF FUTURE."

There are domestic defence manufacturers if you don't want to deal with currency risk, or if you simply don't want to see *defence* spelt *defense.* **BAE Systems (BA.)** has a chart that looks a bit like the FTSE 100 chart, which regular readers will know I dislike immensely. However, it is a little more bullish rather than range-bound, but equally has struggled to make a decent ATH. It is still in an uptrend on this current leg of the bull market. The worry going forward is weakness in the UK and that the recent top might be a precursor to a head and shoulders forming in coming months, likely to be a feature of the whole market if it does. **Rolls Royce (RR.)** has problems and I wrote about them in a blog post on July 15th. Their chart looks awful! The old adage ("I'd rather be sad in Rolls Royce shares than be happy in Morrisons") doesn't apply to the shares.

I take the view that our prosperity comes at the expense of others. Someone somewhere is sacrificing the lifestyle we have to provide us with the lifestyle we have. To be more accurate, lots of people are sacrificing on behalf of each of us. They probably don't realise that's what's happening, but it is. It's quite axiomatic if you think about it. We all have many times our fair share of global wealth so it must be coming from somewhere. You may not like how our lifestyle is paid for but while there's music and moonlight and love and romance let's spend the money on defence.

Global arms sales $1.702 trillion per year (statista).





MARKETS IN FOCUS
JULY 2015

GLOBAL INDEXES

Index	Jul %	YTD %
CAC 40	6.1	19.0
Euronext 100	5.0	17.7
FTSE MIB	4.8	23.8
S&P/ASX 200	4.4	5.3
NASDAQ 100	4.4	8.3
IBEX 35	3.8	8.8
DAX (Xetra)	3.3	15.3
FTSE 100	2.7	2.0
S&P 500	2.0	2.2
Nikkei 225	1.7	18.0
Dow Jones	0.4	-0.8
Bovespa	-4.2	1.7
Hang Seng	-6.1	4.4
Russian Trading System	-7.7	9.6

FOREX

Forex	Jul %	YTD %
USD/CAD	4.8	12.6
GBP/AUD	4.7	12.0
USD/CHF	3.3	-2.8
EUR/CHF	1.9	-11.7
USD/JPY	1.2	3.5
EUR/JPY	-0.2	-6.0
GBP/USD	-0.4	0.3
EUR/GBP	-0.9	-9.5
EUR/USD	-1.3	-9.2
AUD/USD	-5.0	-10.5

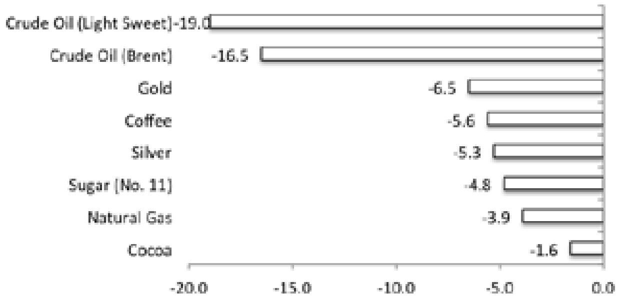
INTEREST RATES

Central Bank	Key Rate	Next Meeting
BOE	0.50%	Aug 6
ECB	0.05%	Sep 3
FED	0.25%	Sep 17
BOJ	0.10%	Aug 7
SNB	-0.75%	Sep 17
BOC	0.50%	Sep 9
RBA	2.00%	Aug 4
RBNZ	3.00%	Sep 9
BOS	-0.35%	Sep 2
BON	1.00%	Sep 24

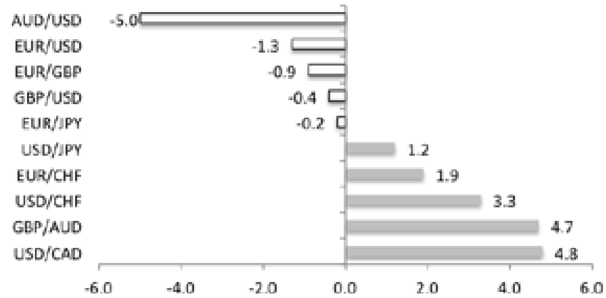
COMMODITIES

Commodity	Jul %	YTD %
Cocoa	-1.6	7.9
Natural Gas	-3.9	-6.9
Sugar (No. 11)	-4.8	-18.3
Silver	-5.3	-5.2
Coffee	-5.6	-24.2
Gold	-6.5	-7.4
Crude Oil (Brent)	-16.5	-8.4
Crude Oil (Light Sweet)	-19.0	-11.0

COMMODITIES 1M%



FOREX 1M%



FTSE 350 BOTTOM

Sector	Jul %	YTD %
Lonmin PLC	-53.4	-70.7
Tullow Oil PLC	-27.6	-40.6
Vedanta Resources PLC	-23.2	-30.5
Premier Farnell PLC	-21.6	-23.0
TalkTalk Telecom Group PLC	-21.2	-0.9

FTSE 350 SECTORS BOTTOM

Sector	Jul %	YTD %
Industrial Metals	-18.2	-34.8
Mining	-10.2	-20.6
Automobiles & Parts	-4.8	-7.4
Oil Equipment, Services & Dist.	-3.5	5.1
Industrial Engineering	-2.8	-5.6

FTSE 350 TOP

Sector	Jul %	YTD %
HellermannTyton Group PLC	37.2	49.7
RSA Insurance Group PLC	29.4	18.2
Alent PLC	28.4	48.0
Hikma Pharmaceuticals PLC	23.9	21.0
Telecom plus PLC	22.6	-3.8

FTSE 350 SECTORS TOP

Sector	Jun %	YTD %
Food & Drug Retailers	2.0	10.2
Fixed Line Telecommunications	1.0	13.2
General Industrials	0.3	13.7
Industrial Transportation	-1.5	8.4
Beverages	-1.6	-0.4

FAST FORWARD

The Technologies & Companies Shaping our Future

The explosive new book from Jim Mellon & Al Chalabi

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