ISSUE 15 – JUNE 2016

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VIRTUAL REALITY

HOW TO PROFIT FROM THE COMING REVOLUTION

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HELICOPTER MONEY

HOW TO PREPARE FOR EXTREME MONETARY POLICY

PETER LYNCH

GET ONE UP ON WALL STREET WITH THE LEGENDARY FUND MANAGER

HOW TO DIVERSIFY

JOHN KINGHAM LOOKS AT HOW TO MITIGATE PORTFOLIO RISK

BREXIT & MILLENNIALS

WHAT DOES IT MEAN FOR THOSE WHO WILL HAVE TO LIVE WITH IT?

WELCOME

Dear Reader,

It looks increasingly likely that whatever the outcome of the June 23rd referendum, it's already priced into the markets. With that in mind, it's time to look towards the months that will follow the referendum. Pretty picture it ain't...

You needn't heed the warning of Japan's prime minister, Shinzo Abe – his claim that the world could be on the brink of "another Lehman-style crisis" can easily be cast aside as overblown. What's impossible to refute, however, is that there are a whole number of trouble spots that could boil over fairly soon.

A case in point is Greece. Once more, the EU's southernmost nation has been saved from impending insolvency through an agreement that releases EUR 10.3bn in emergency funds. However, even advocates of the Greek bail-out admit that yet another patchwork solution has been implemented. "If it looks like we are kicking the can down the road, that is because we are", one senior Eurozone official admitted. The entire subject of Greece's future will be back on the agenda come autumn.

In the meantime, the Italian banking crisis is gathering steam. Little-noticed by the mainstream media, it could actually be Bella Italia that poses the most serious systemic risks to the Eurozone. The country's banking system is at least EUR 360bn under water, and the actual figure could quite possibly be even higher.

Throw in the threats from terrorism (the first dirty bomb is only a matter of time), maritime security (China's increasing assertiveness in the East and South China Seas), and the political challenges posed by a populace that grows ever more disillusioned with the existing order (the US Presidential election now looms large), and it is clear that the markets have one rather large 'wall of worry' to overcome.

Equity valuations remain high, the market for start-up funding is already being hit by the increasing number of high profile failures, and the bond market depends on the increasingly futile efforts of central bankers.

How are private investors to navigate these treacherous waters?

In the coming months, we'll continue to explore how you can circumnavigate these risks and find the sweet spots where investors will be able to achieve decent – or possibly even outstanding – returns in the years to come. The coming Virtual Reality revolution – this month's cover feature – is a good place to start.

Best regards,

Swen Lorenz
Editor, Master Investor Magazine

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CONTENTS

ISSUE 15 – JUNE 2016

ON THE COVER

VIRTUAL REALITY

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ALL OTHER TOPICS

ALL OTHER TOPICS

036 From Acorns to Oak Trees – The Small Cap Cocoa Kings

Global demand for chocolate is soaring as disposable incomes rise in the developing world. Richard Gill, CFA, identifies some UK smaller companies that could be set to deliver some sweet returns.

042 Opportunities in Focus – The Anglosphere is an Emerging Civilization-State

The forthcoming EU referendum in the UK is an opportunity to begin to realign our politics and economics with the shared civilization that is the Anglosphere. Victor Hill examines how investors can realign their portfolios in this new phase of globalisation.

050 Chart Navigator – A Fairly Simple Gann Technique

Adrian Kempton-Cumber gets technical. This month, Adrian looks at the techniques of William Delbert Gann, one of the less-well known proponents of technical analysis.

054 Robbie Burns' Trading Diary

'Naked Trader' Robbie Burns looks at how traders can – and must – tame their inner gambler.

064 Forensic Forex – Two Elephants in the Room

Author and trader Samuel Rae looks at how the upcoming EU referendum and the potential for another interest rate hike in the US are shaping his currency bias for the coming months.

068 Could the UK's FinTech Expertise make it the Next Silicon Valley?

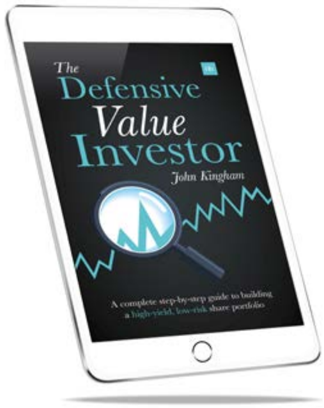
Measures in the Budget are clearly designed to attract long-term capital investment into startup companies. Does this mean savvy investors will start looking to get into booming sectors like FinTech? Ed Rose investigates.

076 Best of the Blog

We look back at some of the most popular pieces from the Master Investor Magazine website during the month of May.

080 Read to Succeed – The Defensive Value Investor

John Kingham has honed his investment style over many years as a private investor and investment newsletter publisher. Richard Gill reviews the book that distils Kingham's methods into one cohesive strategy.



082 The Final Word – If You Brexit It's Yours – the World's Most Expensive Coin Toss

Adrian Kempton-Cumber calls it as it is. This month, the AKC marvels at the contradictions and ironies behind the Brexit vote, and reveals how investors can profit – whatever the outcome.

086 Markets in Focus

Market data for the month of May.

BY JIM MELLON

MELLON ON THE MARKETS

It's hard to believe that the year is almost half way over. There is definitely an acceleration in time as you get older; I feel my life careening towards its ultimate destination – but then I am cheered by the realisation that I have a good chance of living to over 100, and I take another sip of vino tinto!

A new book, *The 100 Years Life*, by Lynda Grafton and Andrew Ward, is about to come out, and explains how people will have to plan to work till 80 at least; that children born today will live to at least 105 (which exceeds the then optimistic forecast made in *Fast Forward*); and that the old structure of education, career and retirement is broken.

This tallies with my own views that people will have to have multi-faceted careers, that education will never end, and that we will *always* have to stay one step ahead of the robots to ensure that we continue to have productive employment. It's interesting that the word "robot" comes from the Czech for *untermensch*, a pejorative description of a less valuable stratum of society. (Of course, if we are not careful, that *untermensch* category is less likely to apply to the robots, but to the people whose jobs are replaced by them.)

Next week, I am speaking at a big IOM conference on technological change and its effects – the ISLEEXPO – and I will be making the point that the best thing that the island can do is to promote continuous education, and to change its social contract to avoid having the population retire at 65 – and thereby end up with unsustainable pension liabilities.

> **"THE OLD NOTION THAT DOCTORS, LAWYERS, ACCOUNTANTS AND CIVIL SERVANTS HAVE JOBS FOR LIFE WILL SOON BE UPENDED."**

I can tell you that what none of us wants to be is a long-term participant in the "gig" economy – driving Uber taxis, delivering pizzas or servicing Airbnb apartments – working till 80 with no security and no pension, and then having another 25 years to eke out a penurious old age.

What we *do* want to be is adaptable, curious and useful. And the way to do that is to read a lot, learn a lot and to be prepared to do a volte face over whatever fixed views we had before. The old notion that doctors, lawyers, accountants and civil servants have jobs for life will soon be upended.

No-one will be indispensable in the rising tide of automaton. But of course, in a world where production will be increasingly situated near the point of its consumption, and where all repetitive tasks – and, ultimately, more complex tasks – will be performed by machines, there will be plenty of losers.

This won't be made any easier by the Bernie Sanders types who advocate crippling levels of minimum wages – as I said at Master Investor 2016, if machines could speak, they would LOVE the idea of that. Minimum wages mean work minimisation. Machines don't talk back, don't need health care, and don't get sick. They *do* work all the time and their costs are coming *down*.

And I say, *if* machines could speak. Well, actually they can. While at the Milken in LA, I bought myself an

Amazon Echo. It's a cylindrical speaker which you command using its fictional name, "Alexa", and tell it to do things.

"Alexa! Buy me XYZ book (straight from Amazon, of course!), order me an Uber, and tell me the temperature in Sydney. What's the time in London?" Etc. etc. And it's a machine learning programme, which will just get better. Google has brought out its own, called Hello, and no doubt Facebook will too.

Oh, and the VR machines are about to flood our (virtual) shops. I am guessing **Sony (TYO:6758)** will be the biggest winner short term, because of the vast number of PlayStation 4 consoles out there – but there will be plenty to choose from. When you can look around houses and flats in VR; when you can go to places without travelling; when you can "be" at a concert without having to schlepp to the venue: how many industries are about to be creatively destroyed?

Well, plenty.

But the path of uninterrupted progress has hit a bit of a roadblock. Have you noticed how your PC doesn't seem to need replacing – because the newer alternatives are more or less the same? That's because the Dennard Scaling (a fancy term for Moore's Law) has reached its limits. It isn't worth the money and power to try to improve semiconductor performance.

So we need a new form of computing, and I am getting very excited about Quantum Computing. It's a little way off, but boy, it's going to be big. The trick is that once QC can get to about 30 so-called Qubits (don't ask), they will move to a level of power and speed that will revolutionise computation. In areas such as aircraft design, drug discovery, and stock trading *everything* will change.

This QC will allow trillions of simultaneous calculations, allowing for drones to travel safely, to make autonomous vehicles a reality in the near future, and to power the Internet of Things with amazing precision, linking literally trillions of devices. The "old" order of coding, software designing and chip design will be swept away, and whole new industries will emerge. Artificial Intelligence, once seemingly decades

away, will be with us soon – both a boon and a curse.

Those who can't see this future will become the unfortunates relying on state subvention for a basic existence. This is why I am convinced that ultimately there will have to be a Universal wage, which allows those who have been left behind by the tidal wave of innovation to enjoy a lifestyle substantially of leisure.

"I AM GETTING VERY EXCITED ABOUT QUANTUM COMPUTING. IT'S A LITTLE WAY OFF, BUT BOY, IT'S GOING TO BE BIG."

In fact, this will be necessary, as even the monopolistic tycoons of tech who will reap the vast rewards from spotting these trends, will recognise that they can't have *all* the money. They need consumers to buy their products, and to produce the "artisanal" products that they, as elites, will want to be seen with.

In *The Hunger Games*, the less fortunate didn't have votes; in most countries that are advanced, people do have votes and will use them to ensure some form of basic wage. But whether most people will have jobs as we know them, is another matter.

So, in summary, rethink your life plan. Expect to live a much longer life than the biblically prescribed one of three score and ten; don't expect to stop working till you are 80 (if you are lucky enough to have a job and to be qualified for the new world order); and keep learning. In fact, I believe that education, in manifest forms, will be a key and growing industry. And it is a big focus of our *Fast Forward Innovations Limited.*

On a more mundane note, **Critical Elements (TSX:CRE)** has gone up a lot since the Master Investor show, and I have been trimming. Lithium is crucial to battery production, and world battery production is expected to triple by 2020. That having been said, I am looking at new types of batteries which may not use lithium, so I will keep you posted on that.

There is so much to be excited about. Sony looks good, I still like the Nikkei, I am still short all negative yielding bonds, and I still think (and the market is edging towards my view) that the Fed will tighten faster than expected. Oh, and the precious metals - gold, silver and platinum - are a key part of the reflation world view that I have.

Brexit won't make any difference one way or another – with or without it, UK property is on the skids, and the pound is a little overvalued. The stock markets remain range bound and are likely to stay there (with the exception of Japan, which is my favourite).

Happy Hunting!

Jim Mellon

Click here to follow Jim's trades on Twitter

BY EKATERINA BYSTROVA OF SYNDICATEROOM

CROWDFUNDING GIVES RETAIL INVESTORS THE KEY TO THE CITY

As demand for investment into high-growth businesses skyrockets, the City is looking to crowdfunding to open the door to the masses of untapped and enthusiastic retail investors.

Over the past few years, new mechanisms for lending and investing have developed in every crack left gaping after the big bust of 2008, and a new breed of economic animal has evolved to meet the demands of a disillusioned (and disgruntled) populace. That new breed is alternative finance.

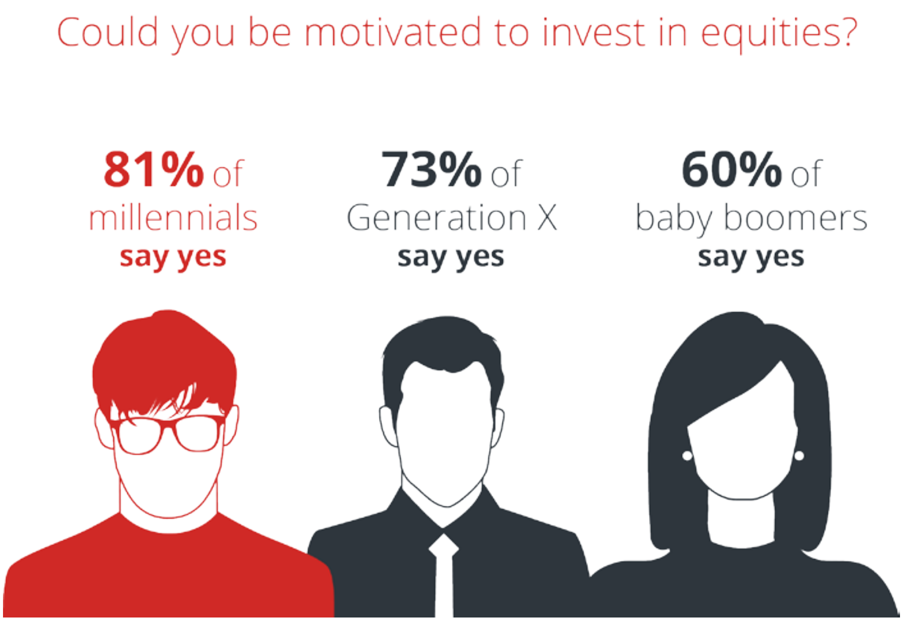
Since then, alternative finance has taken off better than anyone could have predicted, with challenger banks, peer-to-peer lending groups and equity crowdfunding platforms popping up all over the UK. But while many see these as competition for the established finance sector, in fact they present a great opportunity for collaboration.

March 2016 saw the industry take a big stride forward as the London Stock Exchange embraced equity crowdfunding platform SyndicateRoom as a member, making it the first platform of its kind to enter into the public markets. For the first time, the crowd was given access to new equity issues on the same terms as institutional investors.

Finally, we have a glimpse of the future of finance: the union of the strong established system and the spritely, adaptable new.

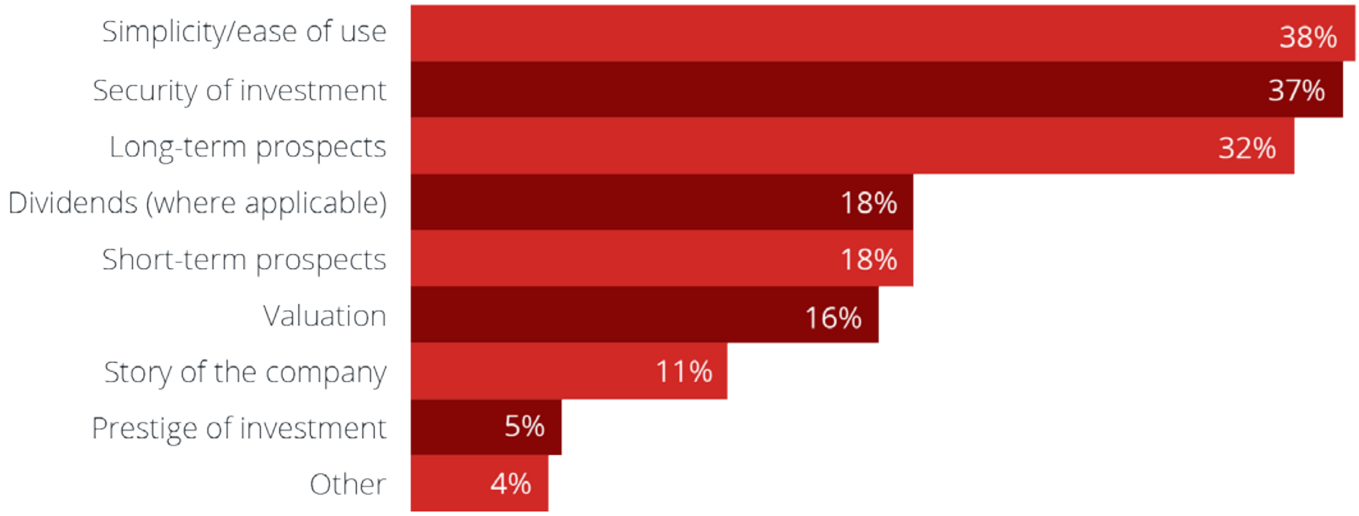
"One of our key mantras is that we need to diversify the sources of financing for businesses, not just in the UK but across Europe," explains Marcus

> **"FINALLY, WE HAVE A GLIMPSE OF THE FUTURE OF FINANCE: THE UNION OF THE STRONG ESTABLISHED SYSTEM AND THE SPRITELY, ADAPTABLE NEW."**



What would drive us to invest in equities?

Q. Which of the following messages would particularly motivate you to continue or begin investing in equities?



“WHILE THE AVERAGE UK ADULT HOLDS AROUND £173,000 IN PERSONAL ASSETS, THE MAJORITY OF THOSE WHO COULD BE MOTIVATED TO INVEST IN EQUITIES HAVE BEEN PUT OFF BECAUSE THERE ISN’T A SIMPLE AND EASY WAY TO DO SO READILY AVAILABLE TO THEM.”

Stuttard, Head of AIM and UK Primary Markets at London Stock Exchange Group.

"Over the years, smaller companies have become too reliant on just bank finance and on debt, and for a lot of high-growth businesses what they really need, rather than paying interest payments on debt or bank finance, is access to equity, which is the ultimate long-term form of finance."

Fortunately, there's a whole crowd of prospective retail investors ready to jump in and fill that gap – the only problem is they don't know how to.

The issue isn't a lack of demand, it's a lack of access.

Crowdfunding is the perfect channel to give retail investors access to private market opportunities, and provide high-growth businesses with the funding they need. Since its inception, crowdfunding has raised millions and given new ventures an invaluable supply of capital by opening up to 'the crowd' opportunities that were previously the exclusive preserve of professional investors.

The findings of Bridging the Equity Divide, a new report commissioned by SyndicateRoom to look into the investing habits and aspirations of the UK public, firmly backs up what many industry experts already know: retail investors hold the key to the future of finance.

These are the report's key findings.

Better access to equity investing

Take this hypothetical question: if you were given £10,000 today, what would you do with it? Spend it? Pay off your debts? Invest?

When we asked the public, more than half of the respondents said they would either save it or invest it; in contrast, only one-fifth said they would spend the money.

In fact, the British appetite for investing is very high when compared to the proportion of people who actually hold a stake in equities.

More than half of those we spoke to

(53%) believed their net wealth would increase if they invested in equities; among millennials (18–30) that proportion rose to 60%. Of those not already doing so, almost three-quarters (71%) of all age groups and a staggering 81% of millennials said they could be motivated to invest in equities.

While the average UK adult holds around £173,000 in personal assets, the majority of those who could be motivated to invest in equities have been put off because there isn't a simple and easy way to do so readily available to them.

Everyday investors want to participate in the public markets, but keep missing their chance

A significant 15% of the UK population has never invested in an IPO despite having the ability and desire to do so. Similarly, two-fifths of the people we spoke to said they would have invested in at least one IPO had they known about them.

With three-quarters of individuals surveyed believing they are better off looking after their own personal finances rather than using a financial advisor or wealth manager, the public equity markets are missing out on a vital source of retail investment demand.

Younger investors are more willing to take greater investment risk

Fifty percent of millennials said they are willing to invest in high-risk businesses – the demographic most likely to do so.

This appetite coincides with a strong inclination to invest in technology for both young people and the public overall: 46% of people highlighted technology as the sector they'd like to invest in.

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FREE DOWNLOAD

A full copy of Bridging the Equity Divide can be downloaded free at

www.syndicateroom.com/the-equity-divide

46%

of Britons would love to invest in stocks and shares, but don't know how to

BY JAMES FAULKNER

VIRTUAL REALITY IS HERE

"In terms of VR, I don't think it is a niche."

— Tim Cook, Apple CEO

Dawn of a New Age

Radio, telephone, television, the Internet: our world has been shaped by intermittent waves of game-changing technology. All of the innovations listed above were once unthinkable but are now ubiquitous. Perhaps the best example of how quickly our daily lives can be impacted via technological change is the smartphone: in 2007, when Steve Jobs unveiled the iPhone, global smartphone shipments numbered just 120-125 million units; by 2015, that number had risen to 1.4 billion units. What was only recently thought of as a luxury is now an integral part of everyday life.

Many informed commentators now believe it is the turn of Virtual Reality (VR) to assert itself in the mainstream. VR has the potential to have a fundamental impact on the way we work, play and communicate. The revolutionary nature of this new medium is encapsulated in the notion that it will be the first to truly re-route the human sensory system.

While estimates of the potential economic impact of this technology vary quite significantly, what is clear is that some of the world's largest technology companies are taking VR very seriously indeed. On that note, investors should too!

“THE REVOLUTIONARY NATURE OF THIS NEW MEDIUM IS ENCAPSULATED IN THE NOTION THAT IT WILL BE THE FIRST TO TRULY RE-ROUTE THE HUMAN SENSORY SYSTEM.”

The Tipping Point

The concept of VR is not new: it can be traced back to the 1960s when Ivan E. Sutherland, the "father of computer graphics" invented the first VR/AR (augmented reality) head-mounted display, to the 1990s when Nintendo launched its "Virtual Boy" gaming headset. However, until now, the technology infrastructure has not been sufficiently advanced in order for VR to gain traction in the mainstream. VR disappeared from the public consciousness in the late 1990s as the technology sector began to concentrate on other verticals such as the Internet and mobile telecommunications.

After a long hibernation, it appears that VR could now come of age. In 2012, 18-year-old entrepreneur Palmer Luckey launched a crowdfunding campaign to raise $250,000 to develop a low-cost VR headset that would be linked to a smartphone. The name of the project was Oculus Rift. The initial funding target of $250,000 was hit within 24 hours of the launch, and Oculus eventually raised $2.4 million from 9,500 backers. Incredibly, this money was also raised without any promise of a return on investment: clearly there was an appetite to see this kind of technology become a reality.

The technology used by Oculus and its competitors has only been made possible by advances driven by the smartphone revolution, from the miniaturisation of processing technology to the reduction in the size and cost of sensors. The technology's major endorsement came in 2014 when Oculus was acquired by **Facebook (NASDAQ:FB)** in a $2 billion deal. Other major tech players have taken note and the race for the VR industry has now well and truly begun.

> **"THE INSTALLED USERBASE FOR VR IN 2016 IS JUST NORTH OF 50 MILLION UNITS, ACCORDING TO HSBC."**

So where do things stand in terms of the uptake of VR technology? The installed userbase for VR in 2016 is just north of 50 million units, according to HSBC. If we consider how similar game-changing industries compared at equivalent stages in their development, it is clear that we are still in the 'colonisation' period for this new technology. For example, there were only 1.11 million PCs sold in the US in 1981 when the first IBM PC was introduced; by 2011, global PC sales reached 363 million units. It's a similar story for the Internet. Only 4.8% of the US population had internet access in 1995; by 2015 that figure had risen to 87.4%. What begins as a novelty quickly becomes accepted as mainstream once its benefits become apparent and the costs involved are sufficiently low.

Delving a little deeper into the Internet example, the technological capabilities were there for many years before the Internet really took off in a big way. But in 1995 Bill Gates wrote an internal memo entitled "The Internet Tidal Wave" declaring that the Internet was "the most important single development to come along since IBM released their first PC in 1981". The game-changer was the release of the Netscape web browser, which dramatically improved the user interface when navigating the Internet. The rest is history.

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Potential Applications: a New Medium in the Making

Clearly, the low-hanging fruit in terms of VR applications is the video games industry. However, VR's impact is potentially much more pervasive. In a world where the VR experience is totally immersive, the need to travel, either for work or play, will be progressively eroded. Although real physical interaction will never be completely displaced and will always come at a premium, it is not difficult to imagine a world where a large portion of the public would prefer to participate in various activities from the comfort of their own home, for reasons of both cost and convenience.

So although it is reasonable to expect the entertainment industry – video games, cinema, theme parks etc. – to bear the brunt of the disruptive impact of VR technology, some of the most exciting (in terms of human development) applications come from less obvious corners. The education sector is a good example of an industry that could be completely transformed by VR technol-

FACEBOOK INC (NASDAQ:FB) – TURNING A NEW PAGE IN SOCIAL MEDIA

Facebook is probably the name that most people currently associate with VR technology, courtesy of its $2 billion acquisition of Oculus Rift back in March 2014. While the most obvious immediate application of Oculus Rift is video games, Facebook CEO Mark Zuckerberg has already made it clear that he intends for the technology to have a much more wide-ranging impact: "Imagine enjoying a courtside seat at a game, studying in a classroom of students and teachers all over the world or consulting with a doctor face-to-face—just by putting on goggles in your home." Oculus recently launched pre-orders for its Oculus Rift head-mounted-display device, which it will sell at cost for $599. While this may hurt Facebook's profit margins in the short run, the firm is obviously hoping to steal a march on competitors by getting Rift into as many households as possible. That said, the key to Rift's success will be Facebook's ability to bring developers onboard, and eventually produce a franchise along the lines of a Mario (Nintendo), Halo (Xbox) or Uncharted (PS4). Thus far, Rift has failed to achieve this, although admittedly it is still early days.

ogy. 'Virtual' classrooms could radically reduce the cost of a good education whilst enhancing the quality and the appeal of the educational experience. Field trips could be conducted from the safety of the classroom, as could other interactive experiences that enhance student engagement.

In the healthcare sector, VR has the potential to drastically enhance the quality of life for the disabled and for many elderly people who feel isolated. The ability to visit places without actually being there in person also raises questions for the travel and tourism industry. This could yield benefits in terms of the impact of travel on the environment – indeed, according to Palmer Luckey, "VR is potentially our best shot at real post-scarcity economy." In a virtual world, the marginal cost of production for the vast majority of products is effectively zero. This of course raises some serious questions in terms of the future composition of the economy.

What Could VR Be Worth?

Given that we have established that the impact of VR technology could be very far-reaching indeed, it is hard to estimate the potential value of this nascent market. According to number crunchers at Goldman Sachs, the VR market could be worth $110 billion annually by 2025, making it larger than the TV market. This is based on Goldman's "Accelerated Uptake" projection, in which VR becomes more commonplace through advances in battery and cellular technologies. However, it is worth noting that this estimate is based solely on hardware sales. Factor in Goldman's estimate for VR software sales ($72 billion), and VR would generate $182 billion by 2025, making it worth almost twice as much as the TV market.

Others go further still. HSBC believes that VR will have the most direct impact on the Arts & Entertainment industry, which is currently worth around 4% of US GDP. Assuming VR captures three quarters of that value, they see VR be-

SONY CORPORATION (TYO:6758) – SLEEPING GIANT

Our very own Jim Mellon believes Sony could be the 'surprise winner' in the VR race, and if the firm's past video-game success is anything to go by, he could very well be right. Sony ousted Sega and Nintendo as the dominant force in the video games console industry back in the mid to late '90s, and since then has held its own against fierce competition from Microsoft's Xbox. What's more, Sony has pedigree in the VR industry, having first researched and developed VR products back in the '90s. It is now poised to launch Playstation VR, which creates a 3D experience using a full-HD LCD display and an optical unit with an approximately 100-degree field of view. The product also offers multi-directional sound, while a high-sensitivity accelerometer and gyroscope allows PlayStation VR to detect head movement with almost no latency (fewer than 18 milliseconds). Interestingly, Sony is also said to be the number one patent filer in the field of VR, with 366 VR patents or patents pending.

"ACCORDING TO PALMER LUCKEY, 'VR IS POTENTIALLY OUR BEST SHOT AT REAL POST-SCARCITY ECONOMY.'"

ALPHABET INC (NASDAQ:GOOG) – TAKING A MAGIC LEAP

With fingers in many pies, it is unsurprising that Alphabet (formerly known as Google) has established itself as a key player in VR. Google Cardboard is an open-source virtual reality platform that uses a simple and inexpensive cardboard viewer that wraps around a smartphone, enabling the usage of a range of virtual reality apps, covering areas such as gaming and entertainment. However, the big move came in October 2014, when Google led a $542 million investment in augmented reality (AR) startup Magic Leap, which places realistic holograms in the user's field of vision using AR glasses. The conglomerate's commitment to VR was cemented early this year when it established a virtual reality computing division and appointed Clay Bavor, the executive running its product management team, to run the new arm.

coming "at minimum" a $500 billion industry "just in the US". What's more, taking a holistic approach to analysing the impact of VR on the economy – i.e. through looking at the potential impact on each sector in turn – HSBC suggests that VR could potentially capture as much as 30% of US GDP, or about $5 trillion. Clearly, globally that figure has the potential to be larger still.

Who Will Be the Winners?

There are currently no pure-play VR investments: the key players are the major technology and media companies with investments in VR technology. A key factor in the success of companies' VR strategies will be their ability to bring developers onboard. In this sense, **Sony (TYO:6758)** possesses an advantage over competitors in that it has a product – Playstation VR – at an advanced stage of development, in addition to a critical mass of developers already familiar with its Playstation platform. With these considerations in mind, Sony appears well placed to steal a march on rivals, at least in the video games arena. Sony will be up against competition from Facebook's Oculus Rift as well as **HTC Corporation's (TPE:2498)** Vive, a VR headset co-developed with PC gaming company Valve. Vive is said to be a serious contender to Oculus, given its better displays and lower input costs – not to mention Valve's existing 100 million users.

The other major tech firms have chosen to take a less video game-centric approach to their VR strategies. **Microsoft (NASDAQ:MSFT)** has focused on developing AR enhancements for engineering and healthcare firms via its partnership with Autodesk. Microsoft HoloLens is its wireless holographic computer, which is now available to developers in the US and Canada. However, at a retail price of $3,000, it is far from being a mainstream offering. At the other end of the spectrum, **Alphabet Inc**'s **(NASDAQ:GOOG)** Google Cardboard is an open-source virtual reality platform that uses a simple and inexpensive cardboard viewer that wraps around a smartphone. This low-cost solution establishes Google as a key player in VR and seems to be a clear attempt at a 'land grab' that will help spur mass uptake. **Samsung (LON:BC94)** is also going down the smartphone route with its Gear VR, a virtual reality headset compatible with Samsung Galaxy smartphones and set to retail at $100-$200.

The other major tech giant, **Apple (NASDAQ:AAPL)**, is uncharacteristically quiet on the subject of VR/AR. However, analysts point to two acquisitions as evidence of the firm's commitment: PrimeSense, a leader in 3D-sensor technology, which was bought for $345 million in 2013; and augmented reality startup Metaio, which was snapped up in 2015. We also know that Apple has filed a patent for a VR headset that works with an iPhone, so it appears that significant progress could be being made behind the scenes.


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"SONY (TYO:6758) POSSESSES AN ADVANTAGE OVER COMPETITORS IN THAT IT HAS A PRODUCT – PLAYSTATION VR – AT AN ADVANCED STAGE OF DEVELOPMENT, IN ADDITION TO A CRITICAL MASS OF DEVELOPERS ALREADY FAMILIAR WITH ITS PLAYSTATION PLATFORM."

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WALT DISNEY CO. (NYSE:DIS) – BRINGING CONTENT TO LIFE

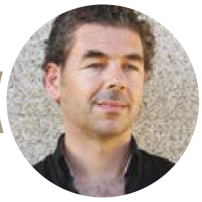
While Disney may not seem like an obvious VR play, its unrivalled stable of entertainment content puts it in an enviable position when it comes to capitalising on the proliferation of VR technology. Just imagine the myriad worlds featured in Star Wars – now owned by Disney via its acquisition of Lucasfilm – brought to life. But not content to wait for VR technology to come knocking on its door, Disney recently led a $65 million round of funding for Jaunt, a cinematic VR startup which specialises in enabling the creation and distribution of premium live-action VR. Clearly this is an early-stage investment and is relatively insignificant in terms of Disney's current market capitalisation of c. $160 billion. However, given the scope for applying VR technology to Disney's vast stable of IP, Disney has its place in any VR focused portfolio.

All this will entail significant demand for a new generation of graphics processing units (GPUs) and specialist sensor technology. All the main chip developers – **Intel Corp (NASDAQ:INTC)**, **AMD (NASDAQ:AMD)** and **Qualcomm (NASDAQ:QCOM)** – have exposure in some form or other, but they each have different approaches. AMD are targeting the higher end of the market with their dedicated computer graphics cards, while both Oculus Rift and HTC Vive need at least Intel's Core i5-4590 or equivalent CPUs for PCs to which they will be tethered. Meanwhile, Qualcomm is gunning for the lower end of the VR market, such as the smartphone-based headset market.

Less obvious plays on the VR revolution include **Disney (NYSE:DIS)**, whose unrivalled content stable place it at the forefront of those content owners who stand to benefit from licensing their IP to VR developers. Elsewhere, market-leading camera lens manufacturer **Largan Precision (TPE:3008)** stands to gain a significant share of the future shipments of magnifying lenses for VR headsets. According to analysts, the company is well placed to meet demand from a plethora of virtual reality head-mounted-device producers since it is already capable of producing a wide variety of lenses. Finally, **Himax Technologies (NASDAQ:HIMX)** has its products in three leading AR/VR prototypes currently under development by Facebook, Google, and Microsoft. It manufacturers Liquid Crystal on Silicon (LCOS) chips, or near-eye/projective micro-displays, as well as a detector camera for eye-tracking, an array camera for depth and 3D information, and LCD timing controllers. In other words, this company is involved in much of the 'nuts and bolts' of AR/VR hardware.

Putting Together a VR Portfolio

It's still too early to discern who the major winners will be in the VR revolution, so a more conservative approach for investors looking to gain exposure would be to focus primarily on those firms whose VR strategies are the most advanced – Facebook, Sony and Google – whilst also tucking away some of the more peripheral plays that might surprise on the upside. In addition to their market leadership positions, the former also have solid pre-existing businesses and make worthy portfolio holdings notwithstanding their VR exposure. Meanwhile, companies like Largan and Himax have the potential for significant share price appreciation should VR take off in a major way.



BY FILIPE R. COSTA

HOW TO INVEST LIKE... PETER LYNCH

"Go for a business that any idiot can run – because sooner or later, any idiot is probably going to run it."

— Peter Lynch

Buy What You Know

Over the last two editions of the "How to Invest Like..." column our focus has been on value investing. Benjamin Graham (issue 13) and Warren Buffett (issue 14) are two of the most respected individuals in the value investing world, having both contributed at a fundamental level to creating and perpetuating the concept. For them, investing is an activity requiring thorough bottom-up analysis to identify those businesses that offer good growth opportunities over the long term but that have been battered down by unfavourable market conditions. Both argue that investor sentiment is an unpredictable animal that plays a key role in the pricing of equities over the short term. The smart investor needs to be prepared to oppose the herd and to be optimistic when others aren't, in order to find value at a reasonable price. Ultimately, patience is the key to success, as over the long term prices tend to converge towards intrinsic value, rewarding smart investors.

"STARTING OUT AS A GOLF CADDY FOR FIDELITY'S PRESIDENT, PETER LYNCH ROSE TO MANAGE AN $18 MILLION FUND, WHICH HE TURNED INTO A $14 BILLION MEGA FUND."

This month we will complement our list of remarkable value investors with someone who survived the market test by turning a lousy fund into the best performing mutual fund in the world. Starting out as a golf caddy for Fidelity's President, Peter Lynch rose to manage an $18 million fund, which he turned into a $14 billion mega fund. Behind such an accomplishment we don't find any complex investment algorithm or complicated diversification technique derived from academic portfolio theory, but rather a simple and straightforward process.

Sometimes, all we need do is open our eyes and look around to pick up something we already know about. More than two-thirds of US GDP is made up of consumption. The aim of any business is, to a large extent, to serve and satisfy that consumer. Thus, as a consumer, you may be better equipped to select good businesses than analysts are. What's the secret for investment success? According to Lynch, its' simple: "buy what you know", and "never invest in any idea you can't illustrate with a crayon". Simplicity has always been a key ingredient in value investing, with deep research, independent thinking and long-term focus chiming in to constitute a sound strategy.

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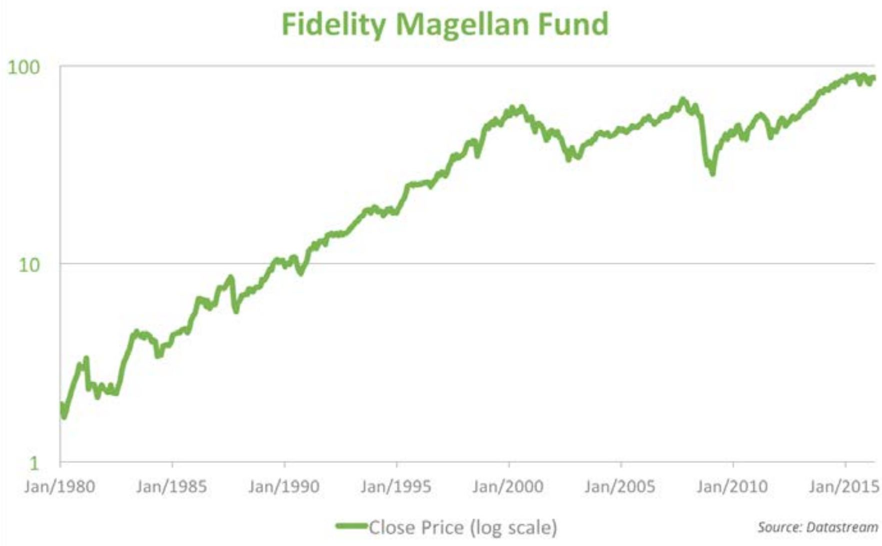
Building the Greatest Mutual Fund

Peter Lynch was born on January 19, 1944 in Massachusetts. Having graduated from Boston College with a degree in Finance and working as a golf caddy for the President of Fidelity Investments, he was able to land an internship at the firm. After a stint in the army during 1968-1969, he graduated from the University of Pennsylvania with an MBA and was then hired permanently as an analyst for the textiles, mining, metals and chemicals industries at Fidelity. Five years later he was promoted to director of research, a role which he occupied until becoming the head of the Fidelity Magellan fund in 1977.

When Lynch took over the Magellan fund it was relatively small with around $18 million of assets under management. But over a period of 13 years, the small fund was turned into the greatest mutual fund in the world. By 1990, when Lynch retired from Fidelity, the Magellan fund had grown to become a $14 billion behemoth.



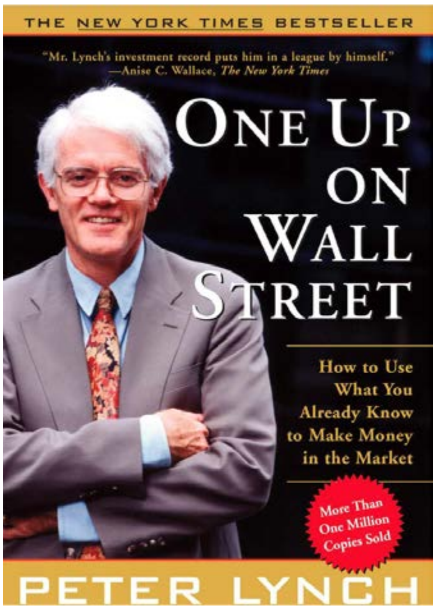
"DURING LYNCH'S TENURE AS THE FUND'S LEAD MANAGER, MAGELLAN RECORDED AN AVERAGE ANNUAL PERFORMANCE OF 29.2%, MORE THAN DOUBLE THE PERFORMANCE ACHIEVED BY THE S&P 500."

During Lynch's tenure as the fund's lead manager, Magellan recorded an average annual performance of 29.2%, more than double the return achieved by the S&P 500. For a mutual fund, which retains much less flexibility than today's hedge funds in terms of diversification needs, exposure limits and maximum leverage, such a performance can be considered to be stunningly impressive.

Unlike today's hedge funds, which often concentrate their assets in just three or four holdings, the Magellan fund usually had more than 1,000 holdings. But, interestingly, while portfolio diversification increases with the number of holdings, diversification was not the main reason behind running such a large number of assets. In fact, Lynch had never been overly concerned with short-term volatility and modern portfolio theory. Lynch is not the kind of professional that would add assets to his portfolio for the sake of diversifying risk. For him, everything depends on value. Magellan's large number of holdings was directly related with Lynch's notion of value and growth opportunities. He believed that small companies – those with less analyst coverage, from unloved industries, with ugly names, and depressing businesses – were the ones offering the best opportunities. But while it is relatively easy for individual investors to build a portfolio of small companies, the same isn't always true for a fund – even a relatively small one. The only way around this is to purchase many small companies.

A Simple Strategy

After retiring from Fidelity in 1990, Lynch co-authored with John Rothchild four books on investing: "One Up on Wall Street" (1989), "Beating the Street" (1993), "Learn to Earn" (1995) and "One Up on Wall Street: How to Use What You Already Know to Make Money in the Market" (2000). In his first book, Lynch lays down all the theory behind his investment technique, describing his main strategy. In the following books, Lynch analyses the practical implications of such strategy.



Lynch depicts in his books a huge number of rules and principles investors should follow, but his main investment principles can be summarised in just a few key ideas. Everything starts with a key concept coined by Lynch that constitutes the first principle: (1) only "buy what you know". Before digging into the numbers, an investor should make use of his senses. As pointed out above, the US economy is mainly made up of consumers. An individual investor is,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before anything else, a consumer with his own tastes, loving a few products while disliking a few others. Lynch used to go to shopping malls and give some pocket money to his sons to then follow them and watch where they spent that money. He remembers that Gap was one of those retail stores that attracted a lot of attention from teens. Why bother analysing the financial statements of companies teens don't love?

An important implication of Lynch's "buy what you know" principle is that the time and place to pick up good investments is not when working at a fancy office equipped with high-grade computers and fast internet connections, but rather when walking through a shopping mall, watching TV, reading a newspaper, jogging, and dining with friends. We should use our senses as consumers to identify good and bad products that businesses produce.

Lynch believes that individuals are in a good position to select a few good investment candidates, if they focus on their own area of expertise. All you should do is focus on what you understand and "never invest in any idea you can't illustrate with a crayon". Lynch conducted an interesting experience with kids from primary school. The kids were told to pick up a few equities from a list and then illustrate their portfolio with little drawings representing each choice they made. In the end, Lynch noticed that the kids' portfolio was composed of only things they could understand well, lacking any technology ventures and entrepreneurial risk taking. The kids went for solid stocks that were later evaluated and returned 70% while the S&P 500 returned 26% in the same period.

After the initial check that comes from the senses, it is time to (2) do your own research. Common sense is great to filter through what looks good, but thorough research is still needed to identify value. Just because you found something to be interesting, it doesn't mean others didn't too. Investors need to look at what others don't. Large market caps, companies in high growth sectors and large conglomerates are usually extensively covered by analysts, who trail every single corporate move. It is relatively difficult to find such a company, with extensive coverage, trading on a low price-earnings or low price-book ratio. Lynch believes that investors may be better off looking at companies with boring names, or offering something disagreeable or depressing. People usually avoid businesses like funerals and toxic waste management, making these much less exposed to the distortions generated by positive sentiment. Investors also acquire an edge by seeking fast-growing companies inside low-growth sectors or industries, because those are boring and less prone to analyst coverage and competition. Additionally, other favourable characteristics include low levels of competition, low analyst coverage, a low percentage of shares held by institutions, and significant purchasing activity by insiders.

Like any other value investor, Lynch opposes the efficient market hypoth-

> **"LIKE ANY OTHER VALUE INVESTOR, LYNCH OPPOSES THE EFFICIENT MARKET HYPOTHESIS AND BELIEVES SENTIMENT PLAYS A HUGE ROLE IN SHORT-TERM MARKET MOVEMENTS."**

"ALTHOUGH LYNCH'S STRATEGY DEPARTS FROM BUFFETT'S 'BUY AND HOLD STRATEGY', HE BELIEVES IN 'BUY AND ROTATE' INSTEAD."

esis and believes sentiment plays a huge role in short-term market movements, which creates a great opportunity for investors to purchase growth at reasonable prices. Opposing the herd and investing when all others are scared away from the market is what a value investor does, as the impact of sentiment on prices would by then be minimal, if not negative.

Lynch is far short of being a maths geek, but he still spends a lot of effort on analysing the numbers. Selling a great product is not enough to turn a company into a great investment opportunity. I believe the Macbook is a great product, but if I jumped into Apple's stock just because of it, I would be buying a company for which the product I love represents less than 10% of revenues. Analysing the numbers is crucial for success. "Investing without research is like playing stud poker and never looking at the cards".

Even when an investor finds a great product that accounts for a large part of a company's revenues, like the iPhone would have been in the example above, he still needs to understand how much he is paying for it. The key idea is always to purchase growth potential at a reasonable price and not at any price. For that purpose, Lynch developed the concept of the PEG ratio. The ratio divides the price-earnings ratio by expected earnings growth, allowing the identification of companies with strong growth potential on a low valuation.

As Lynch comes from the value investing school, getting a margin of safety is always important when picking equities. Lynch never attempts to predict the direction of the economy or of interest rates but he realises there is a business cycle that influences equity prices. Companies with lower leverage have a more comfortable cushion against unfavourable market conditions and are thus less likely to go bust. Investors should therefore look for strong cash positions and below-average debt-to-equity ratios.

A third key principle that is common to Graham, Buffet and Lynch is the (3) focus on the long term. Graham used to personify the short-term erratic market behaviour in "Mr. Market" to explain how sentiment influences prices. Buffet looks at short-term volatility as an opportunity to purchase good companies at reasonable prices. Lynch is no different from them. He believes investors should pick equities against the herd, when prices have been battered down by sentiment and keep them over a long period, because over the long term price is heavily correlated with fundamental value.

Although Lynch's strategy departs from Buffett's "buy and hold strategy", he believes in "buy and rotate" instead. Investors should, from time to time, review their holdings to evaluate if anything has changed. Sometimes fundamentals deteriorate and/or price has converged to its intrinsic value. At that time, an investor may replace that equity holding with a similar company with better prospects. The rotation approach keeps the focus on fundamental value while still maintaining the investor's long-term commitment.

Final Words

In focusing on the consumer, Lynch turns all of us into investors. All we need do is keep our eyes wide open and observe what we love and hate to find great companies. The best analyst is the consumer who goes to the shopping mall, watches TV and dines out with friends – not the one sitting at a desk in front of a computer. This consumer even has another advantage relative to an investment fund: he can pick up small companies with much more ease than fund managers can, as he isn't bound by any bureaucratic rules.

Lynch's main principles and rules complement the value investing approach. While there are a few differences in the specific way Lynch, Buffett and Graham implement their techniques, in general, there is always a strong commitment towards the long term, a disregard of short-term volatility, a focus on fundamentals, a focus on independent research, a complete disregard of analyst recommendations, a break with the herd... and a lot of patience!

BY JOHN KINGHAM

THE DIVIDEND HUNTER

HOW TO DIVERSIFY YOUR DIVIDENDS

As a dividend-focused investor I am of course looking to buy companies with a good yield and a sustainable and preferably growing dividend. However, I am also very much aware that dividend cuts and suspensions are a fact of life. I can try to avoid them by sticking with relatively defensive companies, but in the long-run it is inevitable that some of my holdings will reduce their dividend.

So what is a dividend investor to do? The first line of defence is to stick with companies that are more likely to sustain or even grow their dividend. In my case this means looking for companies that are well established, have little debt, good profitability and a good track record of dividend payments, among other things. But an equally powerful weapon in the war against dividend cuts is diversification.

Although diversification doesn't reduce the risk of a single holding carrying out a dividend cut, it can seriously reduce the risk that a cut will occur in a portfolio's overall dividend. After all, investors shouldn't really care too much about what happens with the dividend of any one holding; instead they should be focused primarily on their portfolio's total dividend income, and on that front diversification has much to offer.

In order to reduce a portfolio's overall dividend risk, a portfolio's diversification strategy needs to encompass more than just how many stocks it holds. The underlying companies should also be diverse in terms of what they do and where they do it, and in the rest of this article I'll explain the rules I use to manage every aspect of my own portfolio's diversity.

Diversify across lots of different companies

Having a relatively large number of holdings is probably the most obvious feature of a well-diversified portfolio. However, holding lots of different companies is simply a means to achieving the true end, which is to keep the size of each holding relatively small. For example, a portfolio with 30 holdings may sound diverse, but if one holding takes up 90% of the portfolio then in reality it isn't diverse at all. So rather than focus on the number of holdings, I prefer to focus on the size of each holding and, more importantly, the maximum size that I'm comfortable with. Many years ago I used to have just ten companies in my portfolio, with some positions taking up almost 20% of the total. I think that degree of concentration is fairly common among private investors, but having suffered significant losses with that approach I now think such large po-

> **"INVESTORS SHOULDN'T REALLY CARE TOO MUCH ABOUT WHAT HAPPENS WITH THE DIVIDEND OF ANY ONE HOLDING; INSTEAD THEY SHOULD BE FOCUSED PRIMARILY ON THEIR PORTFOLIO'S TOTAL DIVIDEND INCOME, AND ON THAT FRONT DIVERSIFICATION HAS MUCH TO OFFER."**


SUMMARY
Fund Unit Price NAV
Product C
Type 1
Type 2
Type 3
Type 4
REPORT
Quarter 1
Quarter 2
Quarter 3
Quarter 4
14%
34%
16%
36%
59%
Product D

sitions are extremely risky for most investors.

The risk of losing a lot of money from a single bad investment is much higher in a concentrated portfolio, but that isn't the only risk. Perhaps a more important risk is the impact such a portfolio can have on investor behaviour. Highly concentrated portfolios can lead to elation or worry when a single holding's share price goes up or down, because each holding makes up a significant part of the portfolio's total value. For most people, if a large holding in their portfolio goes down in value their natural feeling is worry and pain and their natural reaction is to escape that pain by selling. This often leads investors to sell at low valuations, which is the opposite of the "buy low/sell high" principle.

"SECTOR DIVERSITY IS PERHAPS THE BIGGEST DRIVER OF INVERSE CORRELATION AMONG HOLDINGS – IN OTHER WORDS THAT SOME WILL GO UP AS OTHERS GO DOWN."

In summary then, the first goal of diversification is to reduce not only the actual riskiness of the portfolio, but also the risk that movements in any one holding will cause the investor to make a bad knee-jerk decision.

There are no hard and fast rules for what is an appropriate maximum position size, but personally I start to feel uncomfortable if a holding gets much above 5% of the total. If it hits 6% I'll reduce exposure to that one company by selling around half of the position and in most cases that means selling high rather than selling low. With 6% as my upper limit for each position I like to start each new investment off at around 3% to 4% of the portfolio, which gives them room to grow before they hit that 6% limit. That 3% to 4% starting position means that in practice my portfolio has around 30 holdings at any one time.

For me 30 holdings is about right and provides a nice balance between diversification on the one hand and the effort required to keep up to date with each investment on the other. You might prefer to hold more or less than 30 stocks, and if you hold some of your investments in funds rather than shares then you may not need anything like as many individual stocks, but it's still a good idea to put an upper limit on the size of any one stock.

Diversify across lots of different sectors

Holding lots of different companies is the biggest step an investor can take towards diversifying their portfolio, but it is only the first step. Having decided on a maximum size for each holding and the approximate number of holdings in the overall portfolio, it's a good idea to think about how many holdings should come from any one industry or sector.

Sector diversity is perhaps the biggest driver of inverse correlation among holdings – in other words that some will go up as others go down. This is because some sectors are affected in opposite ways by the same economic environment. For example, low oil prices may be bad for companies that extract oil because although demand for oil may go up it might cost more to extract each barrel of oil than it can be sold for on the open market. However, if demand for oil goes up as oil prices go down, companies that ship oil around the world may see their revenues and profits go up.

DEFENSIVE SECTORS

Aerospace & Defense; Beverages; Electricity; Fixed Line Telecommunications; Food & Drug Retailers; Food Producers; Gas, Water & Multiutilities; Health Care Equipment & Services; Mobile Telecommunications; Nonlife Insurance; Personal Goods; Pharmaceuticals & Biotechnology; Tobacco

CYCLICAL SECTORS

Automobiles & Parts; Banks; Chemicals; Construction & Materials; Electronic & Electrical Equipment; Financial Services; Forestry & Paper; General Industrials; General Retailers; Household Goods & Home Construction; Industrial Engineering; Industrial Metals & Mining; Industrial Transportation; Leisure Goods; Life Insurance; Media; Mining; Oil & Gas Producers; Oil Equipment, Services & Distribution; Real Estate Investment & Services; Software & Computer Services; Support Services; Technology Hardware & Equipment; Travel & Leisure

In the real world the impact of the economy on each industry or sector is incredibly complicated and complex, so rather than trying to work out exactly how each sector will behave under different economic conditions I simply focus on holdings stocks from a diverse range of sectors.

As with the number of companies in a portfolio, how many sectors you invest in is a personal matter. In my case I don't like to have much more than about 10% in any one sector, so with a portfolio of 30 stocks that works out to no more than three per sector.

How you diversify across sectors will depend to some extent on which sector categorisations and definitions you use. I get mine from ShareScope, which uses the Industry Classification Benchmark (ICB) definitions, as do many other data providers. You can see a list of all the defensive ICB sectors in Table 1 and all the cyclical sectors in Table 2. If your data provider uses different sector definitions (as MorningStar does, for example) then you'll need to adapt your diversification rules to suit.

Diversify between cyclical and defensive sectors

As well as diversifying across many different sectors I think it's also a good idea to control how your portfolio is split between cyclical and defensive sectors. If you're obsessed with reducing income and capital risk then you may want to have your portfolio invested primarily in defensive sector stocks. On the other hand, if you're willing to accept greater risk in pursuit of greater gains, then a focus on cyclical sector stocks would make sense.

"I LIVE AND WORK IN THE UK AND SO I DON'T WANT MY INVESTMENTS TO BE OVERLY IMPACTED BY THIS COUNTRY'S ECONOMIC UPS AND DOWNS, OR IN FACT THE ECONOMIC UPS AND DOWNS OF ANY ONE COUNTRY."

I prefer the middle way and so I try to hold a more or less equal number of stocks in both cyclical and defensive sectors. In practice the exact split may not be 50/50, but generally I aim to have at least half of my portfolio in defensive sector stocks.

If you don't use the ICB sector definitions then your data provider may categorise each of their sectors as cyclical or defensive, otherwise you'll need to split them into cyclical and defensive using your own judgement.

Diversify across many different countries

The last aspect of diversification which I take into account is geographic diversity. I live and work in the UK and so I don't want my investments to be overly impacted by this country's economic ups and downs, or in fact the economic ups and downs of any one country. To avoid excessive exposure to a single country a truly diverse portfolio would generate its total revenues, profits and dividends as much from international sources as from the UK, and preferably from as many different countries as possible.

To work out the geographic spread of a portfolio you need to know the geographic spread of each individual holding, but finding that data can sometimes be a bit tricky if not downright impossible. In their annual reports, some companies will quite helpfully state what percentage of their revenues or profits came from various geographic regions, including the UK. For example, a company's results might

state that revenues are generated 35% from the UK, 50% from the USA and 15% from Germany. Other companies may simply state that 50% of revenues came from Europe and 50% from the USA, while other companies may be even more vague than that. If you look through a company's annual report and there is no explicit mention of where its revenues or profits came from, then an educated guess is probably the best option.

One alternative to looking through annual reports is to use a data provider such as MorningStar Premium or SharePad, both of which show the geographic split of revenues and/or profits for many companies. However, their data is still based on data from annual reports and so vague information such as "50% of revenues from Western Europe" is still possible, as is the need for the occasional educated guess.

Once I have a number for the UK revenue percentage for each holding (I tend to focus on revenues, although you could focus on the geographic spread of profits if you prefer) I simply calculate the average of that value for the portfolio as a whole. That average UK revenue percentage gives me a ballpark figure for a portfolio's exposure to the UK economy and – as a general rule of thumb – I like to keep that exposure below 50%. I invest primarily in

FTSE 100 and FTSE 250 companies and for the most part they are relatively UK-focused indices, but so far I haven't found it especially difficult to keep my portfolio's UK exposure below 50%.

Much like any other aspect of diversification, if for some reason my portfolio finds itself with an average UK revenue percentage of more than 50%, then I'll just make a small adjustment with my next buy or sell trade. If I was looking to sell one of the least attractive holdings (which I do on a regular basis) then I would look to sell one of the more UK-focused holdings rather than one with a more international business. Alternatively, if I was looking to buy something new then I would try to find a company where less than 50% of its revenues came from the UK in order to reduce the portfolio's UK exposure.

None of this is rocket science, but by taking position size, industry, cyclicality and geography into account, a dividend portfolio can be made much more robust and much less risky, without necessarily reducing its potential returns.

About John

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

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

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

Master Investor readers can purchase The Defensive Value Investor by John Kingham for 25% off when buying direct through the publisher, Harriman House.

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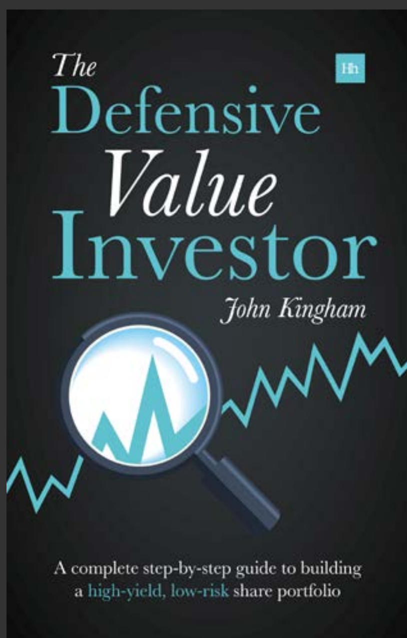


BY NICK SUDBURY

FUNDS IN FOCUS

HEAD IN THE CLOUD

Investing in companies that develop or utilise new technology can be a rewarding but risky business. If you had money in the markets during the run up to the dotcom bubble that burst so dramatically in March 2000, you will know exactly what I mean. Stocks like Amazon and eBay that survived the subsequent fallout have gone on to become household names, whereas the likes of Pets.com and Boo.com have largely been forgotten.

The world has moved on since then and although there are still plenty of tech start-ups there are also lots of established global technology giants that have become part of our everyday lives. You would be hard pressed to find anyone aged under 50 that hasn't used Facebook and Google or bought something from Amazon using a smartphone or tablet made by Apple or one of its competitors. This doesn't mean that they will all be profitable investments, but at least it gives the fund managers who concentrate on this part of the market something tangible to work with.

There are 14 open-ended funds in the Investment Association's Technology & Telecoms sector and many of them have built up a good track record. They have been helped by the strength of Facebook, Amazon, Netflix and Google owner Alphabet, which have become known as the FANG stocks.

"IN 2015 THESE FOUR SHARES PRODUCED AN AVERAGE RETURN OF 83% AND WERE RESPONSIBLE FOR MOST OF THE US STOCK MARKET'S POSITIVE PERFORMANCE."

In 2015 these four shares produced an average return of 83% and were responsible for most of the US stock market's positive performance, but the year-to-date returns have been a lot more mixed. By 17th May only Facebook and Amazon were in positive territory, whereas Netflix and Alphabet had both given back some of last year's gains, with some investors starting to wonder if the FANG stocks have lost their bite.

Open-ended options

The 14 Tech funds have made an average return of 52% over five years, with four of them – Fidelity Global Technology, Pictet Digital Communication, L&G Global Technology Index and Close FTSE techMARK – up by over 70%. In the last 12 months it has been more of a struggle, with the sector generating an average loss of 1.5%.

The best performer with a five-year gain of 84.7% was **Fidelity Global Technology**, which also happens to be the largest fund in the sector, with assets under management of £616m. It has been managed by Hyun Ho Sohn since March 2013 and invests in companies that have, or will, develop products, processes or

services that will provide, or will benefit significantly from, technological advances and improvements.

Almost three-quarters of the fund is invested in the US, where most of these companies are based. At the end of March the two largest weightings – Apple and Alphabet – accounted for 18% of the portfolio, while the other significant holdings included IBM, Samsung Electronics, Intel, Baidu and Cisco. The fund is registered in Luxembourg and has ongoing charges of 1.17%.

Pictet Digital Communication provides a very different type of exposure. The fund seeks to achieve capital growth by investing at least two-thirds of its assets in companies that use digital technology to provide interactive services and/or products associated with interactive services in the field of communication. It has an impressive five-year return of 78.9% with ongoing charges of 1.2%.

The fund's two main sector exposures are to Online Advertising and Network Operators that make up just over half of the assets, with its other key areas being E-commerce, Interactive Entertainment, and Devices. It is a relatively diversified exposure with the 10 largest positions accounting for 44.2% of the 43-stock portfolio. These include the likes of AT & T, Alphabet, Comcast, Facebook, Verizon Communications and Amazon.

Successful trackers

You might think that a specialist area like technology would be one where active managers would be able to add considerable value, but the third best performer in the sector is an index tracker. The **L&G Global Technology Index** fund tracks the performance of those companies in the FTSE World Index that are engaged in IT activities.

Almost 80% of the constituent stocks are listed in the US, with the three largest being Apple (14.95%), Microsoft (10.48%) and Alphabet (10.96%), while the other main holdings all have weightings of less than 5%. It is up 77.4% over five years and the ongoing charges are a much more reasonable 0.32%.

The fourth best performer is another tracker. **Close FTSE techMARK** aims to replicate the performance of the FTSE techMARK Focus Index and has generated a five-year return of 76.6%. The benchmark is made up of technology stocks with a market value of less than £4bn that are listed on the London Stock Exchange's techMARK market.

The fund has a concentrated portfolio with the 10 largest holdings accounting for 60.5% of the assets. These include the likes of Shire PLC, ARM Holdings, BAE Systems, Smith & Nephew, Sage Group and Betfair. Its four main sector allocations are Software & Computer

"YOU MIGHT THINK THAT A SPECIALIST AREA LIKE TECHNOLOGY WOULD BE ONE WHERE ACTIVE MANAGERS WOULD BE ABLE TO ADD CONSIDERABLE VALUE, BUT THE THIRD BEST PERFORMER IN THE SECTOR IS AN INDEX TRACKER."

Gil C / Shutterstock.com

Services, Aerospace & Defence, Pharmaceuticals & Biotech, and Technology Hardware & Equipment. The ongoing charges are 0.69%.

Technology ETFs

According to data from FE Trustnet, there are 71 ETFs operating in the Technology, Media and Telecoms sector. The average five-year return is 46.4%, but this masks a massive variation with six of them up by more than 100% and two of the short funds down by over 50%.

Given the strong performance of the sector, it is no great surprise that the biggest gain was from **Direxion Daily Technology Bull 3X Shares**, which increased by a massive 247.3% over five years. This leveraged ETF aims to generate three times the return on the underlying index before fees and expenses.

It is benchmarked against the Technology Select Sector Index, which is based on the tech companies in the S&P 500. The fund's largest holdings at the end of March were Apple, Alphabet and Microsoft with weights of 10% to 14%. If the share price performance of these sorts of stocks were to decline it would have a magnified impact on the returns from the fund.

The second best performer also offers a leveraged exposure to the sector. **ProShares Ultra Technology** aims to deliver twice the daily performance of the Dow Jones US Technology Index. It has the same sort of holdings as the Direxion ETF, although the weightings are slightly different and the five-year return is a more modest 142% as you would expect.

The most successful non-leveraged ETF is the **PowerShares NASDAQ Internet Portfolio** with a five-year return of 122%. This tracks the NASADQ Internet Index, which is comprised of the largest and most liquid US companies that are engaged in internet-related businesses. At the end of March the five holdings with weightings of more than 5% were: Baidu ADR, Amazon, Alphabet, Facebook and Priceline.

There are also a number of other ETFs that provide exposure to specific sub-sectors of the tech market. These include: the iShares PHLX SOX Semiconductor Sector Index, the First Trust NASDAQ CEA Smartphone Index and the First Trust ISE Cloud Computing Index.

Closed-ended alternatives

There are only two investment trusts operating in the sector, with the best five-year performer being **Allianz Technology (ATT)** with a cumulative return of 70.5%. It is managed by Walter Price, a veteran with 40 years of experience of investing in technology, who is based in San Francisco to be nearer to all of the companies operating in Silicon Valley.

Price thinks that security is an attractive secular growth area in technology. He says that the increasing sophistication and persistence of cyberattacks has triggered more spending towards providers offering new security technologies and that this trend will continue for several years.

"FACEBOOK HAS A BILLION USERS EVERY DAY – EQUIVALENT TO ONE-SEVENTH OF THE WORLD'S POPULATION."

The £152m portfolio is invested in 59 holdings with the largest positions being Apple, Microsoft, Workday, Amazon and Facebook. It has been a consistent performer with healthy double-digit share price returns in 2013, 2014 and 2015, although it made a small loss in the first quarter of 2016 and is now trading on a 7.1% discount to NAV.

The other closed-ended fund is the **Polar Capital Technology Trust (PCT)**, with a five-year share price return of 56.3%. It is much bigger with total net assets of £826m and has a larger portfolio of 126 positions, although the top four – Alphabet, Apple, Microsoft and Facebook – account for a hefty 28.7% of the total allocation. Like ATT it was in negative territory for the first quarter and has moved to a 6.2% discount.

Ben Rogoff, the Director of Technology at Polar Capital, notes that Facebook has a billion users every day – equivalent to one-seventh of the world's population. He also likes Amazon and says that it should benefit from years of growth from its e-commerce arm, while Amazon Web Services is dominating the use of the cloud. It's a growth-centric approach with the fund investing wherever the growth is strongest.

Technology funds have had a good five years even though the last 12 months have been a lot more volatile with several sharp peaks and troughs. It is the sort of area that is only really suitable for adventurous, long-term investors, but those who stick with it are likely to be well rewarded. The 21st century is no place for Luddites.

BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

SWEET LIKE CHOCOLATE? THE SMALL CAP COCOA KINGS

Chocolate has been an integral part of human history for over four millennia. Initially used to make a bitter drink in Latin America around 2,000 BC, core ingredient the cocoa bean has been a symbol of power and luxury, and was even used as a currency by the Aztecs. In the 21st century (according to analysts at MarketsandMarkets) the global chocolate industry is now worth an estimated $98 billion per annum, having grown from a value of $83 billion in 2010.

Driving demand for the sweet stuff are a number of factors, including a rising global population, increasing disposable incomes and a move towards more "Westernised" tastes in Asian countries such as China and Japan. Analysts at Euromonitor estimate that the annual per capita consumption of cocoa is just 50 grammes in China, compared to 5.56kg for the gluttonous Belgians, thus giving plenty of room for further growth should China continue to develop its sweet tooth.

So how can investors gain exposure to the chocolate market?

In London of course we have a multitude of retailers which sell chocolate. But this is only a very small part of their overall offering. When Thorntons left the market last year after being taken over by **Ferrero** there were in fact no pure play chocolate focussed businesses left listed in London. This followed the controversial takeover of FTSE 100 constituent Cadbury by **Kraft (now Kraft Heinz Co. (NASDAQ:KHC)**) in 2010.

Investors currently looking for a blue-chip chocolate/confectionary company will have to turn to Europe, where **Barry Callebaut (SWX:BARN)**, **Nestle (VTX:NESN)**, and the tongue twisting **Chocoladefabriken Lindt & Spruengli (SWX:LISN)** trade, or to the US and the likes of **Hershey's (NYSE:HSY)**.

> **"THE COCOA BEAN HAS BEEN A SYMBOL OF POWER, OF LUXURY AND WAS EVEN USED AS A CURRENCY BY THE AZTECS."**

Having sifted through the current London small cap constituents, I have identified two companies whose operations are primarily exposed to the chocolate markets. They are different in many respects but both have interesting investment cases.

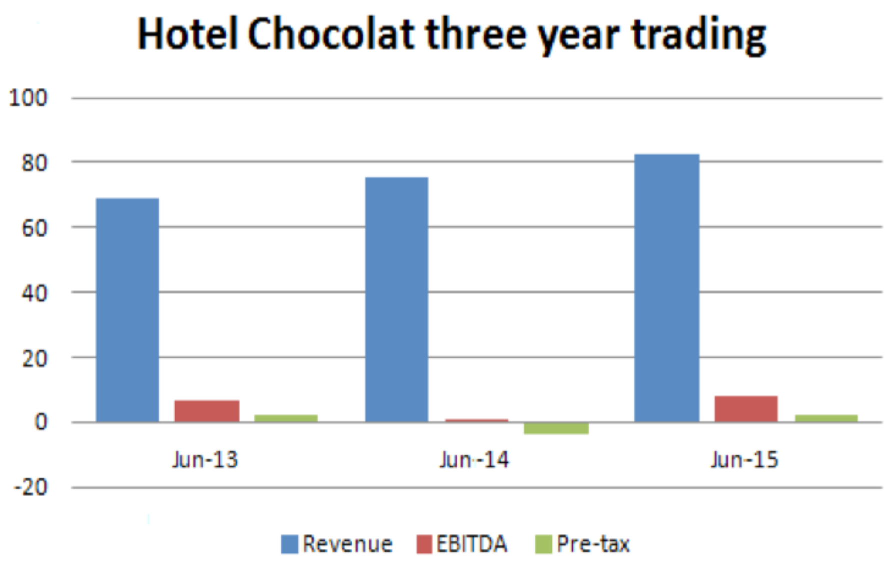
HOTEL CHOCOLAT

The complete lack of UK listed chocolate makers changed in May this year after **Hotel Chocolat (LON:HOTC)** joined AIM in one of the largest IPOs of the year to date, raising £9.5 million net for itself (and £43.5 million for selling shareholders) in order to accelerate its growth plans. Founded in 1993 and operating the Hotel Chocolat brand since 2003, the business is now a highly profitable premium chocolate manufacturer and retailer.

The firm's unique selling point is its high quality range of premium chocolate and confectionary. Cocoa levels in its products are typically higher than in those of competitors (up to 100% in some cases), thus increasing quality and enabling a premium price to be charged. The products are clearly in the "luxury" bracket, with products at the higher end priced up to £300. But with the firm's popular "Selector" range providing three packs of quality chocolate for £8, Hotel Chocolat appeals to a broad swath of consumers.

HOTEL Chocolat. BRITISH COCOA GROWER

"ON A HISTORIC BASIS THE SHARES ARE ON A MULTIPLE OF OVER 90 TIMES NET PROFITS."



The UK is the firm's core market, where it currently has 81 retail stores and makes 94% of its revenues. These are supported by a burgeoning online operation, a subscription based Tasting Club with 70,000 members, several on-site cafes and a small wholesale & corporate gift operation. Unlike Thorntons, the company does not sell its products to supermarkets or other mass market retail outlets, thus preserving the luxury nature of the brand. Most products are manufactured at the firm's dedicated facility near Cambridge, with a nearby facility providing distribution.

Elsewhere, there are three stores in Copenhagen, Denmark, which is acting as an international test market. Hotel Chocolat also owns a cocoa plantation in Saint Lucia which provides the core ingredient for the firm's super premium "Rabot 1745" range. On site there is also a hotel, spa restaurant and visitor centre.

The firm's growth strategy is simple, being focussed on expanding its portfolio of shops and cafes, redeveloping the consumer website and increasing the capacity of the Cambridge factory.

Making a mint

Hotel Chocolat's founders, Angus Thirlwell and Peter Harris initially began working together in 1987 on a business which sold mints to corporate customers. Since then they have grown Hotel Chocolat into a business which looks set to hit £100 million in revenues in the next few years. They also have a flair for finance, having raised money for the company in the past in the form of "chocolate bonds" – loans which instead of paying a coupon to investors entitle them to boxes of chocolate.

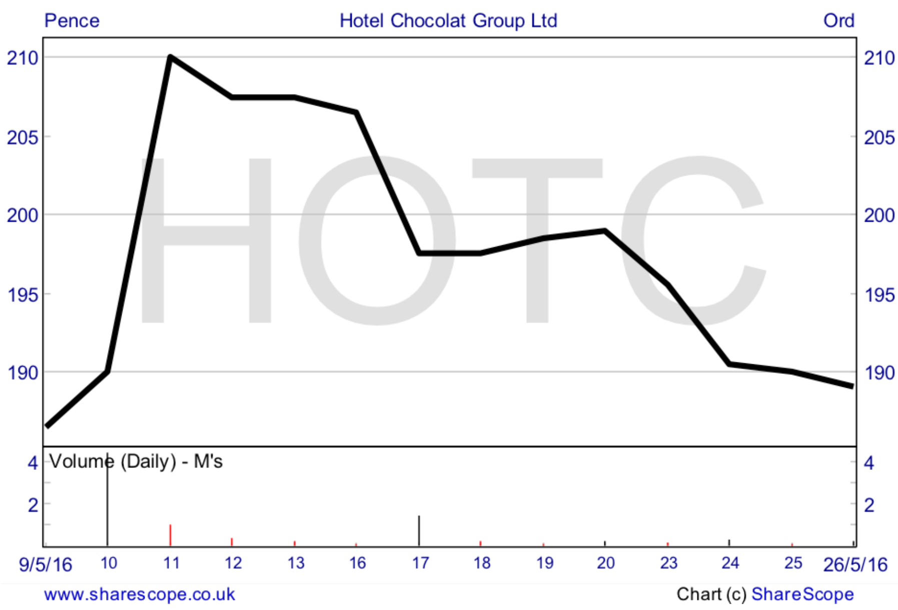
Driven by an expansion of the store portfolio, revenues grew by a CAGR of 9.5% to £82.6 million over the two years to June 2015. The profit performance has been more erratic, however, with the firm actually posting a statutory pre-tax loss of £3.7 million in 2014 on the back of investment in the business, reorganisation costs and an exit from unsuccessful ventures in the US and Netherlands. While 2015 saw profits recover, the first-half profit of £5.1 million being reduced to £2.8 million for the full year shows the seasonal nature of the business.

More recently, numbers for the 26 weeks to 27th December showed revenues up by 14% at £55.7 million and pre-tax profits up by a more pronounced 73% at £8.8 million as operational gearing kicked in. Net debt at the period end was a modest £0.74 million. Trading through the spring, including the key Easter period, is said to have been in line with expectations.

Premium brand, premium price

Investors have reacted well to the company's AIM listing, with the shares currently trading at 189p, up by 28% on the IPO placing price. Hotel Chocolat is now capitalised at £213 million, which just like the chocolate its sells, is a premium price. On a historic basis the shares are on a multiple of over 90 times net profits (to June 2015). However, given the performance posted in the first half of the current year, and given the investment being put in the business, the forward multiples are more relevant here.

House broker Liberum is looking for 9% revenue growth per annum up to



2020, driven by the expanding store portfolio. Boosted by efficiency gains from scaling up, operating margins are also expected to rise, resulting in a forecast net profit of £8.8 million in 2018. Thus the two year forward multiple is 24 times. While no dividend is being paid at present the firm is looking to implement a progressive policy, with the first payment expected for the 2017 financial year.

I like Hotel Chocolat as a business. The company has a clear niche operation which sells quality products and a management team with an excellent track record. And similar operators in the luxury cafe/confectionary sector, notably the upmarket cafe owner **Patisserie Holdings (LON:CAKE)**, have done very well in the area. **But on balance, the valuation here looks to be pricing in a lot of growth which hasn't yet been delivered yet so any investment in Hotel Chocolat should be looked at as long term.**

UNITED CACAO

While Hotel Chocolat incorporates many layers of the chocolate making value chain within its business, this next stock only carries out one – the growing of cacao trees, which provide the core ingredient used in all chocolate products – the cacao bean. (*Note that the terms cocoa and cacao are not technically interchangeable but I use them as if they were in this article).*

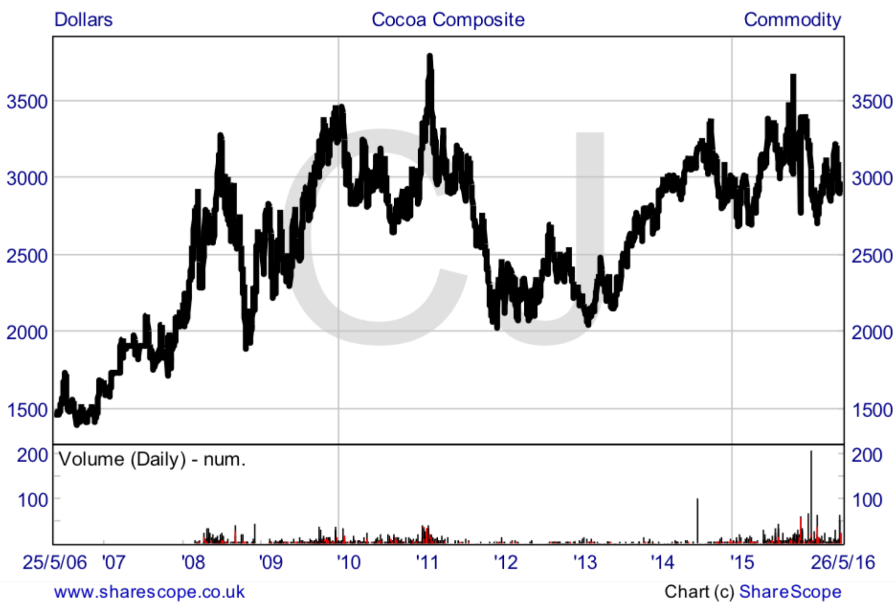
United Cacao (which has the appropriate EPIC code **LON:CHOC**) is a Peru based cacao plantation owner. It is a relatively recent addition to the markets, having joined AIM in December 2014, raising £6.4 million, in order to drive its strategy to become the world's largest and lowest cost corporate grower of cacao. However, while progress is being made on this front, if certain special interest groups get their way the company might not succeed in its strategy. More on that below.

Keen for beans

United Cacao was founded by Dennis Melka, a former investment banker and director at former AIM listed palm oil business Asian Plantations. Melka has a good track record in the markets having listed Asian Plantations at 75p per share in 2009 before selling the company for 220p per share in October 2014. He set up United Cacao in order to take advantage of favourable conditions in for cacao producers.

To explain the situation briefly, the growing demand for chocolate mentioned in the intro to this article is set against a backdrop of supply constraints, with cocoa stocks also dwindling due to rising amounts of beans

"THE MARKET CHARACTERISTICS HAVE RESULTED IN THE COCOA PRICE DOUBLING OVER THE PAST 10 YEARS."



being ground for use in production. The most recent forecasts from the International Cocoa Organization are looking for a 1.8% fall in production for the current "cocoa year" which runs to end September and a 1.9% rise in grindings, resulting in a 113,000 tonne supply deficit. The market characteristics have resulted in the cocoa price doubling over the past 10 years.

United Cacao

Planting the seeds

Located near the city of Iquitos on the Amazon river, United Cacao came to market with c.3,523 hectares of freehold agriculture land. The area is ideal for the company with cacao being an indigenous tree species to the Iquitos area, there being ideal growing conditions and access to a low cost labour force.

In April 2015 the firm then announced plans to expand via a programme known as PAPEC, the Programa Alianza Producción Estratégica Cacao. Under the scheme the company is providing low cost financing to farmers for the planting of cacao which will then be bought by the company. The firm is looking to finance more than 3,250 hectares by 2018 under the programme, which represents a doubling of its target planted area. This positive attitude to helping local communities is a core part of the company's philosophy, with ethics being high on the agenda in an industry which in some countries sees child labour and even slavery used in the growing of cacao.

Recent progress

By the end of June last year the company had reached a total of 1,150 planted hectares on its own estate with an additional 17 under the PAPEC programme. While no updates have been released to the market since, in its interim results the company said it was looking to have a total of 1,950 hectares planted by the end of 2015, split 1,750/200 between owned estate and PAPEC.

By the end of 2016 the company expects to have 3,000 hectares planted (2,500/500), subject to working capital, with the owned estates fully planted up to 3,250 hectares during the first half 2017, slightly behind the end-2016 target set at IPO.

Initial harvesting has begun from trees planted in Q4 2013 but so far these have been used as seedling material for further planting. The first commercial sales are expected late this year or early next year, with production rising until 2022 when the estate is expected to reach peak maturity. At this point the company is expecting to harvest a minimum of 2.5 tonnes per hectare per annum. Harvests closer to 3 tonnes per hectare are hoped for, with the addition of a next generation planting material giving the potential for over 4 tonnes of cacao per hectare. The trees are expected to produce for between 30-40 years, making this a long life asset.

To support corporate activity United Cacao listed on the Lima Stock Exchange in June last year and then in October completed another funding round as the money raised from the IPO was only expected to fund the planting of the estate up to 2,000 hectares. In Peru the company raised $1.28 million via an equity placing at c.176p per share, with another $6.08 million raised via the issue of 7% convertible bonds. The money is being used to finance additional planting of the estate, to part fund the roll-out of the PAPEC programme and for working capital.

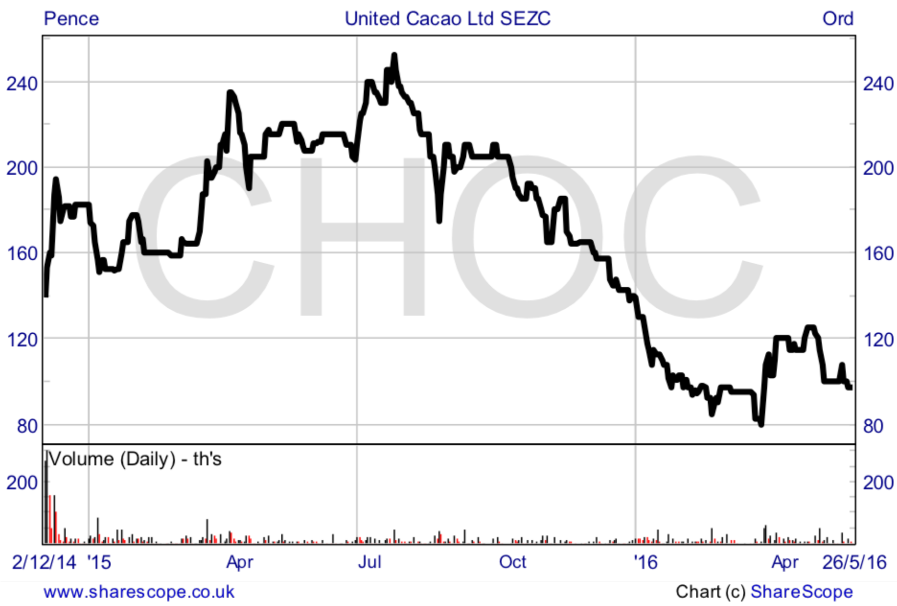
Sweet economics but bitter enemies

The planned economics of the firm's own estate look compelling should all go to plan. Using a "back of the envelope" calculation, at full maturity and full planting we have 3 tonnes per hectare multiplied by a cocoa price of c.$3,000 multiplied by 3,250 hectares. This equates to revenues of c.$29 million per annum. With expected costs of around $2,250 per hectare that equates to a total annual profit contribution of c.$22 million (£15 million).

While this is before corporate costs there is no corporation tax due as the Peruvian Amazon is a designated zero tax zone until 2048 (pursuant to the Law 27037 – Promotion of Investment in the Amazon). There are also no agricultural export taxes in Peru. Set against a current market cap of £18.7 million, the long-term investment case here looks potentially outstanding.

However, as alluded to in the introduction, there is a huge elephant in the room here.

Put bluntly, a number of so called special interest groups have accused United Cacao of illegally clearing rainforest in the Peruvian Amazon. This came to a head on 5th May this year when the company was forced to release a statement to the stock market completely refuting these claims, stating that it operates in full compliance with all applicable laws.



To fully analyse this issue I would probably have to write another 100,000 words or so – in fact it would probably fill the whole magazine. But to give my own opinion of the situation I would note that the company, and Dennis Melka in particular, have been particularly open and willing to respond to the allegations, using certain media outlets to fully explain why the claims against United Cacao are false. But knowing the agenda of environmental groups this issue is likely to be hanging over the shares for a long time.

To give an overall recommendation here is tricky.

Given the issues involved, if I said the shares are an outright buy I think I would look like (with apologies to Roald Dahl) a bit of a Willy Plonker. Instead (with apologies to Forrest Gump), I could sum up by saying... *"an investment in United Cocoa is like a box of chocolates, you don't know what you're gonna get".*

But being serious, what I would say is that risk averse investors would probably want to stay away from United Cacao at present. **But those with a more adventurous attitude should be attracted to the company given its exciting economic potential and management team with a proven track record for delivering excellent returns.**

BY VICTOR HILL

OPPORTUNITIES IN FOCUS

THE ANGLOSPHERE IS AN EMERGING CIVILIZATION-STATE

In the next stage of the Information Age nations which share a cultural affinity will coalesce into closer political and economic partnerships. The principal cultural affinity of the UK is with other English-speaking nations, not Europe (which is heterogeneous, anyway). The forthcoming EU referendum in the UK is an opportunity to begin to realign our politics and economics with the shared civilization that is the Anglosphere.

What do Britain, Canada, Australia and New Zealand have in common? Quite a lot, actually.

They were all once part of the same political entity whose name we are now ashamed to mention – the British Empire. They all speak English. They use a system of common law based on the adversarial principal of defence and prosecution, adjudicated not by a Prosecutor, but by a jury. They are all stable democracies which enjoy a high degree of political liberty and free speech. They respect the rule of law. They have generally pro-business economic systems that have secured a high degree of prosperity for their citizens. (They have never been in the grip of Marxist ideology.) They all enjoy a vibrant media which reflects a broad spectrum of opinion based on a shared revulsion for political censorship. A high degree of transparency makes for generally good corporate governance. They all boast brilliant writers and film-makers who continue a rich literary and filmic tradition.

Although most of their citizens still trace their origins back to the British Isles, many have come from elsewhere; and all these four nations are proud of having achieved a high degree of social cohesion while celebrating racial and religious diversity. The Anglosphere therefore is *not* a racial concept. Canadian Prime Minister Justin Trudeau's cabinet includes four Canadians of Indian heritage, just as David Cameron's cabinet has one Briton of Pakistani and one of Indian heritage.

And, in all four countries, that social cohesion is being challenged at the margin by Islamic extremism in similar ways – with the possible exception of New Zealand, which has a relatively small Muslim minority. This natural tolerance, even celebration, of diversity is deep-seated and draws on notions about fairness and justice that owe nothing to the Franco-German intellectual tradition of Rousseau, Hegel and Marx.

And they all share the same head of state. A French friend of mine was amazed on his arrival in Australia that the Queen's head smiled at him from an Ozzie Dollar bill. New Zealand stamps bear the Queen's familiar profile; and those acquiring Canadian citizenship must swear allegiance to Her Majesty. These four

nations, linked by a common heritage, are all leading members of the Commonwealth, of which the Queen is head.

Sporting competition is also important for all these nations – though Canada is the odd man out here, preferring to play baseball to cricket or rugby. It would appear sometimes that *The Ashes* (the periodic cricket tournament between England and Australia) is a continuation of war by other means, so fiercely competitive are our valiant Australian opponents; and yet it brings us together (even though they normally win).

This is all very comforting you may say – but does it amount to anything in economic and political terms? That's the question I want to ask here. As we in the UK approach the momentous decision that we have to make on 23 June, its answer could determine what a post-Brexit Britain might look like. And it should already influence our investment strategy, as I shall explain.

Of course there are important differences between the English-speaking nations. These four nations enjoy radically different climatic conditions and geographies and their economies are structured very differently. And, because they are far apart from each other, they are not necessarily natural trading partners (though Australia and New Zealand are good neighbours: Sydney to Auckland is a three-hour flight). Their economic cycles are not always in sync. And yet they have fundamentally similar ways of doing business.

Looking at the table, it's shockingly obvious that Australia and Canada are massive countries (okay, there's a lot of desert in Australia and a lot of tundra in Canada) while New Zealand and the UK are diminutive. But the combined population of Australia and Canada is less than that of Britain while New Zealand's population is about half that of

Debra James / Shutterstock.com

London. What is really striking, however, is that in GDP per capita terms they are all very similar – even more so if you compare them in purchasing power parity (PPP) terms. *Despite their extraordinarily different geographies, unlike the states of the European Union, they are all at almost identical levels of economic development.*

Just to complicate the picture, however, there is more than one Anglosphere. When the French talk about *les Anglo-Saxons* and when Yanis Varoufakis talks about *the Anglos*, they are thinking of the axis between the UK and America, especially in its financial and banking incarnations.

The USA is the English-speaking Republic which parted company with the British Empire 240 years ago. It grew up to be a colossus, overtaking the economy of the former Mother Country to become the largest economy in the world in the early 1870s, and emerging as a global superpower during WWII when it backed the then weakening British Empire in its *finest hour*.

Do the Americans regard themselves as a part of the Anglosphere? I think so; but not in the way the Commonwealth Four do. Interestingly, they seem to regard the Anglosphere as including all countries which have a high proportion of English-speakers. (Much as

Country[i]	Land Area	Population 2015	GDP 2015	GDP/capita
Australia	7,692,024 km2	24,086,700	$1.137 trillion	$47,318
Canada	9,984,670 km2	36,048,521	$1.628 trillion	$40,409
New Zealand	268,021 km2	4,688,920	$0.1732 trillion	$36,950
United Kingdom	242,495 km2	64,716,000	$2.849 trillion	$43,771

"THE AMERICANS NOW SEE INDIA AS THE BIGGEST HITTER IN THE ANGLOSPHERE AND ARE SLOWLY BUILDING A POLITICO-MILITARY ALLIANCE WITH THAT STRATEGICALLY VITAL COUNTRY."

the French talk about *la francophonie* – which includes large parts of North Africa.) Most importantly, the Americans now see India as the biggest hitter in the Anglosphere and are slowly building a politico-military alliance with that strategically vital country. (India, as I have tried to explain elsewhere, is the key player in the long-term containment of China.)

And there is a factor which moderates America's leadership of the Anglosphere. America is also a Hispanic nation. Already entire cities like Miami and parts of Los Angeles are majority Hispanic. America's Spanish-speaking population is growing faster than the English-speaking population. It is not fanciful to imagine that America will be a majority Spanish-speaking nation in the second half of the 21st century. Donald Trump's disdain for Mexicans arises partly from this fear.

So there are the four nations with the Queen as Head of State; then there is the hyper-power America wrapped around them with its essential role in maintaining their security through NATO and ANZUS[ii]. And then there is the Indian overlay – the country that has more English-speakers than any other.

And there is one other English-speaking nation whose literature and music have spread across the oceans and whose sons and daughters have made huge contributions to the others: Ireland. The Republic of Ireland shares the same cultural affinity; but for deep-seated historical reasons Ireland has chosen to look away from the Anglosphere. Eighteen years into the Northern Ireland peace process, Ireland has still not joined the Commonwealth, as Mr Blair had imagined possible – presumably because republicans do not do business with former monarchical hegemons. The Irish deliberately embrace the *European Ideal* precisely because the English feel so uncomfortable with it. Thus far, the tyranny of Brussels has proved preferable to excessive dependence on London – but that, in my view, could change: because, in history and economics, self-interest trumps grievance.

What is culture anyway? This ubiquitous word is surprisingly difficult to define. It involves access to a shared historical, literary and artistic heritage. I wrote last January about my visit to the Jaipur Literary Festival[iii]. When you have American Shakespearian scholars discussing the parallels between Shakespeare's tragedies and Indian epic myth with Indian academics and Indian directors adapting Shakespeare plays to modern Indian settings, you know that you are part of a shared experience which transcends superficial national differences. You are a part of the same civilization.

A *civilization* is a group of peoples who share the same culture, heritage and values. That means the arts, food and drink, values, forms of discourse, attitudes towards love and money; and all the things that matter in our lives... They normally share a common high language even if there is huge diversity in forms of speech. Most of all, they share a literature, which is the medium by which people share experiences. (Newspapers, film, TV, video, social media – whatever – are all literature in my view if they empower us to gain insights into one another's lives.)

Martin Jacques (a former editor of *Marxism Today* who forged a new career as a China expert) has argued that you can't understand China unless you perceive it as a *Civilization-State*. By that he means that China isn't just a great historical nation-state like France or

"IF RUSSIA, AT ONE END OF EUROPE, IS NOT EUROPEAN, THEN IS BRITAIN, AT THE OTHER END? BOTH COUNTRIES HAVE SPENT MOST OF THEIR HISTORY LOOKING BEYOND EUROPE."

Germany, or even Japan. It is ancient, and very large; and it is unified more by culture than by language – in fact Mandarin Chinese is the mother tongue of only about 60% of Chinese. But the real point is that the Chinese, though hugely diverse, are united *by a sense of common identity and purpose...* Let's call this sense of sharing things *affinity*. That affinity extends beyond China's borders throughout the *Sinosphere*.

As for Russia, Vladimir Putin was re-elected President of Russia in 2012 on a ticket of *Preserving and upholding the spiritual and cultural values that constitute the Russian civilization's unique identity*[iv]. I must say this made me sit up. I had always assumed that Russia was an important pillar of European, Christian civilization. But if you ask Russians today they will tell you that Russia is a unique Civilization-State – a separate civilization from Europe. That got me thinking. If Russia, at one end of Europe, is not European, then is Britain, at the other end? Both countries have spent most of their history looking beyond Europe.

You can infer cultural affinity by measuring how favourably people regard other countries. In a survey conducted by Chatham House and *YouGov* published in January 2015 a sample of UK citizens were asked which country they felt *especially favourable towards* from a list. Australia was the run-away favourite with 47 percent and Canada just behind on 44 percent[v]. (New Zealand was not on the list.) By comparison, France came in at 18 percent. A half century or more after the strange death of the British Empire, British people still regard Australians, Canadians and New Zealanders as their kith and kin.

But from civilizations to stock markets... I have been looking at the headline stock market returns for the Commonwealth Four since the Credit Crunch of 2008. What is striking is that despite the different structures of their economies, their stock market performance displays a high degree of correlation. The Australian economy is skewed towards mining and resources; Canada has an important oil sector; New Zealand is an important net exporter of foodstuffs; and the UK has a massive finance sector (yet manufacturing is still big in relative terms). Despite those differences, all four countries were traumatised roughly equally by the Credit Crunch. But, at the end of 2015, while the Australian and the UK markets are more or less back to their end-2007 levels, Canada was about 16 percent down and New Zealand was 60 percent up. Indeed New Zealand is the outlier, having lower correlations with Canada and the UK, though a high correlation with Australia.

This data yields the following correlation matrix.

Market[vi]	2008	2009	2010	2011	2012	2013	2014	2015
ASX200	-42.36%	28.73%	1.51%	-15.05%	14.58%	15.15%	1.10%	-2.14%
TSX	-38.88%	43.84%	12.46%	-11.07%	4.90%	8.35%	8.58%	-11.82%
NZ50	-32.80%	19.18%	2.24%	-1.04%	24.66%	16.04%	17.74%	16.98%
FTSE100	-28.16%	18.66%	9.02%	-5.65%	9.40%	10.83%	-2.98%	-4.18%

"IF THERE IS ONE SPECIAL RELATIONSHIP IN INTERNATIONAL AFFAIRS IT IS THAT BETWEEN CANADA AND THE USA: THEY SHARE THE LONGEST LAND FRONTIER IN THE WORLD – WHICH IS ENTIRELY UNDEFENDED."

Market	ASX200	TSX	NZ50	FTSE-100
ASX200	1	0.9164	0.8965	0.9656
TSX	0.9164	1	0.7186	0.9197
NZ50	0.8965	0.7186	1	0.8104
FTSE100	0.9656	0.9197	0.8104	1

So the interesting thing is that, even though these countries have very different economies, their stock markets are highly correlated, indicating that their business cycles are in harmony, after all. It is surprising that, despite Australia's supposedly keen dependence on the Chinese economy, its markets are remarkably convergent with the other three. Despite these high correlations, allocation to equities across these four markets would represent a reasonable degree of diversification.

Now let's compare some key economic variables for Australia, Canada, New Zealand and the UK.

Flexible labour markets have enabled all these four countries to maintain high levels of employment for their workforces. The two northern countries with high debt burdens are of course maintaining a near-zero interest rate policy (NIRP) while the antipodean pair have managed to get through the post-credit crunch years without a debt explosion and have almost "normal" (though declining) interest rates. Growth was sustained in all four countries during 2015, though Canada lagged behind (and well below its neighbour, the USA).

Canada's economy continues to outperform those of most other industrialized countries thanks to a number of competitive advantages: low business costs and corporate tax rates, ready access to markets, a highly skilled and educated workforce, strong public support for R&D and robust financial institutions. Forbes magazine has consistently considered Canada one of the most business-friendly economies on earth.

Even though Canada faces many of the issues of the rest of the developed world, such as unfavourable demographics and a low savings ratio, it gains strength from its uniquely bifurcated economy. Eastern Canada – Ontario and Quebec – relies on its extensive automotive and aerospace industries which supply its big American neighbour. However, Western Canada – British Columbia, Alberta, Saskatchewan and Manitoba – is in the enviable position of exporting what the emerging economies need most: energy and food.

Canada is one of the most stable democracies in the world and is up there with the Scandinavians in terms of transparency and the absence of corruption. Of course, Canada's principal external relationship is not with the Old Country but with the United States. If there is one *Special Relationship* in international affairs it is that between Canada and the USA: they share the longest land frontier in the world – which is entirely undefended. Canada and the US share intelligence – as do all the five English-speaking nations. That does not mean Canada is America's poodle in foreign affairs. But Canada's

Country	Debt-to-GDP[vii] Ratio	Growth Rate (2015)	Unemployment Rate (date)	Base Rate (since)
Australia	33.8% (12/2014)	2.4%	5.8% (03/2016)	1.75% (05/2016)
Canada	86.5% (12/2014)	1.0%	7.1% (04/2016)	0.50% (07/2007)
New Zealand	30.4% (12/2014)	2.2%	5.3% (12/2015)	2.25% (03/2016)
United Kingdom	89.2% (12/2015)	2.5%	5.1% (02/2016)	0.50% (03/2009)

"ENGLISH IS THE LANGUAGE OF THE INTERNET AND IT IS THE ENGLISH-SPEAKING COUNTRIES WHICH HAVE ADAPTED TO THE INFORMATION ECONOMY MOST ENTHUSIASTICALLY."

national security will always be for its neighbour the United States second only to its own.

Canada is a more varied political entity than it looks. Labrador remained a British Crown Colony until 1948 when it was chivvied to join the Dominion of Canada at last. Francophone Quebec nearly broke away in 1995[viii], though the separatist pull seems to have subsided in the last twenty years. The Canadian West sometimes feels very remote from Toronto, Ottawa and Montreal.

The Australian economy seems to have ridden out the *Chinese Wobble* of last summer. The key here is not to judge the performance of the economy on the basis of the performance of its currency. The Australian Dollar fell from near parity with the US Dollar in May 2013 to 72 cents as I write. A recent upswing was cut short on 03 May by the decision of the Reserve Bank of Australia (RBA) to cut its cash (base) rate from 2% to 1.75%. RBA expressed some concern about the Australian economy. Inflationary pressures are lower than previously expected and there is little upward wage pressure. RBA commented that the "global economy is continuing to grow, though at a slightly slower pace than earlier expected" and that "China's growth rate moderated further in the first part of the year".

The Australians can be very rude about their British cousins (I am never sure whether the term *Pom* is reserved for plummy Englishmen or for the British in general). But, arguably, they are not as rude as they used to be. Paul Keating (24th Prime Minister of Australia, 1991-96) made a career out of annoying the Old Country, earning himself the soubriquet *The Lizard of Oz* by the British red tops. (But then it is not unusual for teenagers to be rude to their parents.) Fast-forward to 2016. Prime Minister Tony Abbott, in a speech at the G-20 Summit said: *While there's enormous history when it comes to Britain and Australia, there's a very strong present and an even stronger future*[ix]. Surely, the stunning career of Dame Edna Everage is proof of a sense of humour shared by the Australians and the English. Australians are lucky, funny and rich.

While Australia, Canada and the UK are all rated AAA with stable outlook by Standard & Poor's, New Zealand is rated AA Stable. Of the four, its stock market is probably the most volatile. On the other hand, New Zealand is the one country where equity investors have made strong gains since the Credit Crunch. A recent report by ANZ bank described the New Zealand economy as having *Jekyll and Hyde characteristics.* Housing is booming, as are construction and tourism. Yet the dairy industry is in the doldrums. Household debt is growing. ANZ is forecasting 2.5-3 percent growth over the next three years.

Overall, I conclude that, as of now, growth prospects are better in the Anglosphere that in the EU.

Of course Canada, Australia and New Zealand are rightly proud of their high standing on the world stage. Do they need Britain? Or each other? It's not a matter of sentiment but a question of interest. The Anglosphere, including America, accounts for more than one-quarter of the world's GDP. The vast majority of the world's leading software, biotechnology, and aerospace firms are concentrated in English-speaking countries.

English is the language of the Internet and it is the English-speaking countries which have adapted to the information economy most enthusiastically. Internet penetration in the UK is nearly 90 percent in contrast to a number of countries in the EU. (It is 58 percent in Italy.) But if English is the language of the internet, it is because it is also the language of science. Most academic papers now, even in French-speaking countries, are published in English. (They are often incomprehensible to mother-tongue English-speakers, mind you.)

Some commentators see the Anglosphere as essentially an internet-age phenomenon, because the web has amalgamated public arenas, chat rooms and community fora across the English-speaking world. This is even truer for minorities: many young black people in Britain seem to take the public debate in America to be theirs, even to the extent of holding protests in west London about policing policies in Missouri. Indeed, looking at some threads on Donald Trump online this side of the pond, you might think he was running for President of Britain.

Social media globally is overwhelmingly dominated by English. Facebook friends in India predominantly converse in English, or often that delightful blend of English and Hindi known as *Hinglish*. And not just digital media. I wrote recently on how newspaper circulations in the UK are in terminal decline[x]; but in India print media in the English language is on the rise. *The Times of India* is one of the most profitable titles in the world.

"THE REMAIN PEOPLE ALWAYS INSINUATE BRITAIN HAS NOWHERE ELSE TO GO BUT EUROPE. BUT WHEN THE IDEA OF THE ANGLOSPHERE TAKES ROOT WE SHALL WONDER WHY WE DIDN'T TAKE THIS PATH EARLIER."

Does all this really matter? Where a language is predominant, those who speak it have a social and economic advantage. This means that centres of learning (universities) located in this language area will be favoured. (Just consider how the ruling elites in Europe – and especially the clergy – continued to communicate in Latin long after the Roman Empire had expired.) Interestingly, there is a huge rivalry going on right now between the universities of Britain and Australia to attract students from India, Singapore and Malaysia.

While researching this article I discovered that there are a number of writers working on this subject. James C Bennett has written a book called *The Anglosphere Challenge: Why The English-Speaking Nations Will Lead the Way in the Twenty-First Century.* Its central thesis is that a new world order based on cultural affinity is evolving in response to the information revolution. The dynamics of this post-modern culture, interacting with the global economy and electronic media, are driving Americans beyond a mere national identity, limited to the United States, to a trans-national identity which is grounded in the extended network of connections among the English-speaking nations. Personally, I think that American identity is so tied up with ideas around American exceptionalism that America will never want to merge itself into some greater English-speaking identity. Nonetheless, I agree with Mr Bennett that the Anglosphere will be the most coherent, most technologically advanced and the most competitive association of nations in the world in the second quarter of the 21st century.

(Incidentally, Mr Bennett has a new book coming out called *Most Audacious Union: How Britain, Canada, Australia, and New Zealand Can Work Together*[xi], but this was still not available at the time of my writing this.)

Cultural affinity is embodied in a shared literature and in shared ways of thinking about problems. Interestingly, Boris Johnson, who published a very creditable book on Churchill last year, is reported to be working on a book about Shakespeare. Say what you like about BoJo, but he's got his fingers on the pulse of the *Zeitgeist*. Shakespeare may yet turn out to be the most important writer, politically speaking, of the 21st century. And he won't do Boris's career prospects any harm either.

This could be the *Big Idea* of 2016. The REMAIN people always insinuate Britain has nowhere else to go but Europe. But when the idea of the Anglosphere takes root we shall wonder why we didn't take this path earlier.

Action: Your *Anglosphere portfolio* will consist of funds which allocate amongst the Commonwealth Four. **The Omega Canadian Equity Fund** invests mainly directly in Canadian companies listed on the TSX. At the end of April the fund was up by 3.86 percent on the year. Over three years it was up by 12.8 percent on an annualised basis and it has returned 12.9 percent since inception in 2009. **The Aberdeen Australia Equity Fund (NYSE:IAF)** invests principally in equities listed on the ASX. It was up 3.8 percent in the first three months of this year and 7.2 percent on an annualised basis since inception (1985). Over a third of the fund is allocated to financials. **Harbour New Zealand Equity Advanced Beta Fund**[xii] returned 16.41 percent on the year to 30 April. It has a bias towards utilities and consumer stocks.

i Figures from Wikipedia, accessed 17 May 2016.
ii The military and security framework signed between the USA, Australia and New Zealand in 1951.
iii Postcard from the Jaipur Literary Festival, available at: http://masterinvestor.co.uk/economics/postcard-from-the-jaipur-literary-festival
iv See: https://www.rt.com/politics/putin-election-president-panarin-955
v The survey is available for download at https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150129YouGovRaines.pdf?dm_i=1TY5,34ZC7,BHZIRQ,B8VH2,1 See page
vi I have taken the December 31 closing prices year-on-calendar-year over the periods. Correlations are based on just 8 year-on-year data points so are only indicative. My calculation sheet is available.
vii Figures from Trading Economics. See: http://www.tradingeconomics.com/canada/government-debt-to-gdp
viii The referendum of 30 October 1995 produced 49.42% of the votes in favour of "sovereignty" and 50.58% against.
ix Speech delivered on 13 November 2014. Text available at: https://www.gov.uk/government/speeches/david-cameron-and-tony-abbott-joint-press-conference
x *Another Title Bites the Dust*, available at: http://masterinvestor.co.uk/equities/another-title-bites-dust
xi Available from Amazon.com from 28 May 2016.
xii See: https://www.harbourasset.co.nz/fund/advanced-beta-fund

BY ADRIAN KEMPTON-CUMBER

CHART NAVIGATOR

A FAIRLY SIMPLE GANN TECHNIQUE

The most expensive book I have ever bought cost $997. It was 1991 and what was loosely called a 'book' was in fact the collected works of W. D. Gann on trading stocks and shares. It's a hard read because it's written in early 20th century Wall Street speak. But I persevered, and over the years I've refined parts of his methodology that I still use today.

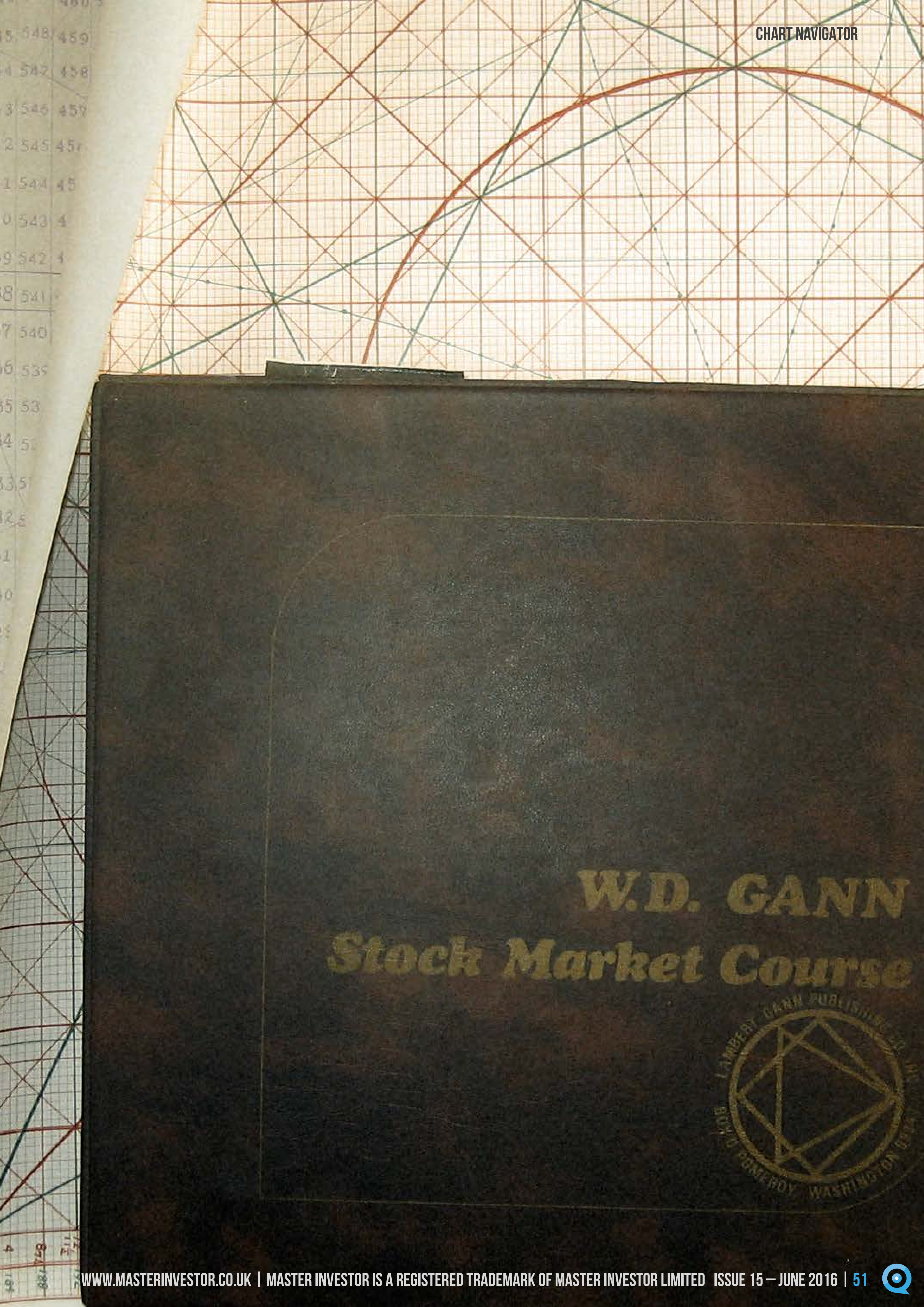
William Delbert Gann (1878-1955) was one of the 20th century's most successful traders. He worked in an era before computers. The 'book' I bought came with some copies of charts, some of which are very big indeed. He had a mathematical approach to trading using charts, and all of this he did by hand! He did stray into some rather dodgy territory though, living, as he did, in an age when there was a far less clear line between superstition and the rational. For example, he was experimenting with using astrology to predict stock prices and other nonsense like that. We humans find it hard to distinguish from truly correlated patterns, often believing we've found patterns where in fact no correlation exists. Take for example the classic astrology postulation: children born under Libra have a predisposition to sports, whereas Leo quite the opposite. Well that's because the school intake has the eldest pupils born in September and the youngest therefore in August. It's a function of government policy, not the stars exerting some voodoo influence on us. Thanks to the wonderful work at CERN we now know there are no such forces at work.

Most of the Gann techniques are quite complicated, but for this article I've picked a fairly simple one that I find very useful. It's not much different to Fibonacci in that it's based on likely stopping points for prices retracing and prices extending at predetermined percentage points. It differs in one respect though, in that there is an expectation that arises from which levels are hit. If one level gives resistance (or gives no resistance), then another becomes considerably more (or considerably less) likely to be a decision point.

"MOST OF THE GANN TECHNIQUES ARE QUITE COMPLICATED, BUT FOR THIS ARTICLE I'VE PICKED A FAIRLY SIMPLE ONE THAT I FIND VERY USEFUL."

Studying all of Gann's techniques took me many years. And don't expect any help from the major charting software providers on this one. It's a 'best fit' scenario for a fairly obscure discipline for them, and Gann is a very precise science, so a 'best fit' approach is just useless – for example, Gann fans, which is one thing you'll find out there that is of very limited use. This article is way too short to start talking about Gann angles, which is largely where these fans fall short, so I'm instead going to concentrate on a technique which you certainly can use on a typical charting package – in my case, ShareScope.

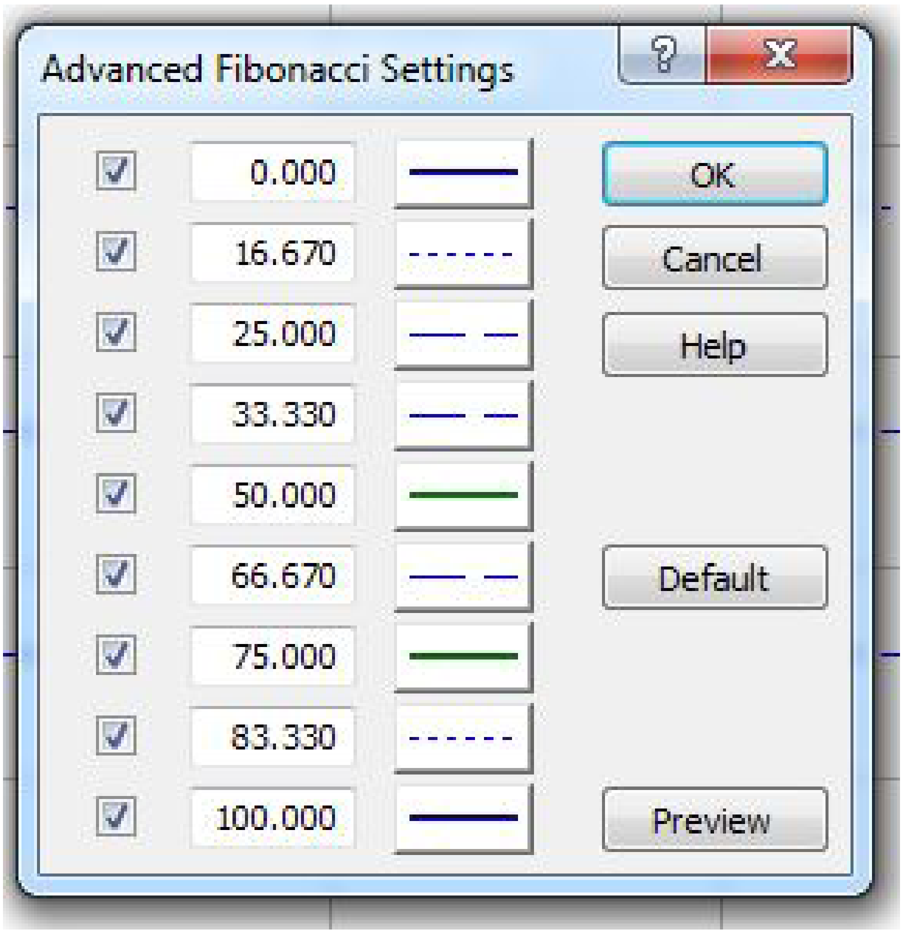
A very simple Gann technique relates to the ATH (All Time High) and ATL (All Time Low) price levels. The most important level is 50% of the ATH. The theory is that it will provide support at that level, but also that if it breaks through that level downwards then it will carry on down to 25% of the ATH. Similarly if it goes below that support level the stock is basically stuffed. For


W.D. GANN
Stock Market Course

a new stock those levels will likely be miles below the historical price range. Hence the second level of analysis involves taking the ATH less the ATL then calculating 50% of the range. Again, if it falls below that then it should be expected to fall to 25% of the historical range between ATH and ATL.

It's a useful technique, not least because even when there is not much data – i.e. after an initial IPO – we do have some important price levels of potential support and resistance straight off the bat by using the historical price range (ATH and ATL). Of course, indices are not terrifically likely to fall this far but stocks can do so easily. (Well, that may be about to change with the low interest rates environment and demographics, both of which had a very negative effect on the Japanese stock market in the 1990s.) There are two glowing examples of indices to date where such big falls have occurred: the Nikkei and the NASDAQ. I'll use the latter, as more of us trade that than the Japanese market.

The one snag with the second of the data pairs is that you need to know the ATL, which is often from many, many years ago, and before the data you're likely to get easily today. So a little Googling may be required. Following the launch of the index at 100 in 1971, the NASDAQ Composite's ATL was hit in October 1974 at 54.87. I'm using ShareScope so I'm bastardising the Fibonacci Retracement feature for this exercise. You can adjust the 'y' axis by using the up and down arrow keys. The ATL then has to be as close as you can get it since it will round the value. But it's close enough. One feature of computers generating charts is they only show the active range. This is misleading to the extent that it doesn't show important levels outside the current range as they approach, at least not until they are almost upon us. So do be aware of that in general. You can see the Gann level settings I use in the dialog box image, and it includes the more minor levels other than the 25% and 50% major ones.



The ATH I've used is the one from just before the dotcom crash, although today that would be out of date. We can't see the levels below 25% of the historical price range. There's great heads up at the 4,300 level with that double top creating a significant lower high. That was a very bearish signal at the 83.33% line. Prior to that it's been a bit of a roller coaster ride (this is a weekly chart). We then see the next two minor Gann levels acting as resistance. We should think of these as decision levels. This is where we do our trade management. We do find support at the 50% Gann level at around 2,600, and then it falls through and delivers with a fall to the 25% level over a couple of years. There is support at the 33.3% level and we would have been prepared for that. Had it gone straight through that level we'd have expected a quick fall to the 25% below.

Of course it's not magic, and it won't necessarily work for every stock any more than other indicators, but when it does work it's really useful as a tool that tells us where to expect to have to make trading decisions. The same technique works on price extensions as well as retracements, again giving a clue as to where there might be important decision levels that other people are not, for the most part, looking at. And of course I could have applied the grid using only the ATH instead of the historical range, so do experiment.

I like Gann, especially because most people aren't using it, so unlike a moving average or a breakout, it's not what you might call 'public knowledge' when a level identified with Gann is hit. You may not wish to use it, but don't call it voodoo. It's supported by evidence, and there's quite enough nonsense people believe in with absolutely no evidence in this world as it is. Charting is about evidence based patterns with a good probability of success and no place for cognitive dissonance.

The point is we use what works. Some people will say you can't go searching for patterns. Of course you can: finding things that work is the whole point of TA. It's analysing the barometer of human sentiment in a stock. Never waste your time arguing with nay-sayers though. Just carry on regardless and take their money. I made money betting on the Eurovision. Why? Because if people want to bet with national pride instead of sound analysis, then I'm happy to take their money. The lesson they learn is losing. Or they don't learn. I couldn't give a monkey's. Give me your money. Thank you.

"I LIKE GANN, ESPECIALLY BECAUSE MOST PEOPLE AREN'T USING IT."

BY ROBBIE BURNS

ROBBIE BURNS' TRADING DIARY

HOW TO TAME YOUR INNER GAMBLER

I suspect practically everyone who decides to trade has a gambling streak somewhere inside them. I definitely do. I actually started work in a bookies the moment I turned 18. I loved the thrill of the horses and played the fruit machines in my lunch break.

I even became a full-time horse gambler for a couple of years but could never make that much out of it, even with inside info at times. So yes, I definitely have a gambler inside me. But that's bad news if you want to make money from trading. When it comes to trading, the need for thrills and spills – plain old excitement – can be fatal.

How and why exactly does it mess up traders – and what can be done about it?

Some people are gambaholics. Gambling addiction, like alcohol addiction, is an illness – it will always try to conquer you and the only way to control it is never to gamble. If you're a gambaholic, please don't try trading – or quit now if you've already started.

But I reckon a less severe gambling instinct is very common among traders. Think of it as a need for a bit of a 'fix' – something akin to taking a drug, a need for excitement. I'm thinking of when people just take 'a punt' on a share for the hell of it without doing any research; or when you buy a share using any excuse – a mate told you or someone on a bulletin board said you could fill your boots.

It is extremely hard to expunge gambling from your brain. The lure of punts is very addictive. Traders love the idea of buying a small oil company and making a million from a tiny initial investment. After oil companies, it's any company with a cure for cancer just around the corner. Or a penny share. Anything where there is a huge risk.

> **"WHEN IT COMES TO TRADING, THE NEED FOR THRILLS AND SPILLS – PLAIN OLD EXCITEMENT – CAN BE FATAL."**

A desire for excitement can lead to big losses very quickly. Here is a story from a new trader:

"I managed to lose roughly £20,000 in the course of a few days. When you said to beware of trading the indices, I decided I knew better, and the string of winning trades on the FTSE I enjoyed over the next three months only convinced me further that I possessed a rare talent.

"I took out various shorts on the Dow and FTSE, losing all contact with sanity – convinced of a correction – then I woke up to find all my positions had been margin-called overnight as futures had risen, giving me huge losses and taking most of my starting capital."

He told me this story in person. He knew that he had fallen into a gambling trap for the sake of excitement. He admitted he had started to get hooked on watching the indices go up and down continually. He said he couldn't resist. Of course, the worst thing is that he started off by winning. It meant he thought he knew better even when things turned against him.

He was keen to give up gambling on trading indices and had come to a seminar to put this right and concentrate on 'proper' investing. He contributed well during the day and I thought he was going to succeed as a trader now that he had quit the gambling habit.

Two months later he came to a follow-up seminar. He's a lovely guy and I was pleased to see him. He said he was doing fine on the investment front. But he had started gambling on the indices again!

I expressed some doubt about him as a trader. He had some things right. He set stop losses on his bets to try to make sure he didn't lose too much. He


NO
YES
YES
NO

was trying to take the emotion out of it – but indices move up and down too much. Stop losses just get taken out. You lose too often.

One morning he said he had woken up to find all his positions had been taken out and he had lost another few thousand. He had come to the follow-up event to try to get back on the straight and narrow.

He agreed with my reservations and said he wasn't sure he could stop. I think I knew the reason why: again, emotion. He had lost so much on the market. Now, rather than worry about a longer-term profit, he wanted to win back what he had lost. He wanted revenge – to get his money back: this is just another way a trader gets lured into ever more gambling.

There was only one way to change: cut the gambling completely. Take indices off his screens. Only ever look at shares.

I lost touch with him after this. I fear the gambler's need for excitement was too strong for him.

Here is another trader who went astray in the search for excitement:

“THERE WAS ONLY ONE WAY TO CHANGE: CUT THE GAMBLING COMPLETELY. TAKE INDICES OFF HIS SCREENS. ONLY EVER LOOK AT SHARES.”

"My first spread bet: I saw the FTSE Index going to hell fast and wanted some of the action. I quickly got an account set up but it took too long. Then I dived in without looking at the chart again and made a horrible fat finger trade mistake by hitting the USA 500 rolling instead of the FTSE 100 rolling right at the moment when the DOW opened with a 1000 point loss and started racing north.

"I lost £1,500 in ten minutes. I would have lost it trading the FTSE anyway because I got in at the lowest point it has been at, but it would have moved much slower and I might have understood how to exit... Also I bought a bunch of illiquid shares and I held onto a share after I was 110% in profit, because I listened to all the screaming on the bulletin boards..."

Here is more mad gambling in the pursuit of excitement – he wasn't trying to calmly hedge his portfolio with a short. He wanted "some of the action", just like he got excited by the "screaming on the bulletin boards".

How do you fix the urge to gamble?

It is a tough ask to totally zap the gambling impulse from your brain. For gambaholics, completely avoiding it is the only answer – even a little bit of gambling is soon fatal. For others, there is a less drastic answer.

Firstly, you have to admit there is a gambler in you looking for excitement and that it will come out at some point – maybe on a boring day. And it has the

potential to destroy you if it takes hold. Keeping that awareness is important.

Secondly, open a separate gambling account.

Take 5% of your trading pot. Or 10% tops if you really must. Open a completely separate account. And I really do mean separate. It's no good just doing this in your ISA and trusting yourself to keep track of the spending.

Gamble as much as you like within this account. Yes, really gamble. Buy all the crap you want – small oil shares, companies with an upcoming cure for cancer, tiny illiquid shares... Don't bother with research; try to catch falling knives; follow any bad behaviour your heart desires...

Indeed, use your heart. Use your emotions! Gamble! This is what I do and it really works. I just use 5% of my entire capital to gamble.

You'll find that this will give you all the excitement you crave.

One major rule, though: use a totally separate account. An example: you have a £50,000 pot. (By pot I mean the total you have in shares and cash that you have set aside for investing or trading.) Take £2,500 or maybe £5,000 of it and put that in a totally different account – preferably with a different broker. Play with that money and enjoy the gambling. Once you've lost some of it, only add in more if your primary money has risen significantly through investing elsewhere. Don't be an idiot and blow the 5% and come back for another 5% six months later and another 5% six months after that.

And whatever you do, always, always limit it to a small portion of your total pot.

If you have been finding yourself gambling for excitement, wanting that rush of adrenaline, try this idea. See if it works. You get all the thrills and spills you want without ending up sleeping in shop doorways. And the ultimate thing is: Don't trade indices, because nearly everyone loses.

"TAKE 5% OF YOUR TRADING POT. OR 10% TOPS IF YOU REALLY MUST. OPEN A COMPLETELY SEPARATE ACCOUNT. AND I REALLY DO MEAN SEPARATE."

Before you go, why not get the latest copy of my book *The Naked Trader*, which has just been published! You can get *The Naked Trader 4* only from my website and also from Amazon.

The book updates *The Naked Trader 3* which I wrote in 2011 – a lot has happened in the market since then and I cover all the changes. There are tons of ideas, trader stories, psychology, biggest trading mistakes and 20 trading strategies to make money.

It's only £14.99 and the first 500 who order it get a free pack of Naked Trader T bags made from only the best tea! To get *The Naked Trader 4*, click the link at my website www.nakedtrader.co.uk.

BY FILIPE R. COSTA

THE MACRO INVESTOR

HOW TO PREPARE FOR HELICOPTER MONEY

Between a Rock and a Hard Place

Eight years after the nadir of the financial crisis, interest rates are still near zero in the US and negative in many European countries and Japan. Fiscal policy has quietly assumed a secondary role while central bankers have taken centre stage in dictating economic policy. The proportion of central bank assets to GDP is currently 83% in Japan, 31% in the Eurozone and 25% in the US. Under these circumstances, the financial markets have been turned into a central bank monopoly.

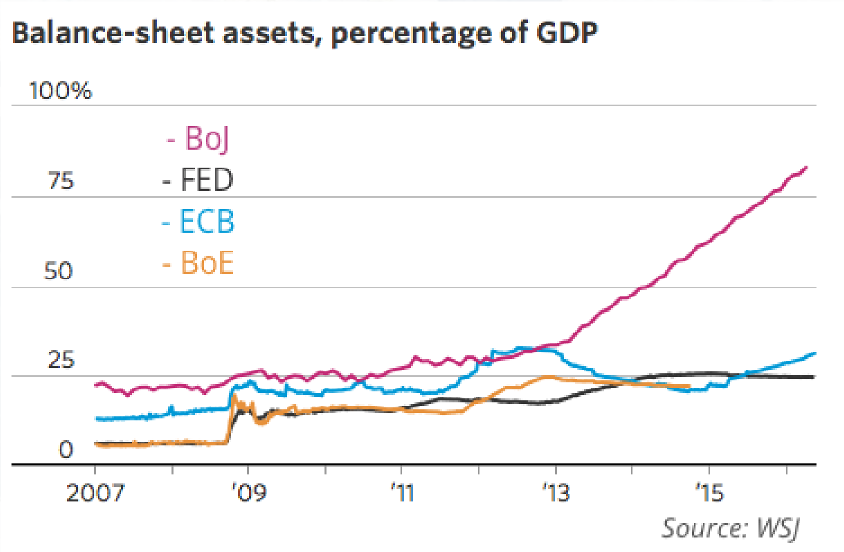
If there's something worth looking at before investing, it is monetary policy. Central banks today have the power to change prices, coupon rates, dividend yields, and rates of return on every asset on earth.

But at a point where the price of assets already seems high, and most of the developed world is still submerged in weak economic conditions and low consumer inflation, investors need to analyse the available options carefully. On the one hand, not taking risks means having to pay for the privilege of lending money – as would be the case when investing in German or Swiss government bonds. On the other hand, taking too much risk means purchasing overvalued assets, as current prices can no longer be justified by fundamentals alone. The S&P 500 trades on a CAPE (Shiller Cyclically-Adjusted Price Earnings) ratio of 25.6x, which is more than 50% higher than its historical average. Central banks have put investors between a rock and a hard place.

Fighting the Global Crisis

Consumer confidence and investor sentiment in the US was elevated for the greater part of the 1990s and 2000s.

Between 1996 and 2004, the US current account deficit increased from 1.5% to 5.8% of the country's GDP. For that to be possible, the country had to borrow large sums of money from abroad. But with the global economy doing so well, it was relatively easy to attract funds from an emerging China, from oil exporting countries and from many emerging markets. Their savings were high and their will to purchase US assets even higher. This allowed the US to keep low interest rates while external



debt was rising. The inflow of money went in the direction of every type of asset, in particular houses. Between 1998 and 2006, the price of the typical American house increased by around 125%. There was a great deal of optimism and a positive feedback loop was created. The more house prices rose, the more willing to lend money financial institutions became. Everyone was looking for a share of this prosperous market. The optimism was so high that borrowers were always able to refinance their mortgages at lower rates and/or take second mortgages to free up some funds for consumption. As a consequence, the leverage taken in the economy increased significantly.

After 2005, the FED started increasing interest rates and economic conditions deteriorated a little. House prices stagnated. As leverage was previously taken to its limits, many were those who only embarked on mortgages because they thought they would be able to refinance them in the near future at lower rates. But with house prices stagnating that was no longer possible. As a consequence, bad loans shot up and created trouble for many financial institutions. Faced with liquidity problems, these institutions stopped lending money to the economy, including to businesses. By then, the central bank had to assume its role of lender of last resort because the market mechanisms weren't working properly. The distrust among banks was so high that the rate at which banks lend to each other spiked. The FED cut interest rates and provided the necessary liquidity to avoid a systemic crisis.

The collapse of Lehman Brothers in 2008 scared everyone. The Dow Jones index, which peaked above 14,000 points in October 2007, quickly saw 7,400 points wiped off its value, to hit 6,600 points in March 2009. By then, Ben Bernanke had no option but to implement quantitative easing, as a way of improving asset prices and breaking the downward spiral.

From a Necessity to a Paranoia

It is hard to argue against central bank intervention when systemic risks are

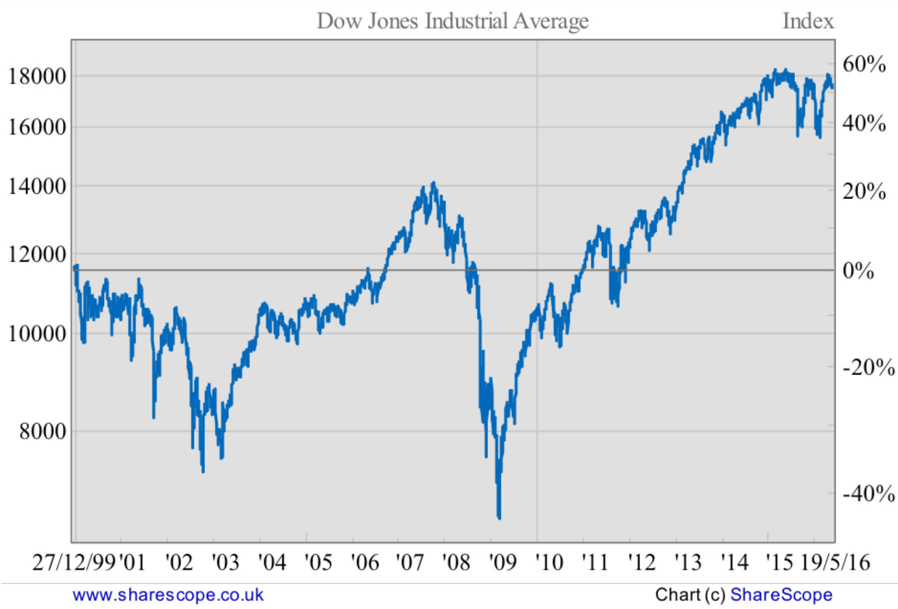
on the table. But as soon as liquidity conditions are restored, the best idea is to allow the banking system to do its job. Otherwise, we should have conceived a planned economy without private banking at all. Alas, after restoring confidence, the FED insisted on extending quantitative easing, unfolding a second and a third round of asset purchases while keeping interest rates near zero until December 2015.

More than seven years after the crisis, the Dow trades at 17,500 points, which is 25% above its pre-crisis peak and 165% above its crisis nadir. Still, the FED seems unable to hike its key rate, as it is paranoid about the effect that such a hike may have on the equity market.

Central bankers are convinced that deflation leads to weaker economic conditions and that the best way to increase prices is through quantitative easing. For them, everything hinges on the equity market. I can accept the deflation observation (with a grain of salt), but not the quantitative easing connection with prices. Quantitative easing certainly generates asset price inflation but doesn't need to lead to consumer price inflation. For the second to happen, it is requisite that higher asset prices lead to more investment and hiring and then contribute to an increase in real wages, an increase in household income and finally an increase in consumption and prices. That's a long transmission mechanism that may or may not work in the expected way. Looking at past experience, it seems that it didn't work that way at all. Higher equity prices led companies to pay higher dividends, to repurchase their own shares, and to embark on mergers and acquisitions. Faced with a weak consumer, companies had no urge to expand their businesses. There was certainly some hiring, as reflected in the improving jobless rate, but the majority of the impact on prices has been via assets rather than consumption goods. That's why we don't have consumer inflation at a time when the expansion of the money supply has been substantial.

Central banks around the world followed the FED in expanding their balance sheets, mostly without any success in restoring inflation levels. Instead of realising that pass-through didn't work in the predicted way, they convinced themselves that bolder action was needed. They then broke the limits observed by academic theory, and challenged the zero lower bound, by pushing interest rates into negative territory. The reasoning is straightforward for them: lower financing costs and high liquidity availability should drive asset prices higher and boost investment, hiring and finally consumption. But, once again, it failed, as households are not feeling the stimulus and/or they're not willing to spend it. It seems that the lower the rates are, the more households are willing to save and then the worse the situation becomes in terms of consumption.

"THE FED SEEMS UNABLE TO HIKE ITS KEY RATE, AS IT IS PARANOID ABOUT THE EFFECT THAT SUCH A HIKE MAY HAVE ON THE EQUITY MARKET."



Creating a Distorted World

Jim Mellon made a fantastic, and somehow shocking, observation at the Master Investor Show. He claimed that central bankers all come from academia, and often sport a stint at Goldman Sachs on their CV. (For those of you familiar with Goldman, its record at making predictions is less than enviable, despite its supposed prestige.) They will likely end up depleting our economic resources and interfering with our retirement plans. Jim also noted that many years ago people were able to get a 4% return on their capital over the long run. With 3% being consumed, 1% was left for compounding. But today the situation has changed so dramatically with negative interest rates that all a saver is able to achieve is capital depletion over time, which forces him to save even more. Central banks have thus hamstrung savers and turned investment into a "boring" activity.

Years of desperate central bank intervention have led to severe economic distortions. Due to low interest rates, capital has been misallocated into capital goods instead of being allocated into consumer goods; asset prices have lost their link to fundamentals and are leading to price bubbles; savers are no longer able to save for their retirement; consumers are gripped by a sense of pessimism that has been created by excessive central bank intervention; companies have increased their debt exposure without a corresponding increase in investment; banks have seen their financial position weakened due to an erosion in net interest income; and central banks have spent all their ammunition and approach the next crisis empty handed.

"JUST BECAUSE MONETARY POLICY HAS BEEN INEFFECTIVE SO FAR, IT DOESN'T MEAN CENTRAL BANKS WILL STOP."

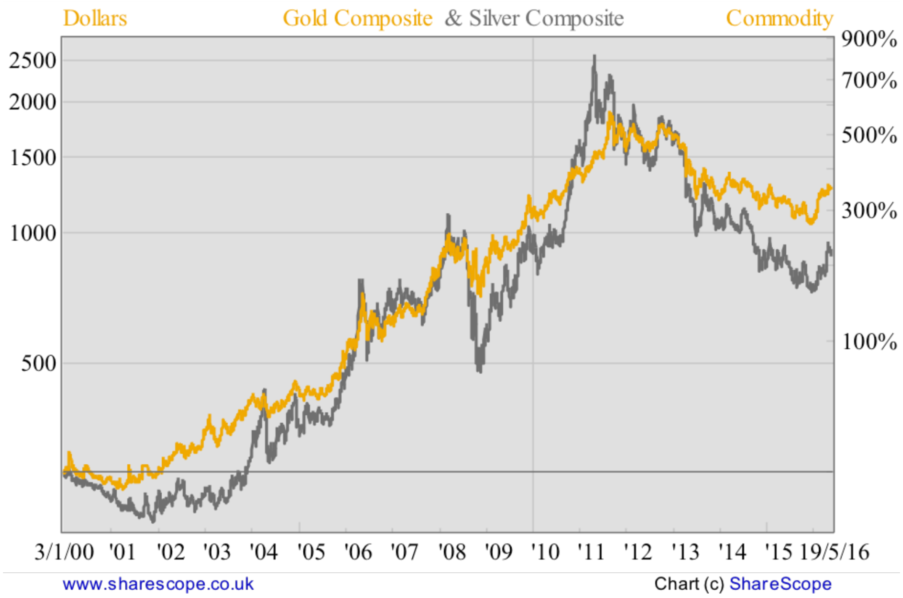
They Won't Stop

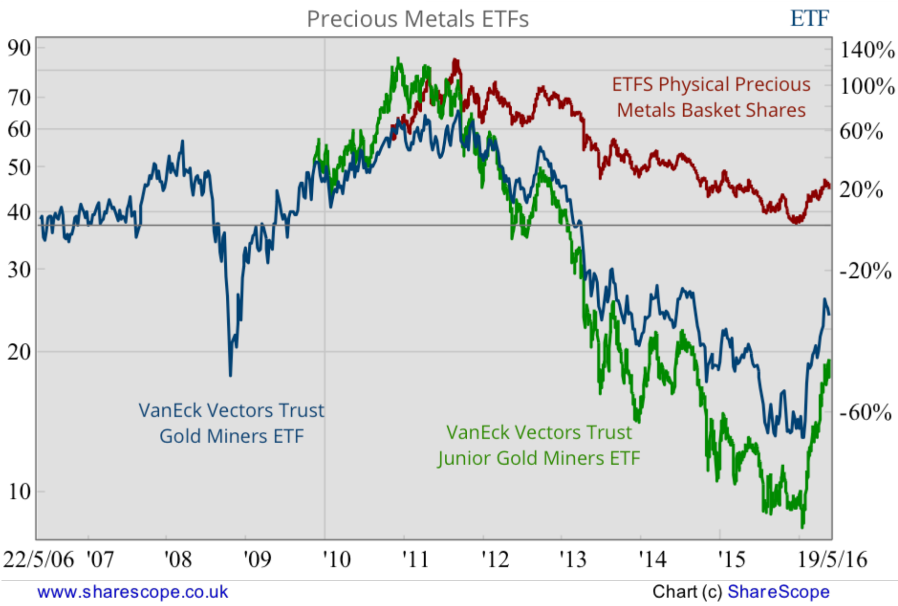
But just because monetary policy has been ineffective so far, it doesn't mean central banks will stop. On the contrary, they will most likely experiment with new tools until the final consequences bear out. Next in the queue is 'helicopter money'.

Many years ago, Milton Friedman created the concept of helicopter money to explain how the money supply process works and how inflation is generated. Today, the concept has been reinvigorated and will gradually be adapted as an alternative central bank policy to fight deflation. The logic behind helicopter money is simple: if the government or the central bank were able to drop money from a helicopter to the population, then, as people spend the money, inflation would certainly been generated. In the real world there won't be any helicopters but rather a monetisation of government debt by the central bank via direct purchases of newly issued debt from the government, or a direct distribution of cash to the public. So, as Jim Mellon mentioned in his Master Investor presentation, central banks (in particular the BoJ) may start giving consumption vouchers to households for them to spend the money.

While central banks deny contemplating the use of such policies for now, the idea will become more popular in the central banking community as they continue to obsess about generating inflation. With this in mind, the worst thing an investor can do now is purchase long-term government bonds at their current yields. Investors should short these bonds instead (in particular those from the German and Swiss governments), as they won't cover inflation. Purchasing long-term bonds at yields below 2% is the same as betting against the ability of a central bank to achieve its inflation goal. With central banks expected to boost their money supply in one last attempt to generate inflation, the best bet is to short cash and bonds. As an alternative, investors still have equities. But many equity markets now look overvalued and thus do not present a favourable risk/reward ratio.

"IT IS TIME TO BE SELECTIVE WHEN CHOOSING EQUITIES AND TO LOOK FOR ALTERNATIVE HARD ASSETS OFFERING INTRINSIC VALUE ON A LIMITED SUPPLY. PRECIOUS METALS, IN PARTICULAR GOLD AND SILVER, ARE A PERFECT FIT HERE."





It is time to be selective when choosing equities and to look for alternative hard assets offering intrinsic value on a limited supply. Precious metals, in particular gold and silver, are a perfect fit here. Some people argue against gold as an inflation hedge, but I believe that under the current economic conditions where uncertainty about the future is huge, the opportunity cost of holding non-interest bearing assets is near zero (if not negative), and the money supply is expected to boom, gold and silver look shiny enough to add to a portfolio. In the meantime, while interest rates are negative, gold still looks like a very good alternative to EUR 500 and CHF 1,000 notes.

How to Gain Exposure to Precious Metals

There are many ways of getting exposure to the precious metals markets. Investors can always purchase the physical metal, which is probably the safest option of all, as it allows for the retention of the physical asset. But that option implies some carry costs that include safety, storage, and other costs. A cheaper option would be to purchase physical gold through an exchange-traded fund. The **SPDR Gold Shares ETF (GLD)** holds 100% physical gold bullion. To get exposure to silver, investors can purchase the **ETFS Physical Silver Shares ETF (SIVR)** which holds 100% physical silver bullion. A mix of gold and silver can be achieved with a stake in the **ETFS Physical Precious Metals Basket Shares ETF (GLTR)** which holds gold bullion (58%), silver bullion (30%), platinum bullion (6%) and palladium bullion (6%).

For those willing to make a leveraged bet on the price of gold, an alternative way is to purchase gold miners. To avoid the idiosyncratic risk deriving from concentration in too few companies, one way of achieving an efficient exposure would be by investing in the **VanEck Vectors Gold Miners ETF (GDX)** or in the **VanEck Vectors Junior Gold Miners ETF (GDXJ)**.

BY SAMUEL RAE

FORENSIC FOREX

TWO ELEPHANTS IN THE ROOM

Two things are dominating my fundamental bias in the currency markets at present. The first: the upcoming UK vote as to the country's membership of the EU. The second: the potential for an interest rate hike out of the US. Both factors have markets at a sort of stalemate as things stand. If the UK leaves Europe, the chances are we will see some considerable weakness in sterling, and markets already seem to have priced this into the majors. Cable is down, and the euro is up against its UK counterpart. If the Federal Reserve decides to hike interest rates, and the most recent FOMC meeting suggests such a hike could be just around the corner, we should see some US dollar strength, and in turn, a compounding of the aforementioned cable weakness. Of course, when it comes to fundamentals, we never really know which way things will play out. This makes it difficult to project any sort of long-term bias – especially in the currency markets.

"IF THE UK LEAVES EUROPE, THE CHANCES ARE WE WILL SEE SOME CONSIDERABLE WEAKNESS IN STERLING, AND MARKETS ALREADY SEEM TO HAVE PRICED THIS INTO THE MAJORS."

What does this mean for me?

Those who have read this column before will be familiar with my strategy. For those that are not, fundamental factors play only a minor role in my entries and exits; technical charting patterns are by far the more important element of my operations. With this said, the fundamental side of things is far more interesting. To be a little more specific, I enter based on breakouts through key (and predefined) levels on the major candlestick charts (GBP/USD, EUR/USD, AUD/USD and USD/JPY). These breakouts can come in any direction, short or long, regardless of the underlying fundamentals. Where the fundamentals come into play is in my risk management. If I hold a bullish fundamental bias in the US dollar, for example, just as I do now, I will be willing to be a little more aggressive on an upside trade (as signaled by an upside break) than if I was fundamentally bearish on the greenback. The same is true in reverse.

So, with that said, how am I using my fundamental bias in the above-mentioned two elements of the current global economic situation? First, let's address the UK. The exact and far ranging consequences of a British exit from the European Union are not fully clear. One thing that is certain, however, is that sentiment towards the UK and its trade operations will likely sour (at least in the near to medium term) and this should put some pressure on sterling. We are already seeing markets price this in, with sterling down against the US dollar, the Japanese yen, the euro and the Australian dollar so far this year. Ahead of the vote, I expect this pressure to continue. If the UK remains a part of Europe come the referendum, we should see a jump in the value of sterling against its major counterparts – primarily as a correction against what would turn out to be an oversell ahead of the fact. Until this happens, however, my bias remains bearish, and I will be a little more aggressive to the downside and a little more conservative to the upside in the GBP/USD.

Looking at the US dollar, Janet Yellen suggested just last week that stress tests on the US economy point to the latter being able to withstand an interest rate hike, and this is driving bullish market sentiment in the dollar. Interest rates are the primary driver behind near-term currency movements, and a rate hike should see a flood of dollar buying on its announcement. Of course, I cannot say for certain whether the Federal Reserve will hike rates come the end of June, but sentiment certainly currently believes it might. This is enough for me to allow a little bit more upside on my bullish dollar entries, and conversely, a little less wiggle room on my downside stop losses.

Interestingly, and somewhat rarely, both of these biases have a distinct closing date. The UK referendum limits my potential scope on my bearish sterling stance (in that come referendum results day I will have to re-evaluate), and the end of June does the same for my US dollar bias. Until then, however, the above stands solid.

Here's to a busy couple of months in the markets!

"INTEREST RATES ARE THE PRIMARY DRIVER BEHIND NEAR-TERM CURRENCY MOVEMENTS, AND A RATE HIKE SHOULD SEE A FLOOD OF DOLLAR BUYING ON ITS ANNOUNCEMENT."

BY ED ROSE

COULD THE UK'S FINTECH EXPERTISE MAKE IT THE NEXT SILICON VALLEY?

The extension of Entrepreneurs' Relief and introduction of Investors' Relief announced in the Budget are clearly designed to attract long-term capital investment into companies, particularly small companies with ambitions for high, rapid growth. Does this mean savvy investors will start looking to get into booming sectors like FinTech?

The Rise of FinTech

It's really not so long ago that what we now refer to as "FinTech" was pretty much exclusively the province of a handful of big banks, their payment processing partners and associated businesses. Aside from a few forward-thinking tech upstarts like PayPal, any innovations in fields such as payment and transaction technologies tended to be driven from within the monolithic – and technologically conservative – financial services industry.

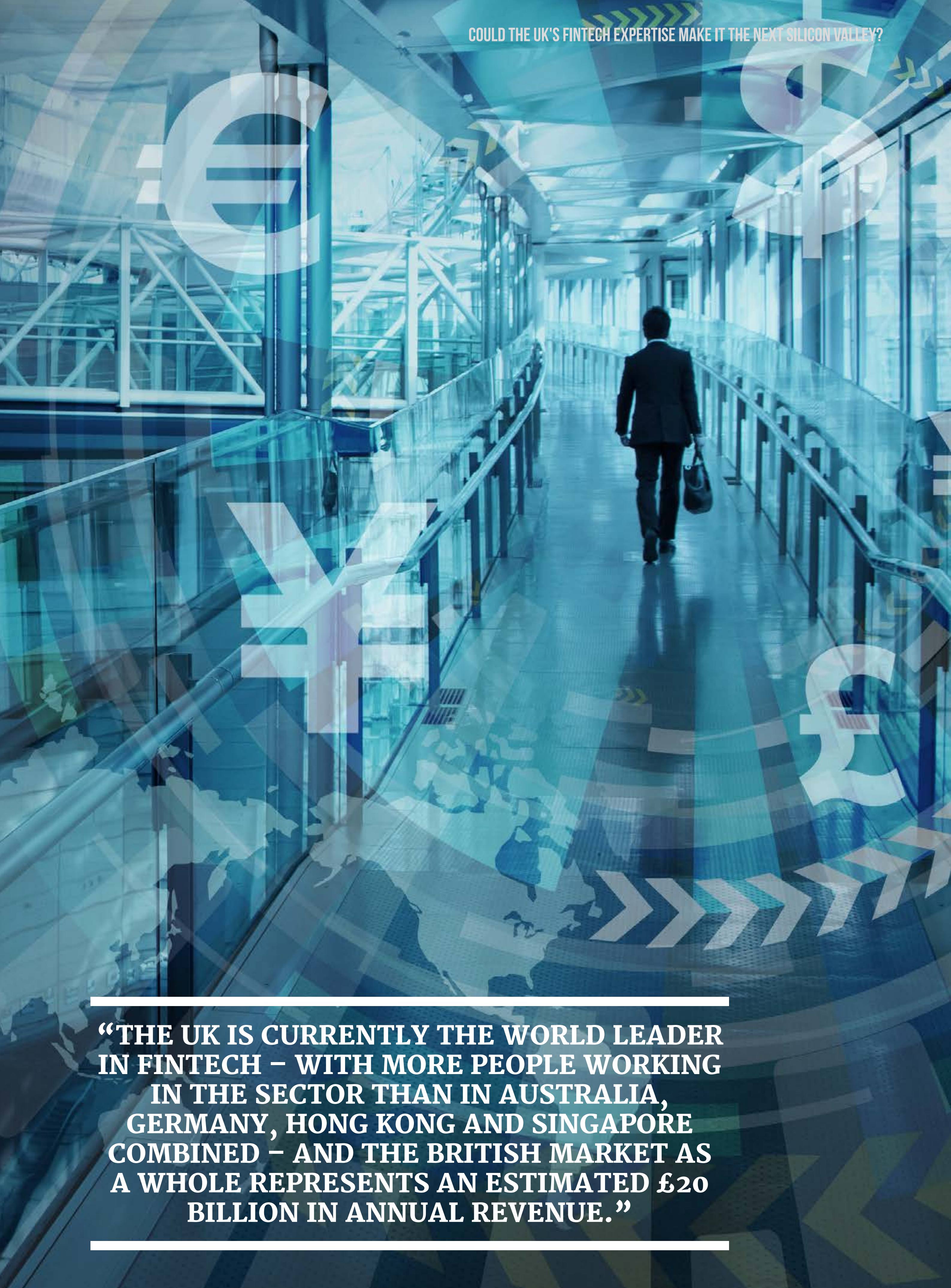
In 2016, it's a different playing field. Consumers and businesses want financial technology that's flexible, straightforward and works for them. While traditional market players still have their place – and account for around 82% of revenue in the sector – FinTech innovation is increasingly being driven by emerging, more agile start-ups who can bring both technological savvy, and disruptive new ideas to the sector.

The rise of FinTech is borne out by ongoing massive global investment in what is clearly not yet a fully mature sector. The UK is currently the world leader in FinTech – with more people working in the sector than in Australia, Germany, Hong Kong and Singapore combined – and the British market as a whole represents an estimated £20 billion in annual revenue.

How the UK Became a World Leader

The UK's current dominance in the market is at least partly due to market opportunity. Businesses have access to a large and relatively sophisticated consumer market, which embraces technology and is open to innovation. London's position as a global hub of financial institutions also plays its part – the UK's FinTech market is largely concentrated in the capital, although the sector is seeing growth in other sites including Manchester, Edinburgh and Leeds.

Access to investment is key to the UK's leading position in FinTech. Venture capital investment in the sector hit a massive £2.46 billion in 2015, an increase of 70% on the previous year. The availability of capital is significantly ahead of the rest of Europe, with half of London's tech investment coming from within the UK – although it's worth noting that the United States accounts for 29%



"THE UK IS CURRENTLY THE WORLD LEADER IN FINTECH – WITH MORE PEOPLE WORKING IN THE SECTOR THAN IN AUSTRALIA, GERMANY, HONG KONG AND SINGAPORE COMBINED – AND THE BRITISH MARKET AS A WHOLE REPRESENTS AN ESTIMATED £20 BILLION IN ANNUAL REVENUE."

"VENTURE CAPITAL INVESTMENT IN THE SECTOR HIT A MASSIVE £2.46 BILLION IN 2015, AN INCREASE OF 70% ON THE PREVIOUS YEAR."

of investment, with the remainder sourced from both within and outside the EU.

Do VCs Back the Idea or Team Pedigree?

Investment in FinTech – whether that's from more traditional venture capitalists, angel investors or a crowdfunding platform – is increasingly focused on ideas and innovation. However, seasoned start-up investor, Ruzbeh Bacha, founder/CEO of personalised financial news feed, CityFALCON, believes they aren't always top of an investor's list of considerations:

"I've seen several entrepreneurs with good ideas and prototypes failing to raise funding. You'd be amazed at how investors are ready to pour tons of money into copycats, especially when the idea is proven and the market opportunity is large. Most investors are risk averse and look for factors that may reduce their risks – particularly in the UK. Why do you think the government has come up with so many tax benefits to encourage angel investors to invest in start-ups?"

It's a massively competitive market, and start-ups need to ensure their idea really stands out if they want to attract the attention of investors. Those that do can certainly reap the rewards; witness the fundraising success of emerging players, such as Atom Bank, which successfully raised £135 million, or challenger bank Mondo, which took just 96 seconds to crowdfund its first £1 million.

Of course, ideas are all well and good; you also need the tech expertise to deliver on your grand promises. Perhaps unsurprisingly, 45% of jobs within FinTech businesses are IT roles – analysts, developers, designers, engineers and the like. Hiring the right team is absolutely vital; however, attracting the top talent in this field isn't always as easy as it might be.

A Good FinTech Developer is Hard to Find

In the current IT recruitment marketplace, there's no shortage of candidates eager to break into the FinTech sector; however, sifting through this surplus to find the exceptional talent required to meet stringent finance/banking standards is notoriously difficult.

Some FinTech companies are exploring alternative approaches to recruitment – such as payment processor Stripe, which is currently experimenting with sourcing already established teams of software engineers, who are taken through the hiring process together, rather than individually. This approach no doubt has its benefits, but I have doubts over the sustainability of rolling this model out more widely.

I'm also intrigued by the algorithm developed by untapt, which automatically matches FinTech engineers to jobs.

Is There a FinTech Skills Gap in the UK?

With the EU membership referendum due to take place on 23rd June 2016, there's a question mark over how this might affect the talent available to the UK's FinTech sector. With current EU-wide labour mobility policies, the nation's technology sector as a whole undoubtedly benefits from European workers – particularly those from Eastern Europe where schools and universities place a strong emphasis on science and mathematics.

On balance, there's at least a possibility that tougher UK immigration and visa rules in the event of an exit vote could drive that EU talent to competing centres, such as Berlin, widening the tech skills gap in London and across the UK. So the question becomes: is the UK FinTech sector strong enough to survive – or possibly even thrive – in a post-Brexit Britain?

Would FinTech Put the UK in a Strong Position Post-Brexit?

The UK is currently the world leader in financial technology and – although the FinTech market globally is in a period of development and growth – it would be wrong to underestimate the strength of Britain's position in that market. London is the world's leading financial centre, a hub of international trade and commerce, and there's evidence that FinTech start-ups often use the UK market as a base for future growth into international markets.

Analysts have also suggested that the current boom in UK FinTech is no bubble, and that the recent emergence of disruptive start-ups is the herald of a more serious period of investment in which established banks will start to fund FinTech more heavily. There's also an argument that any period of change and transition that would inevitably follow a Brexit vote could in fact be an ideal time for innovative FinTech start-ups to make their mark.

Could a Brexit Trigger a FinTech Exodus?

Some have argued vehemently that leaving the EU would destroy the UK's

> **"ANALYSTS HAVE ALSO SUGGESTED THAT THE CURRENT BOOM IN UK FINTECH IS NO BUBBLE, AND THAT THE RECENT EMERGENCE OF DISRUPTIVE START-UPS IS THE HERALD OF A MORE SERIOUS PERIOD OF INVESTMENT IN WHICH ESTABLISHED BANKS WILL START TO FUND FINTECH MORE HEAVILY."**

world-leading position in the FinTech market. There's no denying that there are many businesses – from the largest multinationals to the smallest start-ups – to whom Britain's membership of the EU is an absolutely integral part of their reason for being based here. Reuters recently reported that 7 out of 10 London-based FinTech companies said they would consider moving their headquarters out of the UK if the country voted to leave the EU.

Ruzbeh Bacha echoes this sentiment:

"For early stage companies, including FinTech start-ups, the uncertainty that Brexit brings is bad for business, at least in the short to medium term, which means they may not be around in the long term. Some companies only have enough money to survive for a few months, so market volatility and uncertainty could be fatal in some cases.

"And if you're a non-UK investor looking to invest in a UK start-up, you'll probably want to wait for clarity on how a Brexit will affect the British economy, currency and future business plans before making a commitment. You'd certainly be forgiven for exploring more calculable opportunities in the meantime."

Would the Tech Talent Pool Dry Up?

There's also the very real possibility that the pool of IT talent available to UK FinTech businesses would be diminished in the aftermath of a Brexit vote. Currently, tech firms in London and across the UK benefit from the free movement of workers between EU member states; many employ graduates from Hungary, Poland, Romania and the Baltic states, which are renowned for high educational standards in maths, science and technology. Stricter – and more expensive – visa requirements in an independent Britain would make these workers more likely to seek work in established EU FinTech centres, such as Germany or France.

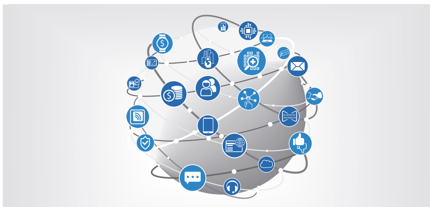
"As a FinTech entrepreneur, I want to make sure we hire the right people so I'm very hands-on with the recruitment process," says Ruzbeh Bacha. "I look for people who are a good fit with the company culture, are passionate about what we do, who love to solve the problems faced by our target audiences, and who are ready to learn and fail fast if required. We prefer hungry, young dev talent that isn't motivated purely by money – whether that's from inside or outside the EU makes little difference, aside from the cost implications."

Freedom to Attract Better FinTech Talent?

Without our current obligations to EU immigration agreements, the UK would be free to revise its own visa requirements; this could potentially be leveraged to attract top-notch IT talent from outside the European Union. Reduced access to tech graduates from within Europe could feasibly be offset by attracting skilled workers from places such as South Korea, Malaysia and Sri Lanka, who are already contributing to FinTech booms in China, Hong Kong and Singapore.

"CityFALCON hired two people in the UK last year, but couldn't hold onto them due to salary demands," explains Ruzbeh. "The FinTech skills gap in the UK means quality people are picked up for big salary packages by the big companies, so start-ups like ours have no option but to look outside the UK and the EU.

"We're currently building a team in Ukraine, where we're able to source highly skilled technical personnel, who are hardworking, diligent and passionate about what they do – and cost a fraction of what we'd have to pay in the UK."



Which way Britain will vote in the EU membership referendum remains to be seen. If we do vote to leave, it will have a rapid and long-lasting effect on every sector of the UK economy. However, it is my belief that the current strength of our world-leading FinTech sector could be a valuable bargaining chip in our future dealings with both Europe and the rest of the world.

Of course, this would have to be backed up by legislation and regulation that will allow us to attract and retain the best available talent, as well as ensuring the continued availability of investment capital to UK-based FinTech enterprises.

About Ed Rose, Talent Manager, Hurren & Hope
Ed is the Talent Manager at specialist technical recruitment consultancy Hurren & Hope. A breath of fresh air in the industry, H&H prides itself on being an agency for clients and candidates who value relationships over sales patter. One of Ed's areas of expertise is the FinTech sector.

BY CAROLINE DREWETT

MILLENNIALS & MONEY

WHAT COULD BREXIT MEAN FOR MILLENNIALS?

This month, you'd have to be living under a rock to avoid the Brexit discussions. Whether it's Boris shouting from the rooftops 'Knickers to the pessimists and the merchants of gloom', or Cameron declaring that World War III might be triggered by Brexit, it's all we're hearing about. Even Obama and Trump across the pond have added their two pence worth, with their opposing views about whether we should stay or go. And the Brexit discussion has now deepened as Austria's Norbert Hofer of The Freedom Party almost became the first far-right leader within the European Union. Even after narrowly losing, political commentators have predicted that his success will encourage other countries to follow suit and support nationalist parties, especially if it allows them to seize control of their own borders back from the EU. The people of Poland have already shown huge support for their far-right party, and the Netherlands claims to be gearing up for a referendum of its own if the Brits back Brexit.

Statistically, Millennials are the most likely to be affected by the outcome of Brexit, whether that's through job security, travel trends or overall finances. But in a twist of fate, they are also the least likely to vote, with less than 50% turnout expected for the under 35s. Unsurprisingly, they're also the least sure of themselves; of all demographics, they are the largest group of 'undecided'. Torn between, on the one hand, the desire for political accountability and national sovereignty, and, on the other, the concerns about the consequences of what the Stronger In campaign calls 'the great unknown', none of us Millennials remembers life before the EU. But setting aside the scare tactics of the Bremainers and the passions of the Brexiteers, what would a potential exit from the EU really spell for Britain's Generation Y?

> **"STATISTICALLY, MILLENNIALS ARE THE MOST LIKELY TO BE AFFECTED BY THE OUTCOME OF BREXIT."**

"ONE OF THE BIGGEST IMMIGRATION MISCONCEPTIONS IS THAT EU MIGRANTS ARE ONLY COMING TO THE UK FOR BENEFITS. ON THE CONTRARY, ONLY 15% CLAIM BENEFITS."

First and foremost, our votes would start to matter again. Our government would regain the power that's been lost to Brussels, and with increased power would also come increased accountability. No longer would Osborne be able to blame ludicrous VAT laws on being a part of the EU; instead, he would actually need to justify his tax proposals and answer to the electorate. This is especially significant for small businesses. With almost 30 variable VAT rates, it has become virtually impossible for small and medium businesses to work out what they should pay to whom, and when. Bringing VAT back to one UK-wide rate would help young start-up companies to reduce paperwork and red tape – and not just through tax, but through numerous other EU-wide policies that could be scrapped, or at least reconsidered if they are hindering SME growth. However, these obstacles are precisely the reason that banks and big business are such huge funders of the In Campaign; staying in the UK keeps their competition at arm's length. They have the resources and clout to overcome these obstacles, and rejoice in the hindrances faced by their less established and less well financed competitors.

The biggest concern of most voters, whichever side of the fence you're on, is immigration. The In camp is pushing for increased immigration from within the EU, while the Brexiteers want tighter immigration controls – or at least the ability to make our own decisions about who we accept into the country. Very few in the Brexit camp think immigration itself is the problem; rather, it is the unjust idea that the UK must allow anyone from the EU to enter, whether skilled or unskilled, at the expense of highly skilled non-EU workers from Africa, Asia or the Americas. One of the biggest immigration misconceptions is that EU migrants are only coming to the UK for benefits. On the contrary, only 15% claim benefits. But the flipside of this is the effect on the indigenous (for want of a better word) population. With Spanish youth unemployment now almost 50%, and Italy's not far behind on 40%, European Millennials are now flocking to the UK

for work in both skilled and unskilled capacities. Very few people in the UK choose to claim benefits (as with any country, there will always be some who take the easy option with them), but when jobs are so few and far between, there is little choice for British Millennials who can't even get part-time university work in a coffee shop.

Immigration can most definitely change a country for the better, if it's controlled and if it's the right kind of immigration at the time. However, it can also cause serious economic dislocations and even social unrest. Countries like New Zealand, for instance, are currently on a drive to attract young, skilled Millennial workers to their country to boost their economy, as they have a job surplus. Yet when unemployment is so low in the UK, is it not right that we should have the power to decide who is given the right to work, and when, depending on our own economic prospects?

As Britain continues to swell, and junior doctors threaten to leave the country in droves due to the funding crisis, the NHS has hit, in its own words, 'breaking point'. And that's exactly what Vote Leave are reminding us all; their Brexit bus has the words 'We send the EU £350 million a week – let's fund our NHS instead' emblazoned on the side whilst zooming around the country on what can only be described as Boris's campaign march to freedom. Would leaving the EU really have such a detrimental effect on the NHS, as Cameron and Britain Stronger In so forcefully claim? What could possibly make the NHS become *less effective* if the UK had an extra £350 million a week to spend on junior doctors – doctors who had fewer patients to treat, and no TTIP agreement poised to allow huge swaths of the NHS to be privatized?

Whether it's the over-stretched NHS, or the fact that primary schools have left a staggering one in six children without a place at a preferred primary school this September, there is no doubt that the Brexit debate affects everyone of all ages in the UK. For Millennials though, it is of vital importance that we look at what's important to us, and that we get off our backsides and make our voices heard in what is such a momentous decision. As a generation, we must rubbish the idea that wanting control and accountability over our borders makes us hard-right racist xenophobes, or that uncontrolled immigration from Europe makes us the nice guys of Europe. The reality is that the closer we are to the EU, the further we isolate ourselves from non-EU countries and the highly skilled Millennials that would benefit Britain by moving here and contribute both to our economy and our culture. Millennials should be supporting Britain's flourishing start-up scene by standing up to the banks, to big business, and by being proud to be in a country where we are being offered our democracy and sovereignty back at the tick of a box.

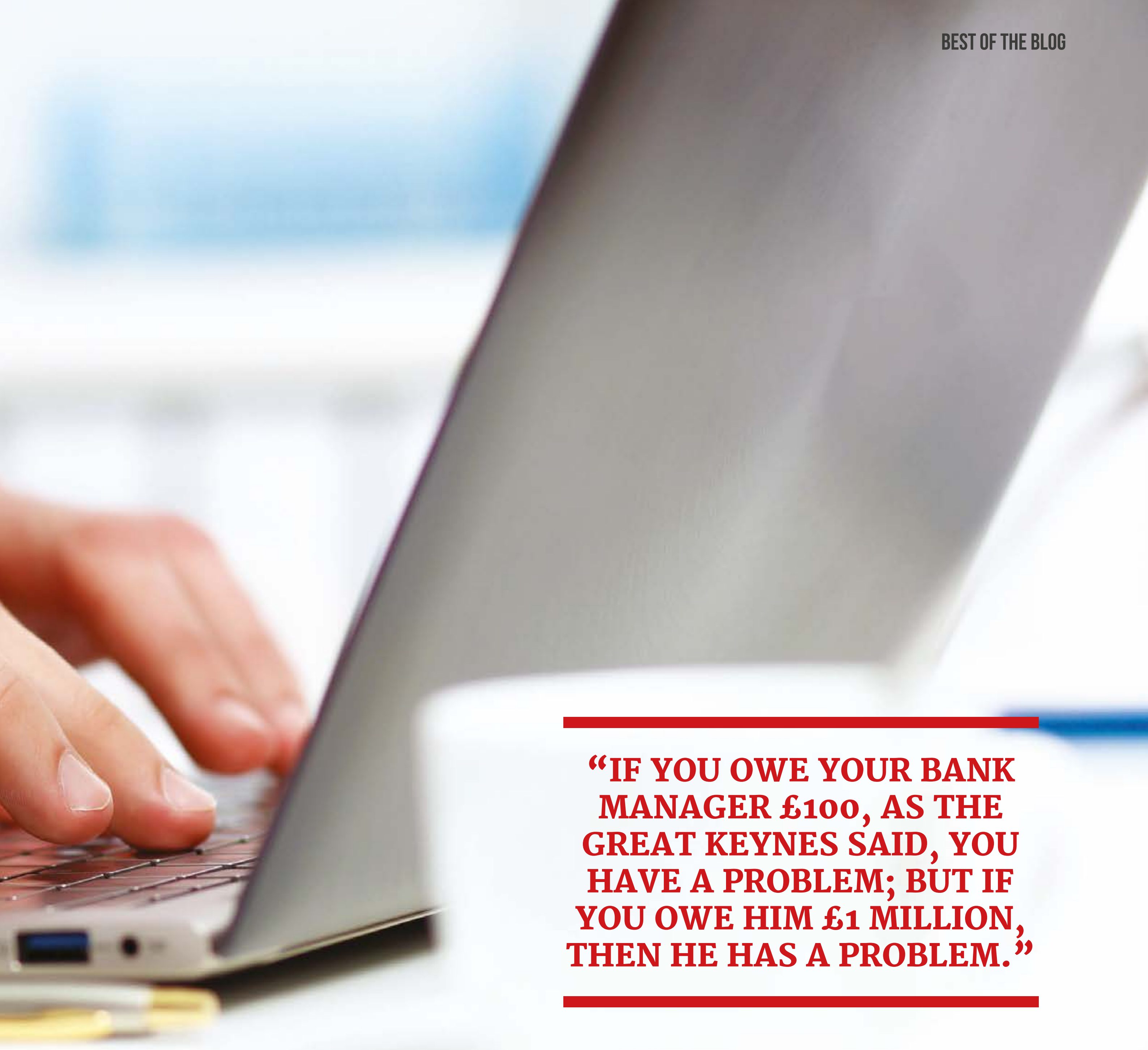
MAY 2016

BEST OF THE BLOG

Alice in Wonderland Economics Leads Us towards Gold

As I have been telling anyone that I can buttonhole at drinks parties for some time, we are living in the age of *Alice in Wonderland* Economics.

Alice in Wonderland Economics is the weird world where investors, such as pension funds, pay to lend to governments which are crippled by debt. (Germany, Japan, Denmark and Sweden can raise new debt at negative interest rates.) It is a world where long-term yield curves are flat – so it costs the same for governments to borrow for 10, 20, 30 years as for three months. It is a world where increasingly scarce commodities fall in price, yet lack-lustre equities rise on flimsy earnings projections. A world where unelected central bankers call the shots and elected ministers of finance are virtually impotent (though they do love to re-arrange the deck chairs as the liner sinks – bless them). It is a world where interest rates (fixed at zero) have nothing to do with the equilibrium of savings and investments, as mainstream economic theory insists. It is a world where the chattering classes castigate austerity; yet where the budget deficit and the national debt only go up. A world in which countries – Britain at the forefront – borrow money from the international markets in order to give it out as "aid" to spurious consultants (I can tell you about consultants – I'm bloody one of them) while haemorrhaging money from our armed forces at a time of increasing geopolitical risk.



“IF YOU OWE YOUR BANK MANAGER £100, AS THE GREAT KEYNES SAID, YOU HAVE A PROBLEM; BUT IF YOU OWE HIM £1 MILLION, THEN HE HAS A PROBLEM.”

If you think economics is complicated (which it can be) then thank God you were buttonholed by me. Because it's all incredibly simple really: *we are drowning in a sea of debt.* If you owe your bank manager £100, as the great Keynes said, you have a problem; but if you owe him £1 million, then he has a problem. Now imagine that everyone owes everyone else £1 million and you see that *we are all in Tight Street.*

The Credit Crunch of 2008 was ultimately something to do with the fact that Western banks went on binge lending sprees to people or weird synthetic entities (often rated AAA by the rating clowns) which could never pay the money back. The Chinese, who have been the motor of the world economy since the late 1990s, then decided to mitigate the effects of the slowdown by engineering a credit boom. That credit boom has now become a bubble. And the thing we all know about bubbles is that, eventually, they burst.

By Victor Hill

Click here to read the full article

The Trumpification of the US Economy

Over the last few months we have witnessed a series of presidential primary elections and caucuses to determine which candidates will represent the Democratic and Republican parties (among others) in the final stages of the US presidential race. The last few months have been not only a time for reflection about economic, political and social conditions, but also a period of hilarious entertainment. The comic aspect is of course provided courtesy of Donald Trump and his cutting edge ideas that involve ending free trade, building a wall to separate the US from Mexico and investing heavily in weaponry to show the world what a big stick the US possesses (in military terms of course).

Comedy descended into farce as the campaign progressed. But, as time went by, more and more Republican candidates withdrew their candidatures, until the point when they left Trump alone in the race. He is now the last man standing in the Republican Party. The controversial populist has turned into the likely final Republican candidate for the US election, which is a risk that investors can no longer ignore as the singular ideas he advocates are deemed as big a threat to the global economy as the jihadist terror. The Trumpification of the global economy is a severe risk that many still seem to be content to ignore. But do you know the odds of a Trump victory? They're much bigger than many believe and exponentially higher than they were six months ago. With still another six months to go until the Election Day in November, investors must carefully monitor the progress of the campaign, as Trump promises severe changes to the US economy. Portfolios must be prepared accordingly.

As I explained in February (in the context of Brexit), I don't tend to use polls to evaluate anything because their predictive value is limited. Of much higher value are the betting odds offered by bookmakers and exchanges. Only when there is money (or another valuable resource) involved does the tool become valuable and predictive. You know what they say: "put your money where your mouth is". By this token, the best 'bet' is to look at the odds offered by bookmakers.

By Filipe R. Costa

"INVESTORS MUST CAREFULLY MONITOR THE PROGRESS OF THE CAMPAIGN, AS TRUMP PROMISES SEVERE CHANGES TO THE US ECONOMY. PORTFOLIOS MUST BE PREPARED ACCORDINGLY."

Click here to read the full article

Not All Doom and Gloom: Some Long Opportunities

Given markets spend more time going up than down, once a bull market is established nay-sayers start to creep out of the woodwork and there's continually more and more talk of market failure, and statistically, sooner or later, it'll be right. Of course, if that's simply based on the same sort of 'finger in the air' nonsense as cults predicting the end of the world, then it's certain to be wrong, except by accident. A word to the wise: take bets on the end of the world at any odds. I've been writing a lot lately about failures in the market, and justifying those comments with TA and observable market and economic phenomena. So today I thought I'd have a look at some stocks on the LSE that are good long watch list candidates.

The first one is **Rexam plc (REX).** I didn't know what they did, and for TA purposes it doesn't really matter, but they make consumer packaging in the form of cans. Nice looking chart though. 600p resistance level which has been broken now. A pullback to 600p and a bounce could be a very nice buying signal. A note of caution is that every time it's broken the ATH before it has then quickly failed. Perhaps a straddle approach then at this point, long and short outside the current range. It's not necessary to use options to do straddles now as fixed odds betting allows what they call 'boundary bets', which are essentially the same thing. If the price goes above a certain level, or below another, you get paid.

Another 'looker' is **RPC Group plc (RPC).** Funnily enough, it's also in packaging, but this time plastic packaging. The shares is in a range at the moment but exhibits a nice intact upwards trend for the most part since '09, and gaining in momentum, thus maintaining percentage gains over time. And no overheating, but I suspect if it goes on

to rally up from here that's how it will eventually end. Like Greggs plc. We're now seeing a congestion area, and if this is a precursor to a measured move then it could go ballistic. Up 16 fold since 2009 this is a pretty impressive chart. Nicely above the cloud, but of course that does give potential downside whilst still remaining bullish, so watch out for a pullback, even across the cloud. That's quite a downside risk. Timing will be key to making a success of the move should it happen.

By Adrian Kempton-Cumber

Click here to read the full article

Brexit: Caveat Emptor!

Market Latin: 'caveat emptor' says the Governor; 'Et tu Brute' rejoin shocked British Brexiteers; 'Quo Vadis?' shout investors. Will a Brexit vote be bad for the equity market, and if so, what sectors is a Brexit vote likely to hurt?

The Governor of the Bank of England's foray into Brexit prophecy has provoked outrage and anger in the Brexit camp. The belligerence of some of those who criticised him – for publically presenting the analysis and conclusions of bean counting forecasters about the economic impact of the UK's leaving the EU – carried more than a hint of fanaticism. The call for the Governor's head seemed an extraordinary 'over the top' reaction. It characterises the style and nature of the national debate on the subject of whether the UK should give up its semi detached membership of the European Union. Much of it has not, so far, resembled a rigorous process for distilling the pure spirit of probability through objective analysis, but rather exaggerated name calling between competing Premier League football club tribes. Fortunately, no 'battle' buses have been attacked yet.

As a member of the dogmatically uncommitted, I welcome the Governor's presentation of worked-through forecasts of the economic soothsayers and rune readers. I do so for two reasons: first, because the Governor would have been negligent not to have ordered a survey of the possible economic and monetary impact of leaving (and even worse, having got it, keeping it quiet!);

second, because we can all now feed the conclusions into the crude, subjective synthesiser of our own individual, imperfect, judgmental processing. It seems almost eccentric in a democracy to complain about information supplied by forecasters. Predictably, the response of the British Brexiteers was not to answer it point on point but a resort to Billingsgate or shooting messengers. That included questioning the integrity of the voguish Christine and calling the IMF forecasters rubbish. On the other side it's more fire, plague and pestilence.

By Robert Sutherland-Smith

Click here to read the full article

BY RICHARD GILL, CFA

READ TO SUCCEED

THE DEFENSIVE VALUE INVESTOR

A COMPLETE STEP-BY-STEP GUIDE TO BUILDING A HIGH-YIELD, LOW-RISK SHARE PORTFOLIO

BY JOHN KINGHAM

Just like other disciplines, such as art, music, literature and so on, investment has developed its own genres and sub-genres. Music for example has seen the rock genre develop into heavy metal, punk, grunge, glam rock and more exotic disciplines such as Krautrock and crossover thrash. In art we have seen impressionism spin off into post-impressionism and then abstract.

The most well known style of investment, value investing, also has a number of sub-disciplines, including deep value, turnaround and special situation approaches. In *The Defensive Value Investor*, author John Kingham furthers his own approach by taking the main principles of the value investing genre and explaining how investors can combine them with a defensive approach in order to create a portfolio of shares which will produce decent rates of income and capital growth.

The main difference between "value" and "defensive value" is that the latter approach recognises that companies highlighted by basic value analysis may be cheap for a very good reason. For example, value analysis may flag up a stock which is very cheap on an earnings multiple basis but may ignore the fact that its wider industry is in decline – HMV in 2009 comes to mind. Defensive value investing thus combines value investing with defensive investing in order to identify companies which have strong and steady operations but which can also be picked up for a bargain price.

> "KINGHAM USED HIS PROFESSIONAL EXPERIENCE IN COMPUTER PROGRAMMING, AND THE LOGICAL PROCESSES IT TEACHES, TO TURN WHAT HE HAS LEARNED ABOUT INVESTMENT INTO A SYSTEMATIC STRATEGY."

The UK Value Investor

John Kingham has honed his investment style over many years as a private investor and investment newsletter publisher. As with all books with their roots in value investment, it's no surprise that he took inspiration from the classic tome *The Intelligent Investor* by investment legend Benjamin Graham. But finding Graham's rules a little bit too vague, Kingham used his professional experience in computer programming, and the logical processes it teaches, to turn what he has learned about investment into a systematic strategy.

The core of the book is split into three parts, with the first two focussed on how to analyse companies in order to find potential buying candidates. It soon becomes clear when reading Part One, covering the quantitative analysis of company accounts, that Kingham much prefers steady large cap stocks in comparison to fast moving small caps. In fact, his first "rule of thumb" – handy hints which intersperse the text – is to only invest in a company if it has paid a dividend in every one of the previous ten years. Not many small caps can claim that kind of consistency! He also likes shares with consistent growth, high profitability, and of course (where the value element comes in) low valuations. Interestingly, Kingham uses a number of valuation metrics in this book which you won't commonly find elsewhere. For example, there are a number of ratios introduced which can be applied when investing in banking and insurance stocks, and those with pension deficits.

Part Two is arguably more valuable as Kingham provides ways how investors can analyse whether a company is cheap but cheap for a reason. This comes in the form of identifying value traps and a firm's competitive advantages – two things which HMV investors should have analysed deeply in the years prior to and during its demise. The final chapter gives a raft of tips on how to build a portfolio, including on how to diversify well and when to buy, hold and sell.

Not your typical investment book

There are scores of books on the market which focus on value investing, the most similar to this one perhaps being Gervais Williams' *Slow Finance*. But I thought that The Defensive Value Investor stood out for a number of reasons.

Firstly, it provides a "portfolio" based approach to investment, advising investors on how to build up a basket of low-risk shares which should do well over the long term. There is none of the sensationalism you see in a multitude of lower-quality internet-based stock-tipping publications here. You won't find any speculative small cap mining and oil stocks recommended in the book. And that is more often than not a good thing.

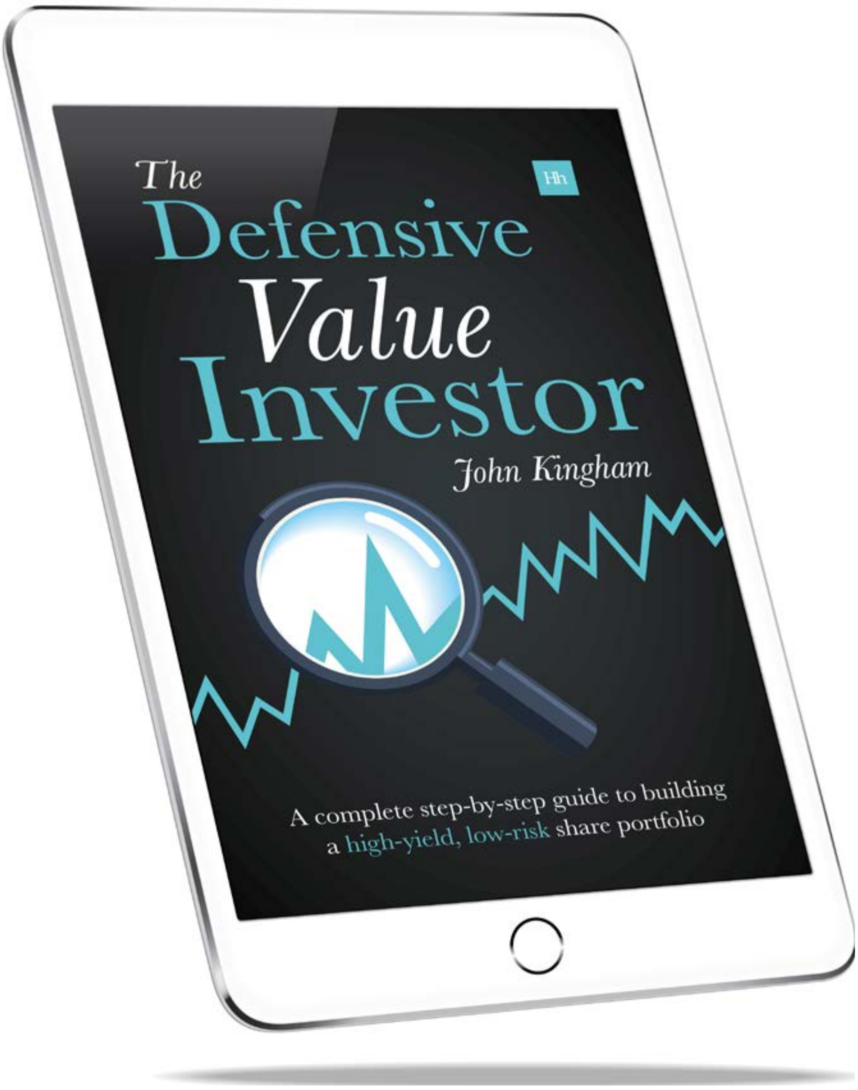
But what I like most about the book is the final "Rules of Thumb Checklist "section. This consists of all 43 guidelines mentioned in the book which investors should follow when building up (and selling stocks in) a defensive value portfolio. While no company will ever fulfil all of the criteria (indeed some rules apply to firms in different industries and certain special situations), the more they meet, the more likely they are to be a winning investment. There are also useful guidelines on portfolio diversification and construction, which include the sound advice to hold at least 30 companies, invest no more than 10% in any one sector and have no more than half of the portfolio's revenues coming from any one country.

While John Kingham is a private investor, his detailed and informed investment agenda reads like it has been written by a professional fund manager. Indeed, if Kingham launched a fund based upon the principals in this book I believe it would attract a lot of interest from both retail and professional investors alike. But with the instructions being so systematic and clear why pay a fund manager to manage your money when you can do it yourself?

This is not a book for traders: in fact Kingham advises that you should only ever commit to making an investment decision when the markets are closed in order to avoid the potentially distracting buzz and excitement which affects investors. As a tip from the head of behavioural finance at Barclays this may come as good advice. But if you are looking to build up a steady portfolio full of low risk, high-quality shares with the potential for steady, long-term growth then this is the book for you.

Our friends at Harriman House are offering 30% off the RRP of *The Defensive Value Investor* with the following promo code: DEFVAL30

Paperback – £17.50 (RRP £25)
eBook – £16.10 (RRP £22.99)



BY ADRIAN KEMPTON-CUMBER

IF YOU BREXIT IT'S YOURS THE WORLD'S MOST EXPENSIVE COIN TOSS

As we move towards the EU Referendum on June 23rd what are we really voting for, will it affect the markets and are we even asking the right question?

BREXIT

First off, who is 'we'? Who exactly should be voting in this referendum? Europeans who live here? Brits who live in Europe? Should more weight be given to younger voters as they'll have to live with the consequences for longer? Perhaps the maxim 'no taxation without representation' should apply, for balance, in reverse: no representation without taxation. I'm not a big fan of democracy to start with, as regular readers will know. Giving people a vote as of right is a bit like 'one man, one HGV driving licence'. We need an entry requirement for voting, just as for driving, to show a basic understanding of electoral road safety, and proficiency in understanding how to evaluate political issues. The idea that an important decision, like this referendum, could ultimately be decided by one vote is ridiculous. Some larger majority, at least 55%, should apply to make such fundamental changes. But then Brits are afraid of change. Even the Scots were scared into staying in the Union when they had their referendum. By the way, where was the English referendum on whether we wanted to stay in the Union, or keep the Scots? There's a very good chance Northern Ireland, the wacky, neo-1950s, bowler hat wearing UK province where to this day abortion is still punishable with a prison sentence, would be jettisoned by the electorate at the first available chance.

"THIS CAMPAIGN HAS BEEN ONE OF FEAR, NOT OF INFORMATION."

In any case, how can people make a choice as to what to vote for? This campaign has been one of fear, not of information. It's not so much a referendum on remaining or leaving the EU, but rather market research on which option seems less scary. People are voting not *for* something but *against* the option they've become more scared of. On social media there's backlash to the "don't vote" crusade at the last General Election by political commentator Russell Brand. Ha! Not really, he's a comedian. People are demanding that their friends vote, and that if they don't, they're letting the side down and destroying British society. The plain fact is if people don't understand the issues, and don't have the inclination to study them, then they certainly should not vote. Our right to vote was hard

"I COULD EASILY VOTE REMAIN OR LEAVE – THERE ARE GOOD REASONS TO SUPPORT BOTH."

earned with the blood of our ancestors, but it's a right not an obligation. There are plenty of legitimate reasons not to vote, even if you do understand the issues: for instance, that nothing or no one on the ballot sheet represents you and no tactical way exists to demonstrate that; or, as in this case, the ballot paper is asking the wrong question!

I could easily vote Remain or Leave – there are good reasons to support both. But this popularity contest approach to such an important issue trivialises it, and doesn't give us a chance to vote for any conditional outcomes. This should be the first of at least two referenda. What we should be asking is: "Under what circumstances would you support staying in?" and "Under what circumstances would you support leaving?" And yes, we do have the technology.

I am in favour of remaining *if* we have an agreement, at a constitutional level, that Europe will not become a Federal administration; that we won't be opening the door to Turkey until (if ever) they share our views on personal liberty and human rights; and that it will be principally a trade alliance, not a legislative body over and above harmonising laws to facilitate trade – on which note they've not done too good a job since we joined in the early 1970s. Harmonisation my arse! Many disparities still exist after almost fifty years. And as we move inevitably towards a society where we have automated to the extent that millions of people will never work, even if they want to, an equally inevitable universal basic living income will mean our borders will have to close, or literally the whole world will come.

I am in favour of leaving *if* we admit we're a tax haven. After all we do have thirteen offshore tax havens under the control of the UK, and the UK itself is a competitive tax haven. Obviously we break up the Union at that point. Last thing we want is Ms Trout north of the border scuppering our plans for international inequality, or making us share the spoils out. We could afford a living income for everyone then, and after all, the job of government is to maintain our unfair advantage against other countries. You can't beat tax havens, and if we stay in the EU then Frankfurt will become more important over time, threatening the dominance of London as the financial centre in the region. You can't beat them so be them. We'd blow Switzerland out of the water with official tax haven status. Incidentally, the Swiss do have a navy. Not sure why. I presume they have a fleet of pedalos with state of the art Swiss Army knives on board.

So what about the issues? What issues? No one's talking about actual issues. Who's talking about federalisation, for example? And forget immigration. What about integration – a far more pertinent issue, and one which should form the foundation on which immigration policy is based? All this is quite aside from our obvious need for cheap immigrant labour, like any economically successful nation at any point in history. Here's a scary statistic from a source of mine in the public sector: "Around 70% of serious crimes (that involve prison rather than fines) are perpetrated by either immigrants or the children of immigrants." It's not racist; it's a piece of data pertinent to the discussion. How can we possibly progress politically if we aren't given the facts

and people aren't inclined to have the discussion to find solutions for fear of offending someone?

As for the scaremongering... Various bits of baloney I've heard recently include:

- *Leaving will mean we lose Interpol.* Why? We share this sort of data with non-EU nations and the infrastructure is already in place. That makes no sense at all.

- *Brexit could push us into recession*, according to Carney. Well here's a newsflash Carney old bean, we've been in technical recession since 2008, except that the NSO lie about inflation figures being lower than GDP growth in order to hide the idiocy of the low interest rate regime. This is a state of affairs that essentially forces the fiscally responsible to subsidise those who are not, in a kind of welfare-state-by-the-back-door for poorly run businesses and otherwise uncreditworthy property ladder imposters. Only then you can pretend we haven't been in recession all along. But we have. So no dice there mate.

- *House prices will fall*. Unlikely, unless they were going to fall anyway. Actually that's not an even slightly scary prospect for many people, and they'd rather like to see it happen.

I've demonstrated in a number of articles over the last year or so that apparently momentous events and decisions have little or no effect on the markets: General Elections, terrorism, even WW2. Brexit, should it happen, certainly would make the Pound more volatile, but the markets typically blip and carry on regardless. I've marked on the **FTSE 100 (UKX)** chart the trading day after the Scottish Independence Referendum last year. I've also put the Dow Jones on for comparison. There's a sell off but it is simply a US led sell off. I can't imagine the US sold off because Scotland didn't leave the UK.

"BREXIT, SHOULD IT HAPPEN, CERTAINLY WOULD MAKE THE POUND MORE VOLATILE, BUT THE MARKETS TYPICALLY BLIP AND CARRY ON REGARDLESS."

Many of you may remember the article I wrote about UCL's Global Trade Conference, which I attended in February, and where the New Zealand Ambassador said that should we leave the EU then New Zealand would be "beating a path to [y]our door". So all this crap that we won't be able to negotiate trade deals, is all scaremongery. Just like the currency scare tactics that probably cost the Scots their freedom. New Zealand is actually a brilliant ally to have since they have free trade agreements with many countries, including China, making them an obvious trading partner. They would provide almost instant access to many markets while we sort out other arrangements: a kind of drop-shipping arrangement. Perhaps the trade of the century here is Long New Zealand for a Brexit play.

I have a friend from Belarus. He was shocked when I told him we Brits are scared of change. He loves change as do most people from that part of the world. "Change is good," he told me. "How can things improve without change?"

But the question is still the wrong one. Instead of blowing £150m on a coin toss daredevil bungee jump, we should have invested a billion or two in creating the world's first electronic blockchain based electronic voting system, then we could have had a series of referenda to reach a more sophisticated consensus on where we go from here. Historically people have voted to keep the status quo.

In terms of the markets, there are no difficult market conditions. There are just market conditions. You either read them correctly or incorrectly. If you're not confident trading in volatile conditions then, as Dawkins said about university students who want 'safe spaces': "go home, hug your teddy & suck your thumb until ready for university". Sound analysis is the key. A valid play on the UK market, and possibly the German one, too, is a straddle, since once the result is announced there will be a move enough to make some money whatever the result! The same applies with GBP/EUR.

MARKETS IN FOCUS

MAY 2016

GLOBAL EQUITIES

Index	Last Month %	YTD %	Proximity to 52w High*
NASDAQ 100	4.2	-1.5	
Nikkei 225	3.4	-9.5	
S&P/ASX 200	2.4	1.6	
DAX Xetra	2.2	-4.5	
CAC 40	1.7	-2.8	
Euronext 100	1.6	-2.5	
S&P 500	1.5	2.6	
IBEX 35	0.1	-5.4	
Dow Jones	0.1	2.1	
FTSE 100	-0.2	-0.2	
Hang Seng	-1.2	-5.0	
Russian Trading System	-4.0	20.4	
Bovespa	-9.2	13.0	

COMMODITIES

Commodity	Last Month %	YTD %	Proximity to 52w High*
Sugar (No. 11)	6.8	13.6	
Natural Gas	6.6	-2.9	
Crude oil (Light Sweet)	6.3	31.9	
Soybean	4.7	24.9	
Crude oil (Brent)	4.7	33.1	
Coffee	-0.7	-3.4	
Cocoa	-4.6	-4.9	
Copper	-5.7	-1.3	
Gold	-5.9	15.0	
Platinum	-9.1	9.9	
Silver	-10.5	15.9	
Palladium	-11.8	-2.5	
Iron Ore	-23.8	11.3	

FOREX

Pair/Cross	Last Month %	YTD %	Proximity to 52w High*
GBP/AUD	4.3	-0.8	
USD/CAD	4.2	-5.5	
USD/JPY	4.1	-8.0	
USD/CHF	3.5	-0.9	
EUR/JPY	1.2	-5.7	
EUR/CHF	0.7	1.6	
GBP/USD	-0.9	-1.7	
EUR/GBP	-1.9	4.3	
EUR/USD	-2.8	2.5	
AUD/USD	-4.9	-0.7	

CENTRAL BANKS - RATES & MEETINGS

Central Bank	Key Rate	Next	After
BOE	0.50%	Jun 16	Jul 14
ECB	0.00%	Jul 21	Sep 08
FED	0.50%	Jun 15	Jul 27
BOJ	-0.10%	Jun 16	Jul 29
SNB	-0.75%	Jun 16	Sep 15
BOC	0.50%	Jul 13	Sep 07
RBA	1.75%	Jun 07	Jul 05
RBNZ	2.25%	Jun 09	Aug 11
BOS	-0.50%	Jul 05	Sep 06
BON	0.50%	Jun 23	Sep 22

FTSE 350 TOP

Sector	Last Month %	YTD %	Proximity to 52w High*
Restaurant Group PLC	33.1	-46.6	
Pendragon PLC	20.8	-12.2	
3i Group PLC	18.6	16.6	
Just Eat PLC	18.5	-7.9	
Homeserve PLC	18.3	18.4	

FTSE 350 BOTTOM

Sector	Last Month %	YTD %	Proximity to 52w High*
Inmarsat PLC	-22.6	-36.7	
Evraz PLC	-21.8	51.5	
Interserve PLC	-21.8	-35.8	
Anglo American PLC	-21.4	100.4	
Centamin PLC	-20.3	49.6	

FTSE 350 SECTORS TOP

Sector	Last Month %	YTD %	Proximity to 52w High*
Industrial Transport.	6.8	15.6	
Nonlife Insurance	6.7	4.3	
House Goods & Home	6.0	4.6	
Tech Hardware & Equip	5.0	-4.7	
Const. & Materials	4.5	2.6	

FTSE 350 SECTORS BOTTOM

Sector	Last Month %	YTD %	Proximity to 52w High*
Industrial Metals	-21.8	51.5	
Mining	-15.3	19.6	
Oil Equip., Serv. & Dist.	-6.7	-0.1	
Oil & Gas Producers	-6.3	7.5	
Aerospace & Defense	-1.9	-3.3