ISSUE 32 – NOVEMBER 2017 WWW.MASTERINVESTOR.CO.UK

MAGAZINE
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AMERICAN DREAM
INVESTING IN THE WORLD'S MOST DYNAMIC ECONOMY

PLUS...

THE COMING TAX ONSLAUGHT
WE REVEAL HOW TO PREPARE AGAINST IT

DIVIDENDS FOR LIFE?
3 STOCKS YOU CAN TRUST

BUYING INTO STRENGTH
HOW TO TRADE BREAKOUTS

MARVELLOUS MICROCAPS
MAKE A MINT WITH THE MINNOWS

WELCOME

Dear Reader,

Imagine someone had told you a few years ago that Donald Trump was going to be President of the United States, the UK was going to vote to leave the European Union, and a 31-year-old Millennial with "right-wing" views was going to be the leader of Austria.

No doubt, you would have laughed it off.

In hindsight, it's clear how much can change in just three short years. Events such as these shape markets, and investors who place the right bets can benefit mightily from them (or lose their shirt if they get it wrong).

So how are the next three years going to shape up? At Master Investor, we don't claim to know the future. However, we do have access to some of the best brains in the investment industry.

As a publication that is not beholden to corporate interests or particular political agendas, we are at liberty to speak our mind. Although we don't always get it right, by now we have established a track record of regularly making the right calls well in advance.

For example, our very own Jim Mellon has been a Japan bull for some time now, and the Nikkei 225 recently hit fresh all-time highs, after years in the doldrums. Meanwhile, we regularly feature cover stories that challenge investors to imagine what the economic landscape might look like in 5, 10 or even 20 years into the future, and to adjust their portfolios accordingly.

Something that feeds into all this research is the travelling of some of our contributors. For example, Victor Hill just criss-crossed the better part of the United States, with an ear and an eye to picking up new trends and investment ideas.

I hope you will find this latest issue of the Master Investor e-magazine useful and inspiring. Our team has certainly worked hard to try and achieve just that!

Best regards,

Swen Lorenz
Editor, Master Investor Magazine

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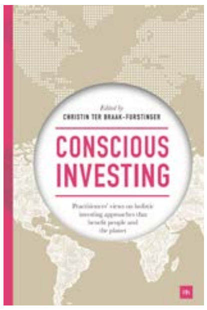

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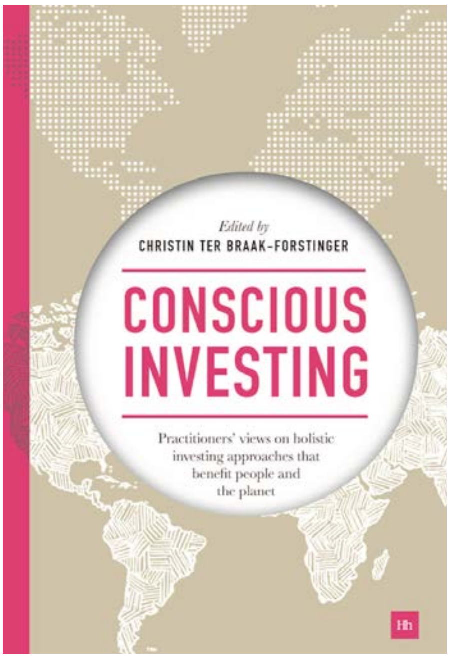

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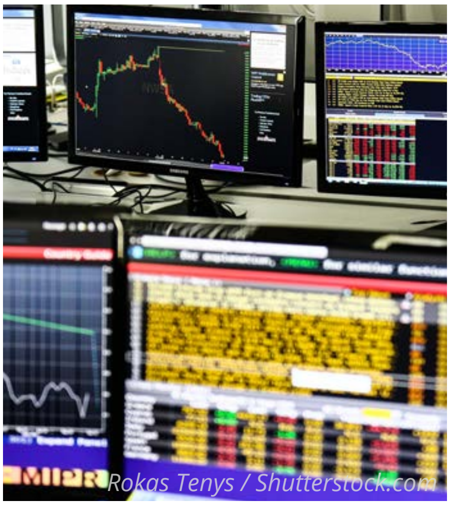

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Market data for the month of October.

BY JIM MELLON

MELLON ON THE MARKETS

I'm on an Emirates A380 over the island of Goa, en route to Dubai from Melbourne. For the past ten days, I've been on a whirlwind visit to Hong Kong, where I spoke at the Economist Longevity conference, and to Australia, where I discussed, inter alia, lithium and more *Juvenescence*.

In less than two weeks, it's a round trip to Sydney for the Sohn Hearts & MInds Investment Leaders Conference, where yet another speech beckons. Yikes!

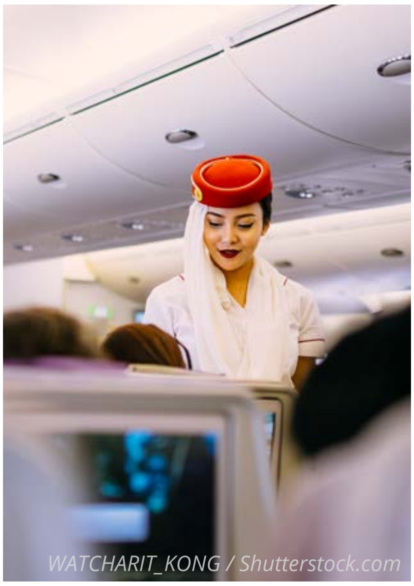
This excessive travel leads me to two comments: one, an apology to the editor for the tardiness of this month's letter; and two, the observation that jet age travel hasn't really changed much in the fifty years or so I've been on planes.

Sure, the modern aircraft are more fuel efficient, less noisy, and in business class there are things such as flat beds – oh, and loyalty points. There is also a lot more security, for obvious reasons, and TV screens on which we can watch unwatchable movies.

But fundamentally, planes don't go any faster than the old 707s and Comets which once roamed the skies, although in considerably fewer numbers. Planes go further, and generally (the A380 aside) have two engines, not four, but they are still proceeding at under 600 mph or about 1,000 kph, well below the speed of sound.

The only jets which go faster are military, or the late-lamented Concorde, beloved of the glitterati of its era, as well as a useful – though ruinously expensive – tool for the transatlantic business community.

I have heard talk of new forms of propulsion, of mini Concordes on the drawing board and of lightning speed inner space travel, but nothing has yet happened to demonstrate to me that within my (Juvenescent!) lifespan there will be anything other than plodding jet service involving tedious travel and horrid jet lag.



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Could one of our readers not do a piece on how travel could feasibly and reasonably cheaply be made faster? It could be breaking news, and a lot more interesting than Sir Michael Fallon's "brush with destiny" or any of the other Sexminster revelations.

A pain in the neck

I must say, I am amazed that markets keep rising, albeit in a narrower and narrower range. This is especially so in the face of clearly tightening labour markets, rising (or about-to-rise) interest rates and a slew of unsavoury revelations about Trump's campaign, the European political wildfires, and a whole host of other nasties.

I am also bound to eat a big dollop of humble pie in that the FANGs have continued to roar ahead despite my King Canute effort to hold them back. Earnings out of Facebook, Amazon and Alphabet have been exceptionally good, which doesn't really surprise me, but what does astonish

"I MUST SAY, I AM AMAZED THAT MARKETS KEEP RISING."

"BILL BLAIN OF MINT THINKS WE MIGHT BE AT A MAJOR INFLECTION POINT FOR BONDS, AND I AGREE WITH HIM. HE'S NORMALLY RIGHT."

me is that the political and regulatory clouds hanging over such companies have had so little effect. In due course, these factors will prevail, but in the meantime, I am licking the wounds that come from being a roasted bear. Ah well.

Some stuff is going well, including the march of Japan. When I was interviewed by my old friend Bernie Lo on CNBC in Hong Kong, I said that I thought the Nikkei would rise to 25,000 by the end of this year. I meant to say that it would be there by the end of *next* year, but at the rate it is proceeding, it may well be that the magic mark will be attained by this December.

Japanese retail investors – who I remember going nuts for stocks in the 1980s – are now a considerably less numerous bunch, and not nearly as gung-ho. Only 10% of the Japanese adult population owns stocks, compared to 36% in the US. Everyone is a saver in Japan – they have to be with the oldest population anywhere in the world – and government bonds yield zippo.

Will Nutting of Stifel, a very fine analyst, is now with me on **Sony (TYO:6758)**. It's a raging buy, and along with Japanese ETFs and Nikkei or TOPIX futures represents a great way of getting exposure to the only major market that has real momentum based on fundamentals. The average Japanese will soon be looking at the stock market as a viable place for investment, with a modest but rising yield on stocks, improving earnings and relatively cheap PE ratios. Corporate governance is hardly pristine (see the recent Kobe Steel scandal as an example), but it is undoubtedly improving.

If it's not too late, and the horse hasn't completely bolted all the way to Kyoto from Tokyo, I will be writing in greater detail in April of next year when I visit Japan. It remains my favourite place to have equity exposure, in the round.

withGod / Shutterstock.com

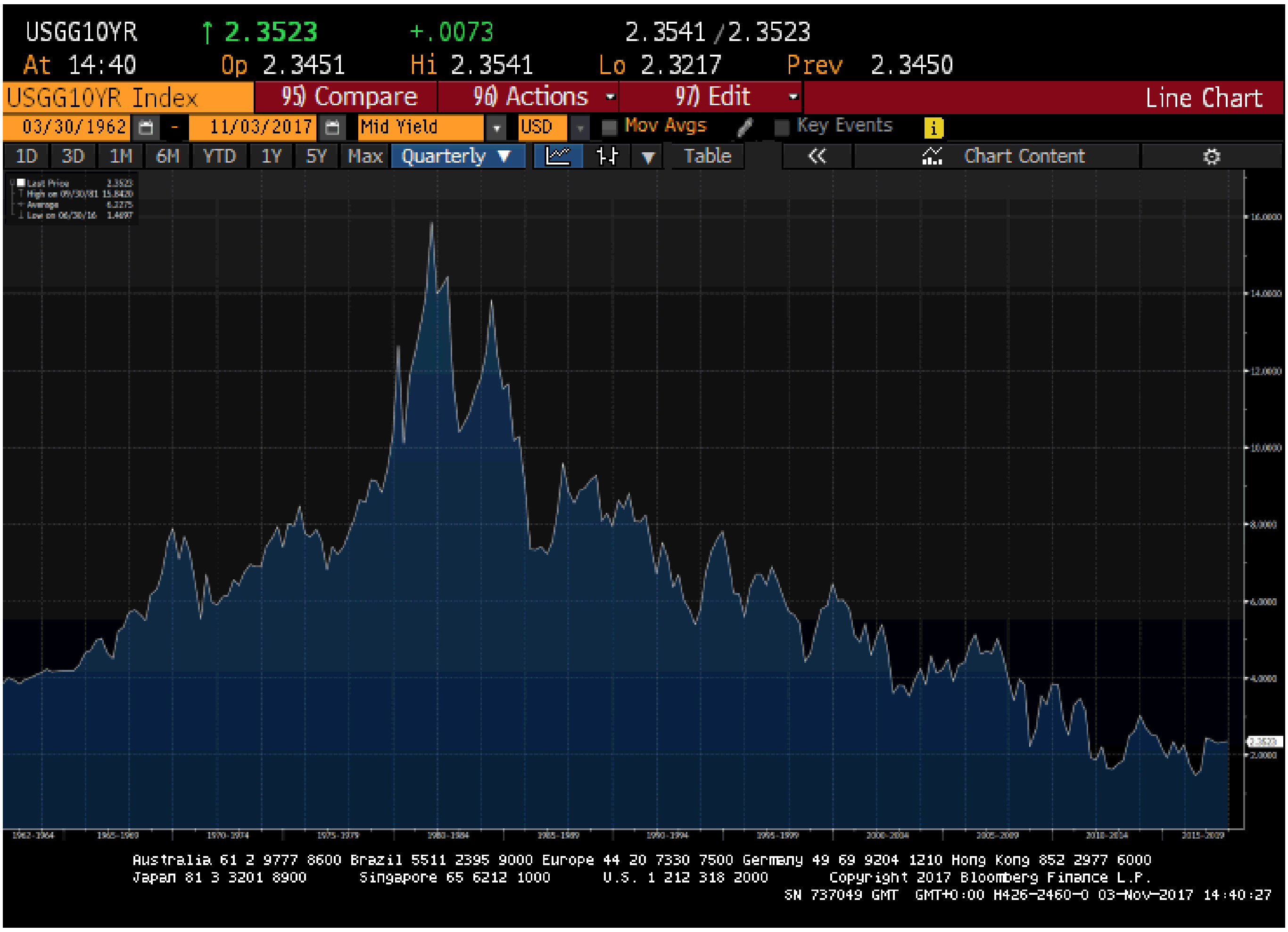
Approaching a "major inflection point" for bonds and inflation

Elsewhere, bond yields sputter around but basically are not going down, and are showing the signs of a classic bottom, indicating the beginning of a bear market for fixed interest. Bill Blain of MINT thinks we might be at a major inflection point for bonds, and I agree with him. He's normally right.

Everyone I know tells me the Philips curve is dead, and this week's Economist says the same thing. I strongly disagree. I think inflation is both poorly measured and calculated too low. A pint of beer in an average Melbourne pub at A$14 tells you everything you need to know about inflation Down Under, as an example. And that's after the currency has fallen 25% in recent years, from a peak of near parity with the US dollar.

The workers are revolting, and they are by hook or by crook going to get a bigger share of the pie. My own prescription for rectifying the inequality between corporate profits, which are too high and are generating huge piles of side-lined and useless cash, is to raise minimum wages in developed economies – and very substantially.

Forget about a Universal Basic Wage, which is a slacker's charter and just another form of taxation; let's try to avoid the destruction that would surely come from a Corbynite type government in the UK (and in many other countries) and just pay those on the lowest wages more.



Make it mandatory, and more people will work, people will be happier, economies will benefit from more consumer spending. But we will indeed get inflation, and more of it than everyone expects.

In fact, as the US economy grinds along at about a 3% growth rate and unemployment is at lower levels than for many decades, the inevitability of upward wage pressure strikes me as being obvious. In the 1970s, the developed world suffered a bout of massive inflation which has been largely forgotten – except by people like me.

I am not suggesting that we are going back to double-digit inflation, but 3%, 4% or 5% is entirely possible.

And remember, highly indebted governments love inflation as it inflates their debts away; central bankers like it too, since achieving inflation in recent years has been their overriding mantra. They are going to get it.

In those circumstances, all I can say is buy gold, silver – in fact any commodity that is in short supply and subject to inflationary pressures.

And on that subject, back to Melbourne. Backroom discussions with the best miners I know, and the best networker I know (my old friend Anthony Baillieu), tenements pegged and funding secured. Watch this space. Lithium will be a big focus next year.

One of our Master Investor 2016 tips, **Critical Elements (CVE:CRE)** is already up almost six times, and I have another tip in that area which will be revealed in a few weeks.

Happy Hunting!

Jim Mellon

Click here to follow Jim's trades on Twitter

About Jim

Jim is a visionary entrepreneur with a flair for identifying emerging global trends enabling him to build a worldwide business empire. He is amongst the top 10% in the "Sunday Times Rich List" (Britain's equivalent to the Forbes list). He predicted the credit crunch of 2007-08 in a book entitled "Wake Up! Survive and Prosper in the Coming Economic Turmoil". Jim followed this with "The Top 10 Investments for the Next 10 Years" (2008) and then "Top Ten Investments to Beat the Crunch!" (2009). His monthly "Mellon on Markets" column has gained him cult status among investors. He holds a master's degree in Politics, Philosophy and Economics from Oxford University.

BY SWEN LORENZ

INVESTING IN THE LONGEVITY REVOLUTION

AN EXCLUSIVE BEHIND-THE-SCENES REPORT

Our Editor, Swen Lorenz, was given the opportunity to attend a high-calibre presentation by one of the world's foremost institutions in aging research. Master Investor was the only media organisation admitted to the event. Read what Swen learned about the coming age of longevity, the work of the Buck Institute for Research on Aging, and newly emerging investment opportunities in a sector that is poised for rapid growth.

Some of the world's most exciting innovations, scientific advances and – by extension – investment opportunities are found in unexpected places. Such was my realisation when attending a behind-closed-doors lunch with Dr. Eric Verdin, CEO and President of the Buck Institute for Research on Aging, one of the world's leading research centres for aging.

Legally incorporated as a non-profit in 1999, the US-based Buck Institute was the first independent organization devoted solely to research on aging. Its science focusses on discovering potential treatments for age-related diseases and increasing the so-called "healthspan" – i.e. the amount of time you live in good health.

"A massive boom is coming with big money flowing in. The industry is where cancer immunotherapy was five years ago." This is how Dr. Verdin, a physician/scientist with over 200 published articles and extensive experience in the private sector, summarises the situation. "There is the possibility of the first *real* drug to disrupt the aging process. People with the foresight of a Jim Mellon are predicting that we are onto something big. Over the next three to four years, people will go crazy over therapeutics to intervene in the aging process.

So far, there are few pure plays in aging research available to investors. Among them is UNITY, spun off from Buck science, which has already raised $151 million from investors. Despite only having been set up three years ago, it is already set to have compounds in humans for clinical trials next year. The sector is evidently moving fast!

UNITY's motto is: *"Imagine a future in which you age, but without the diseases*

"PEOPLE WITH THE FORESIGHT OF A JIM MELLON ARE PREDICTING THAT WE ARE ONTO SOMETHING BIG."

"A MASSIVE BOOM IS COMING WITH BIG MONEY FLOWING IN. THE INDUSTRY IS WHERE CANCER IMMUNOTHERAPY WAS FIVE YEARS AGO."

"IF SUCCESSFUL WITH ITS RESEARCH, UNITY COULD MAKE EARLY INVESTORS 20, 30, OR EVEN 50 TIMES THEIR MONEY."

About the Buck Institute

The Buck Institute for Research on Aging is the world's first and leading independent research institution focused solely on using groundbreaking scientific insights into age-related pathways to identify new ways to prevent and cure age-related chronic diseases. The Buck is working to increase healthspan, or the healthy years of life. The Institute's unique culture fosters interdisciplinary collaboration among diverse fields including oncology, immunology, neuroscience, metabolism, and regenerative medicine. Its mission is to cure diseases by altering the aging process, with the ultimate goal of transforming the practice of medicine.

Located 30 miles north of San Francisco, the non-profit Buck Institute occupies a 365,000 square-foot campus designed by world renowned architect I.M. Pei. The Buck draws the best and the brightest from laboratories around the globe: its 230 employees come from more than 30 countries. The Institute's scientific programs tackle aging with a wide variety of complementary approaches such as (1) The genetics and biochemistry of aging including oxidative stress, mitrochondrial function, protein homeostasis, cellular senescence, and genetic determination of lifespan; (2) Age-related conditions including Alzheimer's disease, Parkison's disease, cancer, stroke, diabetes, frailty, cardiovascular disease, osteoporosis, and macular degeneration; (3) Regenerative medicine (stem cell research) and aging; and (4) New technology to support age-related research including genomics, proteomics, and metabolomics.

your parents got. A future in which it doesn't hurt to grow old. At UNITY, we design therapeutics that prevent, halt, or reverse diseases of aging. Our medicines are designed to lengthen healthspan, the amount of time you live in good health."

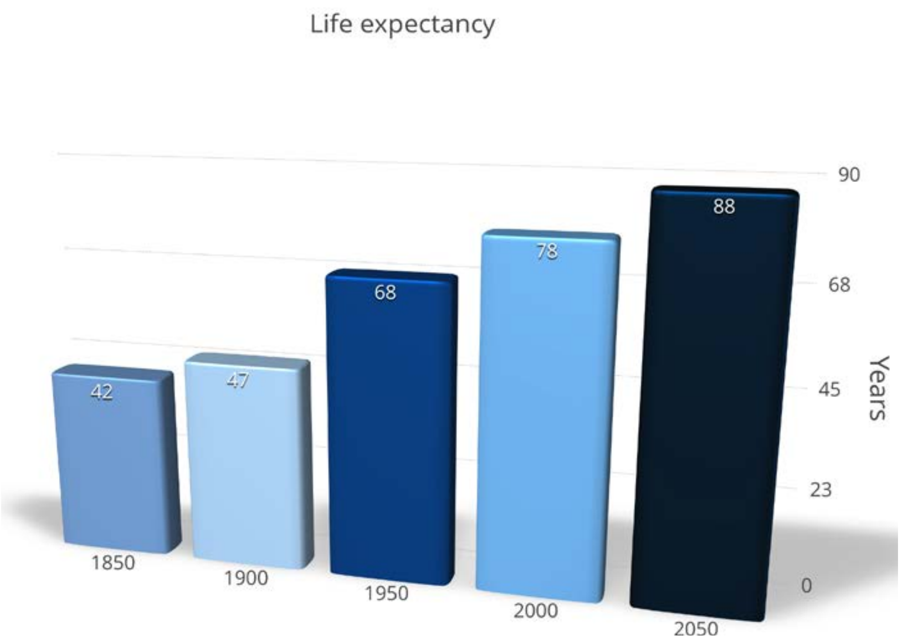
The Buck Institute, as a non-profit scientific organisation, currently has a yearly budget of $37 million. It carries out ground-breaking scientific work, some of which may eventually lead to commercially viable products. Raising research funding is easier for for-profit projects, which is why there'll probably be more spin-offs like UNITY in the future. For investors, this could provide huge opportunities.

If successful with its research, UNITY could make early investors 20, 30, or even 50 times their money. It's not a surprise that UNITY's shareholder register now includes the likes of Peter Thiel (PayPal, Facebook, Palantir), Jeff Bezos (Amazon and currently the world's richest man), as well as the fund giant, Fidelity.

What unites all of these organisations and individuals is the drive to continue the ongoing increase in lifespan that has been taking place over the past one and a half centuries *and* ensure that we all get to enjoy these additional years in better health than ever before.

Instead of accepting that a longer-living population suffers an increasing number of age-related diseases, scientists at organisations like the Buck Institute (which has 17 laboratories and more than 140 scientists and researchers carrying out its work) are now working on a revolution similar to the changes kicked off in the 19th century by Louis Pasteur and his germ theory of disease. During its history, the Pasteur Institute has won 10 Nobel Prizes, all testament to the massive improvements that his ground-breaking work brought to human lives.

"Aging research has incredible power and promise," Dr. Verdin explained to us over lunch (where I stayed clear of red meat and had trout instead). Using the example of vintage cars, the participants were shown how a 1940s truck could today either be rusty and broken down or shiny and continuing to hit the roads, provided its owner did ongoing maintenance. Aging researchers want to make use of the body's mechanisms to continuously replace its cells – for example, the epidermis (the upper layer of the human skin) naturally replaces itself every 35 days. "We know how to do this for cars, so how to do this for humans?" asks Dr. Verdin.



During the 1980s, scientists discovered that calorific restriction increased lifespan. In the 1990s, the first experiments were carried out that showed how genes influenced lifespan. For instance, it was discovered that changing just one single gene of a particular worm's 100 million base pairs led to a doubling of its lifespan. This is an extreme example, but it illustrates the point.

Aging researchers are looking at pre-cancerous cells that are dormant and benign, a process called senescence. Everyone has them; they are an inevitable result of aging. These cells send bad signals to the human body and are dangerous. One-third of all humans experience cancer during their lifetime. The possibility and implications of eliminating these cells are some of the questions explored by the Buck Institute.

Having recently undergone a change in leadership, the Buck Institute wants to make itself relevant to the world. Although the institute is currently the preserve of academics, listening to Dr. Verdin made it clear that the institute could become a household name within a few years. As a non-profit, the Institute relies on funding from the government as well as individual donors and private foundations. It also receives an equity stake in companies that spin off from its work.

The goal of people like Dr. Verdin and of the investors backing ventures like UNITY is nothing less than to change how medicine is done. Instead of working in traditional silos, future generations of doctors and scientists should work on preventative, personalised, and system-based healthcare. Put more simply: Avoid problems before they happen, and when they do arise, treat human patients based on looking at them as a whole rather than try to fix symptoms. If done successfully, this will lead to "the age of longevity, as well as a historical inflection point both from a societal and scientific point of view."

However, the question of who gets to benefit from these advances is also largely down to personal wealth. There has always been a life expectancy divide based on socio-economic differences and different levels of education. This gulf is likely going to widen further. Last year, for the first time in living memory, the overall life expectancy in the US went down. It was different though for those with sufficient funds to access the latest healthcare solutions. If you have got the money, you stand a good chance of living longer than ever before. That's especially the case for anyone born nowadays. A baby born after 2007 has a >50% chance of living beyond 100 years.

Both the exciting advances in the industry as well as access to the latest information is what is currently aiding the drive to sign up additional ambassadors for the Buck Institute. Like any other non-profit organisation, the Buck Institute depends on a network of supporters who can help raise funds, get the message out, and support one another. Anyone with interest in supporting the organisation can now engage the Buck Institute with regard to becoming an ambassador – who in turn get invited to events, receive publications, and are among the first to hear about spin-offs and investment opportunities such as UNITY.

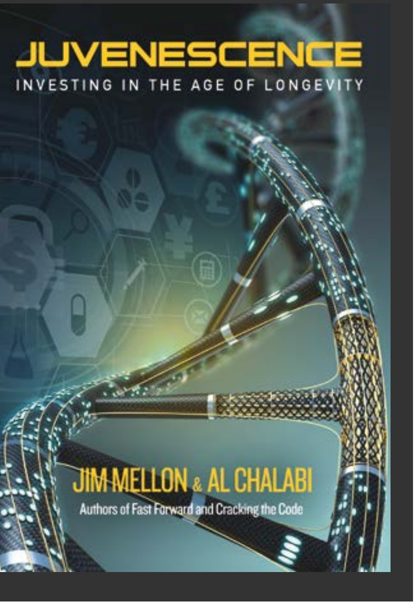
Having listened to Dr. Verdin, my verdict was clear: The age of longevity is indeed upon us. There'll be incredible investment opportunities coming out of it, and our lives are going to change dramatically. Wanting to support the Buck Institute's ambassador programme, I spontaneously offered help with organising a second get-together in London to explore the use of innovative funding mechanisms to help drive the work of the Buck Institute forward.

Would you like to be part of this and get involved? Email the Buck Institute for further information: jpennypacker@buckinstitute.org

"Juvenescence" by Jim Mellon and Al Chalabi

Together with his regular co-author, Al Chalabi, star investor Jim Mellon has published a book about the longevity revolution. At the lunch in London's Intercontinental Hotel, one of the participants called the newly launched book "the Bible of longevity investing."

Readers of Master Investor e-magazine can order the book from Harriman House and Amazon.



> **"FOR INSTANCE, IT WAS DISCOVERED THAT CHANGING JUST ONE SINGLE GENE OF A PARTICULAR WORM'S 100 MILLION BASE PAIRS LED TO A DOUBLING OF ITS LIFESPAN."**

About Swen

Swen is CEO of Master Investor Ltd. and regularly serves as an advisor and board member to public and private companies. His work has been featured in publications like the Financial Times, Private Eye, and the Economist. He welcomes readers connecting with him on LinkedIn.

BY VICTOR HILL

OPPORTUNITIES IN FOCUS

THE AMERICAN DREAM

INVESTING IN THE WORLD'S MOST DYNAMIC ECONOMY

If the United States of America did not exist, it would be necessary to create it. For without America, the world would not be what it is.

America remains the unashamedly capitalist dynamo of the world economy. It is the chrysalis of newly emergent technologies that will continue to change the way we live. It is the home of literally hundreds of corporations which are global benchmarks in their field.

America has problems, to be sure. Deep social cleavages along racial and (yes) class boundaries make for tension and dissent, often expressed violently. In a fabulously rich country there are alarming pockets of deprivation. Its infrastructure, largely built in the 1930s and 40s, is in need of renewal. America's ability to enforce its will overseas by military means alone is probably in decline. The rural white middle classes in the *States Between* (that is between the East Coast and California) feel left behind and unheard. And Washington under President Trump has become another problem rather than the provider of solutions (as I recently explained).

But, for all that, America is upbeat. Having travelled from sea to shining sea during October, this month I offer American opportunities in the shape of US corporations that have impressed me along the way. Join me for an incredible journey through corporate America.

"AMERICA REMAINS THE UNASHAMEDLY CAPITALIST DYNAMO OF THE WORLD ECONOMY."

American History – Ever Present

Europeans did not discover America – it had pre-existed for uncounted millennia – they just stumbled across an arboreal paradise, inhabited by highly civilized peoples who knew how to live in harmony with the land. But eventually, the opportunities that America offered its newly arrived European inhabitants became the crucible in which to think bigger than in the lands they left behind. They created a state dedicated to the propositions that human beings were essentially free, and that they could dedicate their lives to the pursuit of happiness – and wealth.

In this continental state they could leave behind the tutelage of repressive religion, land-owning tyrants and unequal laws – or so they believed. The enlightenment idea that all men are inherently equal (in the sense of deserving equal treatment – rather than in equality of outcomes) first found form in constitutional law. (Though the American judicial system drew heavily on English common law.)

Americans are never permitted to forget the unique mission for which their country was founded. In Europe, history often seems an academic field of study; in America the current urgency of America's past is constantly proclaimed in a million statues, monuments and memorials which speak of the long and often painful journey that America has undertaken in order to be what it is. Americans are instinctively optimistic and forward-looking precisely because they are constantly reminded of the lessons of their history. For that reason, there is no sterile debate about *the role of the market* or *the future of capitalism* as there is in Europe: Americans know that only the market system ensures prosperity.

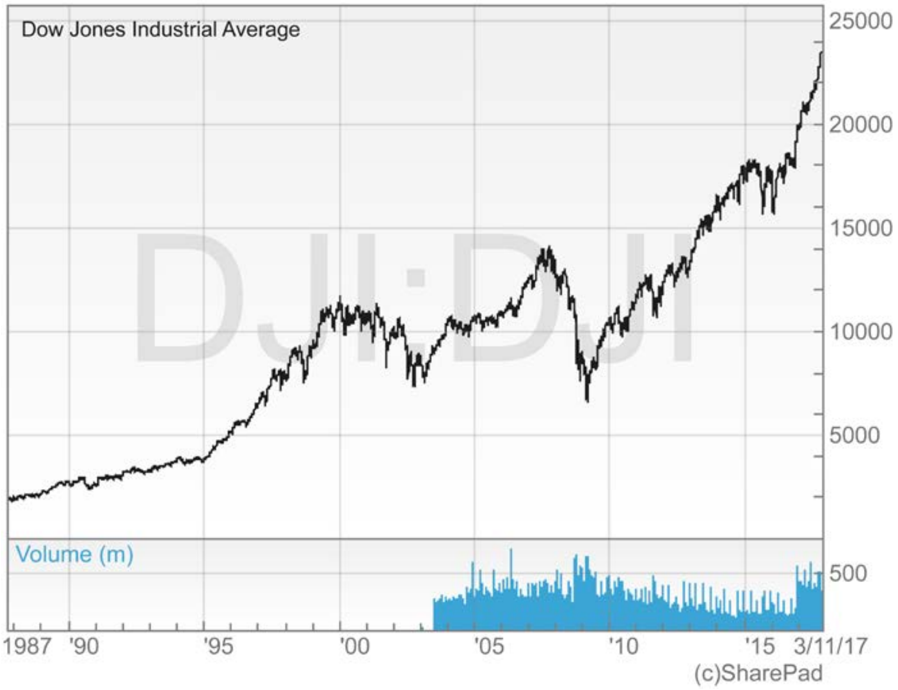
"OF THE 45 COMPANIES IN THE S&P 500 INDEX THAT HAVE REPORTED EARNINGS IN OCTOBER, 36 HAVE EXCEEDED MARKET EXPECTATIONS."

American Economics

The US economy is growing at a clip of around 3 percent per year[i]. More people are in work than ever before. Corporate profits are bearing up. Wages are rising modestly. Inflation is under control. The stock markets are in record territory.

This good economic performance is partly export led: Europe, Japan and the emerging markets are growing strongly this year in a *synchronised global recovery* – the first for a decade. Corporate America posted a ten percent increase in profits in the first half of this year, although the rate of profits growth slowed to 4.4 percent (annualised basis) in Q3. Of the 45 companies in the S&P 500 Index that have reported earnings in October, 36 have exceeded market expectations[ii].

Borrowing costs around the world remain low – although the Federal Reserve has signalled that another rate rise could occur further to its December meeting. That has already been discounted by the US markets.



The package of tax reforms promised by the Trump administration could further buoy the markets. Goldman Sachs has signalled a 65 percent probability that some substantial tax package will get through Congress by early 2018 – in which case it reckons the S&P will put on a further 2.5 percent.

American giants which sell abroad like **Boeing (NYSE:BA)**, **Apple (NASDAQ:AAPL)** and **McDonald's (NYSE:MCD)** are benefiting from the tail wind of a weaker dollar and strong growth in their major foreign markets. Corporate America is humming.

American Retail

If the English are a nation of shopkeepers, the Americans are a nation of shoppers. Nowhere else is the power

Neural Cities (1): New York

The Big Apple is still the swanky capital of American finance, advertising, media, legal services, television and the performing arts. It is in some ways the most European of American cities while remaining the gateway to the American dream, just as it was when the immigrants from the Old World arrived there by the ship-load in the early 20th century. With a population of some 8.2 million people across the five boroughs (Manhattan, Queen's, The Bronx, Staten Island and Brooklyn) New York is America's most populous city. And Manhattan, with 1.7 million people, is the most densely populated borough in the USA.

New York is a global must-see destination with possibly the most arresting skyline on Earth, now dominated by the new One World Trade Centre. Wall Street remains arguably the world's most important global financial market with the HQs of global banking giants such as JP **Morgan Chase & Co. (NYSE:JPM)**, **Citigroup Inc. (NYSE:C)** and innumerable investment firms. Recently **Google (NASDAQ:GOOGL)** opened its second global HQ in the city's financial district.

of branding, the efficacy of marketing and the dominance of the retail sector so preponderant.

Despite the advances of the internet shopping behemoths led by **Amazon.com (NASDAQ:AMZN)**, urban Americans still love department stores. Walking down Fifth Avenue in New York one encounters the same big-surface large-window iconic names as in Chicago's Magnificent Mile and San Francisco's Union Square: **Macy's (NYSE:M)** (which also owns **Bloomingdale's**) and **Bergdorf Goodman** (owned by another icon, **Nieman Marcus** (private)) are just two.

"IF THE ENGLISH ARE A NATION OF SHOPKEEPERS, THE AMERICANS ARE A NATION OF SHOPPERS."

In contrast, Americans generally buy groceries in out-of-town large-surface units. In city centres small convenience stores flourish, many of them privately owned. One of the largest convenience store chains in the USA is the Japanese-owned **7-Eleven** (ultimately owned by **Seven & I Holdings Co. (TYO:3382)**). The US markets seem to have taken against conventional retailers even though they are still patronised by hundreds of millions of Americans. This negative sentiment may have been overdone.

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Four American bricks and mortar retailers which may be undervalued

Macy's Inc. (NYSE:M). The very word "Macy's" is synonymous for most Americans with high-end department stores. The Union Square outlet in San Francisco is the largest department store in the USA with a massive food court in the basement. In New York, Macy's is the biggest department store on Fifth Avenue. Be aware that Macy's shares have bombed over the last year, falling from around $44 in October 2016 to $21.30 today on the back of disappointing earnings data. Seeking Alpha now thinks that Macy's, which has a P/E half that of rival **Nordstrom (NYSE:JWN)**, could be a buying opportunity.

The Kroger Company (NYSE:KR) owns some of America's biggest supermarket brands. For example, in Colorado, Kroger owns and operates the *City Market* large-surface supermarket chain. 2016 revenues were $115.34 billion, making Kroger the second-largest general retailer in the USA (behind **Walmart (NYSE:WMT)**) and the twenty-third largest company in the United States. Kroger is also the third largest retailer in the world and the second largest private employer in the United States. Kroger operates 2,778 supermarkets and department stores. Kroger's headquarters is in downtown Cincinnati, Ohio. It operates supermarkets and other store formats in 34 states, including 786 convenience stores and 326 jewellery stores. Kroger operates 37 food processing facilities, 1,360 supermarket gasoline (petrol) stations and 2,122 pharmacies. In October Kroger announced plans to sell off its convenience stores.

Albertsons Companies LLC is an American grocery company founded and based in Boise, Idaho. It is privately owned and operated by investors including **Cerberus Capital Management LP**. With 2,200 stores and more than 250,000 employees, the company is the second largest supermarket chain in North America after Kroger. Before its January 2015 merger with Safeway Inc. in a $9.2 billion deal, it had 1,075 supermarkets located in 29 US states under 12 different banners. Its predecessor company, Albertsons Inc., was reorganized as Albertsons LLC and sold to AB Acquisition LLC (a consortium put together by **Cerberus**). After buying back the majority of its former stores it sold to SuperValu in 2006, AB Acquisition changed its name to Albertsons Companies Inc. in 2015. Clearly, there has been a lot of financial engineering going on here. I would not be surprised to see Albertsons re-emerge on the US stock market in due course.

SuperValu (NYSE:SVU) which has its HQ in the Minneapolis suburb of Eden Prairie, Minnesota, has been in business for nearly a century. It is the fifth largest food retailing company in the United States, and ranks in the top 100 on the 2015 Fortune-500 list. In June 2006 Albertsons Inc. sold 1,124 of its stores to SuperValu. In January 2013, SuperValu announced it was selling all remaining Albertsons stores to **Cerberus Capital Management** for $100 million in cash with Cerberus assuming $3.2 billion of outstanding debt. SuperValu would keep its Cub, Farm Fresh, Shoppers Food & Pharmacy, Shop 'n Save and Hornbacher brands as well as its wholesale supply operation. Over the past year the shares have fallen from around $30 to $16 because of falling sales figures, although it remains highly cash generative. Stock News Gazette thinks that SVU looks cheap.

American Media

Just as one learns about the state of an economy by the condition of its shops, one also gets insights from watching TV and reading newspapers. For anyone visiting America from Britain, watching American TV engenders a sense of déjà vu. *The Apprentice* is a favourite on both sides of the Atlantic, though arguably Donald Trump has done better out of the American version than Lord Sugar has done out of the British variant. My favourite programme in the UK, *Dragon's Den*, morphs into America's *Shark Tank* – though the American sharks are even harder-nosed than the British Dragons.

Antiques Roadshow is a facsimile of the British format, though normally filmed indoors without the grand country house backgrounds. By the way, Americans have very classy antiques in their attics. Then there are the innumerable property shows which owe much to *Location, Location* and *Under the Hammer.*

Naked and Afraid is a blend of *Love Island* and *I'm a celebrity Get Me Out of Here* – though more informative (it features dieting advice). It also has more tension: the naked couples keep swimming (quite needlessly) through shark-infested waters... Will they make it? Much of America's homely daytime TV output relies on UK-inspired formats (not that Americans know that) – and let's not even talk about talent shows. Where the Americans outgun the Brits is in big-budget original drama. And for this one turns to the cable channels, of which **Netflix (NASDAQ:NFLX)** is now the dominant player.

America's newspapers – with the exception of the anodyne *USA Today* – are all heritage local titles of which the *New York Times*, the *Wall Street Journal* (ultimately owned by **News Corp (NASDAQ:NWSA)**), the *Washington Post* and the *Los Angeles Times* are the most famous abroad. These are world-class newspapers which still wield huge clout, even if they struggle to make money. The **Washington Post** is a trophy asset owned by Jeff Bezos, the Founder-CEO of **Amazon.com (NASDAQ:AMZN)** via media holding company **Nash Holdings LLC**.

Call me a British snob if you will, but I find all the American TV news channels equally insipid, flatulent and rebarbative. Not so much fake news as information-light. I wonder why America, with more universities and more Nobel Prize winners than any other nation, puts up with that.

Two American Media Giants – one soaring, one struggling

Netflix (NASDAQ:NFLX) announced on 16 October that it had exceeded its targets for new subscriptions. Headquartered in Los Gatos, California, the company expects to spend $8 billion on original programming next year to entice new viewers to its existing subscriber base of 104 million globally. Its recent hike in subscription fees appears to have been accepted, if not welcomed, by its customer base. *The Crown* and *Stranger Things* have been run-away successes with viewers – and Netflix retains ownership of all of its intellectual property. Revenue increased by 30 percent to $2.99 billion in Q3 2017. The stock has gained about 65 percent this year giving the company a market cap of $87.5 billion. The only cloud on the horizon is that some content owners such as **Walt Disney Co. (NTSE:DIS)** are planning to offer their own streaming services. Rival streaming service **Hulu** (private) won this year's Emmy Award for *The Handmaid's Tale*.

AT&T (NYSE:ATT) has fared poorly of late. On 12 October the company reported a 90,000 fall in video subscribers in Q3 2017 mainly due to intensifying competition but also because of "stricter credit standards". The company has also been hit by the string of natural disasters in the US (Hurricanes Harvey and Irma, the Mexican earthquakes and then the California wildfires) which have impacted local employment and damaged assets such as cell phone masts. On the other hand, the rollout of streaming has facilitated cost-cutting. It share price has lost around 30 percent over the last 12 months, but Seeking Alpha thinks that the stock – trading around $34 as I write – looks cheap given the dividend yield at that level of 5.5 percent.

American Finance

On 11 October, a drop in trading earnings at JP Morgan and Citigroup failed to excite Wall Street. Yet the fund managers, led by **Morgan Stanley (NYSE:MS)** and **Edward D Jones & Co.** (private), are reporting bumper profits that have put vim back into financial sector stocks.

Three outstanding US finance stocks

Wells Fargo (NYSE:WFC) is the huge American retail and commercial bank which started life back in the 1850s as a stage coach company. It is the world's second largest bank by market capitalization and the third largest bank in the US by assets. In July 2015, Wells Fargo became the world's largest bank by

Rob Wilson / Shutterstock.com

market capitalization, edging past ICBC of China before slipping behind JP Morgan Chase in September 2016 in the wake of a scandal which led to sanctions in the State of California. Its shares have more or less flatlined this year.

JP Morgan Chase (NYSE:JPM) is currently the largest American bank by assets. It came about by virtue of the merger of the aristocratic wholesale bank JP Morgan with the plebeian retail bank Chase Manhattan in 2000. It was a merger between Old Money and New. JPM's shares continued to climb in the last week of October, surpassing the $100 mark on the back of positive news flow.

Charles Schwab (NYSE:SCHW) is the omnipresent broker-dealer which permits virtually all Americans

Ken Wolter / Shutterstock.com

to invest in stocks and bonds and to manage their 401ks (US government recognised tax free retirement accounts). Schwab is mostly accessed online but they dispense advice in person at innumerable locations across America. You might term them the Starbucks of American finance. The stock has been powering away during the month of October and is now trading at over $45. The Business Union thinks it is a Buy.

Neural Cities (2): Chicago

Often known as the Windy City, on account of the freezing winds that blow from the North across Lake Michigan in winter, Chicago is America's third city by population but is the pre-eminent capital of logistics. The city is the child of the railroad revolution that swept across this part of America from the late 1840s onwards. Even today, Chicago is the nexus of all railroads and highways that cross America – and, by extension, its airline industry too. The legendary USA Route 66 begins on the corner of Lake Shore Drive.

In the old days – and still to a lesser extent today – farmers on the Western prairies sent their wheat, corn, hogs, beef and lamb to the vast markets and meat-packers of Chicago. Food-processing, packaging and distribution are still massive industries. So is finance. The Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange (CME) are still the dominant marketplace for commodity futures although they abandoned the open-outcry model recently.

Chicago is a city where architecture is taken seriously and it boasts amongst the most impressive public buildings in America such as the Harold Washington Library and the Chicago Institute of Art. Illinois is a solidly Democratic state which offers a higher level of state-funded welfare to its poorer citizens than other states.

Pizza was invented not in Italy but by Italians in Chicago. Chicago's pizza-makers like the *Gino's* chain (private) are revered – but Japanese, Polish and Chinese food are big here too. Major corporations with their headquarters in Chicago include **Boeing (NYSE:BA)**. **Fedex (NYSE:FDX)** has a huge distribution centre here though its HQ is actually in Memphis, Tennessee. **Walgreens Boots Alliance Inc. (NASDAQ:WBA)** is an American holding company headquartered in Deerfield, Illinois that owns Walgreens, Boots (UK) and a number of pharmaceutical manufacturing, wholesale and distribution companies. **State Farm**, a mutual, is one of America's largest insurance companies and is based in Bloomington, Illinois. **UAL Corporation (NYSE:UAL)** which owns United Airlines is based in the Willis Tower in downtown Chicago.

Neural Cities (3): Los Angeles

The Californian city known affectionately as La La Land – the home of Hollywood – has an official population of 3.9 million spread out over an area of 503 square miles (1,300 square kilometres) – a very different city scape from that of New York. But, in fact, LA is just one city amongst a cluster of about 40 – all nestled, cheek by jowl, across the mountain and ocean rimmed bowl that is Los Angeles County and Orange County – amongst the most populous counties in the USA with an estimated 15 million people[iv]. LA and Orange Counties form effectively one enormous conurbation embracing such Spanish-named communities as Pasadena, Pomona, Santa Ana, La Mirada, Alhambra and Santa Monica. Plus the Anglo-Saxon-sounding Long Beach, Huntingdon Beach, Manhattan Beach, Anaheim – and, of course, Beverly Hills.

I had supposed that Beverly Hills was a suburb of LA City – but no, it is a separate city in its own right and with its own mayor. (The mayor is normally either a celebrity or a billionaire as, almost uniquely in America, this one is unpaid.) Downtown Hollywood, despite its evocation of the movie industry, is tatty (except for the gloriously Art Deco Roosevelt Hotel). The Dolby Theatre on Hollywood Boulevard – where the Oscar ceremony takes place each year – is a drab suburban shopping mall. What you see on the TV is a mall draped in red velvet – it is totally fake. Just as the tropical islands off of Long Beach are in fact oil rigs which have had a makeover: artifice prevails – nothing is what it seems. Most American cities have theme parks: LA is a theme park dedicated to the study of itself.

The hundred-million-dollar mansions on Hollywood Heights command a view of an endless garden suburb criss-crossed by jammed freeways; the distant Pacific Ocean obscured by polluted haze. If Hollywood were not infatuated with itself, few celebrities would want to live there. There are so much more salubrious places to live in America.

And yet the dream machine continues. LA is still the navel of the motion picture industry. **Fox Studios** in LA is part of **Twenty First Century Fox (NADAQ:FOXA)**. **The Walt Disney Corporation (NYSE:DIS)** is here. **Universal Media** (part of NBC Universal, a private company) also has its HQ in LA County. **Viacom (NASDAQ:VIA)** and **Time Warner (NYSE:TWX)**, although with major presences here, have their HQs in LA's arch-rival, New York City. The Hollywood moguls, after more than a century at this game, still know how to articulate the human condition in an idiom that has universal appeal.

When it rains in LA – that makes the news. But the monster-city sucks water from the Colorado River nearly 400 miles away. October's catastrophic fires in Northern California are a terrible reminder of the danger of persistent drought.

Three Niche US Players in Mature Markets

NCR Corporation (NYSE:NCR) is, amongst many other things, still one of the global leaders in the production of automated teller machines (ATMs) or, as we say in Britain, cash machines. NCR's ATMs are predominant in the USA and are sold across the world. This is a mature technology with relatively low growth – though there are many countries where ATM networks are still growing and the global replacement or upgrade market is massive. This business line is very cash generative.

Johnson & Johnson (NYSE:JNJ) is another heritage American pharmaceutical, hygiene and consumer products company, founded in 1886, whose products can be found in homes across the globe. Headquartered in Brunswick, New Jersey, the company had revenues of $79.1 billion in 2016 and net income of $16.54 billion. JNJ's major pharmaceutical products include medicines used for immunology, neuroscience, infectious diseases, and oncology. *Incivio* (telaprevir) is a hepatitis C protease inhibitor. The group also manufactures medical equipment and aids. As part of its environmental initiative the company has made a foray into solar power at its site at Spring House, Pennsylvania. On 23 October a US judge overruled a previous $417 million verdict against JNJ, which came about when a jury sided with a terminally ill plaintiff who said that Johnson's baby powder caused her ovarian cancer. The one year share price graph shows steady upward progress with this stock outperforming the market, being about 25 percent up.

Juniper Networks Inc. (NYSE:JNPR) headquartered in Sunnyvale, California develops and markets networking products. Its products include routers, switches, network management software, network security products and software-defined networking technology. The company was founded in 1996 by Indian-American Pradeep Sindhu. It went public in 1999. By 2001 it had a 37 percent share of the core routers market, challenging the market dominance of **Cisco (NASDAQ:CSCO)**. It has more recently been focussing on internet security, which unlike routers (the black boxes that make the internet work) is a developing technology. It had revenues of $4.85 billion in 2015 and net income of $633 million. After a recent sell-off further to a profit warning on 11 October, the shares – currently at $26 – may have been oversold.

Neural Cities (4): San Francisco

Imagine a city surrounded by deep-blue water on three sides and covering 74 hills with an invariably perfect Mediterranean climate, offering persistent bright sunshine almost all year round. It has perfect beaches, woodland and extraordinarily beautiful parks and botanical gardens. Imagine further a cultural centre with a world-class opera house, its own symphony orchestra, the second largest financial centre of the USA, the best food of a vast continent and 20 universities, making it one of the modern world's powerful knowledge-hubs. Imagine the home of a clutch of the most innovative companies on the planet. But – sorry: if you haven't been to San Francisco you will never know how beautiful it is...

Perhaps its secret elixir is that, defined by nature within limited boundaries, it is small. San Francisco is just twice the area of Manhattan, though has half its population – just 850,000 or so, making it about the 12th largest city in the USA spread across 43 neighbourhoods. Much less famous San Jose, down the road, is bigger with over one million people.

Silicon Valley is not in either San Francisco or San Jose – it is the crescent of tech-driven communities between them: San Mateo, Palo Alto, Mountain View (where **Google (NASDAQ:GOOGL)** lives) and Santa Clara. **Facebook (NASDAQ:FB)** is in nearby Menlo Park (next to Stanford University) and **Netflix (NASDAQ:NLFX)** is in Los Gatos, nearby. Many Silicon Valley workers are chauffeured daily from downtown San Francisco in dedicated company motor coaches – laptops humming as they go.

Spanish monks got here from (what is now) Mexico in 1776. California joined the Union in the 1840s. The San Francisco gold rush began in 1849 – and the city never looked back. The earthquake and fire of 1906 were devastating – but, in fact, San Francisco has endured four major earthquakes and seven major fires since its foundation. Nowadays, only the Japanese have more advanced earthquake-survival building practices.

San Francisco is belligerently liberal and multicultural. You can see Cantonese-speaking seniors eating dim sum in Chinatown against the backdrop of a rainbow flag. The Russian Orthodox Cathedral is ravishing – but most Russian émigrés are of Jewish heritage. There are more cultural festivals here even than in New York. It is the only city I visited in America which is serious about recycling.

Major corporations that have their HQs here include **Pixar**, the animation studio; **Twitter (NYSE:TWYR)** the social media channel beloved of Donald Trump; **Apple Corporation (NASDAQ:AAPL)**, the global paragon of computing and communications technology – Steve Jobs started the business in a garage and many San Franciscans claim to have known him; **Wells Fargo Inc. (NYSE:WFC)** (see American Finance); and cloud computing supremo **Dropbox** (still private). And, of course, **Fitbit (NYSE:FIT)** – most San Franciscans, all fitness-crazy, wear its products.

Five emergent technologies in which the USA has the edge

Quantum Computing (QC). When I first started to write about QC in the summer of last year my sources were confined to academic journals and their popularisers such as *New Scientist*. Now, everybody in California (well, nearly everybody) is talking about QC. The key is the inter-action between rich and ambitious Silicon Valley companies and America's top universities. In 2014, Google hired Dr John Martinis from the University of California at Santa Barbara to design its own superconducting "qubits" (a radical advance in computer hardware). It seems that QC has gone from the theoretical to the engineering stage, with **Google** at the forefront. I'll have more to report on this soon.

Geo-exploration. At least one American company is working on new ways to find oil and mineral deposits below the surface of the Earth using instruments that detect gamma rays and other forms of radiation emitted from the Earth's core. At present, this technological advance is shrouded in secrecy but I may be able to shed some light on this shortly.

Space travel. Elon Musk is regarded as a visionary by much of corporate America. I am told that **SpaceX** is already making money as a satellite launcher – and that Mr Musk will be launching a vehicle in which investors will be able to profit from its forthcoming Mars programme – which could launch as early as 2024. Admittedly, this may be for investors with long time horizons. This is a space (no pun intended) we shall continue to watch.

Rapid inter-city transport. Elon Musk's stable of companies has mooted the construction of a high speed underground travel concept called a *hyper-loop* between Los Angeles and San Francisco. Underground levitating capsules would travel through a vacuum at near supersonic speed. I am told that Mr Musk will soon announce a breakthrough in tunnelling technology, using narrow bore holes. Similarly, on 12 October Sir Richard Branson announced that the **Virgin Group** will launch a US-based company called *Virgin Hyperloop*. The technology for Hyperloop One is yet to be commercialised after tests of a prototype at Virgin's *DevLoop* site outside Las Vegas. Sceptics point to engineering problems – the capsules will need to maintain a low-pressure environment which will not be suitable for most people. So possibly the technology, in the first instance, could be used to transport essential goods and supplies at very high speeds.

Blockchain. Jamie Dimon, CEO of **JP Morgan** recently trashed Bitcoin as *a fraud that will soon blow up.* So did **BlackRock Inc. (NYSE:BLK)** CEO Laurence Fink. Yet they are still enamoured of the amazing technology that underpins Bitcoin and other virtual currencies – Blockchain. In fact **JP Morgan** is rolling out its own blockchain programme to secure cross-border payments with **Royal Bank of Canada (TSE:RY)** and **Australia and New Zealand Banking Group (ASX:ANZPB)**. This trio is provisionally calling the Blockchain payments system the ***Interbank Information Network***. According to the Wall Street Journal[iii] JP Morgan wants to increase the network from three to 24 banks over the next 12 months.

"AMERICA WILL CONTINUE TO TEACH THE WORLD HOW TO LIVE, WORK AND PLAY FOR THE FORESEEABLE FUTURE."

Impressions

After a month in America I am fluent in American. I use sidewalks, elevators and cell phones; I dispose of trash and eat cookies. When people ask me *How am I doing*, I tell them I am *Good* – and then bid them *Have a nice day*. America does that to you – it is so assimilative. It wins you over subtly and imprints its images on your deep imagination. It is impossible not to be affected by its optimism.

I came to America expecting to find a paradox. Namely, that the nation whose constitution proclaims that the objective of life was the pursuit of happiness is itself so unhappy. And it is true that watching America's current President in action is like watching a slow-motion car crash. (I will have more to say about that shortly.) Yet, I have to tell you that I have observed many more happy Americans than unhappy ones – though poor and homeless people are in evidence. And I observed many more fit Americans than fat ones.

Americans, when they are not aiming at you with semi-automatic weapons, are the most courteous, most helpful, most gracious people on Earth. That is because they are, by and large, incredibly fortunate. And the pioneer mentality – the shared memory of hardship which impels the pursuit of comfort – also makes them amongst the readiest people to adapt to innovation. America will continue to teach the world how to live, work and play for the foreseeable future.

Leaving San Francisco Airport bound for London, I recalled WH Auden's lines: *God bless the U.S.A., so large/ So friendly, and so rich*[v].

Action

For a globally balanced investment portfolio, you would expect to have about 16-18 percent of your portfolio allocated to America, reflecting America's share of global GDP. But because American financial markets are broader and deeper and more liquid than most, you might want that to be nearer to 20 percent. There are countless America-oriented funds available but one that UK investors might consider is the **JP Morgan Intrepid America Fund (MUTF:JIAAX)** which is up over 16 percent year-to-date.

About Victor

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

- i The Q3 2017 growth data was ahead of expectations. See: www.washingtonpost.com/news/wonk/wp/2017/10/27/u-s-economy-grew-3-percent-from-july-to-september-meeting-trumps-goal
- ii USA Today, Money, page 1B, 18 October 2017. Source: Thomson Reuters.
- iii Wall Street Journal, 17 October 2017, page B10 – article by Emily Glazer.
- iv The official population statistics are almost certainly an underestimate.
- v On the Circuit, found in About the House, 1965. Auden was reflecting on the tendency of literary audiences in remote parts of the USA that he would never visit again to pay him handsomely for his lectures. Sadly, this author received no such emoluments.

BY NICK SUDBURY

FUNDS IN FOCUS

8 FUNDS TO RIDE THE US BULL MARKET

It is hard to imagine a less likely President than Donald J. Trump, yet there is no doubt that his election success has been well received by the markets. When Hillary Clinton accepted defeat last November the most widely reported US stock market index, the Dow Jones Industrial Average, was trading below 19,000 points, but in the intervening 12 months or so it has climbed steadily and is now hovering around 23,000 for the first time in history.

The President's business-friendly policies of deregulation, higher infrastructure spending and tax reductions would provide a massive boost to the economy if he could actually get the legislation onto the statute books. Despite the fact that he is yet to deliver on any of these areas, the potential benefits have been enough to propel the Dow Jones and the broader S&P 500 index to record highs.

Much of the stock market performance in the last few years has been driven by the meteoric rise of the leading technology companies. The so-called FANG stocks – Facebook, Amazon, Netflix and Google – now look dangerously overbought and at risk of a substantial correction, although other parts of the market do not look as vulnerable. The economy also seems to be in reasonable shape with consumer and smaller business confidence improving since the election.

If you are a long-term investor and want to maintain a diversified and representative portfolio you will need some sort of exposure to the world's largest stock market. Unless you want to hold a selection of individual US shares you will need to invest in one of the many funds that specialises in this area.

The road ahead

Patrick Connolly, a Certified Financial Planner at Chase de Vere, Independent Financial Advisers, says that US equities have performed incredibly strongly in recent years to the extent that, on most measures, the US stock market now looks expensive.

"Investor sentiment has remained positive and the market has shrugged off a whole host of global and domestic risks such as escalating debt levels, Chinese banking concerns, the actions of Donald Trump, concerns about North Korea and the unresolved problems in the Eurozone."

Despite all this Connolly is confident about the long-term prospects for the US, although he says that there must be some concern with investing new money at these levels after the market has already risen so much.

"Investor sentiment could turn more negative if any of these global issues escalate or if company earnings don't improve to justify stock market valuations, if Donald Trump enacts protectionist policies, if the US dollar strengthens [to the detriment of large exporters], interest rates rise quickly or if we see increased wage growth."

What happens from here could largely depend on how investors react to policy changes at the US central bank. The Federal Reserve has recently begun to unwind the massive stimulus that it put in place after the financial crisis ten years ago. It has also indicated that it expects to increase interest rates once more this year and three times next year.

If the Fed gets it right and manages not to undermine the economy or investor confidence there is a chance

"WHAT HAPPENS FROM HERE COULD LARGELY DEPEND ON HOW INVESTORS REACT TO POLICY CHANGES AT THE US CENTRAL BANK."

"IN THIS SORT OF ENVIRONMENT IT IS A REAL CHALLENGE FOR FUND MANAGERS TO RECOGNISE OPPORTUNITIES THAT OTHERS HAVE MISSED."

that the bull market could continue. If they get it wrong, investors could be in for a rough time and the Trump bump might give way to an altogether more uncomfortable ride.

A market that's hard to beat

The US stock market is the largest in the world and one of the most efficient where companies are heavily researched and information about them is widely known. In this sort of environment it is a real challenge for fund managers to recognise opportunities that others have missed.

This makes it notoriously difficult for active funds to consistently outperform the main US stock market indices, which means that there's a strong case that a long-term investor should use a low-cost index tracker instead.

A good example is **HSBC American Index**, which tracks the S&P 500, an index that measures the performance of 500 large US stocks listed on the New York Stock Exchange or NASDAQ. It has almost £3 billion in assets under management and low ongoing charges of just 0.07%. The tracking error – the amount by which the performance differs to the index – is also very low.

Another decent option is the **Vanguard US Equity Index Fund**. This tracks the much broader S&P Total Market Index that is made up of 3,765 US companies. The fund offers a more diversified exposure and invests in the underlying stocks to replicate the performance. It has low ongoing charges of 0.1%.

According to data from FE Trustnet, over the last five years HSBC American Index was the 23rd best performer out of the 127 OEICs and units trusts in the North American Sector with a return of 131.7%. Vanguard US Equity Index also did well with a gain of 130.7% that put it in 25th place. This means that both of these index trackers beat the majority of the actively managed funds operating in this area.

Active funds that add value

If you want to try for some outperformance your best chance would be to invest in an actively managed fund with a distinctive, proven approach and the flexibility to invest some of its capital in the mid and small cap segments of the market.

Darius McDermott, MD of Chelsea Financial Services, recommends

Brown Advisory US Flexible Equity. The fund is run by the experienced duo of Hutch Vernon and Mike Foss, who manage over $4 billion in this strategy with the support of a team of more than 21 analysts. It's an unconstrained fund and one of the few to consistently outperform the S&P 500 over long periods of time.

"Vernon and Foss look for stocks with favourable business economics, enduring competitive advantages, and positive industry dynamics, as well as capable and trustworthy management. They avoid companies that have excessive financial leverage, business or product obsolescence, complex business models, or no history of making profits," he says.

Another of his picks is **Schroder US Mid Cap**, which is run out of New York by Jenny Jones. The manager has a highly distinctive approach and targets three different types of growth stocks in the portfolio.

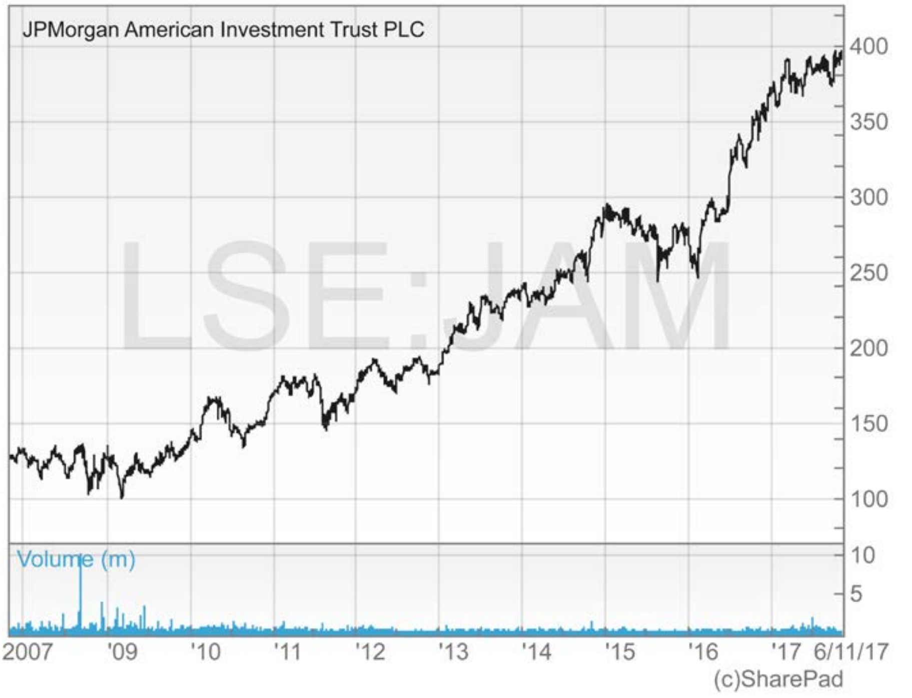
There are the 'mispriced growth' stocks, which are companies with unrecognised growth dynamics; these are followed by the 'steady eddies' that have recurring earnings/cash flow/revenue characteristics; and then there are the 'turnaround' stocks that have experienced business or operational difficulties.

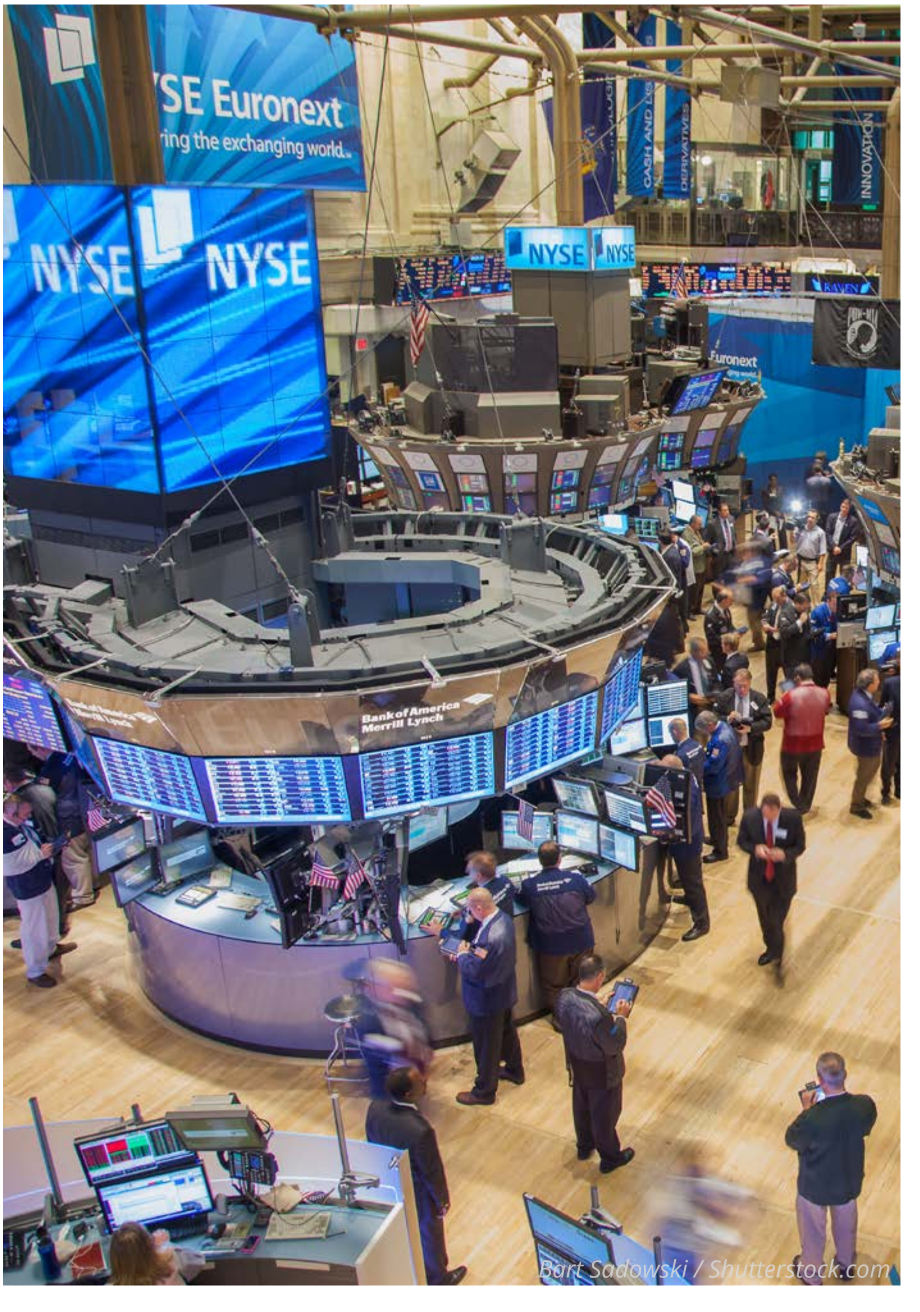
McDermott's other selection is **Hermes US SMID Equity**, which invests in US small and medium-sized (SMID) companies valued between $1 billion and $20 billion.

"The managers look for quality companies with low debt in industries with high barriers to entry, or that provide products or services that cannot be easily replicated. In a market that is notoriously difficult to beat, they have built up an enviable track record, outperforming the peer group and index consistently over the years."

US investment trusts

There are only a handful of investment trusts that provide exposure to the US market with by far the largest being **JPMorgan American (LON:JAM)** with a market value of £906 million. (See fund of the month below.)





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"MOST US FUNDS HAVE VERY LOW YIELDS, SO IF YOU ARE LOOKING FOR A MIXTURE OF GROWTH AND INCOME YOU MIGHT PREFER THE NORTH AMERICAN INCOME TRUST."

Most US funds have very low yields, so if you are looking for a mixture of growth and income you might prefer **The North American Income Trust (LON:NAIT)**. This £363 million investment trust mainly invests in constituents of the S&P 500 and is currently yielding 2.95% with quarterly dividends.

North American Income has a concentrated portfolio of 48 stocks and eight corporate bonds. The 10 largest holdings make up about a third of the assets and include well-known companies such as Pfizer, Chevron, Dow Chemical and Proctor & Gamble. Its portfolio is heavily weighted in favour of higher yielding sectors like Financials, Materials and Energy and this enables it to pay a yield that is about 50% higher than the S&P 500 index.

Since Fran Radano and Ralph Bassett took over the management in June 2015 the NAV total return has beaten its two benchmarks – the S&P 500 and the Russell 1000 Value index – by 11% and 17% respectively. The shares are currently available on an 8% discount to NAV.

FUND OF THE MONTH

JPMorgan American is the largest investment trust to invest exclusively in US equities and is the one recommended by the analysts at Numis to offer a core exposure to this key market. The large cap part of the portfolio has been managed by Garrett Fish since November 2002, while the small cap element that can account for up to 11% of the assets is run by Eytan Shapiro.

There are currently around 190 holdings with just over half of them in the small cap part of the fund and these provide a well-diversified exposure to this high growth part of the market. The 10 largest positions account for a third of the assets and include familiar names such as Apple, Microsoft, Citigroup, Bank of America and Wal-Mart, as well as the highly regarded biotech company Gilead Sciences.

The investment trust analysts at Winterflood Securities rate Garrett Fish highly and believe that the fund should outperform the US equity market over the long-term. Over the last 10 years the shares have returned 237%, which is about 20% ahead of the total return from the S&P 500 index.

Fund Facts

Name:	JPMorgan American (LON: JAM)
Type:	Investment Trust
Sector:	US
Total Assets:	£1,060m
Launch Date:	1881
Current Yield:	1.3%
Gearing:	10%
Ongoing Charges:	0.62%
Manager:	Garrett Fish
Website:	am.jpmorgan.com

If you already have a US fund to provide your core exposure you might want to add some extra growth potential via the **JPMorgan US Smaller Companies Investment Trust (LON:JUSC)**, which is recommended by the analysts at Winterflood and Numis.

Don San Jose has been the lead manager since February 2013 and he has put together a diversified portfolio of 97 holdings. He uses a bottom-up stock selection approach and looks for companies with a sustainable competitive advantage, run by competent management teams that have built up a successful track record. Ideally the companies should also be trading at a discount to their intrinsic value.

The fund has a strong long-term performance record with the share price up 235% over 10 years. It is currently trading on a 3% discount to NAV.

One final point to keep in mind is that all of these funds provide an indirect exposure to the dollar-sterling exchange rate. If the US dollar strengthens against the pound it would increase the returns for a UK-based investor, whereas if it weakens it would undermine them.

About Nick

Nick Sudbury is an experienced financial journalist who has written extensively for a range of investment publications aimed at both private and institutional investors. Before moving into journalism he worked both as a fund manager and as a consultant to the industry. He is a fully qualified accountant and has an MBA with finance specialism.

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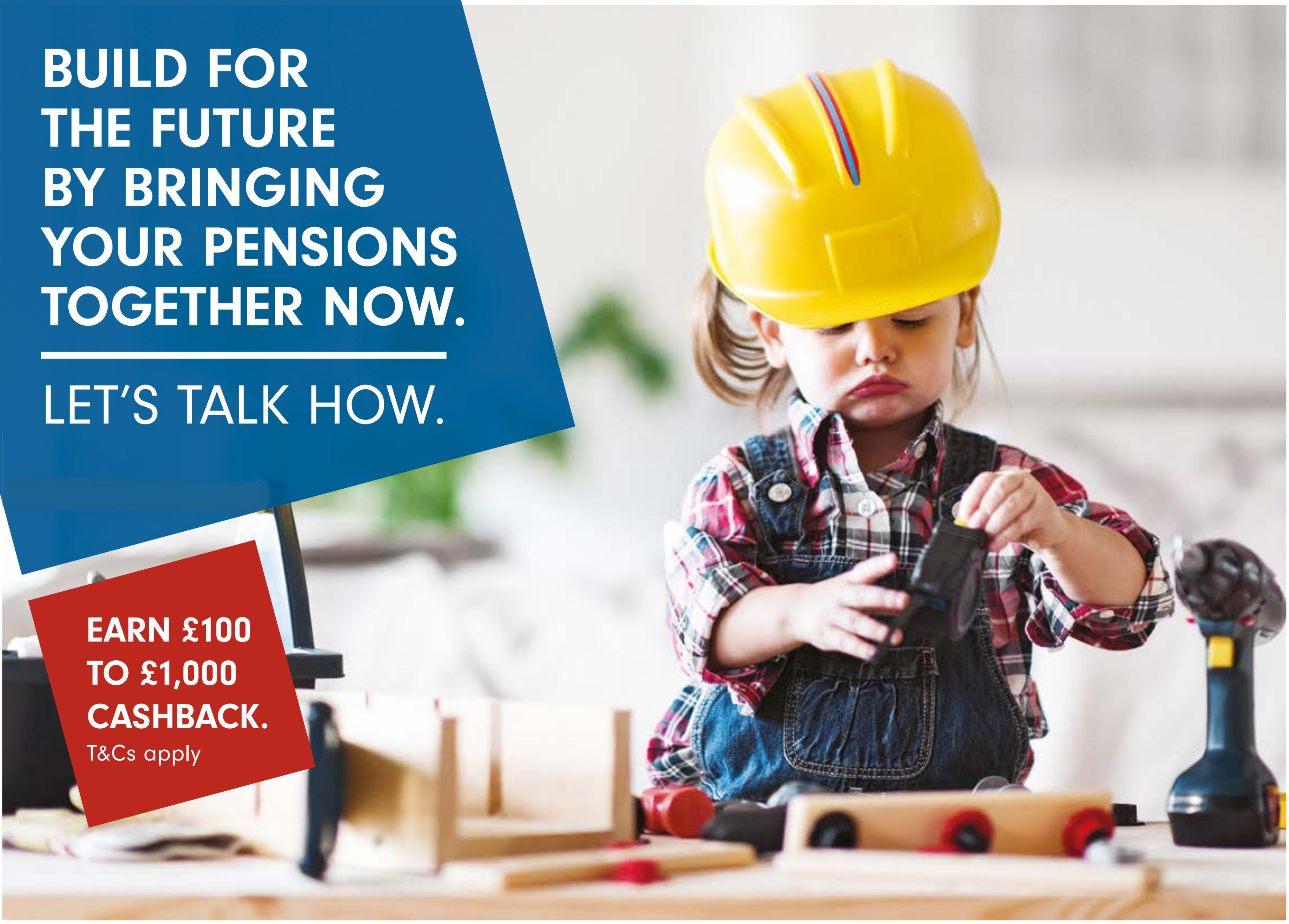

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CAN TRUMP DELIVER 3% GDP GROWTH?

AN X-RAY VIEW OF THE PLAN TO MAKE AMERICA GREAT AGAIN

"If we achieve sustained 3% growth that means 12 million new jobs and $10 trillion of new economic activity. That's some number. I happen to be one that thinks we can go much higher than 3%. There's no reason we shouldn't."

- Donald Trump, in a speech in Missouri

A pledge to Make America Great Again

Can Trump deliver on his promises? Is 2% growth the new norm or can Trump boost it through incentives to businesses? These are some of the questions I will address this month.

Unhappy with the fate of the U.S. economy, which has been plagued with low growth during the last two decades, Americans elected a man that promised a break with the past, in a bid to *Make America Great Again*. The economic recovery that started in the third quarter of 2009 has been long-lasting but frustratingly slow at the same time. Output growth for the last eight years has averaged 2.2%, which is stubbornly below the 4% rates often seen in other recovery periods. Despite the support extended to the economy, in particular in the form of record low interest rates and extensive quantitative easing packages, neither the central bank nor the government have been able to turn growth into prosperity. The unemployment rate is down from 10.0% in 2009 to its most recent reading at 4.1%, but the participation rate in the labour force is a thorn in the government's side, as it remains at levels last seen in 1978. Labour productivity is an even more challenging issue. Despite advances in technology, labour productivity has been increasing at a pace of just 0.5% per year during the last five years and 1.1% over the last decade.

The economic growth model seems exhausted and in need of a disruptive change. Such change has been personified in Donald Trump, who believes he can recreate the business conditions of the past and deliver growth above 3% again. In an op-ed article published in the WSJ[i] in July, Mick Mulvaney, director of the U.S. Office of Management and Budget, explained the Trump agenda for achieving 3% economic growth. Such a plan has also been backed by a few well-known academics[ii], who believe it will bring substantial growth to the U.S. economy. But the challenges are huge, and most economists don't believe that Trump can even deliver 2% growth.

While the debate about growth potential unfolds, investors must be prepared for the worst, as the market has been largely discounting the

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"REAL POTENTIAL GDP, WHICH EXPRESSES THE OUTPUT LEVEL THAT CAN BE ACHIEVED IF LABOUR, TECHNOLOGY AND CAPITAL ARE FULLY EMPLOYED, IS EXPECTED TO GROW AT AN ANNUAL PACE BELOW 2% UNTIL 2027."

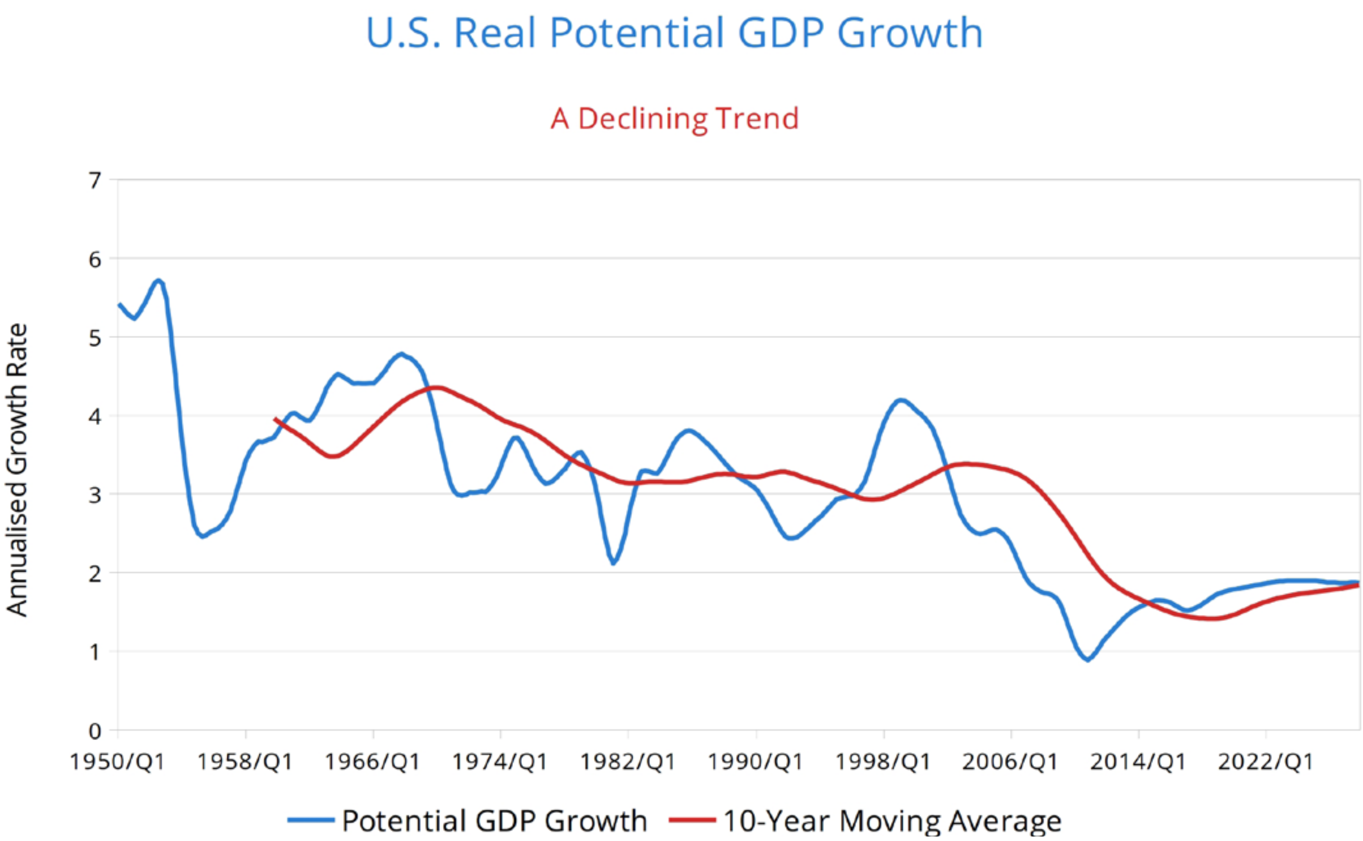
promised tax cuts and infrastructure investments as well as the positive effects derived from them.

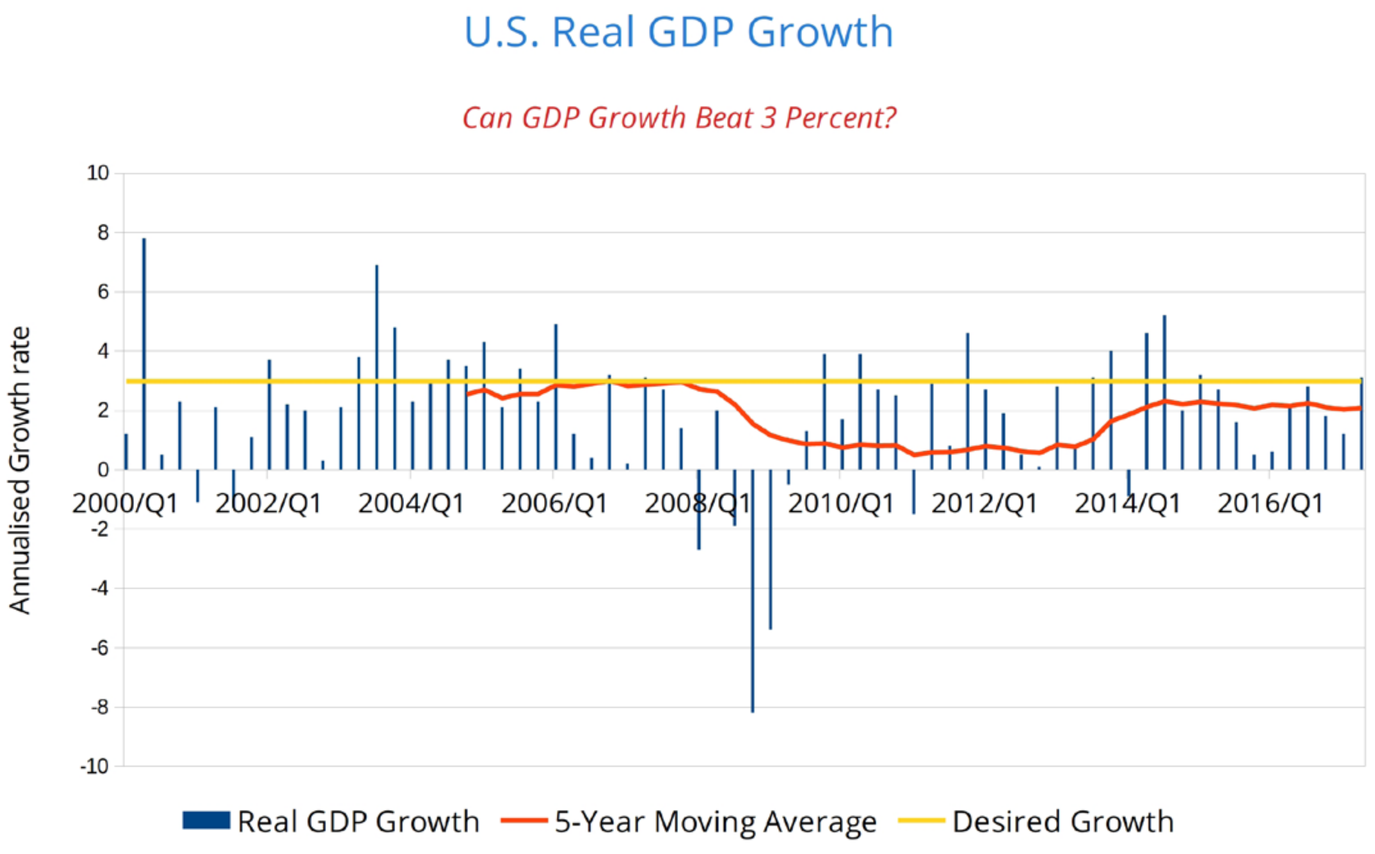
Some unhelpful data

GDP growth for Q2 has been reported at 3.1%, a figure that surpasses Trump's goal but is largely seen as unsustainable over time. Economists surveyed by the U.S. National Association for Business Economics (NABE) expect GDP growth to decline to 2.8% in Q3, 2.5% in Q4, and 2% over the next year. The survey, which collects data from 2,500 large businesses, also shows that economists largely expect some tax reform to occur next year, but they believe it to be insufficient to drive growth above 3%. The main problem with the U.S. economy comes from potential GDP, which is largely believed not to support higher growth rates.

Real potential GDP, which expresses the output level that can be achieved if labour, technology and capital are fully employed, is expected to grow at an annual pace below 2% until 2027. This rate was 3.8% in 1985, but has been declining over the years, to 3% at the beginning of the 1990s and 1.6% today.

While there is some cyclicality involved, which means government can have an impact on the numbers through its policy, there is an implicit long-term declining trend that may limit the success of any planned action to boost growth in a sustained way. In theory, any attempt at pushing GDP growth above its potential without addressing its structural limitations may just lead to higher inflation with only a temporary effect on growth. Understanding the long-term challenges that have been contributing to the decline of average growth is therefore key to understanding what can be done now and in the future.





"TRUMP'S ADMINISTRATION EXPECTS TO BOOST GROWTH TO THE POINT THAT MOST OF THE GOVERNMENT SPENDING PAYS OFF IN THE FORM OF INCREASED REVENUES."

What has been achieved so far?

While it is still too soon to quantify Trump's positive effect on GDP, there is at least an undeniable optimism effect, which should have helped lift wealth and must be already reflected in GDP numbers. The optimism created by Trump's election pushed equities on to a stunning performance. World equities have all been pushed higher and the Dow, the S&P 500 and the Nasdaq indexes are up 27%, 20% and 27% respectively since the election day. Such a rise in equity values boosts disposable income and through a wealth effect should lead to an increase in spending and GDP, particularly in a country where a significant portion of savings is kept in equities. Thus, to some extent, the American consumer should be already better off than before. But this wealth effect comes from the expectation that Trump will do something material for the U.S. economy. Now comes the time for Trump to press ahead with real tax cuts and infrastructure investments, and for those actions to be reflected in GDP. Otherwise the optimism will dissipate and markets will adjust accordingly.

MAGAnomics

Trump's plan to revive economic growth has been dubbed MAGAnomics, which comes from his election campaign where he pledged to *Make America Great Again*. Recently, Mick Mulvaney, director of the U.S. Office of Management and Budget, provided some details about the plan. It is mainly focused on creating better conditions for business investment to grow, through tax cuts, reform of welfare programmes, investment in infrastructure, renegotiation of trade deals and curbing of unnecessary government spending. With this plan, Trump's administration expects to boost growth to the point that most of the government spending pays off in the form of increased revenues.

The plan can be summarised in seven priorities, which are here analysed at the same time:

1. Tax reform

The main claim for intervention here is that growth in private sector jobs correlates well with growth in private sector investment. Lower tax rates should decrease the cost of capital and then lead to more investment and, ultimately, more jobs.

However, at a time when the cost of capital is so low due to near-zero interest rates, it is also plausible to argue that much of the gains from lower tax rates go almost entirely to profits, and thus have only a marginal impact on household incomes, jobs, spending, and, ultimately, growth. The root of the problem may well not be related to the cost of capital at all, in which case this tax reform may prove burdensome for the state.

"A WELFARE REFORM AS A MEANS OF ADDRESSING A STRUCTURAL PROBLEM THAT HAS SEEN THE PARTICIPATION RATE IN THE LABOUR FORCE DECLINE FOUR PERCENTAGE POINTS SINCE THE START OF THE NEW MILLENNIUM SEEMS A LOT LIKE EATING SOUP WITH A TEASPOON."

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2. Curbing unnecessary regulation

The main idea behind this point is to simplify legislation that sometimes deters investment. Mulvaney believes that *"overly zealous environmental regulations have played a role in pushing many U.S. businesses overseas"*. By removing burdensome regulation, the government would reduce the cost of doing business.

It is undeniable that more stringent regulation in one country results in stronger competition from overseas. In pure economic terms, curbing regulation may indeed have a positive impact on growth. But that is not the main reason why businesses relocated outside the U.S. In a globalised world, businesses are just looking for the lowest production costs. Labour costs are a much more important driver of international relocations.

3. Welfare reform

Mulvaney believes that the "welfare system often creates disincentives for people to seek work" and the government should reduce them to the minimum in order to enlarge the labour force participation rate.

Economic growth depends not only on productivity but also on the number of workers. Given some available technology, the more workers available the more goods/services can be produced. The government should then target the labour force participation rate. But a welfare reform as a means of addressing a structural problem that has seen the participation rate in the labour force decline four percentage points since the start of the new Millennium seems a lot like eating soup with a teaspoon. Welfare reform doesn't address anything more than marginal problems.

4. Smart energy strategy

The key idea here is to stabilise energy prices in order to reduce uncertainty to businesses and that way increase their willingness to invest. Such an argument has weight, as energy has long been at the root of price uncertainty for many businesses.

5. Rebuilding America's infrastructure

Trump long ago promised more than $1 trillion in infrastructure investment. The objective is to boost long-term productivity while creating immediate jobs.

This certainly sounds plausible but should also be contrasted against the problem of the rising government deficit. This plan has been sidelined so far and may well lack approval due to spending concerns.

6. Fair trade for America

From the very beginning, Trump has put a lot of emphasis on the trade agreements that have contributed towards the increase in America's external debt and to the decline in manufacturing. At first Trump just repudiated every trade agreement but he has lately opted for renegotiating them on more favourable terms. Renegotiation may bring some benefits but will not boost manufacturing in the U.S., as companies are looking globally for the lowest cost of production.

One way of improving manufacturing in a country is through protectionism. But, for the whole economy, protectionism is widely seen as being detrimental to growth, because what is gained in one sector is then more than lost in the others. Trade may just not be as unfair as Trump depicts it to be, and any attempt at changing it may carry more risks than benefits.

7. Government spending restraint

Mulvaney doesn't elaborate much on this topic, and ultimately concludes that spending should be kept to the minimum needed for the government to function.

Republicans have been insisting on addressing the problem of the rising government deficit and may put a limit on Trump's spending desires, in particular if they see expenditures not paying off through increases in growth. While Mulvaney adds spending restraint to the plan, this should rather be interpreted as acting against growth instead of in its favour, at least for the short to medium-term.

The main economic challenges of the future

In a recent work, the American economist and academic, Robert Gordon[iii], explained why GDP growth in the U.S. is currently low and discussed the main challenges to make it grow at faster rates. His work gives some clues as to how well Trump's administration is positioned to accomplish its main goal of hitting a 3% target growth rate.

First of all, the idea that growth is faltering when compared with historical levels may be misleading, Gordon explains. If we take the record for the last 250 years, that may be true; but if we take the super long-run, it isn't. The world has been plagued with no growth for most of its existence. The last 250 years may be just an exception, mainly due to two important episodes: the first industrial revolution (steam, railroads) between 1750-1830 and the second industrial revolution (electricity, internal combustion engine, running water, indoor toilets, communications, entertainment, chemicals, petroleum) between 1870-1900. Gordon also considers a third industrial revolution (computers, the web, mobile phones) between 1960-present in order to compare its effects. The second industrial revolution was the most significant of all. It was *"largely responsible for 80 years of relatively rapid productivity growth between 1890 and 1972"*, he claims. As for the third industrial revolution, it *"created only a short-lived growth revival between 1996 and 2004"*.

What Gordon means is that between 1750 and 1970 the world enjoyed its grace period in terms of productivity. The two industrial revolutions introduced new technologies that changed the way we produce. As a result, productivity increased by much over time and living standards rose as never before. But then came a third industrial revolution where computers, mobile phones and the Internet were introduced. All of them helped improve our communications and led to a more globalised world, but their positive effects on productivity vanished in just a matter of years. Unless there is a new revolution like the first two, productivity gains will tend to hover at very low levels indefinitely. Under such a scenario, for GDP to effectively grow at a pace of over 2%, the workforce should be increasing at a fast rate. But a shrinking workforce is one of the greatest problems faced by most of the developed world.

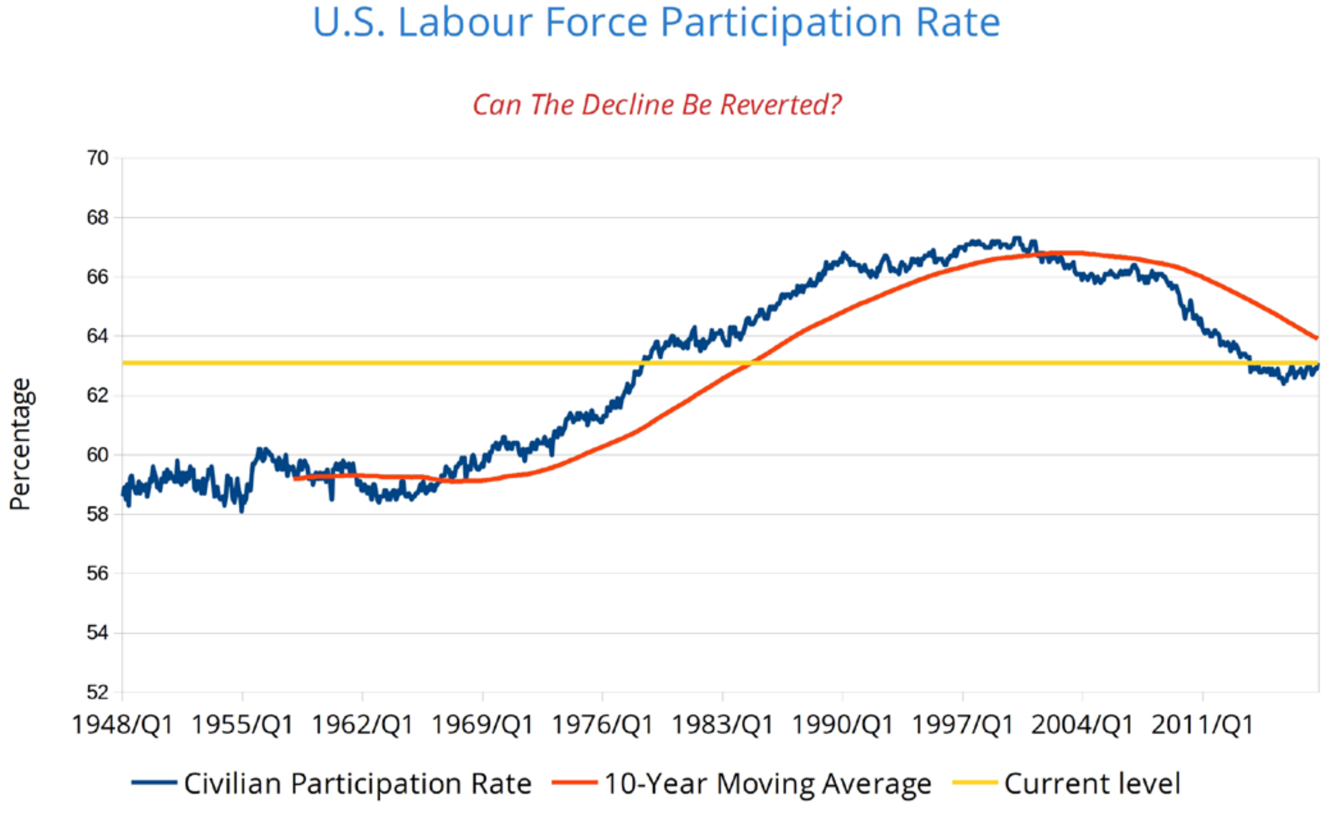
According to Gordon's thinking, faltering innovation confronts six headwinds which fly in the face of Trump's administration objectives:

1. The baby-boomers are retiring

By 2024 nearly 25% of the workforce is projected to be 55 or older. The aging of the population reduces the capacity to increase output. At the same time, the labour force participation rate is also on the decline, as seen above.

Even the four economists mentioned above, who believe MAGAnomics can deliver higher growth, acknowledge that for a 3% growth level to be attained, the workforce needs to grow 1% per year over the next decade. But 1% corresponds to the increase of the population aged 16 or more. After adjusting this figure for retirement and participation rates, actual growth may not even be positive. To overcome this difficulty, the four economists mentioned rely on the challengeable assumption that over the next decade the participation rate is going to reverse the 4% loss of the last 17 years and reverse a trend that seems to have started more than two decades ago.

Technically, if reasonable assumptions are made on productivity growth and demographic developments, the only way for Trump to deliver the prom-



ised growth is by means of "importing" workforce – that is, accepting immigration.

Politically, Trump has been acting in the exact opposite direction, which further dents GDP growth. Several studies have been made on this subject. The University of Southern California[iv] and CATO[vvi] attempted to account for the effect of immigration on GDP. They both show that even low-skilled immigration can help boost GDP. They argue that, in general, immigrants don't compete for the same jobs as native workers, even at the low-skill strand. Of course there are social consequences beyond the economic effects. Allowing or boosting immigration is not a necessary step for the country to grow. But if growth of 3% is to be achieved, then it remains the only option.

2. Education is changing

The price of college tuition relative to the price of all other goods is increasing rapidly, which means that student debt is rising to alarming levels and students from low-income backgrounds are being deterred from studying. This may not be important at this point, but when mixed with a policy of no immigration it will further reduce future productivity.

3. Inequality is rising

The rise in the income of the top 1% of earners is substantially higher than the rise experienced by the other 99%. The average gains in income for this second group averaged less than 1% per year for the last two decades and captured less than 50% of total income. In an economy that depends heavily on consumption, it's hard to believe that cutting taxes on the high earners will benefit GDP growth.

4. Globalisation and the Internet

The globalisation trend begun some years ago led to outsourcing of all types. There is no company that is purely American or French or British, as companies always seek out the cheapest factor prices. While this contributes to more efficient production, it also leads to factor price equalisation across the globe. That means that wages in China and America will converge, leading to temporary problems in terms of employment in the process. At the same time, it is difficult to reverse capital outflows and to retain investment in America, as competition is stiff.

5. Efforts to cope with global warming

The increase in environmental legislation may lead to a subtraction from GDP, as payback for past excesses. Trump is trying to ignore environmental deals, which contribute towards higher production costs. But his margin is very small, if he wants to continue exporting to Europe.

6. Household and government deficits

This is one of the most sensible parts. Both households and the government have huge loads of accumulated debts, which will require an increase in taxes and a cut in expenditures at some point. This reduces real household disposable income and acts as a drag on GDP.

According to Gordon, if we depart from the per-capita GDP growth of 1.8% observed in the period 1987-2007 and take into account the above headwinds, we end up with an expected growth rate of 0.2%, which is far below Trump's expectations.

For all of the above, it is really hard to believe that MAGAnomics can deliver on its promises. The headwinds to be faced are huge and Trump's policies have helped to exacerbate them.

Labour Productivity

Labour productivity is a measure of production efficiency. It describes how well a country or a firm is producing. Its measurement should answer the question: *How many work hours are needed to produce one unit of output?*

As technology advances, the labour needed to produce one unit of output diminishes, which means that part of the labour once attached to that production can now be employed elsewhere to help produce more output. When this happens living standards improve. In numerical terms, labour productivity can be measured as the ratio of output volume to labour input use:

Labour Productivity = Output Volume / Labour Input Use

Output volume represents the total quantity produced. In the case of a country, it may simply be GDP. Labour input use corresponds to the total number of labour hours that were spent in production. Alternatively, it could be measured as total employment, but it would be less meaningful, as not all workers work the same hours.

Increases in productivity over time are usually the consequence of:

- Investment – Increases in the stock of capital allows workers to do their job more effectively.
- Innovation – Introduction of new technologies and new ways of producing allow for more efficient production.
- Skills – Improvements in personal skills allow workers to take advantage of new technologies.
- Enterprise – Seizing of new business opportunities by start-ups and existing businesses boosts competition and technological advances.
- Competition – Increases in competition among businesses incentivises a more efficient allocation of resources and innovation.

If we re-arrange the relationships depicted above in order of output, it becomes straightforward that, in a world plagued with no innovation where productivity is stagnant, rises in output are achieved by increasing work hours attached to production. But, if that same world is experiencing a decline in the workforce, it has to accept either less growth or higher immigration.

"ACCORDING TO GORDON, IF WE DEPART FROM THE PER-CAPITA GDP GROWTH OF 1.8% OBSERVED IN THE PERIOD 1987-2007 AND TAKE INTO ACCOUNT THE ABOVE HEADWINDS, WE END UP WITH AN EXPECTED GROWTH RATE OF 0.2%, WHICH IS FAR BELOW TRUMP'S EXPECTATIONS."

Don't hold your breath

Donald Trump is seen by Americans as a break with a recent past that has been characterised by weak growth and economic frustration. While the U.S. economy experienced episodes of recession and depression over the last 150 years, it almost always managed to recover and grow faster than before. But since the 2000s growth seems to be stuck at 2% at most, and not even the most dovish monetary policy seems able to bring life to the economy.

Trump's pledge to Make America Great Again is a strong recognition that America needs a change in policy. But both the plan announced by Mick Mulvany and the political stance adopted by Trump's administration seem to fail to acknowledge the main headwinds the U.S. economy is facing. For this reason, the pledge to achieve 3% GDP growth seems doomed to fail in the medium-term, with even 2% becoming a hard target. For investors, this is another reason to be more picky than ever in a stock market that is overvalued to some extent. Japan is a great case study, as the country seems to have experienced what others will in the near future.

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About Filipe

Filipe's specialisation is monetary policy, macro issues and behavioural finance where he allies the practical experience of several years of trading with academic credentials. Filipe teaches courses on Financial Markets and Monetary Economics at the University of Oporto Faculty of Economics, helping traders maximise profits and better manage risk.

i See www.wsj.com/articles/introducing-maganomics-1499899298
ii The plan has been backed by John Cogan, Glenn Hubbard, John Taylor and Kevin Warsh, who are also contenders for the U.S. Federal Reserve's chair. For more, see www.hoover.org/sites/default/files/research/docs/on_the_prospects_for_higher_economic_growth_0.pdf
iii Gordon, R. J. (2012). *Is US economic growth over? Faltering innovation confronts the six headwinds* (No. w18315). National Bureau of Economic Research.
iv Pastor, M., Scoggins, J., Tran, J., & Ortiz, R. (2010). *The Economic Benefits of Immigrant Authorization in California.* University of Southern California – Center for the Study of Immigrant Integration.
v Dixon, P. B., & Rimmer, M. T. (2009). *Restriction or Legalization?: Measuring The Economic Benefits of Immigration Reform.*
vi See special issue on immigration: www.cato.org/cato-journal/fall-2017

BY SWEN LORENZ

10 QUESTIONS FOR...

LADO GURGENIDZE

British-Georgian dual national Lado Gurgenidze made his name as one of the world's best managers of banking operations. At age 34, he took over managing Bank of Georgia and within three years, the bank's market share increased from 18% to 34%, its assets grew by 1,885%, and its share price by 1,461%. Recently, he has been involved in the fintech sector, where he personally made three early stage investments into companies that became unicorns and/or established leaders in their respective verticals (Coinbase, TransferWise, Raisin). We caught Lado during his regular stop-over in London.

Swen Lorenz: You have had a lifelong involvement with the banking sector, but nowadays I mostly hear your name in connection with fintech companies. Do you share the vision of those who say that fintech will wipe out large parts of the banking industry as we know it?

Lado Gurgenidze: *I don't share this view. I believe that the disruption of many areas of financial services is overdue, and is beginning to happen. However, banks, despite being slow and bureaucratic, will be forced to respond, embracing the technologies and best practices that fintech companies are pioneering (and perhaps buying a few such companies along the way). At the end of the day, we will end up with a much changed, much leaner, much more consumer-focused financial services industry.*

SL: What are the hurdles and problems the sector needs to overcome? I am a fairly early adopter of most technologies, yet I still bank with HSBC in the UK and a Swiss private bank that doesn't even do online banking. Why is all this taking so long?

LG: *I don't believe that it is taking that long. Clearly, there is a lot of noise and there has been some overfunding of the fintech sector by the VCs, but the best companies – those who have emerged as leaders – offer solutions today to specific problems consumers face. If you were sensitive to the amount the banks charge for an international wire transfer, you'd find, as many people do, that TransferWise offers much better value. If you are dissatisfied with the savings rates available in your home market, you'd find that Raisin solves this problem by offering a convenient, online one stop shop to dozens of savings products offered by banks all over Europe – the savings products you would not otherwise be able to avail yourself of without travelling to each of these countries to open an account etc. And so on. Effective solutions for real problems. The leading fintech companies offer this today.*

SL: In which areas of the sector do you expect the next unicorns and disruptors to emerge?

LG: *I think eventually the market will sort itself out by producing two or three (at least) clear leaders in every sizeable vertical of the financial services sector, e.g. alternative scoring, qualified loan lead generation, wealth and savings, payments and transfers, insurance and so on.*

"WE WILL END UP WITH A MUCH CHANGED, MUCH LEANER, MUCH MORE CONSUMER-FOCUSED FINANCIAL SERVICES INDUSTRY."

SL: For anyone looking to invest into early-stage fintech companies, which platforms, investment vehicles or publications do you recommend they follow?

LG: I am a fan of FundersClub and have made a few early-stage investments through that platform. Angel List is useful as well. I subscribe to the newsletters of AltFi, Finextra, Bank Innovation and Lend Academy. I am sure there are many others as well, but my bandwidth is limited.

SL: Is it all doom and gloom for conventional banks, or might the emergence of these new technologies also offer at least some banks the opportunity to reinvent themselves and how they engage with their customers?

LG: It is clearly the latter, as I have already explained. The banks will be forced to adapt, and to do so by adopting the disruptive technologies and business practices that will have proven to be sustainable and scalable.

SL: We gotta ask – Bitcoin et al! Do you think cryptocurrencies are here to stay, and will they become more than just a speculative niche of the financial markets?

LG: I don't know if there are any clear fundamental reasons for cryptocurrencies to become mainstream, or even to exist. Then again, there were and are no fundamental reasons for mankind to have agreed, aeons ago, that gold is a universally accepted store of value either. What I do know if that blockchain is a technology that is here to stay; and when the noise subsides and the gold rush is over, a few patiently competent companies will end up building durable solutions to real problems based on this technology. But we are not there yet. I'd give it five to ten years.

SL: You are a life-long libertarian. It's a broad question to ask, but do you see technologies in general, and fintech in particular, increasing people's personal liberties in the long run, or are we heading towards a total surveillance state? Is that even the right question to ask?

"I DON'T KNOW IF THERE ARE ANY CLEAR FUNDAMENTAL REASONS FOR CRYPTOCURRENCIES TO BECOME MAINSTREAM, OR EVEN TO EXIST."

LG: I don't think that any technology per se can lead to either of these outcomes. Context is everything – the governance framework, the public consensus and so on. Fintech, however, as well as any other tech, will end up making individuals more efficient by offering superior and frictionless consumer choice. So, it is bound to contribute to rising prosperity.

SL: Back to the conventional banking sector. You have managed and turned around banking operations in a variety of challenging environments, including Africa, where you led the board of Bank of Kigali in Rwanda for six years. Europe still features a lot of troubled banks – e.g. Deutsche Bank's share price remains 85% off its high even 10 years after the banking crisis broke. Is there any value to be found among conventional European banks?

LG: I think at any given time value can be found by a discerning investor in selected banks in Europe and elsewhere too, yes. But perhaps more easily so in emerging markets.

SL: After nine years of bull markets and with considerable political disruption happening in the West, what worries keep Lado up at night?

LG: The resurgence of illiberal powers with revanchist agendas, while the free world is tying itself in knots and floating rudderless. These are difficult and uncertain times.

SL: For anyone who ever travels to your home country, Georgia: your three favourite places to see or things to do?

LG: If you are a skier, then Gudauri, only 90 minutes away from the city, offers excellent skiing, including off piste. I'd advise to avoid weekends though, as it may get crowded. If hiking is your thing, the Caucasus mountains offer breathtaking scenery, so a trip to Svaneti or Tusheti would be the one to remember. For foodies, there are literally dozens of trendy restaurants and eateries that have been opened recently, in many cases by the graduates of the Free University Culinary Academy – there are too many to mention, but do invest half an hour in browsing FourSquare or Trip Advisor and the choices are all there.

About Swen

Swen is CEO of Master Investor Ltd. and regularly serves as an advisor and board member to public and private companies. His work has been featured in publications like the Financial Times, Private Eye, and the Economist. He welcomes readers connecting with him on LinkedIn.

BY JOHN KINGHAM

DIVIDEND HUNTER

DIVIDENDS FOR LIFE: 3 STOCKS YOU CAN TRUST

What most dividend investors want is a dividend they can trust; one where they can be reasonably confident that it will be paid far, far into the future. One obvious place to look for reliable dividends is among defensive sector stocks. These companies can prosper in the bleakest of recessions and usually maintain their dividend while all about them are cutting theirs. Another obvious place to look is quality stocks. "Quality stocks" is an elusive term, but one reasonable definition is companies where profitability is consistently a long way above average.

So this month I thought it would be interesting to look at the intersection of these two groups. In other words, defensive sector stocks with consistently high profitability and, of course, long histories of regular dividend payments.

Admiral Group (LON:ADM)

- **Share price: 1921p**
- **Sector: Non-life Insurance**
- **10-year profitability: 53%**
- **Dividend yield: 6.0%**
- **10-year growth rate: 9.8%**

Admiral is one of the UK's largest and best-known car insurers, although it does provide insurance through a range of other brands such as Elephant, Diamond and Bell. It also sells home insurance in the UK and car insurance overseas, and owns several insurance comparison websites, including confused.com and compare.com.

Is Admiral defensive? I would say yes, because people have to buy car insurance regardless of what the economy is doing. In fact, the CEO has been quoted as saying "the police are kind enough to enforce the purchase of our product".

Having said that, car insurance is largely a commodity business, where price is the key factor for most customers. This means there can be pricing cycles and price wars within the industry that are separate from the general economy. But the company's very smooth track record suggests that Admiral has been admirably immune to these industry cycles.

For example, Admiral has a long and unbroken record of dividend payments, which is of course very attractive to dividend investors. It also has an impressive track record of steady growth, with growth of around 10% per year over the last decade averaged across net assets (i.e. book value), profits and dividends (although dividend growth has stalled somewhat in the last couple of years).

So I would call Admiral defensive, but is it a quality stock? Again, I would

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"ADMIRAL HAS A LONG AND UNBROKEN RECORD OF DIVIDEND PAYMENTS, WHICH IS OF COURSE VERY ATTRACTIVE TO DIVIDEND INVESTORS."

say yes. Admiral's average profitability over the last decade (measured using return on equity, or ROE) is an amazing 53%. To put that into context, the average profitability of other non-life insurers is closer to 20% than 50%, so Admiral's performance is very unusual.

Why is Admiral so profitable? There are a few reasons:

One is the company's obsessive focus on efficiency and cost reduction. If Admiral can offer insurance at the same price as its competitors, but with lower operational costs, then Admiral will make more profit (all else being equal). I seem to remember reading a story some time ago about how employees had to do a push up for every sheet of paper they used in the photocopier. I'm not sure if that's still true (or ever was), but it gives you an idea of how far some companies will go in pursuit of lower costs.

Another reason for Admiral's high profitability is the company's willingness to refuse to write insurance when it is not attractively priced. This sometimes occurs when insurers are chasing volume over quality. In that situation, some insurers are willing to write insurance for almost no profit (and sometimes at a loss) just to get more customers on board and more premiums in the bag. Those customers might then renew at higher prices and at higher prices, making the initial "teaser" price worthwhile. Alternatively, the collected premiums might produce good returns when invested in bonds, property or perhaps even stocks. But it's a risky strategy and one that Admiral has repeatedly said it does not want to play.

But perhaps the biggest reason for Admiral's exceptional profitability is its unusual use of coinsurance and reinsurance. These are basically contracts where some of Admiral's premium income is shared with other insurers in return for those insurers covering an equivalent part of the risk. This allows Admiral to write more insurance than it otherwise could, and in return for passing business on to its coinsurance and reinsurance partners, Admiral effectively receives a fee.

I'm not an insurance expert so I'm not sure why this arrangement is so unusual, but it is, and it seems to have worked very well so far.

Somewhat surprisingly for a company with a long and relatively consistent track record of dividend growth, Admiral's dividend yield is currently 6.0%. Perhaps this is because about half the dividend is made up of a special dividend and investors tend to ignore special dividends when calculating the yield. However, Admiral's special dividend has been paid every year for more than a decade and I see no reason for it to disappear anytime soon.

So in my opinion Admiral is a defensive company, a quality company and an attractively priced company, and that's why I've been a shareholder since 2013.

Hilton Food Group (LON:HFG)

- **Share price: 831p**
- **Sector: Food Producers**
- **10-year profitability: 25%**
- **Dividend yield: 2.1%**
- **10-year growth rate: 6.9%**

Hilton Food Group is in the meat packing business where it supplies pre-packaged meat products to major international retailers. The company was set up in 1994 to supply a single company – Tesco. The business model is an interesting one and it has worked well, but there are risks. The interesting point is that for the most part, Hilton builds very large state-of-the-art meat packing facilities which then supply a single customer. Supplying a single customer allows Hilton to maximise the efficiency of its facilities because everything can be focused around what that one customer wants. Since there is only one customer there will also be fewer product lines to produce, and this provides economies of scale for each production line.

Efficiency, automation and other cost-reduction efforts are important because meat packing is a commodity business. In other words, nobody buys sausages just because the packaging was done by Hilton Food. This means that virtually anybody (with a few million quid to build a meat packaging plant) could do what Hilton does, so profit margins are razor thin.

But aren't I supposed to be reviewing "quality" companies that are highly profitable? Indeed I am, but in Hilton's case it depends on how you define "highly profitable". For example, its operating profit margin is just 3%, which is dreadful. For every £100 of revenue it makes just £3 of operating profit. However, its average return on capital employed (ROCE) is about 25%, which is much healthier.

For me, return on capital employed is the more useful figure. In very simplistic (and somewhat inaccurate) terms, if Hilton invests £10 million in a new production facility it could generate annual operating profits of £2.5 million, i.e. a 25% return, which is a very attractive proposition. Because its profit margins are just 3% it would take sales of more than £800 million per year to generate those profits. However, history suggests that is entirely possible, so I don't necessarily see the 3% profit margin as a problem.

A bigger potential problem, I think, is its focus on a very small number of very large customers. Having started with Tesco as the sole customer in 1994 the company still depends on just two customers, Tesco and Ahold Delhaize (one of the world's largest food retail groups), to make up more than half of its revenues.

This degree of customer concentration is usually a big risk. What if Tesco decides to get its meat packaged by a different company? It would be an absolute disaster for Hilton. Is this likely to happen anytime soon? Probably not, given that Tesco and Hilton have been working together since 1994. But these contracts do come up for renewal every five or ten years, and there is a possibility that Hilton could screw up, or Tesco could go bust, in which case the contract could come to an end.

> **"HILTON IS A DEFENSIVE COMPANY AND A QUALITY COMPANY, ALTHOUGH ONE WITH SOMEWHAT HEIGHTENED RISK FROM ITS RELIANCE ON A SMALL NUMBER OF CUSTOMERS."**

Given this potentially major risk, I would want Hilton to be prudent in terms of its borrowings so that if things go wrong at least it doesn't have a huge pile of debt weighing it down. Thankfully, this is the case. Hilton's 2016 total borrowings figure was £27 million, which is less than twice its recent average profits of £19 million. The company also doesn't have any

defined benefit pension obligations, so as far as I can tell, the company is prudently funded.

This is especially impressive given that the company did have to ramp up its borrowings in 2014. This was done in order to fund expansion of its UK facilities, but the debts were quickly paid down which is usually a very good sign.

Like Admiral, I think Hilton is a defensive company and a quality company, although one with somewhat heightened risk from its reliance on a small number of customers.

But is it attractively priced at 831p per share? I would say yes, to a degree. The dividend yield is just over 2% and the company's growth rate has averaged about 7% per year over the last decade. That's gives a simplistic total return of 9% (i.e. dividend yield plus dividend growth) which is not bad for a steady dividend payer. The company also ranks quite highly on my stock screen, coming 75th out of 220 dividend paying stocks.

But 75th means there are potentially 74 more attractively valued companies in the market, and generally I prefer to aim for double-digit gains anyway. With growth of around 7%, double-digit gains would require a yield of 3%, which would occur if the shares fell to 600p. A price of 600p would also push the company much further up my stock screen, so although I like Hilton, I won't be thinking of buying it unless the shares drop below 600p. And while 600p may seem a long way below the current price of 831p, it's where the price was at the start of 2017, just a few short months ago.

Greggs (LON:GRG)

- **Share price: 1283p**
- **Sector: Food & Drug Retailers**
- **10-year profitability: 18%**
- **Dividend yield: 2.4%**
- **10-year growth rate: 7.5%**

Greggs is of course your friendly local baker, although perhaps these days it's more appropriate to call it your friendly local food-on-the-go outlet. That's because the company has been busy transforming itself in recent years. Once upon a time, Greggs consisted of a large number of individual bakers, baking cakes and pies on-site. Today, the company consists of a large number of retail outlets selling ready-to-eat foods that are mostly freshly baked in large scale off-site bakeries.

It's a metamorphosis which has worked well for Greggs. Profits have jumped up considerably in the last few years as the company has reduced costs and moved into higher margin products, but revenue growth has remained pedestrian at just below 5% per year.

Greggs is definitely a defensive business because people need to eat regardless of the economic environment, and a hot Greggs pie is hardly going to break the bank. This largely explains the company's very steady results over a long period of time and its almost unbroken record of dividend growth over more than 20 years.

It's also a quality business, which shows up in a return on capital employed that has consistently been around 20%, or about twice the market average. These returns haven't been boosted by excessive debts either, because the company has no debt. It is quite a capital intensive business though, as it typically invests more in capital assets each year (e.g. stores, bakeries, etc.) than it makes in profit. However, high capex requirements are only usually a

"GREGGS IS DEFINITELY A DEFENSIVE BUSINESS BECAUSE PEOPLE NEED TO EAT REGARDLESS OF THE ECONOMIC ENVIRONMENT, AND A HOT GREGGS PIE IS HARDLY GOING TO BREAK THE BANK."

risk when a company expands its capital assets too quickly or funds the investment with lots of debt, neither of which applies to Greggs.

So as with Admiral and Hilton, I think Greggs is a high quality defensive business, and it's one I would be quite happy to invest in at the right price. And talking of price, I think the current price of 1283p is not too bad at all. The dividend yield is 2.4%, its ten-year growth rate is 7.5% (giving a yield plus growth return of 9.9%) and the company sits at position 52 on my stock screen.

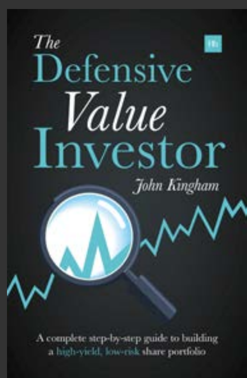
Usually I'll only buy stocks from the top 50 of my screen, so Greggs is right on the limit. However, if for some reason I found Greggs in my portfolio tomorrow, I'd be quite happy.

About John

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

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

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



BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

MAKE A MINT WITH THESE MARVELLOUS MICROCAPS

There is one sub-class of small cap stocks which offer the potential for substantial long-term gains – perhaps more than any other asset class in existence. Not just 100% or 200% gains but up to 100,000% or even 200,000%. The stocks I am talking about are microcaps, companies which have a very low market capitalisation compared to other listed peers.

The superior growth potential microcaps have compared to their blue-chip and mid-cap cousins comes from simple mathematics. Take a blue-chip like **British American Tobacco (LON:BATS)** for example. In the last financial year BAT made revenues of £14.75 billion. These have been growing at a steady rate for years at constant exchange rates – up by 6.9% in 2016. But given the company's size, sales are unlikely to ever grow by double digits or higher unless a significant corporate transaction occurs.

In contrast, it is much easier for a business valued at only a few million pounds to double or even treble its income from just one contract win, and thus send its value soaring. Take AIM listed CCTV installer **UniVision Engineering (LON:UVEL)**. In May this year shares in the company, then valued at c.£3.5 million, soared by 373% in one day. This was on the back of the business winning a contract in Hong Kong worth £38.1 million, around 10 times historic annual revenues, to be completed over the next six years.

"SOME WELL-KNOWN AIM LISTED GIANTS ARE FORMER MICROCAPS."

There is no standardised classification of a microcap stock in the investment world. But to take a practitioners' view, many UK focussed funds have a similar definition. For example, the Marlborough UK Micro Cap Growth fund looks to mainly invest in companies with a sub £150 million market cap, as does the Liontrust UK Micro Cap Fund, along with Miton UK MicroCap Trust. However, the stocks I am talking about, more likely to be defined as nano-caps by the fund managers, are those with a market capitalisation of less than £30 million.

Some well-known AIM listed giants are former microcaps. Back in August 2003 online fashion retailer **ASOS (ASC)** was valued as low as £2 million and today is the largest company on the junior exchange, valued at £4.65 billion. If it was listed on the Main Market it would be eligible for inclusion in the FTSE 100. **Accesso Technology (ACSO)**, the entertainment & leisure industry technology provider previously known as Lo-Q, was worth around £1 million back in 2005 and is now valued at £569 million. The respective capital gains from both companies, from their low point to today, are 171,346% and 71,900%!

Of course, microcaps come with a heightened risk profile. Their bid/ask spread can sometimes be up to 50%, which means if you want to sell immediately after you buy you'll lose a lot of money instantly. They can be prone to large swings in value on a daily basis, exposed to the decision making of one or a few key indivuals, and find it difficult to access capital. So they are not for widows or orphans and investors need to take a long-term perspective. But just like with blue-chips, your maximum loss can only ever be 100%.

Here follows three London listed microcaps which are currently seeing a step change in their revenue growth and which I believe have the potential to show substantial capital gains in the coming years.

Asos & Accesso: from microcap to megalodon

AUDIOBOOM

Sometimes referred to as the audio equivalent of YouTube, **Audioboom (LON:BOOM)** is an AIM listed global podcasting platform. For those unfamiliar with the concept, a podcast is a digital audio file made available for download from the internet to a computer or mobile device – a bit like radio for the 21st century.

While podcasts have been around in some form or another since the 1980s, it is only in the past decade they have really taken off as a form of popular entertainment. This has been on the back of growth in mobile devices such as iPods and smartphones. According to the 2017 *Infinite Dial* report from US firm Edison Research, 24% of interviewees had listened to a podcast in the past month, up from 9% in 2008, with 40% having ever listened to one, up from 18%.

The great thing about podcasts for marketers is that they provide access to a thoroughly engaged audience who are highly interested in the (often niche) topics they are listening about – anything from sport, science, gaming, comedy and a range of others. That's why, according to a report by the Interactive Advertising Bureau and PricewaterhouseCoopers, US podcast advertising revenues are on track to rise by 85% in 2017 to a record $220 million.

Audioboom itself has a number of aspects to its business. The core offering is a cloud-based content management platform which enables podcasters to create, broadcast and syndicate their content across a range of devices and countries. Working with third-party media agencies the company then secures advertising to place within the podcasts and shares the revenues with the content creator. Audioboom also creates its own original content under the brand name Audioboom Originals and has a premium podcast subscription service, which allows content creators to publish without advertising being built into their audio files.

Recent trading sounds good

Audioboom has a history of being loss making at the operating level but its revenues are now starting to take off as more advertisers embrace the podcast medium and the company exploits its vast range of content. In the year to November 2016 total sales were up from £0.2 million to £1.3 million, with these rising from £0.33 million to £1.84 million in the six months to May 2017 alone. However, the company remained loss making for the half, being £2.9 million in the red for the period.

The most recent numbers, for the three months to August this year, showed growth continuing at pace, with revenues up by 329% compared to Q3 2016 and up by 32% over the second quarter of 2017 to £1.49 million. In addition, record forward bookings have been received for the final quarter of the year. Other operational highlights of Q3 included monthly unique users rising by 11% to 90 million in August and available advertising impressions (in effect the inventory the company has available to sell) rising by 24% to 602 million for the quarter. While the total number of content channels fell by 4% to 11,424, this came as the premium subscription fee was introduced for smaller content partners, with a view to removing non-profitable accounts.

Audioboom's key focus now is to increase revenue generation and expand its operating margins. In its 2016 annual report the company set the target of becoming cash-flow positive on a monthly basis during the final quarter of 2018 – that's 10 months from now. But with cash of £3.25 million as at 31st May and cash operating losses running at an average of c.£0.44 million a month in the first half, there could be the possibility of another fundraise if current trends don't continue.

Boom or bust?

Audioboom has been around for some time now, having listed on AIM in May 2014 following the reverse takeover of cash shell One Delta. Early investors could have bought the shares as cheaply as 4p shortly after listing, to see them rise to a peak of 16.625p within a matter of months. However, since then the shares have come back down to the current 3p per share, with the overriding issue in my opinion being concerns over the speed at which monetisation is progressing.

But Audioboom is now clearly making commercial progress, with revenues in the last quarter alone higher than in the whole of the last financial year. The key now is to reach cashflow break even as soon as possible to avoid tapping the market for further funds. Once that point is reached profits should start to grow rapidly.

While Audioboom is a risky stock, the long-term potential here is huge, with the company looking well placed to take advantage of the rise in podcast advertising income given its strong market position. The house broker Allenby has a 7.5p fair value price, which implies 150% upside from here.

"US PODCAST ADVERTISING REVENUES ARE ON TRACK TO RISE BY 85% IN 2017 TO A RECORD $220 MILLION."

TOTALLY

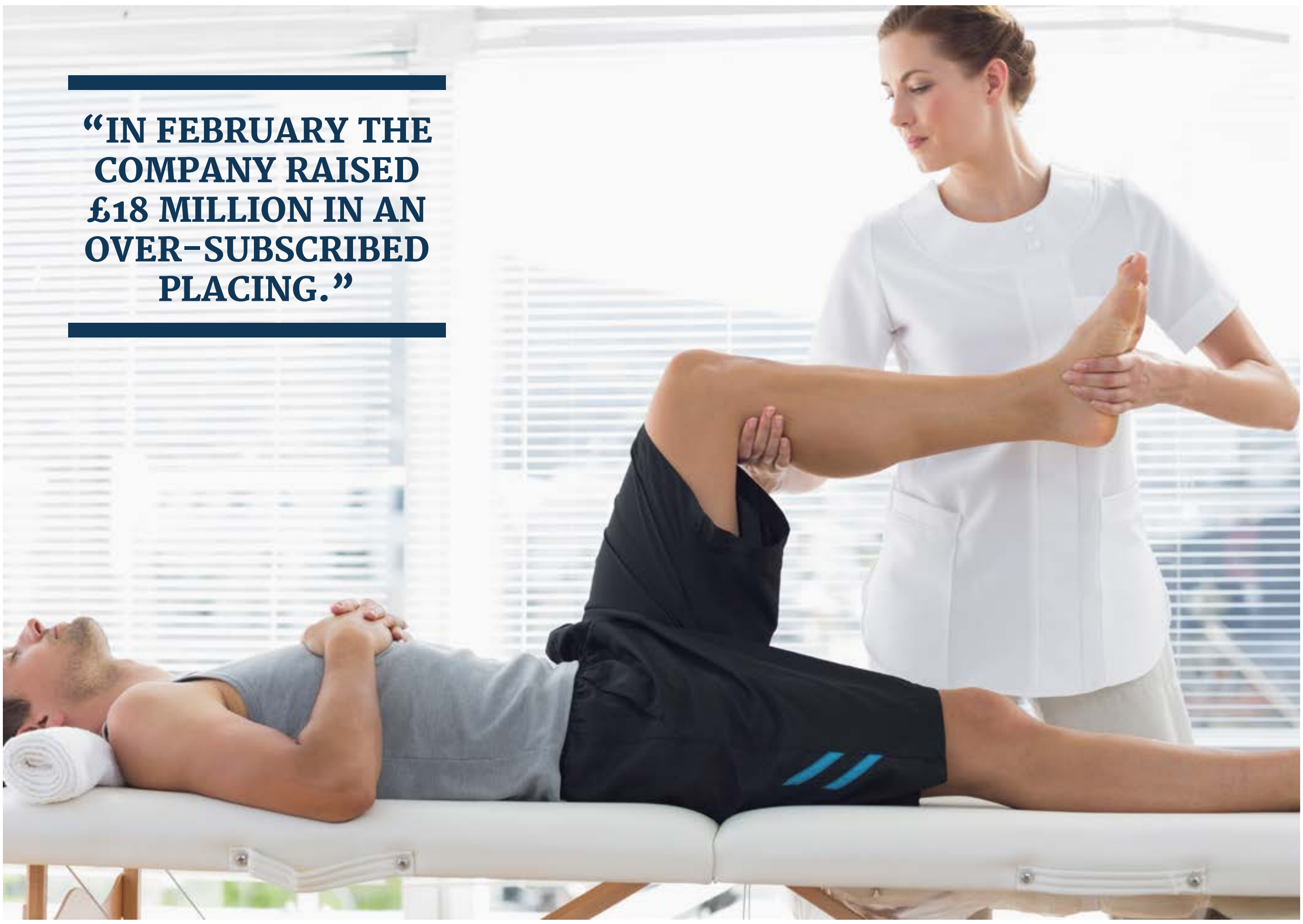
Another company which has been around on the markets for some years but has not yet delivered on its full potential is **Totally (LON:TLY)**, a provider of out-of-hospital services to the UK healthcare sector. Across several subsidiaries the company provides a range of services that aim to improve people's health, keep patients out of hospital and, critically for the UK healthcare system, reduce the demand for emergency services.

Results from the company for 2015 showed revenues of just £0.58 million and a loss of £0.41 million. Hardly inspiring. But during the year the first pieces were put in place towards Totally progressing on an ambitious buy and build consolidation strategy within the fragmented UK outsourced healthcare market – one which is estimated to be worth over £20 billion per annum.

Holt at the helm

In September 2015 Totally made the key appointment of Bob Holt as Non-Executive Chairman. Holt, regarded in the City for being a turnaround specialist, is probably best known for being Non-Executive Chairman of social housing support services business Mears which he took from being worth £3.6 million at IPO in 1996 to a current market cap of £457 million.

Holt soon got to work on advancing the business from its low base, making three acquistions in 2016. The first was that of Premier Physical Healthcare, a specialist in musculoskeletal injuries and conditions, for £6.75 million. This was soon followed by the purchase of About Health, a leader in the provision of dermatology and patient referral



“IN FEBRUARY THE COMPANY RAISED £18 MILLION IN AN OVER-SUBSCRIBED PLACING.”

management services, for up to £7.7 million. Then in November Totally bought Optimum Sports Performance Centre, a provider of physiotherapy services, for up to £0.65 million. All three companies have since been fully integrated into the wider business and have continued to deliver new contract wins.

After a busy year in 2016, 2017 has seen even more corporate action take place. In February the company raised £18 million in an over-subscribed placing & open offer to provide further funds for its expansion plans. A substantial portion of those funds have since been put towards the most transformational deal to date, that of urgent care service provider Vocare Limited. The business, bought for up to £11 million, provides a range of services to the NHS throughout the UK including GP out-of-hours services, the 111 non-emergency phone service and urgent care centres, working in conjunction with NHS A&E departments.

Between 2015 and 2017 Vocare grew revenues by 137% to £76.8 million, that's almost 20 times higher than Totally's historic annual sales, so significantly expands the size of the business. Vocare's pre-tax profits in 2017 were £0.28 million but in the five months to August a loss of £0.79 million was posted due to spending on quality improvement and seasonal trading losses. Profitability is expected to return in the remainder of the year.

Totally sees good opportunities for growth via the acquisition given a rising demand for urgent care services nationwide, a widened geographical footprint across the UK providing critical mass to the group, along with additional partnership and contract opportunities.

Totally undervalued?

It's still early days for Totally's acquisition strategy, with investors having a long wait until they can see how the combined businesses perform together. The most recent numbers, for the six months to June, showed an almost fourfold rise in revenues to £3.68 million but a net loss of £0.96 million as the company remained in its buy and build phase and invested in infrastructure such as IT and staff. The

first set of annual results showing a full contribution from the combined entities are not due for almost two years – the year end has also been changed from December to March following the Vocare deal.

Now capitalised at £24.7 million Totally trades on a historic price-to-sales multiple of 0.32 times, just considering revenues from Vocere alone. That looks very cheap, especially given the opportunities to realise cost saving synergies and economies of scale across the business and deliver a decent profit. Several directors seem to think the shares look attractive, with Bob Holt, CEO Wendy Lawrence and Finance Director Lisa Barter all increasing their holdings in October.

On balance, Totally is a risky bet. But with a big hitter on the board, ambitious expansion strategy and backing from major investment institutions, in five years' time it could be significantly larger than it is today.

XPEDIATOR

Founded in 1988 by CEO Stephen Blyth, **Xpediator (LON:XPD)** is an international provider of freight management services operating in the supply chain logistics and fulfilment sectors. Headquartered in Braintree, Essex, and supported by a network of offices in Europe, the company provides regular and direct services linking Eastern

"THE FREIGHT FORWARDING AND LOGISTICS MARKETS ARE HIGHLY FRAGMENTED."

Europe, the Balkans and the Baltics with Western Europe.

The three main areas of focus are: freight forwarding services, specialising in connecting Central & Eastern European countries and the UK; logistics & warehousing, which comprises distribution hubs in the UK and southern Europe providing over 39,000sqm of shared user space, pallet distribution and fashion logistics; and transport services, providing bundled fuel and toll cards, and financial and support services for hauliers in southern Europe. Xpediator is unique in that it operates an asset light business model – it does not own any warehousing facilities and has only 19 trucks – which reduces risks and fixed costs.

The company listed on AIM in August this year, raising a total of £5 million in the process to accelerate in its growth strategy. That strategy is twofold, firstly focussing on developing the existing activities but also looking to acquire complementary businesses which will add new territories, customers and services to the group. The freight forwarding and logistics markets are highly fragmented and the company believes that there are many smaller firms which would consider being acquired by a larger business.

Growing the fleet

Over the three years to December 2016 Xpediator grew revenues from £51.4 million to £76.4 million on a pro-forma basis, with pre-tax profits up from £3 million to £3.2 million – these illustrative figures assume a contribution from EMT, a fashion logistics business acquired in March this year. The maiden set of numbers as a public company revealed further growth, with revenues up by 56% to £49.1 million in the six months to June, with net profits up from £0.16 million to £0.53 million. Net debt at the period end was modest at £1.8 million, with total borrowings standing at £8.7 million – although I note the IPO proceeds have been received since the period end.

At the end of October Xpediator made its first acquisition as a public company, that of UK-based international freight forwarder, Benfleet Forwarding, for an initial £6.55 million (maximum £10.45 million based on future profits). Based in Basildon, Benfleet specialises in the movement of flooring, machinery, household goods and garments. In the year to March 2017 it made revenues of £21 million and net profits of £1.35 million, so with the initial consideration being just 4.9 times historic profits this looks like a good deal. On completion the enlarged group will operate from five sites in the UK together with 11 offices in Europe, and employ over 650 people, with the acquisition expected to offer immediate cross-selling opportunities, potential cost synergies and be immediately earnings enhancing.

Growth, value & income

Shares in Xpediator have done well since IPO, rising from 24p to the current 31p. The markets particularly liked the Benfleet acquisition, sending the shares up by almost 10% on the day of the announcement.

Now capitalised at just over £30 million I calculate that Xpediator shares trade on an annualised multiple of around 7.8 times historic profits (assuming a standard tax rate on the pro-forma figures, along with the contribution from Benfleet). That looks good value in my opinion for a growing business with ambitious growth plans. What's more, the dividend policy is to pay out c.50% of annual net profits. With an interim payment of 0.347p per share already made, house broker Cantor Fitzgerald is looking for a total 1.4p payment for the full year, which equates to an attractive yield of 4.5%.

About Richard

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

BY SAMUEL RAE

FORENSIC FOREX

HOW TO PLAY THE CURRENCY MARKETS FOR THE REST OF 2017

The end of the year is almost upon us and what a year it has been. A whole host of inputs, some expected and some not, have come together to influence the full spectrum of financial markets and the impact of these inputs has led to a wild ride for market operators.

The currency markets are no exception. The EURUSD has strengthened considerably, with the euro running against its US counterpart throughout the majority of the last 12 months. Cable has mimicked the action of the EURUSD, but sterling still has a long way to go if it is to break the 1.6 level not seen since mid-2014. The dollar-yen has been a real rollercoaster, with the USD running against its Japanese counterpart one month and the latter taking control the next to pare the gains. Overall, year to date, the dollar is down slightly against the yen – but not by much.

Where things go from here is anybody's guess but we can use certain economic and political events to try to add a degree of clarity to the situation and, in turn, to put together some sort of tentative bias as to where the majors will sit in relation to one another as we head into the start of a brand new year.

Regular readers of this column will know that my efforts in the currency markets are rooted primarily in technical analysis and, specifically, in entries dictated by simple candlestick patterns. However, I use a fundamental bias, as formed by my interpretation of various relevant inputs, to help inform my risk management decisions. If I think the US dollar is likely to strengthen against sterling near term, for example, I'll be happy to take on a little bit more risk in a GBPUSD short entry and chase a little bit more reward on the same position.

So, with this noted, what am I looking at as key to my fundamental bias in the above discussed pairs going forward? Let's take a look.

> **"FROM A US DOLLAR PERSPECTIVE, IT'S ALL ABOUT WHO TAKES THE POSITION OF CHAIR OF THE FEDERAL RESERVE."**

The US dollar

From a US dollar perspective, it's all about who takes the position of Chair of the Federal Reserve. At time of writing, Donald Trump is set to (reportedly) make a decision before a trip to Asia as to who he thinks is best suited for the job. Chances are that this decision has already been made by the time this piece is published, but its implications are long-term enough to discuss speculatively before the event.

Outside of something unexpected, there are four candidates for nomination – Yellen, Powell, Warsh and Taylor. Yellen will likely have the least impact. A nomination for Powell is almost certain to translate to some strength in the equities markets but will likely concurrently result in some dollar weakness, given his preference for relatively easy monetary policy. Warsh and Taylor, on the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other hand, are far more hawkish and a nomination for either of these two will almost certainly boost the dollar against the majority of its major counterparts.

The Euro

In Europe, all eyes are on Mario Draghi and his ECB team, particularly with regard to their actions in the ongoing European QE programme. For a few months now, Draghi has been hinting at some degree of cut to the current programme and expectations are that he will trim bond purchases near-term from €40 billion to €20 billion monthly, at least until June next year. The euro is going to react differently dependent upon the size and scale of variations from these expectations. If Draghi decides to be a little more dovish, the euro is going to fall versus its major counterparts. Conversely, stronger and more hawkish action will undoubtedly strengthen the single currency. Unrest in Catalonia is also playing into sentiment somewhat in Europe but right now only to a minor degree and the way that the ongoing situation in the region will play out is far too unpredictable to use it as an informative input on a near-term bias.

Sterling

As for the UK, my expectations are that we will see sterling weaken over the coming months and heading into the close of 2017. Bank of England Governor Mark Carney recently reported that he expects the October uptick in inflation to be an anomaly for the year and, when coupled with a recent drop in retail sales, the chances of any hawkish action near term are incredibly slim. In other words, we're not going to see an interest rate hike any time soon and this is going to weigh pretty heavily on the value of sterling as compared to most of its major counterparts.

The last word

All told, it's looking like we're going to have a relatively interesting close to the year, with market sentiment dictated primarily by the outcome of the Fed Chair nomination and the actions of Draghi regarding the easing programme in Europe.

Let's see how things play out.

"IN EUROPE, ALL EYES ARE ON MARIO DRAGHI AND HIS ECB TEAM, PARTICULARLY WITH REGARD TO THEIR ACTIONS IN THE ONGOING EUROPEAN QE PROGRAMME."

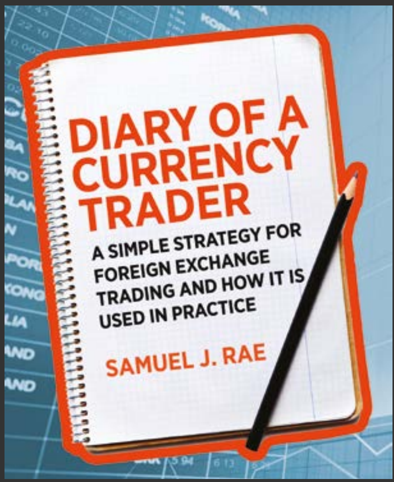
360b / Shutterstock.com

About Samuel

Having completed his Economics BSc Degree in Manchester, Samuel Rae quickly discovered that the retail Forex industry was for him. A short foray into the corporate world drove him to search for an alternative to the more traditional ways of making a living, and in becoming a retail trader he has achieved exactly that.

Through persistent market participation and extensive education he has grown to become a specialist in both fundamental and technical analysis.

His personal trading style combines classic candlestick analysis with a simple, logical and risk management driven approach to the financial markets – a strategy that is described and demonstrated in his *Diary of a Currency Trader*.



BY DAVID JONES

CHART NAVIGATOR

HOW TO TRADE BREAKOUTS: BUYING INTO STRENGTH

Last month saw some interesting statistics concerning the US stock market. Unless you have been living in a cave in recent years, you will be aware that the major US indices have continually pushed to fresh all-time highs. The latest leg higher within that multiyear trend started after the US election last year – markets confounded many by rising on the shock Donald Trump win. Since election day, the broader US index, the S&P500, is up by around 20%.

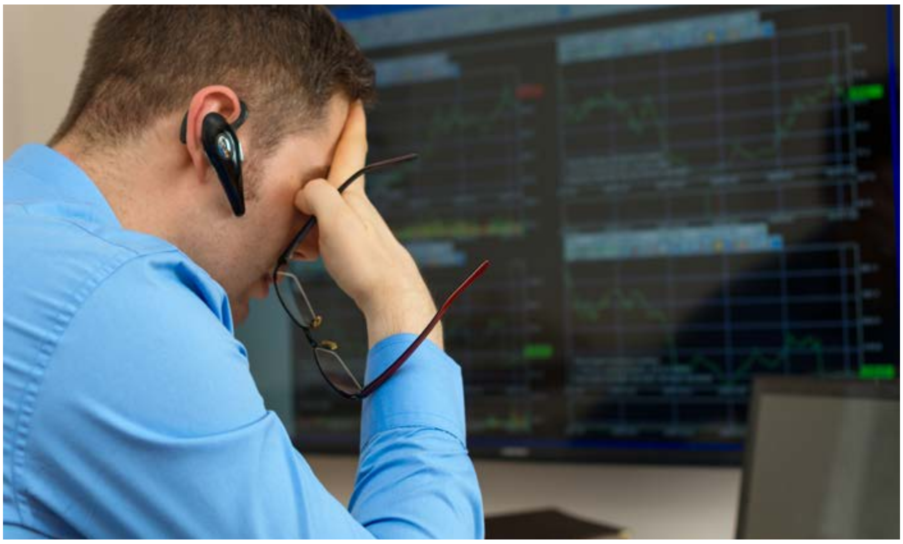
"IT'S A NEAR PERFECT MARKET BACKDROP FOR THE BREAKOUT APPROACH."

S&P500: Last 12 months

It can be psychologically very difficult for investors (and traders) to buy into strength in a rising market. Many will sit on the side-lines waiting for a pull-back – looking for that strength to run out of steam, and the price to dip back in the hope of getting their chosen shares a little bit cheaper. This can be comforting – looking to buy a bargain – but can often leave many people watching and kicking themselves for missing out if a market really takes off, always regretting not just buying in the first place.

The idea of buying into strength (or, alternatively, selling into weakness of course) is well documented within technical analysis and charting. There is the well-worn refrain – "the trend is your friend" – which is a reminder that market sentiment can trump everything (no pun intended...), and we should be looking to go with the line of least resistance. Part of trend-following does involve buying into the dips in a rising market should they occur. That is all well and good if they do come along – but once again in strong markets the dip buying chartist can still miss out if they never materialise.

"IT CAN BE PSYCHOLOGICALLY VERY DIFFICULT FOR INVESTORS (AND TRADERS) TO BUY INTO STRENGTH IN A RISING MARKET."



Buying the break

Which brings us to the "breakout" approach. Put simply, this is going with the strength in the market, should a big level be broken. Let's take a price level has been a problem for a while – for example, let's use a share that can't get through the 500p mark and keeps running out of steam every time it rallies towards this point. This is known as resistance – an area where sellers come back in and the broader view is that the share is overvalued. The share price rallies towards this area, but repeatedly runs into a wall of sellers and drifts back. But, one day, it trades through 500p. To many chartists this would suggest that market sentiment has changed. A level that in the past saw sellers with the dominant hand has been broken and now the share price is still viewed as reasonable value. This can be the first sign of a new trend about to start.

With stock markets so strong in recent years there are plenty of examples of this breakout trade, so here are a couple.

Carnival (LON:CCL)

Cruise ship business Carnival is a good example. For much of 2016 the share price trend was broadly sideways. Attempts on the £36 to £30 area would just bring out the sellers and the share price would not progress through here. But during November we saw the first chinks made in that barrier and in early 2017 the next leg higher really got underway.

It is never quite as clean cut as the textbooks suggest – but clearly sentiment was changing as that old barrier got probed – and eventually the new trend started.

Renishaw (LON:RSW)

The chart of FTSE250 business Renishaw is a more extreme example – although the basic principles still apply. It has had an incredibly strong trend over the last 12 months, with the odd pause along the way. These short sideways movements have created short-term resistance levels that, when broken, have signalled that the next stage of the trend higher is underway. At the moment that latest barrier is around the £50 mark.

A word of caution: manage the risk

But let's not get too carried away thinking that following breakouts is a licence to print money. Nothing works all the time and there is such a thing as the "false breakout". Of course, this only becomes obvious after the fact – hindsight investing is always the easiest! This is where a share breaks out through a previous barrier and looks like it is starting a new trend, only to drop back into the range and go precisely nowhere – or even downwards. So, we still need some form of risk control to get us out of the breakouts that don't work so they do not end up eating too much into the profits of those that do.

It does not have to be too complicated. A percentage-based stop loss is arguably as good as any method. If a share breaks, for example, the 500p level, you may decide a new trend is starting and buy in. Now, if a new trend is underway, the share really should not drop back too much. Something such as a 10% stop loss could work here – if the share price falls back to 450p, you decide it is a false break and exit for a manageable loss. Again, this is not some sort of magic system and you may well want to experiment with your own approach. But the idea is that the breakouts that don't work out and incur a small loss should be covered and more by those where a significant new trend starts.

There is another caveat that should be applied here. We have experienced incredibly strong trends, particularly when it comes to US shares. Just last month the investment bank Goldman Sachs pointed out that is has been more than 320 days since the US index had a drop of at least 5% from a recent high. This is a market that has just gone up with very little in the way of a meaningful correction. It's a near perfect market backdrop for the breakout approach. Of course, these conditions could carry on for another 300 days – but it is always worth being aware of the sort of environment we have experienced in recent years and why this has favoured a simple trend following approach such as the breakout.

Charts of the month

Given this month's theme is breakouts, I thought it would be only fair to flag up a couple of charts of the month to keep an eye on. One of them is on the verge of a breakout and the other has already done it. The approaches are slightly different, but the outlook remains the same.

Evraz (LON:EVR)

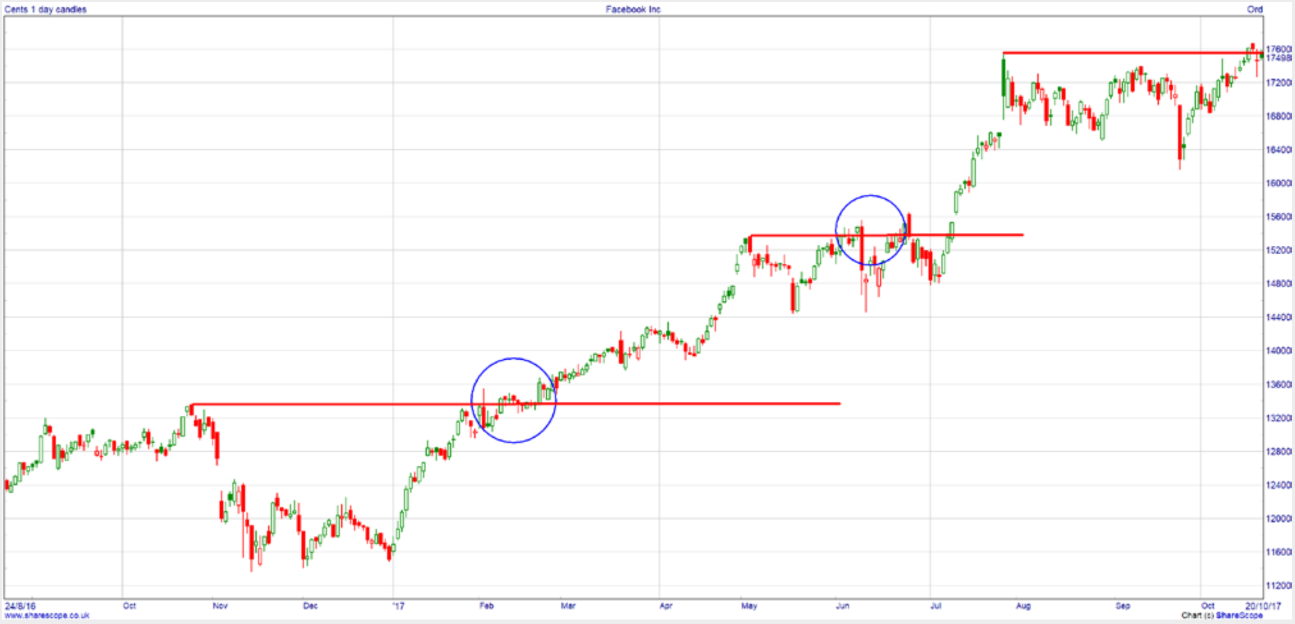
This FTSE 250 mining company has had a great run over the last four months, which has seen the share price gain around 70%. Now of course for many, this sort of gain may lead them to assume they have missed the boat – but don't forget we are looking to buy into strength. There was a good example of a breakout along the way of this sharp rise higher. You can see from the chart that the end of 2016 saw the price run out of steam ahead of the 280p mark. The sellers came in and pushed the price back towards 170p. But then sentiment shifted, and the price recovered.

In August of this year the share price was back up at that 280p previous problem area. There was a wobble for about a week where it looked like the sellers had the upper hand once more – but then that changed, the level was broken and the price moved more than 20% higher in fairly short order.

This has left another level to watch for the next breakout – if it happens. The 340p zone is now the area where so far at least the sellers have had the upper hand. Strength through here would suggest that the next leg higher is underway once more – so that is the breakout level to watch. As usual there are a couple of ways of playing any break here: either buying in as soon as the level is breached, or more conservatively waiting to see how the market performs after the breakout. A slide back and then some strength back above the 340p could be used to increase the chances of this being a valid break.

Facebook (NASDAQ:FB)

We turn to the US for our second share to watch. After a difficult time following the initial float back in 2012, the share price of Facebook has been a major outperformer in recent years. Just in the last 12 months there have been two clear breakouts on the chart that have seen even more ground covered – and during last month the share price once again started to probe through the previous high in the $175 area.



It has spent a couple of days above this area, making fresh all-time highs before dropping back. We don't yet know if this is going to be a failed breakout, but going with the strength in recent years, many would see this dip back as another buying opportunity. The old support comes in around the $160 level so I think it's only if it starts to slip below here does it start to look as if that trend is losing some real momentum. For now, a resumption of strength could be all the confirmation some need to start to expect fresh highs once more from this social media business.

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"A RESUMPTION OF STRENGTH COULD BE ALL THE CONFIRMATION SOME NEED TO START TO EXPECT FRESH HIGHS ONCE MORE FROM THIS SOCIAL MEDIA BUSINESS."

About David

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

BY ALAN STEEL

DEATH & TAXES

HOW TO PREPARE FOR THE COMING TAX ONSLAUGHT

"There are certain things that cannot be adequately explained to a virgin by either words or pictures. Nor can any description I might offer here even approximate what it feels like to lose a real chunk of money you used to own."

- Fred Schwed, US Investor

"The only difference between the taxman and a taxidermist is the taxidermist leaves the skin."

- Top rate taxpayer, 1974

"THE FRESH TARGETS ARE OUR BUSINESSES, THE ASSET RICH AND HIGH EARNERS."

Unless you don't read newspapers anymore and have stopped watching "Bad Noise at Ten", you'll have noticed a growing demand from "talking heads" to the Chancellor of the Exchequer in the Budget next month, or indeed for "the next Labour Government", to raise taxes and "soak the rich". Thus we're told that all the problems of millennials, inequality and something called a fiscal deficit will be solved at a stroke.

The move to "soak the rich" has already begun. Take the move to thump those nasty non-doms. Whatever the rights and wrongs of their tax status they contribute more to the UK economy than is generally reported. In income taxes alone they chip in a very reasonable £10 billion a year, which according to underemployed number crunchers is equivalent to 2p on the basic rate of income tax. There's an estimated 120,000 of them, most of whom are rich in anybody's language, and you can only imagine how much extra boost they give to the UK economy with all their spending and investment.

But already it looks like many of them have had enough. They have been long-term buyers at the top end of the UK property market. But since George Osborne's hike of Stamp Duty three years ago, turnover has fallen by 40% plus. Buyers have become sellers. And those selling are leaving the country. It may be a surprise to tax-raising theorists but not to me or you. Wealth moves. And then you end up with nothing. It's an extreme example of what's called "the Laffer curve" (though it doesn't sound funny to me). Next up, apparently the fresh targets are our businesses, the asset rich and high earners.

The tax drum is still being banged by theorists deaf and blind to reality. Yet out of 26 global studies over the last 35 years comparing tax rises with subsequent economic growth, 90% show a negative impact of higher taxes on GDP. The worst damage they say comes from higher corporate taxes followed closely by higher income taxes. Independent analysis reckons for every tax increase equal to 1% of GDP, real GDP reduces by 2% to 3% per annum. Oh dear.

But I wonder how many of us actually experienced the pains of high taxation and double-digit inflation in the UK back in the 1970s. And how many remember the economic mess the country ended up in for years afterwards.

Sure, you can Google it nowadays and read about it to your heart's content. But as Fred reminds us above, unless you lived through that debacle and earned enough to suffer the slings and arrows of outrageous taxation and inflation you can't imagine how it felt.

Despite what Fred the Schwed said, let me paint the picture of what it was like for successful small businesses and investors back in the 1970s when a previous Government decided to "soak the rich" to "cure inequality". And then let's look at some investing tactics that worked previously in protecting your wealth during high taxes and rising inflation and the resultant downward pressure on the pound.

Lenscap Photography / Shutterstock.com

A past imperfect

When I was at university in the late 1960s I knew nothing about tax or interest rates. None of us ever talked about such things. Few of us came from wealthy or middle class backgrounds, so most of us qualified for tax free grants, thank goodness.

When it came to finding a job in the real world I faced a dilemma. I graduated with an Honours degree in Geography with Maths as a second subject, but I didn't fancy teaching or cartography. What to do? Somebody said that actuaries earned tons of dosh for sitting on their backsides cuddling log tables, guessing future gilt yields and eating for free in corporate dining rooms. It sounded perfect. So I convinced Scottish Widows I was the missing link. I started as a trainee actuary in 1969, just in time to catch basic income tax rates at 38.75%.

As a working class boy it was my first foray into the world of money. Over the next four years I learned about pensions, endowments, annuities and the early stages of unit linking. By 1973 I'd had enough of the "fun" of Insurance Company life. I became an Independent Financial Advisor in January 1973 just in time for wholesale changes to the UK's tax and pension regimes, not to mention the October stock market crash nine months later. Pure coincidence!

For those badgering the Chancellor of the Exchequer today to increase taxes on us "oldies" in order that the "young" can be taxed less, let me remind you that basic rate tax in 1973 was still 30% and climbed to 35% two years later. Currently it's only 20% for all ages. We paid our way. Go check.

And let's not forget that the top rate of income tax on salary/wages by 1975/76 was an eye-watering 83%. And if by some miracle you had accumulated investment income (like dividends or bank/building society interest) on top you could pay tax at 98% on the margin. If you think that was bad enough, the UK inflation rate over those 12 months was 26%.

In the 1960s there was a "super tax" top rate of 95%, which inspired The Beatles to write this in 1966:

Let me tell you how it will be, there's one for you, nineteen for me
Cos I'm the taxman, yeah, I'm the taxman
Should five per cent appear too small, be thankful I don't take it all
Cos I'm the taxman, yeah I'm the taxman

For those of you allergic to percentages, for every £1,000 earned on the margins for high earners and successful savers you could be left with a mere £20. And your cost of living rose by over a quarter. Yet commentators get their knickers in a twist now about a possible three per cent inflation rate and a bank base rate increase from 0.25% to 0.5%. Are they serious?

Being young and poverty stricken I didn't suffer from high taxes personally but I saw the effect on my clients. In 1975 I advised two partners in a successful business. They were so successful their taxable joint profit over the following year was £100,000, split 50/50. Dave was single. Ron was married. Each paid £37,000 in income tax! It got even worse. Both saved regularly into deposits. At the time, top deposit rates were 10% before tax. They assumed they paid basic rate tax of 35% on interest earned. Yikes.

> **"FOR THOSE OF YOU WHO STILL THINK PENSION PLANS ARE A BUSTED FLUSH YOU ARE MISSING A TRICK."**

Their individual tax computations which they'd filed away without studying showed the true picture. Dave paid 98% tax on the margin. Ron, having the advantage of married man's allowance, was *only* taxed at 93%. It's not hard to imagine how Dave felt when he realised that he earned in theory 0.2% after tax on his interest, but in practice including inflation he'd actually lost 25.8% – in a year. Ouch.

Further bad news for the "rich" was the introduction in 1975 of Capital Transfer Tax. Under this new tax, lifetime or on-death transfers accumulating to above £15,000 were subject to tax up to 75%. Not content with such penal tax rates the then government thought of introducing a Wealth Tax of 1% per annum in 1974. Fortunately it didn't happen but I see Mr Corbyn is said to be planning to put that right when he gets the chance.

So was it only the "rich" who suffered high taxes? Sadly not. At the time, ordinary savers were penalised too. My dad was a bricklayer working long hours as a basic rate taxpayer. My mum worked in a local law practice. She was a saver as many in that generation were. She saved all her net income in a Building Society account. But because a wife's unearned income was taxed as the husband's until 1990, he paid 50% tax on her BS interest. Yes, really! So be aware. Tax rises will hit more folks than you'd imagine.

So what can you do to minimise the impact of higher taxes?

Well the obvious thing to do if you've enough wealth and income is you're still free to leave the country. The uber-wealthy may choose Monaco, Switzerland or the Channel Islands. For the rest of us maybe Portugal's a decent bet these days. Ten years tax free, I hear, with sunshine and golf thrown in. The Scots may be attracted to the Isle of Man: low income taxes, no capital taxation alive or dead. OK, it rains there. But it's just like home with less tax and more windy days. No midges then. Sounds idyllic.

But for most of us who prefer to stay put there's still action to take that will probably shelter you until the proverbial hits the fan and tax rates fall again. As they will. Eventually.

Remember what Professor Cecil Northcote Parkinson said about tax: the UK tax system is designed to tax income when you're living and capital when you die. So it's a worthwhile idea to reverse them: create capital when you're around and leave income when you pop your clogs. He said that all of 50 years ago and while much has changed, the principle still works.

For those of you who still think Pension plans are a busted flush you are missing a trick. You can shelter high-taxed income in a plan protected by a simple trust, rolling up free of capital gains tax, and well able to provide tax free or low tax income or lump sums whether you're alive or otherwise. And you're free to choose international funds inside your plan to protect against any run on sterling. This is an increasingly complex area. Go see a specialist and get advice now.

And there are opportunities to shelter savings for husbands and wives and those in civil partnerships nowadays that weren't available years ago. They can choose how to receive unearned income, and split taxable gains so as to pay less tax or even reduce to zero. I understand that capital gains annual exemptions are still significantly under-utilised – it's madness – as are opportunities to swap chargeable assets between each other to save tax. I still meet couples where one pays no tax, the other pays at 45% and unearned income is received by the taxpayer. Arrgghh!

ISAs are especially effective now, and no doubt will be even more useful in a higher tax regime. Goodness knows why savers don't fill their boots with them. That's non-Cash ISAs, naturally. There's no personal income tax on unlimited "income" taken, and no Capital Gains Tax whatever. And when your spouse or civil partner dies, their portfolio can be transferred to you to enjoy continued tax freedom – a no-brainer.

Of course, similar tax freedoms exist with investments in Venture Capital Trusts, Enterprise Investment Schemes and the like, with an added benefit of tax relief. But it's the long-term benefit of tax-free income for life and beyond that appeals to me – and to clients.

Then there's the long forgotten and often misunderstood tax plan par excellence if you've used up the various opportunities spelled out above: the Investment Bond, Onshore and Offshore.

Like private pension plans these tax effective "vehicles" came under criticism for high costs, especially in the bad old days of commission. Personal finance journalists took great delight knocking these lump sum investment plans writing about the rip-off costs associated with them, or complaining of their crap returns in the halcyon days of With Profit Bonds.

But as I often pointed out, costs or commission levels were not obligatory, and you could easily hold good investment funds inside the structure. As they say, GIGO – garbage in garbage out!

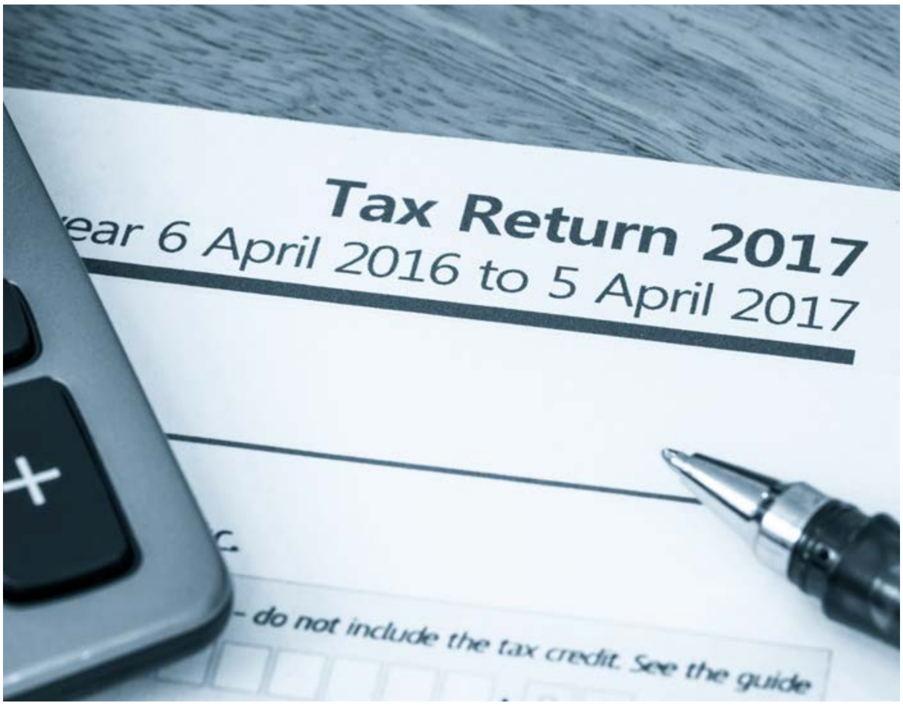
What's the tax advantage? In times of high taxation you can invest unlimited chunks of capital in these bonds, roll up your gains/profits free from high taxation, draw an "income" without incurring income tax, and encash effectively once tax rates fall again. They were a very effective shelter from the high taxes in the 1970s until rates declined a few years back, and could be a secret weapon for long-term asset-rich investors again. But do watch. There's no need to be ripped off.

Variations can be useful for UK residents intending eventually to live abroad, and especially so for those wishing to gift assets to younger generations who wish to avoid increased tax on Trusts.

"ISAs ARE ESPECIALLY EFFECTIVE NOW, AND NO DOUBT WILL BE EVEN MORE USEFUL IN A HIGHER TAX REGIME."

Finally, let me offer some romantic tax planning advice to those co-habiting: get hitched or end up being stitched. HMRC loves you baby.

And for all readers, go take advice. And don't hang about.



About Alan

Alan Steel rose to prominence in the financial sector after being the first person to put pen to paper to accuse Equitable Life of rampant mis-selling. A true champion of the ordinary saver/investor, Alan founded Alan Steel Asset Management in 1975, and now has over £1 billion under management. Visit the company website at www.alansteel.com.

This is the personal view of Alan and is not advice. Readers should take personalised independent advice on such matters.

BY FILIPE R. COSTA

HOW TO INVEST LIKE...

KENNETH FISHER

THE KING OF THE PRICE-TO-SALES RATIO

"Price Sales Ratios (PSRs) are the most powerful single valuation method with which I am familiar. They are not well known, less well understood, and seldom used within Wall Street. They work much, much better than price-earnings ratios. They are an almost perfect measure of popularity."

—Kenneth L. Fisher in *"Super Stocks"*

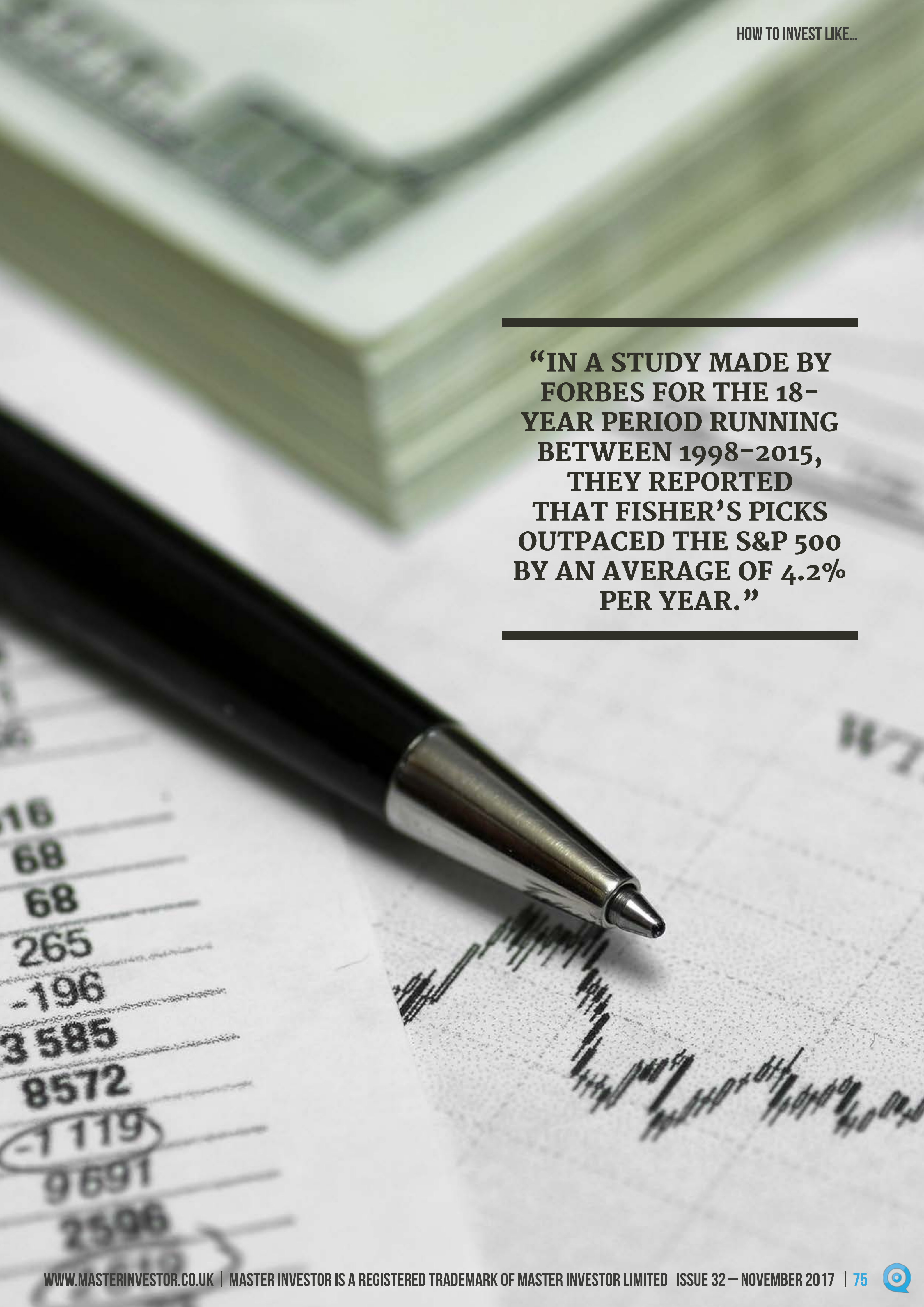
Adding value to growth

While value investing digs for statistical bargains that can sometimes deliver 20-30%, a well selected growth stock can appreciate "hundreds of percent each decade", notes Philip Fisher (issue 19). But if it is true that growth strategies can often outperform value strategies, it is also true that adding some kinds of value proxies to growth strategies may work even better. James O'Shaughnessy (issue 31) gives a good example of how to mix a value proxy in a growth strategy. After trying with every potential combination of accounting ratios, he concluded that the price-to-sales ratio is the best single measure for capturing value. He believes that using this ratio in a growth strategy assures an investor is not entering a position too late and overpaying for growth potential. O'Shaughnessy credits Kenneth Fisher as being the first to use such a ratio in a systematic way.

From Forestry to equities

When Kenneth Fisher went to the Humboldt State University, his passion was not the investment world or economics; he went there to study forestry. But family pressures led him to graduate in economics. After all, his father, Philip Fisher, is also known as "the father of growth investing" and no doubt had a major influence on Fisher's future.

At first, Fisher started working with his father, learning everything about growth investing. But a tough professional relationship with his father quickly put him under his own direction. In 1979, with just $250, he started his firm Fisher Investments, which was incorporated in 1986. He served as chief executive until July 2016 and



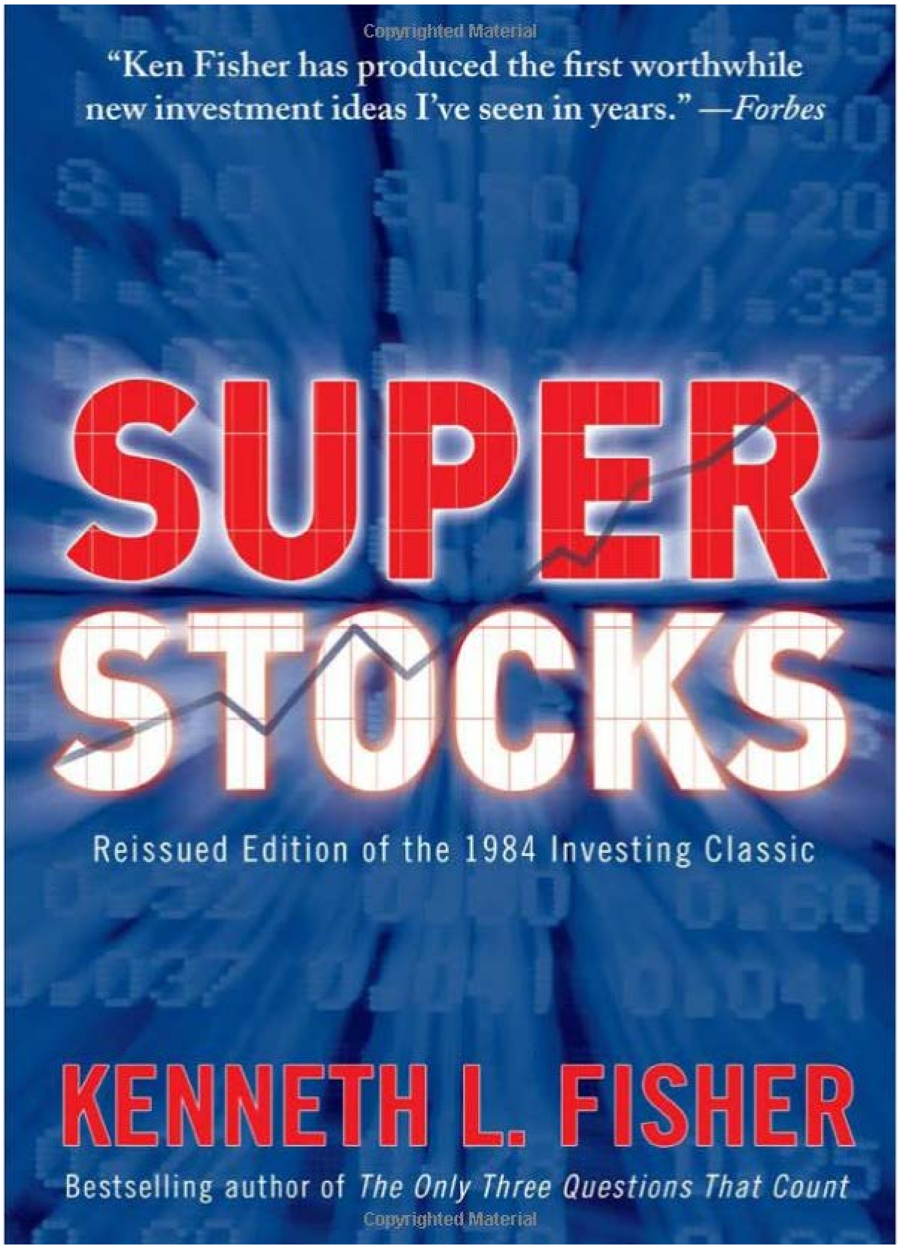
"IN A STUDY MADE BY FORBES FOR THE 18-YEAR PERIOD RUNNING BETWEEN 1998-2015, THEY REPORTED THAT FISHER'S PICKS OUTPACED THE S&P 500 BY AN AVERAGE OF 4.2% PER YEAR."

"BEING A REBEL BY NATURE, FISHER NEVER FOLLOWED THE HERD IN INVESTMENT OR IN LIFE. HE COULD HAVE LOCATED HIS BUSINESS IN MANHATTAN AS MOST OTHERS DO, BUT HE PREFERRED TO ESTABLISH CAMP IN A REMOTE LOCATION, NEXT TO A LUSH FOREST PRESERVE, IN ISOLATION FROM THE INVESTMENT WORLD."

remains active as executive chairman and co-chief investment officer. Over 38 years the business has grown to become one of the largest independent money managers, now managing over $90 billion in assets.

Being a rebel by nature, Fisher never followed the herd in investment or in life. He could have located his business in Manhattan as most others do, but he preferred to establish camp in a remote location, next to a lush forest preserve, in isolation from the investment world. "In the financial world, people have a tremendous tendency to think all the same things that everyone else thinks", observes Fisher. Only by isolating himself from the rest of the group could he build his own professional and corporate identity.

Fisher has written 11 books about his investment strategies. First published in 1984, *Super Stocks* became the most well known. In it, he explains his theories on the importance of the price-to-sales ratio and other measures that, at the time, were pretty much overlooked and out of use in the investment community. In 2006, when Fisher published *The Only Three Questions That Count*, he acknowledged that the price-to-sales ratio has risen to become a widely used indicator, and as such is less useful as a tool to spot undervalued equities. But the track record attained by those following Fisher's strategy, the decision to republish "Super Stocks" in 2007, and the continuous reliance of O'Shaughnessy's strategy on the price-to-sales ratio are all proof the ratio is not dead yet.



Fisher has been writing the column "Portfolio Strategy" at Forbes continuously from 1984 to 2017, the longest ever at the magazine. In a study made by Forbes for the 18-year period running between 1998-2015, they reported that Fisher's picks outpaced the S&P 500 by an average of 4.2% per year, after taking into account hypothetical brokerage fees.

A new way to value equities

At the time Fisher was writing "Super Stocks", most investors didn't know about price-to-sales ratios, or they just ignored such figures as a valuation

"'THE MOST PROFITABLE COMMON STOCK INVESTMENTS COME IN THE FORM OF YOUNG, RAPIDLY GROWING COMPANIES THAT ARE CURRENTLY OUT OF FAVOUR.'"

tool. Earnings was the key input in any valuation model, particularly with regard to price to earnings, which gives an idea of how much profit an investor is getting for what he is paying. But Fisher wasn't happy with using earnings in a price ratio because he thought the figure to be too volatile. Earnings can fluctuate greatly from period to period. There is a large margin for earnings management, as accounting decisions may turn a quarter's loss into a profit at the expense of the following quarter. At the same time, investment decisions that expand the company's ability to make future profits are a drag on present profits. If using a price-to-earnings ratio to value the business, such decisions would make the company look overvalued in comparison with a similar company with no investment expenditure.

Like his father, Fisher wasn't looking for a statistical bargain but for a super stock, one "which increase[s] 3 to 10 times in value in three to five years from its initial price". In order to find these "super companies" that have the potential to rise a lot more than the market, he had to find a measure of value other than earnings. He found that it is common to observe severe earnings reversals in a growth company. But a substantial sales decline is rare. The solution to capture value is to look at the price-to-sales ratio (PSR), which he defined as the ratio of the total price of a company's stock (market value of equity) to the total sales the company generates.

"The most profitable common stock investments come in the form of young, rapidly growing companies that are currently out of favour", Fisher claims. It is almost impossible to get in the stock of a continuously growing company at a moderate price. Investors tend to form unrealistic expectations about companies that have strong periods of early growth. But almost no company is able to grow forever without going through some setback. When that happens, the company experiences a "glitch", which is the best opportunity to buy its stock.

In the early stages of the product cycle, sales and profits soar and prices rise even more rapidly as investors become too optimistic and form unrealistic expectations. But, as a product matures, the competition faced by the company increases and the profit margin tends to decline. Even when sales are kept at the same levels as before, profits may drop substantially due to the loss of profit margin. If management is successful in introducing new products in time, the stock price may just continue rising. But, most of the time, that's not the case with growth companies. They often suffer a "glitch" that impacts profits negatively. Investors turn pessimistic, abandoning their earlier lofty projections. Often they even change their opinions about the management's ability to introduce new products. Price then tumbles, as investors correct their expectations. But Fisher believes that the "glitch" occurs in most young, rapidly growing companies at some point in their evolution. Good management, even if not reacting in time to avoid the loss of profit margin, would learn from past mistakes. The "glitch" would then represent the best opportunity to purchase a growth stock. It's an opportunity to reap profits from stock price fluctuation derived from overreaction, without having to wait for all the growth to materialise.

The best way to find these opportunities is by using the PSR. While the "glitch" may have a huge impact on earnings, often the impact in sales is much less pronounced. Even in periods when a company experiences a decline in profit margins, sales remain stable. When this happens, and because investors concentrate their valuation efforts on earnings, the stock price drops. While the price-to-earnings ratio may very well remain unchanged after the price decline, the PSR declines. Finding stocks with a PSR below a certain level is therefore key to Fisher's strategy.

Of course, finding a company with a low PSR isn't enough in isolation. In general, Fisher expects the "glitch" to be a good opportunity to purchase stock, provided that a company has good growth potential and good management. When that's the case, profits and prices should begin to rise again in the near future. But to increase the odds of that happening, an investor must impose other checks before jumping in.

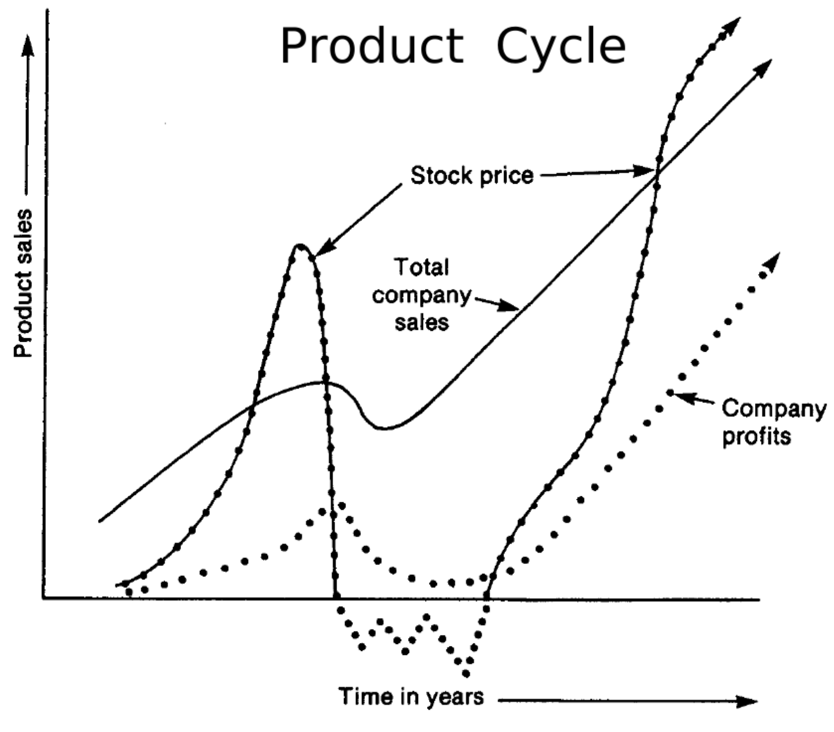


Illustration 1–15

Source: "Super Stocks", 2007

"FISHER ALWAYS LOVES TO LOOK WHERE OTHERS WON'T. THE PRICE-TO-RESEARCH RATIO (PRR) IS ONE OF THOSE OVERLOOKED RATIOS THAT CAPTURED FISHER'S ATTENTION."

Developing a strategy with the PSR

Fisher developed a largely quantifiable strategy in his book *Super Stocks*. Having been published more than 30 years ago, the book was re-edited in 2007 and the strategy tested extensively. Validea tracks a portfolio built using Fisher's strategy, which is reported to have returned 413% since 2003, outperforming the market by 256%. While Fisher has tweaked his initial strategy over time and also added some more subjective criteria, we can concentrate here on the quantifiable part of his strategy.

1. **Use the price-to-sales (PSR) ratio to capture value**

The PSR "measures popularity (price) relative to business size (sales)". When the ratio drops, and because sales is a relatively stable variable, it must be due to a decline in popularity, which is likely to revert over time.

To measure the PSR, investors should divide the total market value of a company's outstanding shares by the last 12-month sales figure. According to Fisher, investors should act in the following way, depending on the value of PSR:

- If PSR ≤ 0.75 – Buy aggressively, because these are super stocks;
- If 0.75 < PSR ≤ 1.5 – Buy, because stocks are still good values;
- If PSR > 1.5 – Don't buy in this range, but keep what is already owned;
- If PSR > 3 – At this level, it's time to sell.

The above criteria are used for non-cyclical stocks. For cyclical stocks, Fisher believes investors should look for PSR values below 0.8, with those below 0.4 being the best.

The PSR is the first check to be done on data. When an investor can't find sufficiently low PSRs, he shouldn't consider buying any stocks at all. When there are low PSRs, some other checks need to be implemented. Terrible companies may have low PSRs simply because investors know they're headed for financial ruin. A firm should possess other strong fundamentals like high profit margins, low debt ratios, good earnings growth and enough cash flow to finance its activities.

2. **Be careful with debt**

The less debt a company carries, the less risk for investors. Debt is a way of financing corporate investments, but when it runs too high it may push the company out of business during a downturn. Fisher selects only companies where:

- Debt-to-Equity ≤ 0.4 – Total debt should not surpass 40% of the company's equity value.

3. **Take a look at the price-to-research ratio**

Fisher always loves to look where others won't. The price-to-research ratio (PRR) is one of those overlooked ratios that captured Fisher's attention. For him, research and development (R&D) is a commodity, which is of high importance in medical and technology firms. The PRR is calculated by dividing a company's market value by its last 12 months' worth of R&D expenditures. Measuring how much investors value research at these firms is a measure of how cheap or expensive the company's stock is.

While Fisher doesn't look at PRR as an excluding criterion, he is comfortable when it is below 15. The procedure is as follows:

- If PRR < 5 – The market is undervaluing research. This is the best case scenario. Companies inside this range are very likely to be acquired by larger companies;
- 5 ≤ PRR ≤ 10 – Research is still being valued deficiently;
- 10 < PRR ≤ 15 – When at these levels, the value is borderline;
- PRR > 15 – Investors should avoid medical and technology companies with PRR above 15.

4. **Make sure there is long-term growth**

A growth strategy is all about capturing companies with growth potential. Fisher looks for a "glitch", which is often captured by a low PRR. But growth prospects should always exist; otherwise the strategy doesn't make sense. To capture this reality, he imposes that:

- Inflation-adjusted long-term EPS growth ≥ 15% – Earnings should be growing at an average annual pace of 15%, after adjusting for inflation.

5. **Make sure there is free cash flow available to finance investment internally**

Cash is and will always be king for companies to finance their activities. While Fisher is not too restrictive here, he is comfortable when:

- Free cash flow per share ≥ 0.

6. **Make sure there is enough profit margin**

Like sales, and unlike earnings, profit margins are at the beginning of the business process. Fisher says the profit margin lies within the "causes" of the business, as opposed to earnings, which are a "consequence". He believes that in order for investors to get a margin of safety they should look at companies with:

- 3-year average net profit margin ≥ 5%

Fisher looks for companies with low PSR, low debt and, if possible, low PRR. Companies passing this selection may be of interest for an investment. The following steps require assuring these companies are growing, generating enough cash flows to finance their activities and generating enough profit margins to weather any setbacks.

7

KENNETH FISHER'S STRATEGY CARD

1. **MARKET CAPITALISATION**
Market capitalisation should be above £200 million.

2. **PRICE-TO-SALES RATIO**
PSR should preferably be below 0.75 and should not surpass 1.5.

3. **DEBT-TO-EQUITY RATIO**
Debt-to-equity ratio should not surpass 0.4.

4. **PRICE-TO-RESEARCH RATIO**
For medical and technology companies, PRR should not surpass 15.

5. **EPS GROWTH**
Average 5-year inflation-adjusted EPS growth should be at least equal to 15%.

6. **FREE CASH FLOW**
Trailing 12-month free cash flow per share should be positive.

7. **PROFIT MARGIN**
3-year average after-tax profit margin should be at least equal to 5%.

STRATEGY CARD INSPIRED IN KENNETH L. FISHER'S STRATEGY EXPLAINED IN "SUPER STOCKS"

A simple implementation of Fisher's strategy

As long as the main idea behind the strategy is preserved, the final strategy may be tweaked and adapted in order to fit data availability and/or investors' needs. Some minimum market capitalisation should always be imposed to avoid infrequent trading. Regarding the price-to-sales ratio, the best approach is to impose an upper limit and to rank all stocks from lowest to highest. After filtering stocks for all other criteria, investors may impose a more restrictive threshold on the price-to-sales ratio as desired/needed, and also separate non-cyclical from cyclical stocks.

To get a shortlist of growth stocks, let's implement the following filters on London Stock Exchange stocks:

- Market Capitalisation ≥ £200 million
- Price-to-sales ratio ≤ 1.5
- Debt-to-equity ratio ≤ 0.4
- Average 5-year inflation-adjusted EPS growth ≥ 15%
- Trailing 12-month free cash-flow per share ≥ 0
- 3-year average pre-tax profit margin ≥ 5%

The resulting list delivers 17 buy candidates (see table).

When implementing Fisher's price-to-research ratio, we can get a list of healthcare and technology companies ranked by this ratio from lowest to highest. Besides being helpful with the main Fisher strategy, the price-to-research ratio may also be of use to select a list of companies with undervalued research & development activities. Companies with very low ratios may be takeover targets.

Challenging Perceptions

Kenneth Fisher was one of the first investors to challenge the reliability of valuation ratios using corporate earnings. In his view, earnings are just a consequence and not a cause of the business, while at the same time, they are manageable. Unlike earnings, sales are much more stable over time and a reliable measure of what is really going on at the company. Credited by James O'Shaughnessy as the first to use the

AN APPLICATION OF FISHER'S GROWTH STRATEGY TO UK SHARES

Asset	Sector	Market Cap. (£m)	Price to Sales	Debt to Capital	Inflation-Adj. EPS Growth 5y Avg.	FCF per share	After-tax Profit Margin 3y Avg.
Trinity Mirror PLC	Media	£230.6	0.3	6.3	36.4	20.5	11.2
Halfords Group PLC	General Retailers	£650.5	0.6	18.7	32.1	19.1	5.9
Babcock Int. Group PLC	Support Services	£4157.3	0.9	32.5	52.0	41.0	6.9
Redde PLC	Financial Services	£492.0	1.1	21.7	36.9	14.2	7.5
easyJet PLC	Travel & Leisure	£5225.3	1.1	18.8	104.2	5.0	10.3
BT Group PLC	Fixed Line Telecomm	£26879.5	1.1	37.3	27.6	24.1	10.8
Telford Homes PLC	Hous. Goods & Home Const.	£306.1	1.1	20.6	30.5	18.6	11.6
PageGroup PLC	Support Services	£1509.7	1.2	0.0	19.2	20.2	6.0
WPP Group PLC	Media	£17367.0	1.2	34.9	126.0	98.8	10.2
Ricardo PLC	Support Services	£442.8	1.3	26.3	45.1	6.4	7.3
Senior PLC	Aerospace & Defense	£1171.8	1.3	27.4	17.3	11.4	6.1
William Hill PLC	Travel & Leisure	£2144.0	1.4	35.4	23.7	20.7	11.7
Redrow PLC	Hous. Goods & Home Const.	£2393.5	1.4	8.5	43.9	35.0	14.6
Fuller Smith & Turner PLC	Travel & Leisure	£325.4	1.4	36.9	54.1	40.1	8.8
BASF SE	Chemicals	€83053.5	1.4	25.9	452.4	377.7	7.0
Greggs PLC	Food & Drug Retailers	£1296.3	1.5	0.0	51.3	36.7	6.0
Aggreko PLC	Support Services	£2294.9	1.5	32.2	81.9	11.8	10.8

UK COMPANIES WITH PRICE TO RESEARCH BELOW 15 AND MARKET CAPITALISATION ABOVE £200M

Name	R&D	Market Cap. (£m)	Industry	Price to Research
Spirent Communications PLC	82.7	£559.7	Technology	6.8
Telit Communications PLC	28.3	£216.9	Technology	7.7
Mereo BioPharma Group Ltd	21.4	£220.6	Health Care	10.3
Circassia Pharmaceuticals PLC	27.6	£288.5	Health Care	10.5
Oxford BioMedica PLC	24.3	£275.4	Health Care	11.3
Laird PLC	63	£714.0	Technology	11.3
Puretech Health PLC	22.5	£304.9	Health Care	13.6
Vectura Group PLC	45.6	£679.3	Health Care	14.9

price-to-sales ratio in investment strategies, Fisher gave rise to a few important strategies in investing. First of all, relying on volatile figures to take investment decisions leads to overreaction. Second, any good growth strategy must always include at least one value filter.

By selecting companies with good growth potential, investors have the opportunity to see their portfolio grow with the materialisation of those same opportunities. When selecting a "super company... at a price appropriate to an inferior company", investors are taking the opportunities created from "glitches" that allow them to reap the profits from most of the stock price fluctuation without having to wait for all of the growth to materialise.

About Filipe

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

BY CARL SHAVE

BRICKS & MORTAR

WILL BREXIT CREATE OPPORTUNITY FOR PROPERTY INVESTORS?

It is now well over a year since the referendum in which the British people voted to leave the European Union, and it is probably fair to say that it is an issue that continues to divide both the populace and the political classes. However, despite ongoing dispute over exactly what the impact will be on the UK's economy in both the short and long term, it is undeniable that we have entered a period of considerable uncertainty, and that this is having an effect on many aspects of the economic ecosystem – not least upon the property market. But is it all doom and gloom? Or are there opportunities and potential gains to be made from properly targeted property investment in these uncertain times?

Investment in European property

At a time when Britain is negotiating its exit from the EU, it might be easy to assume that this would cause barriers to be raised in terms of outside investment in British property, and UK investment elsewhere in the EU. If anything, the opposite seems to be the case. The dip in the value of the pound following the referendum has seen a corresponding increase in foreign investment in UK property, while a recent survey by real estate investment platform BrickVest suggests that European commercial property, in particular, remains attractive to some investors.

The BrickVest study found that 40% of institutional investors intend to increase their level of investment in European commercial real estate over the next year. The study showed that a similar number (39%) of investors thought that Brexit would actually increase the amount of investment opportunities in European commercial property; this compared with just 22% who believe that investment opportunities would reduce.

"40% OF INSTITUTIONAL INVESTORS INTEND TO INCREASE THEIR LEVEL OF INVESTMENT IN EUROPEAN COMMERCIAL REAL ESTATE OVER THE NEXT YEAR."

BrickVest's report also highlighted some of the other challenges investors see having an impact over the next 12 months. While 60% did say they expect Brexit uncertainty to present challenges in the coming year, 46% also felt that political uncertainty within the UK would have an impact. Other contenders for the biggest challenges included low global economic growth (36%), the potential of rising interest rates (31%), rising inflation (25%) and increased regulation (22%).

Commenting on the survey's findings, BrickVest's CEO Emmanuel Lumineau said: "Clearly Brexit has created some uncertainties and will certainly pres-

"UNDERSUPPLY OF HOUSING STOCK AROUND AREAS SUCH AS BIRMINGHAM, BRISTOL AND MANCHESTER HAVE CONTRIBUTED TO LOCALISED PROPERTY INVESTMENT HOTSPOTS."

ent challenges for institutional real estate investors – however our research shows that European investors believe investment opportunities could increase. Since the vote in June last year, we've seen a huge increase in the number of investors joining the platform ... It is clear that many of our users want to take advantage of the vote."

Prospects for the UK residential property market

The actual impact that Brexit might have on the UK residential property market remains muddy. Uncertainty in the immediate aftermath of the referendum saw the total number of transactions down by about 60%. However, this impact seems to have been no more than an initial short-term shock; transaction levels were more or less back to normal by the end of the year. Overall, the residential housing market has been displaying the resilience which has long made it such an attractive prospect to many investors.

What has been clear, however, is that the property market across the UK is far from homogeneous. According to the latest house price index from Rightmove, some parts of the UK have seen reasonably strong house price growth in the past year (for example, an average increase of 5.5% in the East Midlands), while others have shown signs of stagnation (the South East has seen prices increase by just 1.1% over the same period). A number of issues are feeding into this, including demand far outstripping supply in many regions. Undersupply of housing stock around areas such as Birmingham, Bristol and Manchester have contributed to localised property investment hotspots.

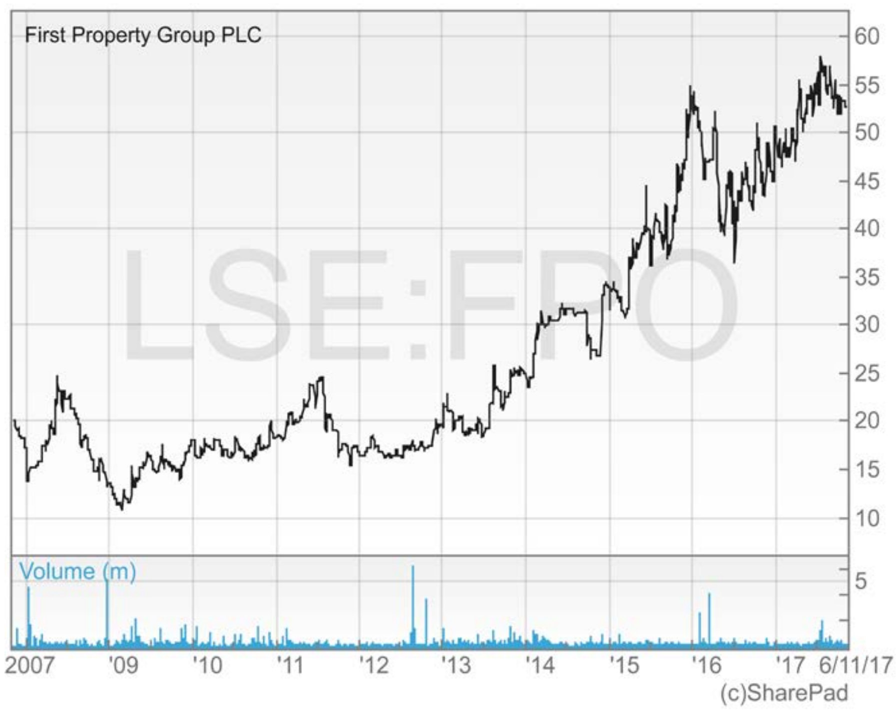
Prices in London's complex residential housing market are displaying similar disparities and shifts. As a whole, the average house price across Greater London fell 3.2% in the year to September 2017, but a closer look reveals a picture of more extreme positive and negative changes in various parts of the city. For example, in the 12 months to September 2017 prices in Hackney rose by 9.5% to an average of £722,471, while in Kensington and Chelsea the average house price dropped 10.2% to £1,845,692. Pricing bubbles have long been an aspect of London's volatile housing market, and in periods of economic uncertainty it is perhaps unremarkable that we should be seeing some quite sharp price corrections.

In the longer term, house prices across the UK may be influenced by whatever deal the Brexit negotiators are able to strike on immigration and free movement. This will not just have a direct impact on the population level and demographics of the UK, but also on housing and rental demand. There is also the fact that housebuilding businesses in the UK are currently extremely reliant on skilled labour from elsewhere in the EU. Any restrictions on free movement post-Brexit could make it difficult for the industry to meet the ever-increasing demand for more housing, and particularly affordable housing.

For those considering investing in UK residential property at the moment it is also important to keep a close eye on government policies around property ownership. Recent changes in stamp duty and taxation have made residential buy-to-let property ownership a less attractive prospect than it has been for some years, with some landlords either getting out of the game entirely or moving to a limited company model to minimise tax liabilities. Potential future changes to the current Help to Buy schemes could also cause shifts in property markets.

Potential bargains in the UK commercial property market

Some investors are taking advantage of a post-referendum slowdown in the UK commercial property market by purchasing offices and other commercial spaces at bargain prices. One property fund – **First Property (LON:FPO)** – is backed by eight institutional investors and recently raised £182 million to invest in commercial property in the UK. This most recent round of fundraising brings the total amount invested in First Property since last year's referendum to £250 million.



"THIS COULD REPRESENT A POSITIVE PERIOD FOR CANNY INVESTORS TO SINK MONEY INTO PROPERTY AT BARGAIN BASEMENT PRICES."

These investment opportunities only exist now thanks to a substantial slump in the commercial property market immediately following the Brexit vote. In the aftermath of the referendum, a number of investment firms suspended all trading in their property funds as investors sought to pull their investments more quickly than it was possible to liquidate the corresponding property assets. Overall, £15 billion in assets was frozen across at least nine different investment firms. Subsequent pressure to quickly liquidate the property assets has contributed to driving down prices in the commercial property sector in the UK.

It is worth noting that this was against a backdrop in which overseas commercial property investment in the UK had already slumped in anticipation of a vote to leave the EU. London's commercial property market was hit particularly hard; in April 2016 – two months before the referendum – a survey of international investors by the Royal Institution of Chartered Surveyors revealed that 80% of respondents said Brexit uncertainty had curtailed overseas investment in the capital.

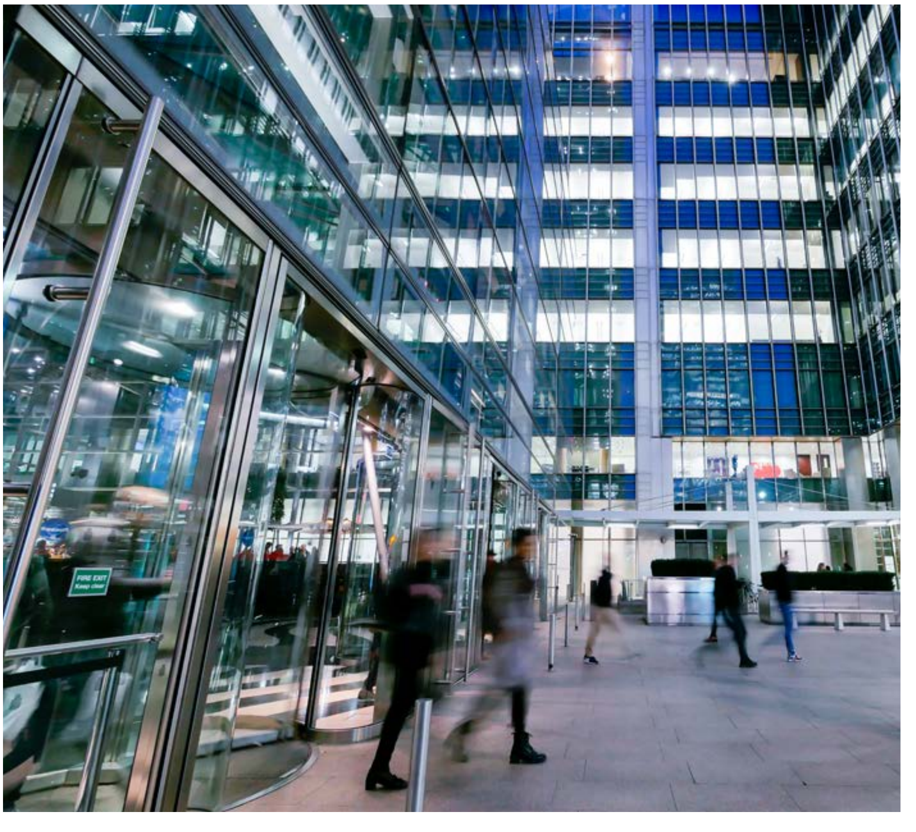
That said, overseas investment in UK commercial property has bounced back over the past year, with investors taking advantage of the same market conditions as funds like First Property – but with added buying power resulting from a weakened pound. According to a study released in July by real estate consultancy Cushman & Wakefield, overseas investment in both commercial and residential property in London was up 18.5% over the previous year, with Asia Pacific investment at its highest for five years and accounting for almost half of all transactions.

Think long term

Despite uncertainties currently affecting many segments of the market, historically there has never been a five-year period over which UK property has failed to increase in value. Property in general is usually considered a longer-term investment, but in the shadow of Brexit how long might investors expect to have to wait before seeing real returns on property?

That is a difficult question to answer. For all the predictions – both positive and negative – about the ultimate effects of leaving the EU, the fact is that the British economy is likely to remain mired in uncertainty for at least the next two years, and possibly longer. The UK is currently scheduled to exit the EU on 29 March 2019, and there is every chance that the actual act of leaving could trigger another wave of shocks to the property market, the value of the pound and the wider economy, similar to those seen immediately after the referendum. Inflation and the very real possibility of Bank of England base rate rises will also likely play their part.

This could represent a positive period for canny investors to sink money into property at bargain basement prices, but the key to successful investment in such turbulent times may well be to think longer term, while also keeping a close eye on the performance of various segments of both the residential and commercial property markets, as well as on variations in property price performance in different geographical regions.



About Carl

Carl is a seasoned commentator on financial matters and one of the minds behind Just Mortgage Brokers. He has worked in the mortgage industry for over 20 years, first working for a high street lender, before departing to set up and run his own branch of mortgage brokers back in 2002.

OCTOBER 2017

YOUR VIEW

We invite reader comments and discussions on our social media channels as well as in the comments section below each blog article. Readers can post using their real name or a pseudonym.

Every month, we pick some of the most interesting comments and exchanges, and print them in our magazine.

Thanks to the calibre of our readership, we get some incredibly insightful, thought-provoking and informative comments and emails. By passing some of them on, we hope that readers are also able to connect and learn from one another – and maybe catch up in person at one of the events we organise!

All comments reflect the individual reader's view. They have been edited for grammar, spelling and punctuation.

Why you should make use of pensions and ISAs

Nick Sudbury explains the income and capital gains tax advantages of investing via pensions and ISAs.

*"It's a shame Nick Sudbury makes no mention of the highly punitive Pension Lifetime Allowance imposed by the Government and cut heavily in recent Budgets. The Lifetime Allowance states that if your total pension assets – from *all* pensions, not just personal ones – exceed £1 million, you are taxed at 55% on any lump-sum withdrawals or 25% on regular income withdrawals, on top of regular income tax. A £1 million total pension value may sound like a lot, but many people with a SIPP and a few workplace pensions could easily exceed this figure, despite never having been a higher-rate taxpayer in their working lives.*

Pension assets are periodically re-assessed too by HMRC, so people using income drawdown from a SIPP could be caught after retirement as well at their official retirement date, even if they take the absolute maximum 25% lump sum out in cash. For example, if someone had no other pensions and a SIPP of £600K invested in growth equities, this might generate a modest income drawdown of £12K p.a. if the total dividend income is 2%. However the total fund value, after five good years with returns averaging 15%, is going to be well over £1 million, yet still producing only £20K in dividends, and one's personal marginal rate of tax on any further withdrawals will shoot up.

Occupational pensions are valued at twenty times the annual pension payout, so if you had four funds from different past jobs producing, say, £5K each, that counts as £400K in assets. Add a SIPP of a few £100K on top of that, and it won't take much to tip you over the £1 million threshold.

The Government claims it aims to increase the Lifetime Allowance by inflation in future, but this can be changed at the flick of a Chancellor's pen and as arbitrarily as the reductions in the Allowance in recent years. Inflation is also currently much lower than investment returns, so does little to protect citizens really.

This arbitrary threshold will push people to invest for retirement in ISAs as well as pensions, and force them to keep assessing whether they have "too much" in pension savings, which in a sensible tax system that encouraged saving should never be an issue. People with larger occupational schemes are also going to invest in property as an alternative to pensions, with the aim of giving this away to their descendents well before their likely age of death, or else their estates will be hit by hefty IHT and CGT taxes."

- Tony Atkins

"The points you make about the recent reduction in the Pension Lifetime Allowance are perfectly valid and reflect the direction of political travel. There could also be further cuts, especially if Labour get back into government. The only point I would make is that of all the millions of people paying into a pension relatively few will be affected by the cap. For example, according to figures from the government, only 17% of those aged between 55 and 64 have pension assets of more than £500,000. For most people the tax relief means that a pension is the best way to save for their retirement."

- Nick Sudbury (in reply to Tony Atkins)

Europe on the brink

The Brexit talks will run into the sand soon. That may be a problem for Britain. But, for Europe, Brexit is only one of many problems.

"I did not vote Leave because of immigration – we allow in more immigrants from non-EU countries, these latter including a higher proportion of unskilled people. As with the writer I consider the EU inherently flawed and undemocratic; but that its future may (may) lie in closer integration, with an EU Treasury and coordinated tax & spend policies. It is just that I do not want the UK to be part of it.

However, all this leaves unanswered the practical question: What should the UK do now? No-one seems to have an answer. As such, do we have 18 months (or 42 months) to prepare for a very 'hard Brexit'?"

- Lawman

"Lawman – you have asked the overwhelming question. What the UK government should do immediately is to make their objectives crystal clear domestically and abroad, as they will certainly be blamed by the Europeans and by the Opposition for having screwed up when the talks fail. Unfortunately,the present government does not have the political capital to withstand the political crisis that will ensue and it is probably too late now to rebuild that capital. Of course, the Europeans know this. UK PLC should prepare for what is going to happen – but where are the trainee customs officers and HMRC tariff collectors...? I will outline soon numerous scenarios of that could unfold...Like you, I still believe that the UK and the EU would have parted the ways sooner or later – and that the medium-term outside the EU offers exciting opportunities – but that the short-term is likely to be extremely turbulent (as I have tried to warn). We shall have to forge new closer relationships within the Anglosphere/CANZUK (Canada, Australia, New Zealand and UK – not the USA) – something that is not being articulated sufficiently by Brexiteers. None of these issues are analysed in an adult manner by the mainstream media – which is another reason why this site exists. Thanks for your interesting comments – not the first."

- Victor Hill (in reply to Lawman)

The US Markets – Trick or Treat?

As Hallowe'en approaches, Americans are tricking and treating. But what is the US stock market doing? Victor Hill investigates.

"Not up to your usual standard – you seem to have been infected by the anti-Trump MSM. Perhaps you should take the time to understand what is actually happening over there. You say Bannon has turned on Trump. Here he is at the Hudson Institute today – does it sound like he has turned on him? http://www.breitbart.com/big-government/2017/10/23/watch-steve-bannon-discusses-qatar-iran-muslim-brotherhood"

- Ben

"Reading this article it seems the only way out for Trump is for the defence echelon to engineer a major geopolitical event involving North Korea or Iran, which would shift the media focus medium term. This assertive application of US military power would also provide a tailwind for the next election.

The anti-Trump talk is just loud cynical chatter. To paraphrase the article, CNN and the BBC have been using their energy, of course, refighting the last Presidential election campaign by demonising Trump. It would be hilarious if he's voted in again on the back of the 'economy, stupid', making said fake news outlets look silly all over again.

Voters can think for themselves despite media doctrine, as we saw with Brexit and Trump."

- Jon

BY RICHARD GILL, CFA

BOOK REVIEW

CONSCIOUS INVESTING

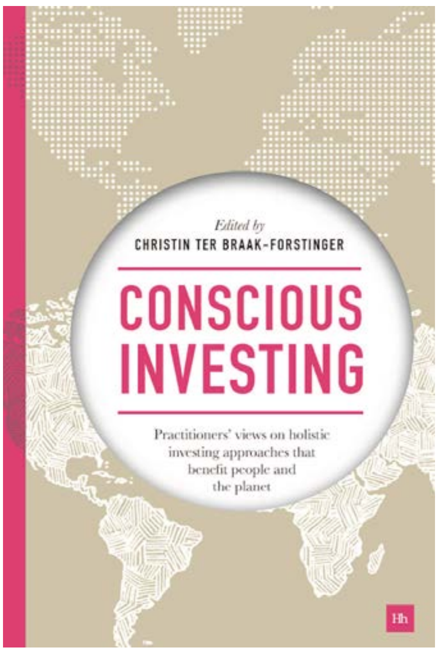
PRACTITIONERS' VIEWS ON HOLISTIC INVESTING APPROACHES THAT BENEFIT PEOPLE AND THE PLANET

EDITED BY CHRISTIN TER BRAAK-FORSTINGER

Investors, bankers, and the finance community at large are not stereotypically known for thinking of others when going about their business. Quite the opposite in fact. After all, much of traditional economic theory is based on the concept of *homo economicus*, an individual who shows rational self-interest, attempting to maximise their own utility as a consumer and profit as a producer. So associating the word "conscious" with investing could seem to be somewhat of an oxymoron at first glance.

But conscious investing is a growing movement in the finance world, being closely linked to the concept of impact investing. While socially responsible investing funds have been around for decades, a new wave of investors (millennials in particular) have been demanding more of their financial advisors when it comes to making ethical investment decisions. Investing consciously is about much more than simply avoiding so called "sin stocks" (tobacco, alcohol, arms etc.), which is a strategy many socially responsible funds apply; it is also about making a positive impact with your investments upon issues which you feel strongly about.

When investors make a conscious investment decision they aren't solely thinking about how much money they can make. Instead, they deliberately think about the wider consequences that their actions will have upon other individuals or society as a whole. Conscious investors see the big picture and understand that their investment decisions are interconnected. They want to do good, minimise any negative effects of their investment, and hopefully make a profit too.



In recent years we have seen the industry driven by a number of new impact investing funds being launched, many of which are available to the retail investor. Large financial institutions, such as BlackRock and Goldman Sachs, have entered the market as investors, with listed companies themselves now increasingly reporting non-financial measures related to social and environmental issues. Here in London, we have the Social Stock Exchange, an exchange dedicated to businesses and investors seeking to achieve a positive social and environmental impact through their activities. Overall, research from Standard Life suggests the total impact investment sector will be worth $1 trillion by 2020, compared to just $60 billion today.

Mindful money, conscious cash

In *Conscious Investing*, edited by Dr Christin ter Braak-Forstinger, readers are provided with a collection of 12 short essays on the conscious investing crusade from a dozen different authors. The core concept running throughout is that capital markets can and should be used as a force for good, with money able to be used to solve a range of humanity's current social and environmental problems, as well as deliver economic gains in the long term. All of the chapters contain details of the authors' own approach to conscious investing, along with personal stories about how their investments have affected people in the real world for good.

Ter Braak-Forstinger is the founder of PVA Advisory, an independent philanthropic advisory firm. Her professional background includes 15 years as a financial lawyer but her passion is rooted in the areas of philanthropy and impact investing. Outside of work she is the co-founder and president of BRAVEAURORA, an NGO that aims to reintegrate orphans and vulnerable children into their extended families, abolish illegal orphanages, and undertakes collaborative community development work in Northern Ghana. She is also a certified yoga teacher.

The first essay in the book, titled *Why my Investments can Save the Planet as well as my Soul*, is contributed by ter Braak-Forstinger herself. Being a keen environmentalist the author uses her chapter to call for reducing pollution and creating a more sustainable global economy, arguing that our planet is the greatest asset we have ever taken for granted. For example, to stop the forecast amount of plastic in the sea overtaking the amount of fish by 2050 she suggests we should consider investing in plastic alternatives as well as preventing plastic from entering the ocean in the first place. By being an active steward of our money as well as our planet ter Braak-Forstinger argues we can become a "double hero".

Along with the environmental theme, another argument running through the book is that acting in a conscious manner need not be done at the expense of investment gain. Many investors currently have the opposite view, with a recent study by Barclays suggesting that just 9% of UK investors have made social impact investments, despite 54% being interested in doing so, some no doubt being put off by a belief that doing good and making money are mutually exclusive.

"ACTING IN A CONSCIOUS MANNER NEED NOT BE DONE AT THE EXPENSE OF INVESTMENT GAIN."

They could be missing out however as a landmark study from Cambridge Associates in 2015 found that 51 private equity and venture capital funds with an impact focus, launched between 1998 and 2010, returned an average of 6.9% per annum to investors up to June 2014. That figure is well within the expected annual returns from stocks in general and was not far behind the 8.1% per annum delivered by 705 non-impact funds looked at in the study. In addition, smaller funds which raised less than $100 million returned an average of 9.5% against 4.5% for similar non-impact entities.

Again considering financial returns, the book warns that investing in some traditional "sin" industries might make you worse off in the long-run. For example – and believe it if you will – a report from global consulting firm Mercer suggests that a 2-4°C change in the climate will see average annual returns from the coal sub-sector fall by between 18% and 74% up until 2050. The effects are expected to be more pronounced over the coming decade, with regulations over carbon emissions harming fossil fuel exploiters.

Put your money where your soul is

As impact investment specialist Uli Grabenwarter says in the foreword, *"... this book is an invitation to think beyond the microcosms of our own prosperity."* However, where ethics is concerned that is not always an easy thing to do.

For example, as a local entrepreneur you might want to invest in a fracking company because its project promises to create hundreds of jobs, boost the economy and provide a much needed source of energy for the country. On the other hand, as a keen conservationist, you might be deterred from parting with your cash because of environmental concerns and the necessity of building a road through a colony of newts.

There is no right answer when it comes to ethics; it is all a matter of personal belief – funnily enough I have never met a CEO of an oil company who believes in man-made global warming. But after reading this book investors will have gained a holistic insight into how they can use their capital to benefit the issues that matter to them, as well as make a profit along the way. Not only might *Conscious Investing* make you a better investor, it might also make you a better person.

About Richard

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

BY TIM PRICE

THE FINAL WORD

THE DEATH OF HEDGE FUNDS HAS BEEN EXAGGERATED — AGAIN

They live in a high-octane world. What they do is risky. They're grotesquely overpaid, have few scruples, and their influence is out of all proportion to their true size. They're fast, extremely short-termist and utterly unregulated. Yes, they're journalists writing about hedge funds.

Speculative features on hedge funds continue to surge in popularity. Once the preserve of rich sophisticates, hedge fund articles have mushroomed from a niche position in boutique publications into blanket coverage across quality newspapers, and also The Daily Mail. Some commentators believe that with such explosive growth in the sector, problems are inevitable.

"These guys are opportunistic," says hedge fund manager Peter Madeupname. "They are constantly on the search for new commissions, and they have very little discipline."

Hedge fund journalists can and do employ a wide variety of clichés. By and large, they engage in high speed, computer-aided jeremiads to take advantage of the gullibility of slower-witted buyers. These strategies have certainly worked in the past: since 2000, column inches devoted to hedge funds have increased by 153% per annum versus minus 78% for pieces on more conventional assets. Is the flood of journalists into this space tantamount to a gold rush? Certainly, hedge fund journalists tend to move in herds and crowd out more traditional commentary.

Recent wild swings in investor pessimism have been attributed in part to the speculative features of hedge fund journalists. Hedge fund journalists have a market impact way beyond their true numbers, mainly because they write so much – some commentators believe they account for half the financial commentary in tabloid publications, and for three-quarters of "turnover", the term used when bored readers rapidly turn over the page in search of something slightly more substantial, grounded in reality or worth reading instead. They often employ hyperbole, a strategy which magnifies the impact of their articles. Some journalists have suggested that hedge fund managers boil babies in acid. Others, that hedge funds represent an unfair challenge to active fund managers, in that they offer the possibility, however slight, of a positive return.

Meanwhile, competition among hedge fund journalists is increasing as more and more speculative pieces are created. There are particular concerns about the way hedge fund journalism is now packaged and sold to retail consumers. Some editors are buying senior pieces which are relatively stable and high quality, but many are buying more junior pieces which are often haphazardly constructed and of dubious worth.

There are now as many as 13,000 critical articles circulating in the marketplace, not all of them commissioned by tabloid editors, compared with just 15 ten years ago. That's making it ever more difficult for hedge fund journalists to find an edge, and forcing them to use ever riskier high speed strategies to get their features into print. In a rumour-driven market beset by supply, some editors are even returning commissioned pieces.

As new hedge fund journalists spring up to fill apparently insatiable retail demand and as competition among

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them increases, the risk of less reputable or just plain untalented hedge fund journalists entering the field rises. As things stand, hedge fund journalists are unregulated. Some commentators suggest that planned regulation of hedge fund journalists simply won't work. In Europe, where there appears to be greater appetite for hedge fund journalistic vehicles, there is still a lack of the necessary skills to analyse them properly. A lot of interest in hedge funds by journalists is deemed to be superficial. Many analysts have also voiced concern at their massively derivative nature.

I first wrote this satirical piece about mainstream press coverage of hedge funds 10 years ago, and standards in journalism haven't improved during the intervening period. The recent decision by Hugh Hendry to close his hedge fund business, Eclectica, garnered less press coverage than one might have expected given his former high profile – at one stage Hugh was a regular on the BBC – but what coverage Eclectica did receive was almost universally, and predictably, hostile. Take this 'analysis' from Ben Chu of The Independent:

"Despite the awful returns and rip-off fees of hedge funds, 4.8 million people in the UK are invested in them through their pension schemes."

At least he didn't prejudge the industry.

The very term 'hedge fund' is now so widely used and abused as to be practically meaningless. Nevertheless, the phrase once meant something, and in many corners of the financial services world, it still does.

"THE VERY TERM 'HEDGE FUND' IS NOW SO WIDELY USED AND ABUSED AS TO BE PRACTICALLY MEANINGLESS."

Alfred Winslow Jones, an American journalist, is widely credited as being the first person to establish a hedge fund, in 1949. Whilst researching an article for Fortune Magazine on fashions in investment management, Jones concluded that he could do a better job himself than the so-called experts. He duly set up an investment partnership and hedged his equity positions by selling short other stocks he did not yet own to protect himself against a falling market. The term 'hedge fund' thus began life as an accurate description of what its manager was doing – essentially hedging his bets.

You can replicate Jones' original strategy with what's called a 'pairs trade'. Let's say you have strong views about the investment merits and demerits of two oil companies – BP and Shell. You feel strongly positive about BP's prospects, and strongly negative about Shell's. So you 'go long' (i.e. buy) one share of BP, and you 'go short' (i.e. sell) one share of Shell. (Because you don't naturally own any Shell stock, you must borrow it from a willing holder so that you can make delivery to the broker you've sold it to. At some point you will have to buy that stock back to cancel out the original short sale. But you can use the proceeds of your short sale of Shell stock for your purchase of BP.)

Your entire portfolio consists of a long position in one share of BP, and a short position in one share of Shell. Nothing else. From this point on, the direction of the overall stock market has no relevance to you. The only thing that matters is the relative performance of BP versus Shell. If BP stock outperforms Shell, you will make money. If Shell outperforms BP, you will lose money. That's it. You now have your own equity 'long short' fund.

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"HEDGE FUND MANAGERS, ESPECIALLY THE GOOD ONES, OFFER THE POTENTIAL TO MAKE MONEY FROM THE FALL. DON'T WRITE THEM OFF JUST YET."

Adrin Shamsudin / Shutterstock.com

Jones' original insight was that by concentrating solely on shares in specific sectors, he could effectively eliminate his broad stock market exposure, and focus his investment analysis only on those sectors he wished to participate in. So the original hedge funds were, by comparison with whole-of-market funds, comparatively low risk.

Jones also used leverage (borrowed money) to enhance his prospective returns (and of course losses). In 1952 he introduced what he called a 'profits incentive fee' of 20 percent of funds under management – i.e. he claimed a 20% share of any profits for the fund. The original characteristics of the Winslow Jones fund – a limited partnership, risk hedging, leverage, and a profit share – remain common characteristics of hedge funds to this day. The only additional common factor is that they are typically domiciled in offshore locations, such as the Cayman Islands, where taxation rates are often lower and regulation is of a distinctly 'lighter touch' variety.

The first hedge fund to loom large in the public consciousness was George Soros' Quantum Fund on Black Wednesday, 16 September 1992. In a desperate attempt to keep the pound sterling in Europe's embryonic exchange-rate mechanism (at what turned out to be an unsustainable exchange rate versus the Deutschemark), the British chancellor, Norman Lamont, in conjunction with the Bank of England, burned through something like £3 billion in an ill-fated defence of the pound. It was as if Lamont spent that afternoon casually throwing schools and hospitals into the North Sea. The beneficiary of the government's ill-conceived largesse was the Hungarian-born Soros, who is believed to have benefited to the tune of $1.1 billion or so.

Soros clearly made his money that day from currency speculation. This is part of a strategy known as 'global macro' – in which managers take wild, buccaneering bets on anything that moves. Since the future is not easily knowable, this is a high stakes game, and many of the managers who practise it get taken out on stretchers before they get to retire.

It should come as no surprise that 'global macro' also happens to be the sector in which Hugh Hendry and Eclectica came unstuck. It is difficult, if not impossible, to continually make profitable macro bets when central banks are the dominant players in the capital markets, and trillions of dollars, pounds and euros are being flushed through the system on the back of QE and an aggressive zero interest rate policy, herding investors towards an ever-narrower universe of stocks perceived to represent otherwise illusory 'growth'.

At some point the marginal investor will come to appreciate that central banks have painted themselves into a corner. Interest rates can't be reduced indefinitely once they reach the so-called 'zero lower bound'. But at the same time interest rates can't be quickly normalised given that they were driven this low to begin with to bail out the banking system and shore up property prices. So we end up with a completely false market with central banks at the wheel. What happens when inflationary fears come to the fore? Or if deflation seems to have the upper hand, how much room for manoeuvre do the world's central banks now possess?

As and when the world's stock and bond markets finally encounter an arguably overdue "correction", most active managers will be destined to follow them down. Hedge fund managers, especially the good ones, offer the potential to make money from the fall. Don't write them off just yet.

About Tim

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

OCTOBER 2017

GLOBAL EQUITIES

Index	Last Month %	YTD %	Proximity to 52w High*
Nikkei 225	8.1	15.0	
NASDAQ 100	4.5	28.0	
Dow Jones	4.3	18.0	
S&P/ASX 200	4.0	4.3	
CAC 40	3.3	13.0	
Euronext 100	3.1	14.0	
DAX Xetra	3.1	15.2	
Hang Seng	2.5	28.0	
S&P 500	2.2	15.0	
FTSE 100	1.6	4.9	
IBEX 35	0.6	11.7	
Bovespa	0.0	23.0	
Russian Trading System	-1.8	-3.0	

COMMODITIES

Commodity	Last Month %	YTD %	Proximity to 52w High*
Cocoa	7.0	-2.2	
Crude oil (Brent)	7.0	6.5	
Sugar (No. 11)	5.6	-24.0	
Crude oil (Light Sweet)	4.9	0.5	
Copper	4.7	25.0	
Palladium	4.6	44.0	
Platinum	0.6	1.5	
Silver	-0.2	4.4	
Cotton	-0.5	-2.6	
Gold	-1.0	10.0	
Coffee	-2.0	-7.1	
Natural Gas	-3.5	-22.0	
Iron Ore	-7.4	-25.0	

FOREX

Pair/Cross	Last Month %	YTD %	Proximity to 52w High*
USD/CAD	3.4	-4.0	
USD/CHF	2.9	-2.0	
EUR/CHF	1.6	8.5	
GBP/AUD	1.5	1.3	
USD/JPY	1.1	-2.8	
EUR/JPY	-0.3	7.7	
EUR/GBP	-0.6	2.9	
GBP/USD	-0.8	7.6	
EUR/USD	-1.4	11.0	
AUD/USD	-2.2	6.3	

CENTRAL BANKS - RATES & MEETINGS

Central Bank	Key Rate	Next	After
BOE	0.25%	Nov 02	Dec 14
ECB	0.00%	Dec 14	Jan 25
FED	1.25%	Dec 13	Jan 27
BOJ	-0.10%	Dec 21	Jan 23
SNB	-0.75%	Dec 14	Mar 22
BOC	1.00%	Dec 06	Jan 17
RBA	1.50%	Nov 07	Dec 05
RBNZ	1.75%	Nov 09	Feb 02
BOS	-0.50%	Dec 19	Feb 13
BON	0.50%	Dec 14	Jan 25

FTSE 350 TOP

Sector	Last Month %	YTD %	Proximity to 52w High*
Millen. & Copt. Hotels	34.0	31.0	
Spire Healthcare Group	32.0	-12.0	
Aldermore Group	31.0	27.0	
Softcat	28.0	82.0	
Just Eat	17.0	34.0	

FTSE 350 BOTTOM

Sector	Last Month %	YTD %	Proximity to 52w High*
IWG	-30.0	-12.0	
ConvaTec Group	-28.0	-16.0	
Pets at Home Group	-18.0	-26.0	
Merlin Entertainments	-15.0	-16.0	
Brown (N) Group	-14.0	35.0	

FTSE 350 SECTORS TOP

Sector	Last Month %	YTD %	Proximity to 52w High*
Software & Comp. Serv.	8.3	25.0	
Oil & Gas Producers	5.8	2.4	
Electronic & Elect. Equip.	5.1	29.0	
Nonlife Insurance	4.6	15.0	
Beverages	4.4	23.0	

FTSE 350 SECTORS BOTTOM

Sector	Last Month %	YTD %	Proximity to 52w High*
Industrial Metals	-9.7	46.0	
Forestry & Paper	-9.2	9.3	
Automobiles & Parts	-8.4	-4.4	
Fixed Line Telecom	-7.4	-27.0	
Gas, Water & Multiutilities	-3.4	-9.8