



MAGAZINE

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AIM DOWN BUT NOT OUT

PLUS...

TWO MAJOR FAULT LINES FOR 2019

WILL THE US'S EVOLVING RELATIONSHIP WITH EUROPE
ACCELERATE THE RISKS OF A US-CHINA CLASH?

WHY ISN'T THE EURO TROUNCING THE POUND?

FORENSIC FOREX - MAJOR CURRENCIES CATCH UP

IMPERIAL BRANDS

YIELD TRAP OR CIGAR BUTT DIVIDEND KING?

FACTOR INVESTING

PREPARE YOUR PORTFOLIO FOR THE NEXT
PHASE OF THE BUSINESS CYCLE



MASTER INVESTOR WOULD LIKE TO THANK OUR 2018 PARTNERS. HAVE A MERRY CHRISTMAS AND A HAPPY NEW YEAR!



WELCOME



Dear Reader,

Welcome to the December issue of Master Investor Magazine.

As we head into the final few weeks of 2018, equity investors, both blue-chip and small cap focused, will be hoping that the traditional "Santa Rally" delivers gifts once again. While the FTSE 100 reached an all-time high in May this year, the sharp October sell off now sees the blue-chip index around 10% off its peak. Small cap investors have had it worse, with the AIM All-Share down by more than 15% since its recent September high.

Despite the gloom, and a few more controversial share suspensions since our last issue (e.g. MySQUAR), AIM may be down but it definitely isn't out! In our lead article this month, small cap guru Richard Gill digs down into three AIM stocks which have had good news over the past few weeks and which he believes look worthy of further investigation. If charting is more your thing, technical analysis specialist David Jones applies the popular "breakout" strategy to a clutch of AIM companies.

Elsewhere this issue, with the Brexit debacle (possibly) entering into its final stages, economist Victor Hill treats us to a tour de force analysis of how America's evolving (a polite word for deteriorating) relationship with Europe may accelerate the risks of a US-China clash. In his usual feature, billionaire investor Jim Mellon has a few pre-Christmas stock-ing fillers for your portfolio, with dividend hunter John Kingham examining the investment case of fags flogger Imperial Brands.

Next month our contributors will be serving up their top tips for 2019. But for now, enjoy this issue and don't forget to book your ticket for next year's Master Investor Show, preparations for which are now well under way.

Best regards,

Manos Halicioglu
Deputy Editor



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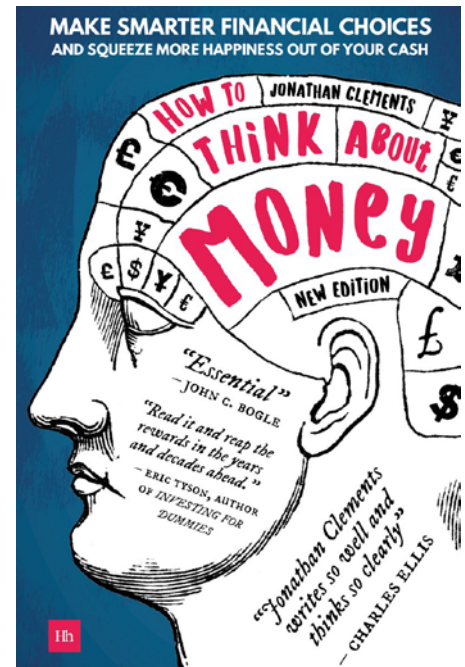


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BY JIM MELLON

MELLON ON THE MARKETS

At long last! Hallelujah!! The FAANGS, and particularly my pet hate, the socially destructive Facebook (NASDAQ:FB), have taken a meaningful tumble. Actually, a one trillion-dollar tumble, which is about the size of the Swiss economy.

Now the sheep get sorted, the chaff is winnowed and one has

to admit Alphabet (nee Google) (NASDAQ:GOOGL) doesn't look half bad, but the pure social media companies are so much toast. Farewell hoodies, sayonara timewasters.

But this fall signals something else as well – the withdrawal of the party punch bowl (when was the last time you saw one of those btw?).

FAANGs for the memories

The Fed's gradual – actually, not so gradual – shrinking of its balance sheet is causing mucho problemas. Emerging markets are down by a quarter this year, the dollar is in the ascendant, yields on crap bonds are rising and not everything is as rosy in the garden of growth and stock love as it was.

And surely, it's going to get worse. Yes, I am familiar with the refrain of optimists that the US market has got cheaper as a result of its non-performance this year and the increase in earnings. But those earnings have come about as a result of tax cuts (one off), buybacks (falling) and increased leverage. A toxic cocktail of retreating positive factors.

Could it be – as the US economy slows – and it is – that earnings FALL?

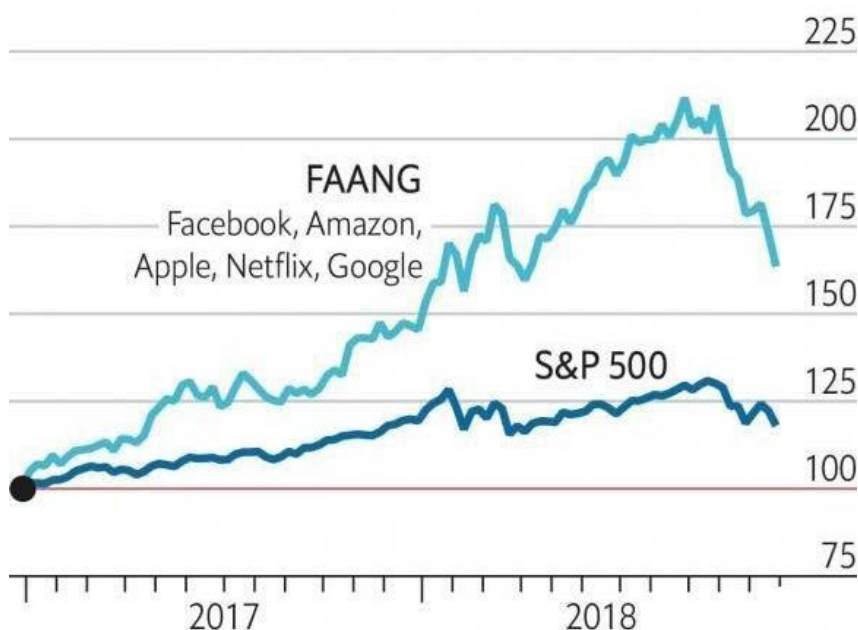
Yes, it is possible.

So be wary on US stocks for the moment.

In my long – and variegated! – career, I have noticed that those who pounce too early on exposed "value" typically end up with shredded hands as they catch a falling knife.

FAANGs for the memories

Share prices, January 1st 2017=100



Source: Datastream from Refinitiv

A black and white portrait of a middle-aged man with light-colored hair, smiling slightly. He is wearing a dark suit jacket over a light-colored, button-down shirt. A pocket square is visible in his jacket pocket. The background is blurred, showing architectural lines of a modern building.

**“FAREWELL
HOODIES,
SAYONARA
TIMEWASTERS.”**



My fingers bear the scars.

Brexit bargains

Meanwhile, what a bore Brexit has become. Hopefully we just go for the EEA/EFTA suggestion proposed by Nick Boles and backed by Dan Hannan. Interminable posturing and complaint over something about 1% as important as a war is frustrating.

I do think that Mrs May, obdurate and resilient as she is, isn't that stupid to go down in flames and I would be loading up on UK domestic stocks right now – and on the pound versus the euro and the dollar. The UK is cheap (except in real estate, which has further to fall) and this is my watching brief to my crack team of traders. Get ready for really bullish moves into the UK.

One reason for optimism is that the volume of contra-pessimistic comment has been so high, the Cassandras so numerous, that one would think the UK would already be submerged in recession. It isn't – and on this I disagree with my friend Steen Jacobsen of Saxo

– this is shaping up to be a really big buying opportunity.

I also think China – battered beyond belief – is worth looking at. ETFs will do in this case.

I have warned the idiocracy (new word) about cryptocurrencies for some time. They have collectively crashed by 80% in the past eleven months. Now as a dead cat bounce, one or two of them, Ether and Bitcoin, just might be interesting, but the idea that these bits of overhyped nonsense have any more worth than the promises of their snake oil sales folk is just plain wrong.

It might be worth looking at some tether coins – i.e. those that are backed by fiat money but offer the anonymity of bitcoin (which is its only redeeming feature, and not one that I have availed myself of, I hasten to say) and are also stable in price.

Tips for 2019

I am due to give some year-end recommendations soon. I would suggest

“I WOULD SUGGEST SHORTING GILTS, WHICH ARE RIDICULOUSLY OVERPRICED.”

shorting gilts, which are ridiculously overpriced, notwithstanding the astonishing improvement in the UK's public finances. A surplus is within clear and imminent sight.

I remain committed to precious metals as I know that inflation continues to mount, and is unstoppable in an era of full employment.

My friends Dec Doogan and Greg Bailey and I financed a drug company in its infancy four years ago – **Biohaven (NYSE:BHVN)**. It is listed on the NYSE and has done well. But it has come off the boil recently in the face of publicly available information that suggests a positive outlook. This is a buy.

For the pre-Xmas stocking I would also suggest **Zenith Minerals (ASX:ZNC)** in Australia (very strong in lithium), for cash flow **Lloyds Bank (LON:LLOY)** in the UK (a dividend monolith), and (not withstanding recent falls in oil) **BP (LON:BP.)** as a well-managed and predictable company.

If we are battenning down the hatches, we might as well make sure they are watertight.

Happy Hunting!

Jim Mellon

About Jim

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

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BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

GREEN SHOOTS IN THE SMALL CAP WINTER

After a difficult month for small cap equities in October, investors continued to see share prices fall across the board in November. The AIM All Share index for example is now down by 15.4% since the markets started to turn at the beginning of October, putting it at a 20 month low. The usually solid AIM 100 companies have performed even worse, down by 17.3% over the same period, with stalwarts such as Fevertree Drinks (LON:FEVR) losing 36% of its value and Accesso Technology (LON:ACSO) down by 46%. And as the chart below shows, small caps have underperformed blue-chips over the past two months.

But, as ever, there are still a number of small cap companies delivering a positive performance and making progress in advancing their business plans. In line with this month's theme on AIM stocks, here are three AIM listed companies which have delivered positive news to the markets over the past few weeks.

GCM RESOURCES

Many investors will be familiar with **GCM Resources (LON:GCM)**, the former Asia Energy, which has been developing the Phulbari coal and power project in Bangladesh for

some 20 years after buying it from BHP Billiton in 1998. Listing on AIM in April 2004, progress has been painfully slow, mainly due to political problems. But recent developments, including an agreement with Chinese state owned engineer Power-







China, could mean that the significant value in the project could about to be unlocked.

The Phulbari Project is located in the Dinajpur District of Northwest Bangladesh, c.350 kilometres from the capital, Dhaka, and 10 kilometres from the Indian border. In 2005 the company announced that an updated JORC compliant mineral resource statement had estimated the project contains a sizeable 572 million tonnes of coal. Using the latest power generating technology, Phulbari is currently expected to be capable of supporting power plants of up to 6,000MW from a planned 12 million tonnes per annum of thermal coal production.

Things seemed to be progressing well in the early days of GCM's public life. An Environmental Impact Assessment was successfully completed in 2005 and a Definitive Feasibility Study was finalised in May 2006, with approvals then sought from the government. However, 2006 turned out to be a difficult year, with the company being affected by local protests against the project and a political crisis in Bangladesh which saw elections postponed, a new caretaker government appointed and a state of emergency declared.

Since the general election of December 2008 the political situation has stabilised in Bangladesh and the government has increased its focus on the issue of power generation. According to the World Bank only 75.9% of the population had access to electricity in 2016, with many who do experiencing frequent blackouts. Developing new coal fired power remains an integral part of the government's plans for power sector expansion, with it having the long-term aim of having 57,000 MW of installed power generating capacity by 2041 (up from 13,621MW in 2017) from a diversified energy sector.

Coal is the goal

After years of delays, significant progress has been made in advancing the project over the past 18 months or so.

In July 2017 a technical prefeasibility study (PFS) on a proposed mine mouth power plant of up to 2,000MW was finalised by partner China Gezhouba Group International Engineering (CGGC). A Joint Development Framework Agreement between the two parties sets out terms for CGGC to invest up to 30% in the power plant, subject to approval by Chinese authorities, and gives CGGC the exclusive rights to construct a proposed 2,000MW mine mouth power plant, subject to a final EPC contract.

The markets got excited at the end of November this year after GCM announced the signing of a memorandum of understanding with China state owned engineering construction group PowerChina. Under the deal the two parties are looking to agree terms on developing the proposed coal mine

and power plants generating up to 4,000MW. PowerChina will undertake feasibility and viability studies and facilitate the inclusion of the project as a One Belt, One Road Initiative of the People's Republic of China. A Joint Development Agreement is being targeted by 31st December 2018, with the submission of a formal proposal to the Government of Bangladesh expected by the end of February next year.

Black Gold?

Shares in GCM almost trebled on the day of the ChinaPower news but have since slipped back to 17.25p. At that price the company is capitalised at £32.1 million. That figure is dwarfed by a 2004 base case project net present value estimate for Phulbari of \$2.3 billion (£1.8 billion). So why are the shares so cheap?



As discussed, GCM has seen its fair share of issues over the years, with the project now more than a decade behind schedule – in 2004 first coal production was planned for 2007. Government approval of the project is the key hurdle to overcome, leading to the challenges of financing and construction.

“GCM HAS SEEN ITS FAIR SHARE OF ISSUES OVER THE YEARS.”

It also has to be pointed out that there is opposition to the project from a number of parties, both in Bangladesh and London. This mainly concerns the environmental and human impact of the planned development, with GCM estimating that 40,000 people living within the planned mine area will need to be progressively resettled as the mine develops. The company's December held AGM is always a lively affair, with the board being presented with a stocking of coal by a protestor dressed as Santa Claus in 2012. GCM believes that these issues are "manageable" and has confirmed that a Human Rights Impact Assessment (HRIA) will be completed in due course as part of an updated Environmental and Social Impact Assessment.

STRIDE GAMING

Gambling stocks have had a tough time in 2018, with the sector affected by the government's decision to lower the maximum stake on fixed-odds betting terminals (FOBTs) from £100 to £2. In order to offset the impact on taxes the government has also announced that remote gaming duty (a tax paid on remote gaming profits) will rise from 15% to 21% next October. While this will have an impact on industry margins, the uncertainty over the exact size of the rise has now been eliminated, with some confidence now returning amongst investors (the rise was in fact lower than the 25% rate some commentators were expecting).

One gambling company which has been affected by the recent issues is

online gaming operator **Stride Gaming (LON:STR)**. Beginning trading in 2012, the company operates a multi-branded strategy, using a combination of its proprietary and licensed software, to provide a range of online games including bingo, casino, slot gaming and a social gaming mobile application. The portfolio includes over 150 brands including *Spin and Win*, *Kitty Bingo*, *Lucky Pants Bingo* and *King Jack Casino*.

Stride Gaming's real money offering is focused on the UK market, where it is licensed and operates from the regulated jurisdictions of the UK and Alderney. The company is the third largest online bingo operator in the UK having a c.25% share of the market. Stride also operates a partnership platform, Stride Together, through which it licenses its proprietary platform to gaming operators, media partners and retailers in the UK and globally, enabling them to create an online presence for their customers and enabling Stride to penetrate new markets in the UK and overseas.

Striding forward

Shares in Stride Gaming have collapsed this year, from an all time high of 325p in May to 165.75p as I write. One additional issue driving the fall, which came up in the summer, was the threat of a fine from the UK Gambling Commission (UKGC) being imposed upon sub-

sidiary Daub Alderney. This was due to failings in its anti-money laundering and social responsibility procedures. While £4 million was provided for the fine in the accounts, Daub was eventually fined £7.1 million for its failings. Stride believed the fine to be excessive and disproportionate, but decided not to appeal the UKGC's finding or penalty, with the failings identified said to have now been addressed in full.

While the issues seen over the current calendar year have affected trading, results for the 12 months to 31st August 2018 were still quite good. Revenues for the year rose by 8.7% to £88.97 million after a strong performance from the real money gaming business, with Stride Together performing ahead of management's initial expectations. However, adjusted EBITDA fell by 18.2% to £16.2 million following £3.9 million of additional fiscal and regulatory costs, in particular relating to a new tax on free bets.

As I have mentioned before in this column, adjusted EBITDA is only really relevant as a measure of profitability for companies with large non-cash ex-



penses – and that applies in Stride's case. Having made several acquisitions over the years the firm has large non-cash impairment charges which push the statutory accounts into net losses. However, the company is strongly cash generative, with net cash flow from operating activities (after adjusting for the cash element of acquisition earn outs) of £14.5 million being posted for 2018. Before paying the £7.1 million fine (which has now been fully provided for in the accounts) net cash stood at £26.6 million at the period end.

As a result of the good performance Stride also recommended a full dividend for the year of 3p per share, up from 2.7p in 2017. Also bringing cheer to investors, a special payment of around 8p per share is expected to be paid in spring or summer next year following an earn-out payment relating to the sale of Spanish online casino and bingo operator QSB Gaming.

Worth a punt?

While shares in Stride Gaming have just about doubled from their August lows I believe they still look cheap. On last year's numbers, even if we strip out

“THE COMPANY IS STRONGLY CASH GENERATIVE.”



the £7.1 million fine, then the shares trade on a low enterprise value to adjusted EBITDA multiple of just 5 times. The current yield on the shares is a modest 1.8%. However, the policy for 2019 and beyond will be to distribute at least 50% of adjusted net earnings as dividends. Based on the 2018 figures that equates to a yield of 6%. Add in the expected special payment of 8p per share (assuming flat earnings next year) and investors are looking at a potential yield for 2019 of almost 11%.

Of course the investment case is not without risks, especially related to regulatory changes in the UK market. The increase in the remote gaming duty will reduce margins from the 2020 financial year but Stride looks to have a broad enough spread of brands and offerings to have the potential to grow in the long-term.

MARSHALL MOTOR HOLDINGS

Like gambling, the UK car industry is having a difficult year. The sector is having to face up to the challenges of meeting new emissions regulations, a fall in diesel sales due to uncertainty over government policy and the ubiquitous excuse of uncertainty over Brexit, with consumers putting back big spending decisions. According to the Society of Motor Manufacturers and Traders (SMMT) year-to-date sales of new cars fell by 7.2% in the first ten months of 2018, with 2,064,419 cars registered.

With a history going back to 1909, when David Gregory Marshall founded a chauffeur business, **Marshall Motor Holdings (LON:MMH)** is one car company currently seeing good levels of growth despite the industry troubles. The company is the 7th largest motor dealer group in the UK, with a total of 100 franchises covering 23 brands, operating from 83 locations across 26 counties in England. Marshall is involved in the sale and repair of new and used vehicles, and also operates five trade parts specialists, three used car centres, five standalone body shops and one pre delivery inspection centre.

Marshall

Driving growth

Marshall Motor listed on AIM in April 2015, raising £36.9 million net to spend on accelerating growth through acquisitions and investing in the existing operations. The strong performance delivered pre-IPO has continued since listing, with revenues up by 141% to £2.27 billion from 2013 to 2017 and pre-tax profits almost doubling to £29.1 million over the same period. A handful of acquisitions have boosted growth since IPO, with the company also deciding to dispose of its leasing business, Marshall Leasing, for £42.5 million in September 2017, in order to focus on its core motor retail business.

Recently, a mid-November trading update was well received by the markets, with the company announcing that underlying profit before tax for 2018 would be ahead of 2017's record figures. Marshall reported that it saw better than anticipated trading during October following the introduction of the new Worldwide Harmonised Light Vehicle Test Procedure – an EU test used to measure fuel consumption and CO2 emissions from passenger cars, as well as their pollutant emissions.

This had a significant impact on the UK new vehicle market during the key month of September (when new registration plates are introduced), as carmakers struggled to adjust to the stricter emissions standards. UK car

“THE PRICE TO EARNINGS MULTIPLE IS JUST OVER 5.”

sales were down by 20.5% to 338,834 units for the month according to the SMMT. While the impact was expected to continue for the remainder of the year, Marshall saw growth in used car volumes and margins in October given supply constraints in the new car market. Combined with further revenue growth in aftersales, the company now has more confidence over the expected outcome for the full year.

This news followed up on results for the six months to June 2018 which showed revenues from the continuing operations relatively flat at £1.16 billion, but reported pre-tax profits up by 6.5% at £17.2 million. A highlight of the investment case is the strong balance sheet, which showed net cash of £0.9 million at the period end, down from net debt of £101.1million 12 months previously as the company focussed on paying down its borrowings. The interim dividend was held flat at 2.15p per share.

A wheely good company?

Shares in Marshall Motor currently trade at 156p, capitalising the business at £121.5 million. That price is only 7p (4.7%) higher than the IPO placing price, despite pre-tax profits having grown by 84% from 2015 to 2017. On a historic basis the price to earnings multiple is just over 5 times on an underlying basis, a figure which is at the bottom of the company's London listed peer group.

If that wasn't enough the company also has decent asset backing. Net assets were £201.16 million as at 30th June 2018, 66% higher than the current market cap. If we strip out the intangibles and goodwill however the tangible net asset value falls to £79.6 million (still good asset backing nonetheless). Income seekers will be interested in the attractive historic yield of 4.1%.



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 DAVID JONES

CHART NAVIGATOR

WATCHING FOR BREAKOUTS BUYING INTO NEW TRENDS

It is fair to say that picking stock market winners has got a little more difficult in recent months. 2018 has been a volatile year for many global markets. They suffered heavy falls in February – but bounced back. Recent months have been equally challenging and there has been plenty of day-to-day volatility, but no real overall progress. In fact, since October, the broad FTSE All-Share index has been negative for the year to date. For the very long-term investor we should of course remember that the major up-trend that started from the lows of the financial crisis remains in place.


Trading in the direction of the trend is at the core of many approaches to charting – whether you are a longer-term investor or a short-term trader. But I would be the first to admit that this can be easier said than done. It can be psychologically very difficult for investors (and traders) to buy

into strength in a rising market – they think they have missed the boat. It is always comforting to sit and wait to see if the price drops back – looking to buy a bargain – but this approach

can also mean you wait for a price drop that never comes, and watch your chosen potential purchase move ever higher without you on board.

FTSE All-Share Index – last 10 years





**“PICKING STOCK
MARKET WINNERS
HAS GOT A LITTLE
MORE DIFFICULT
IN RECENT
MONTHS.”**

There is the well-worn refrain for chartists, "the trend is your friend", which basically means we should be looking to go with the momentum in the market and take advantage of prevailing sentiment. Often that will involve buying into the dips in a rising market, but the problem with a strong performing share is that the dip never happens.

Buying the break

All of this brings us to the subject of this month's technique, the 'breakout' approach. Rather than trying to second guess what a market may do, this technique follows what the price is doing and then tells you which way the market will likely go. Put simply, the technique goes with the strength in the market. Buying into upward breakouts involves looking at how the market behaved near previous important highs.

Walking through a fictional example may be the best way of illustrating this technique. First, we need a price level that has stopped the market getting any higher. Let's say a share has been rising strongly, but in recent weeks just cannot break through 300p. There are numerous rallies towards this barrier, but it always turns back down. This level has become something of a ceiling for any more progress. In charting

parlance, this is known as a resistance level. It is clearly an area where sellers have the upper hand and the market view at that moment in time is that the share is overvalued and it attracts profit-taking. It is this act of selling that stops that resistance from being breached.

But then things start to change. It finally starts moving through the 300p barrier. In its most basic form, this can be seen as a change in market senti-

ment. Rather than profit-takers moving in and stopping any progress time and again, there is a wave of fresh buying to take the share price through the 300p ceiling. This can often be one of the first signs that a new trend could be about to start.

Let's look at a real-world instance of a breakout happening.

This AIM-listed share is a good example of a major breakout. From

James Halstead



2013 through to 2015, James Halstead shares could not break through the 350p barrier. Then finally in May 2015 it started to make progress. A level that had just been met with selling in the past started to see real buying, bidding the share price higher. By the end of the year, the share price had risen through the 500p mark.

This is something of an extreme example because of the size and speed of the move following the break, but serves as a good basis to illustrate the potential explosive nature of the breakout signal.

Beware! This is no holy grail

Before we start thinking that this is the answer to all our investing needs, let's just dampen down the enthusiasm. I have covered lots of charting techniques in the magazine over the months and the usual caveat applies: nothing works every time.

There is the 'false breakout', where the share price moves through a barrier and it all looks rosy only for the breakout to fail and the share price to drop

“BREAKOUTS HAVE WORKED WELL IN THE CURRENT BULL MARKET, AND I WOULD SAY THAT THIS BULL PERIOD HAS BEEN GOING ON FOR THE BEST PART OF TEN YEARS.”

back into the range. It is still important to practise some form of risk management. This should mean we exit the breakouts that end up being false, whilst still holding onto enough of our investing capital to ride the ones that really work out.

As risk management for private investors does not have to be that complicated, a percentage-based stop loss is arguably as good as any method. If a share breaks the 300p level, you may decide a new trend is starting and buy in. If valid, then following the break, the share really should not drop back too much. A 10% stop loss could work here, or whatever suits your own particular tolerance for risk. To reiterate, the idea is that the breakouts that don't work out will incur a small loss, and the loss should be covered mainly

by those where a significant new trend starts.

Breakouts have worked well in the current bull market, and I would say that this bull period has been going on for the best part of ten years. But I also think it is fair to say that markets have changed in recent months and some of the recent trends have been much choppier. This can make breakouts less reliable, and just harder overall to find. In my opinion, this has increased the risk of false breakouts. Until (and if) global stock markets move back into a smoother trend, the current state of events is likely to continue. This doesn't mean that the approach of following these breaks has been invalidated, just that the risk management side is more important than ever.

Charts of the month

As the theme for this month is AIM shares, I thought it would only be appropriate to include a couple AIM-listed companies. Below are some interesting breakouts that are either just happening or could be about to happen, along with one of our more usual FTSE 350 constituents.

Sopheon

This AIM-listed software business has had an excellent run over the past couple of years and has seen more than a fourfold increase in its share price. For much of the past six months, though, this trend has stagnated, with the 1,020p level proving to be a real barrier for any further upside progress. However, during November, the Sopheon share price started to make progress once more, breaking through

the 1,020p level. Recent weeks have seen it drop back slightly, so the jury could arguably still be out on whether this is a true break – or the dreaded

false version. However, with good support over the past few months, 900p is a logical place for a stop-loss.



Bioventix

The pharmaceutical business has had a solid trend since the middle of 2016, and this year saw it set fresh all-time highs. So far, these new highs have proved to be a stumbling block for any more gains – it just cannot seem to crack the 3,300p level and extend that trend. So for now, Bioventix is to be filed under 'one to watch'. It keeps meeting selling pressure on rallies to 3,300p; however, a move through this level would be the breakout, setting fresh all-time highs once more.



“THIS PHARMACEUTICAL BUSINESS HAS HAD A SOLID TREND SINCE THE MIDDLE OF 2016.”

AstraZeneca

This health care business is no AIM-tiddler, but I think from a breakout point of view it is nonetheless an interesting one to keep an eye on. It has had a solid trend for two years now and last broke out in July of this year. Since then the price moved higher, but had been stalling in the 6,100p zone. During November, this changed and the price yet again moved out to fresh all-time highs. It is early days for this break – and the wider market is of course fairly volatile for these large blue-chip stocks – but, so far at least, there does appear to be real momentum behind the price.



About David

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



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BY FILIPE R. COSTA

THE MACRO INVESTOR

FACTOR INVESTING: HOW TO BUILD A PORTFOLIO FOR UPCOMING TURBULENCE

PREPARING YOUR PORTFOLIO FOR THE NEXT PHASE OF THE BUSINESS CYCLE

Asset Classes Provide Poor Diversification

For the past few decades investors have been grouping securities into different asset classes, usually according to their risk characteristics, to use them as a diversification tool. But, when in 2007-2009, all asset classes declined at the same time, it became obvious that this method provided poor diversification. The hidden characteristics of securities are a lot more useful for such a goal, laying the foundations for factor investing.

Portfolio management is the science of diversification under constraints. A portfolio manager attempts to maximise return for a certain level of tolerated risk, or to minimise risk for a minimum level of required return. With diversification being key for risk reduction, portfolio management

is all about properly identifying risk sources.

In the past, and still to a large extent today, investors and portfolio managers have been looking at asset classes as a way of identifying risk sources. The most basic division slashes the market into stocks and bonds. Stocks have more risk and do pretty well during expansions. Bonds are safer and do much better in recessions. More refined divisions exist, and the range of asset classes is then expanded to domestic stocks, foreign stocks, domestic bonds, high yield bonds, money market instruments, futures, commodities, foreign exchange, and others.

Each of these asset classes has its own risk-reward characteristics. After setting investment objectives regarding tolerated risk and desired reward, investors, as well as portfolio managers, decide on the exact

proportions of each asset class to commit to their portfolios. Unfortunately, asset classes are highly correlated at times, and then offer poor risk diversification, in particular when it is most needed – under a market crash or recession. With this in mind, we need to look at risk in a different way. Instead of buying asset classes, we should buy risk factors.

In this edition of *The Macro Investor* I will take a look at the reasoning behind risk factors and help investors unfold their own investment strategies based on factors, with a macro-economic view.

The Theory Behind Factor Investing

The return on a security may be seen as compensation given to an investor for being exposed to certain risks. The first systematic

“THE RETURN ON A SECURITY MAY BE SEEN AS COMPENSATION GIVEN TO AN INVESTOR FOR BEING EXPOSED TO CERTAIN RISKS.”



model developed to explain returns was the Capital Asset Pricing Model (CAPM)ⁱ, which identified just a single risk factor – the market. According to the model, the return of a security is explained by the return of the broad market. The higher the beta, the higher the expected return, because the higher the beta, the higher the exposure to the market (the risk factor here).

But over the years, researchers found large and systematic departures from the model. Many simple investment strategies, like buying past winners or buying small cap shares, were able to deliver higher returns than explained by the model (which is known as alpha). In the perspective of rationality, that was a problem, because it couldn't be possible to consistently beat the market in such a way.

Alternative models have then been developed. In 1976, Ross developed the Asset Pricing Theory (APT)ⁱⁱ adding more factors to the CAPM. Later, in the 1990s, Fama and French ex-

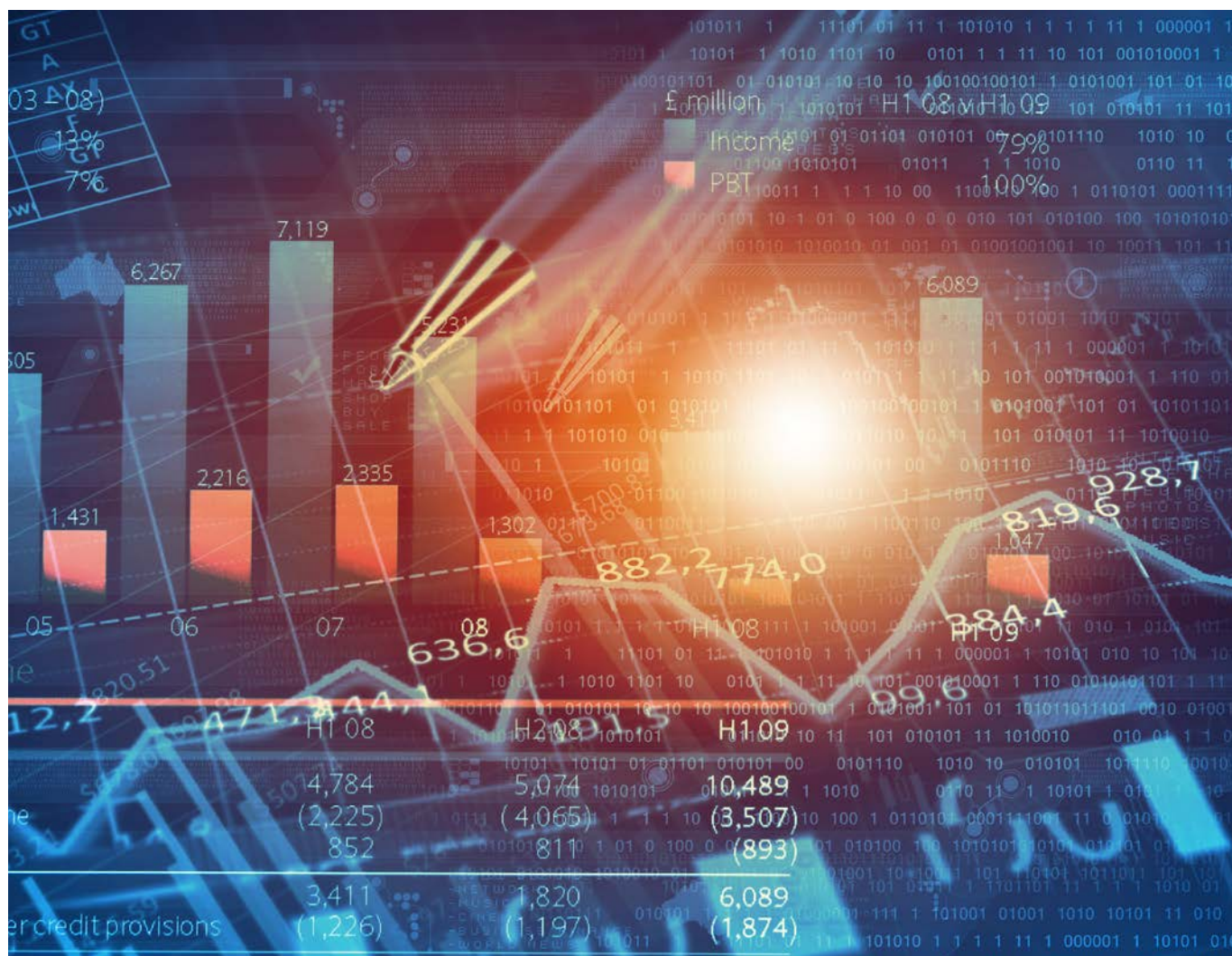
panded the multi-factor work and developed a three-factor model that is the most well-known model used in research and by portfolio managers to distinguish real alpha from beta. The Fama-French model considers size and value as risk factors. Thus, investors are rewarded by being exposed to the market, to smaller capitalisations and to undervalued stocks. Market, size, and value are risk sources. This means that an investor outperforming the S&P 500 by holding small capitalisations may not really be getting alpha, as he is exposed to the size risk source. At times, small capitalisations decline as a group, eventually having an impact on this investor portfolio.

But, the story doesn't end here.

Fama and French added size and value to marketⁱⁱⁱ as risk factors. Still, consistent outperformance continued to be reported. Picking past winners and keeping them for a few months continued to deliver profits above those offered by a market index, after

controlling for risk sources. Carhart added this factor to the three-factor model – Momentum^{iv}. But, again, the story seems to never end and Fama and French expanded their original three-factor model to a new five factor model in 2015, adding what they call profitability and investment as factors. To a certain extent, these factors reflect quality, a characteristic shared by companies with a good and stable track record of making money for investors.

The list of models trying to explain risk sources is vast and I don't want to bore the reader reviewing a whole body of literature on factor investing and security pricing. My goal is just to lay the foundations for an improved investment attitude at the individual investor level. For such a purpose, we don't need to find the real theoretical model explaining stock returns, but rather to find a way of maximising the odds of achieving our investment objectives for the minimum risk possible. The key points to retain from the factor investing debate are:



“GROUPING OF ASSETS INTO ASSET CLASSES ISN’T GOOD ENOUGH FOR DIVERSIFICATION PURPOSES.”



Value

The Value factor captures the returns from assets that are priced below their fundamental value. Value investors like Benjamin Graham, Warren Buffett, Joel Greenblatt, and David Dreman, just to mention a few, developed several ways of building a portfolio capturing undervalued stocks. Price ratios like price-to-earnings, price-to-book-value, or price-to-cash flow are frequently used to select stocks. Value stocks are usually out of favour and then appear with low price ratios. By selecting a group of stocks with the lowest price ratios, an investor is tilting his portfolio towards the value factor. By other words, his portfolio is more exposed to the value factor than the market as a whole is.

Size

Size has long been identified as a risk factor. Investors can often achieve better returns than the market through investing in smaller companies. These are often growth stocks that offer better expected returns than average. As I already mentioned, the three-factor model of Fama and French captures this effect turning what investors believed to be alpha into simple beta. The simplest way of getting exposure to this factor is to rank a group of stocks by market capitalisation from lowest to highest. By selecting those at the top of the list an investor is tilting portfolio returns towards the size factor.

Momentum

Momentum is one of the most played risk factors. Investors tend to look at the recent past and project it to the future. Good recent returns lead to positive sentiment about the future, pushing stock prices higher. Research has consistently showed stocks that have outperformed the market in the recent past tend to exhibit strong returns going forward⁴. This tendency to trail positive returns is often at the root of

- Traditional grouping of assets into asset classes isn't good enough for diversification purposes. Two similar portfolios in terms of asset classes may differ substantially in terms of risks incurred.
- Slicing assets into factors is a much better way of grouping assets, as factors are usually uncorrelated with each other.
- There are a few simple ways of getting exposure to factors.
- Investors can optimise factor exposure by matching the analysis with the phase of the business cycle.

The Key Factors for an Individual Investor

Stocks have some hidden characteristics that are worth evaluating as they help identify the exact risk profile for

it. In general, the investment industry has identified the following six factors as being the most important:

Market

This is the key driver of stock returns already identified by the CAPM during the '50s and '60s. Stocks move together because they react to the market as a whole. The market captures macroeconomic events like an interest rate hike, the implementation of an important government policy, the health of the economy, major international events and other market-moving events. As a reaction to such events, some stocks rise while others decline, some rise more than others, but all of them react to these events to some extent. To capture this factor, you just have to buy the whole market, or some key index representing it. You could buy the S&P 500 in the US, or the FTSE 350 in the UK, or maybe an ETF as a proxy.



bubbles, in particular when sentiment is broadly high. The momentum effect is usually captured by selecting the stocks with the highest relative returns for the last 3, 6 or 12 months. These are the stocks that have been outperforming the market and enjoying positive momentum.

Quality

Quality is an important risk factor, in particular when economic prospects start to dim. By then, companies with low debt, stable earnings, strong corporate governance, and stable dividends are in heavy demand by investors in a flight to safety. The high-flying growth prospects of other less stable companies start being revised down and disbelieved by investors, giving rise to a positive quality effect. An investor may get a tilt to this factor by selecting companies with a low debt-to-equity ratio, a high return on equity, a record of dividend growth stability, low financial leverage, and/or other indicators of balance sheet strength.

Volatility

It has been identified that stocks with lower volatility outperform stocks with higher volatility over long time-frames. There are many stocks with a high standard deviation (a measure of volatility) that an investor can avoid. These risks aren't rewarded and explain the low volatility factor. The low volatil-

“WITH LOWER VOLATILITY OUTPERFORM STOCKS WITH HIGHER VOLATILITY OVER LONG TIME-FRAMES.”

ity risk factor may be captured by selecting the stocks showing the lowest standard deviation for the last 1 to 3 years. This factor tends to outperform when we enter the early contraction phase of the business cycle, a time at which investors revert to safety.

Other factors

The discussion around risk factors isn't closed and there is no agreement on what constitutes a risk factor. The above six factors have been clearly identified as key drivers of stock returns but other factors have sometimes been considered. That is the case of high yield, equal weight, high beta, low beta, buyback, and growth. In the fixed income universe, term and credit are often cited.

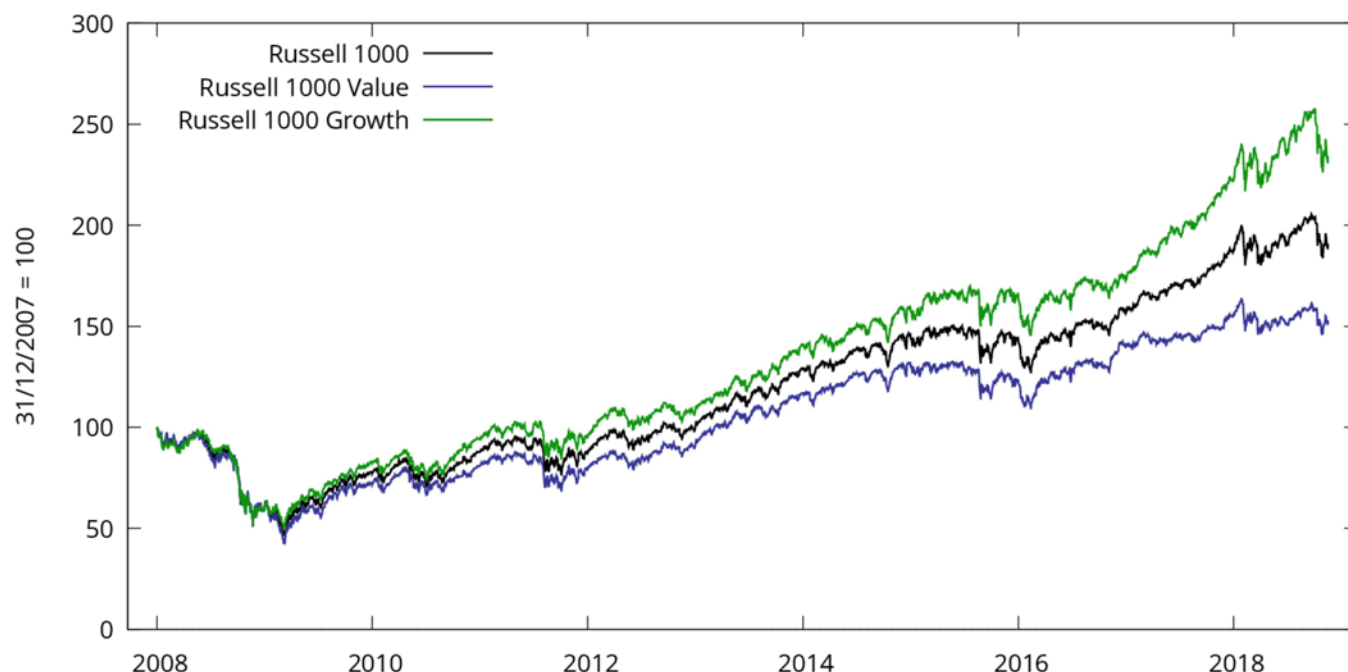
The Current and Upcoming Business cycle

One of the key arguments in favour of factor investing is that factor investing outperforms the market over long time-frames. But, factors are heavily influenced by market conditions and

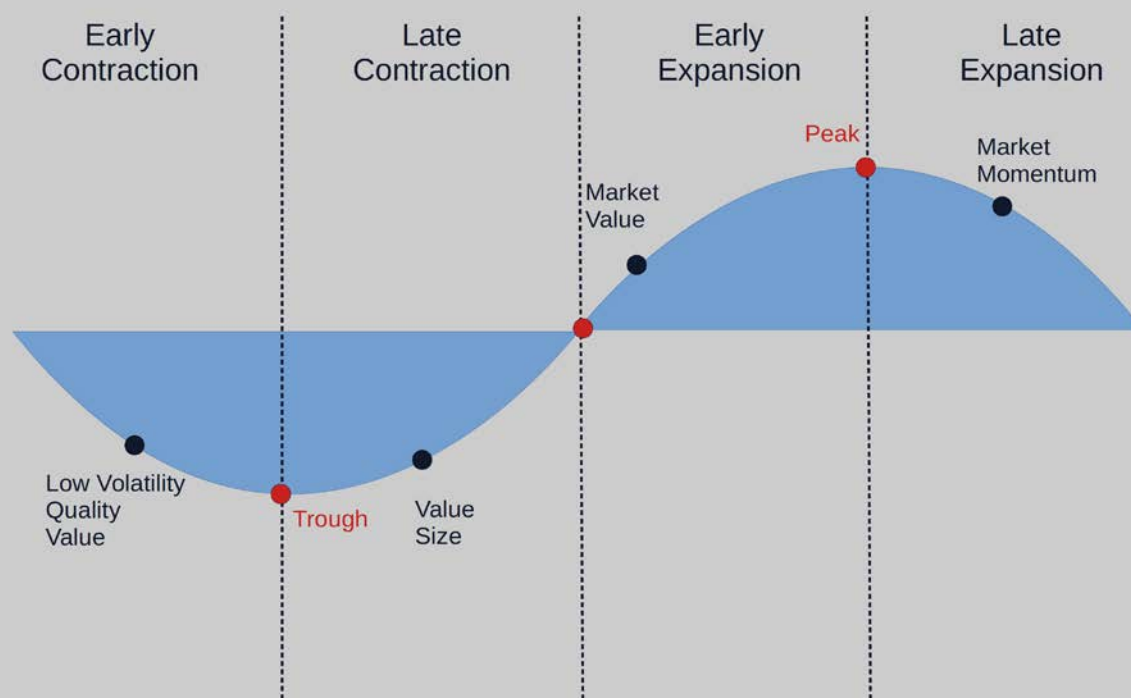
thus they go through times of prolonged underperformance. Momentum is almost the opposite of value, for example. By definition a momentum stock is a stock that is rising fast and outperforming the market. At the opposite corner lies a value stock, which is being ditched by investors and underperforming. If anything, the correlation between these two factors is negative. It is then key to identify the phase of the business cycle we're in in order to invest in the right factors.

After many years of rising markets, we are in a late expansion phase of the business cycle, which is the last before contraction. By now, the broad market is still performing well as a whole and momentum strategies are delivering high profits to investors. But, while the market and momentum factors are at the top, valuations are becoming stretched. If we look at the Russell 1000 indexes below, we clearly notice the underperformance of the value version of the index and outperformance of its growth version, which are consequences of the stretched valuations.

Russell 1000 Value and Growth



FACTOR INVESTING AND THE BUSINESS CYCLE



When economic conditions deteriorate a little (and they will), investors will look for safety, which means buying quality companies, those paying stable dividends, carrying low debt levels, of larger capitalisations, less volatile and more conservatively valued. That means quality, volatility and value will be the next outperforming factors, while momentum, size, and market will face unfavourable times ahead.

While we're probably not at the early contraction phase just yet, we're moving ever closer to it. For the purpose of building a factor portfolio, investors should by now start replacing market, momentum and size by value, volatility and quality.

Building a Factor Portfolio

Now that we've reviewed the theory behind factor investing, it is time to do something with it, which means translating everything into investment actions. While identifying factors isn't an easy process for researchers, there are simple ways of tilting a portfolio towards the desired factors, with the easiest of them being just buying factor ETFs. There is an ETF for every theme and factor investing is no exception. Some examples are:

- iShares MSCI USA Size Factor ETF (NYSEARCA:SIZE)
- iShares Edge MSCI USA Value Factor ETF (BATS:VLUE)
- iShares Edge MSCI USA Momentum ETF (BATS:MTUM)
- iShares Edge MSCI Min Vol USA ETF (BATS:USMV)
- Invesco S&P 500 Low Volatility ETF (NYSEARCA:SPLV)
- Invesco S&P 500 Quality ETF (NYSEARCA:SPHQ)
- Invesco S&P 500 Pure Value ETF (NYSEARCA:RPV)

All an investor needs is to identify the factor he wants to target and buy the special purpose ETF. To prepare for

any upcoming turbulence, the low volatility, quality and value factors would be the best and then a good option would be to select USMV, SPHQ and RPV, for example. Investors would then have to decide on the proper allocation given to each, as there is no single rule to help. Starting with equal proportions is usually the easiest approach, which in the above case would mean investing one-third of the funds in each factor ETF.

While investing in ETFs is a very simple option, it is not problem-free. Unlike an individual investor, an ETF manager needs to invest millions to billions in single assets, which reduces his universe of investable assets due to liquidity constraints. An individual investor building a size factor portfolio (small capitalisations) may be able to add several stocks with capitalisations of £100 million to £200 million, which

“WHEN ECONOMIC CONDITIONS DETERIORATE A LITTLE (AND THEY WILL), INVESTORS WILL LOOK FOR SAFETY.”



may not be possible for a major ETF. Another problem is that many factor ETFs aren't much different from the market itself because they avoid concentrated positions. One additional point to note is the fact that most ETFs select a factor without a care for the other factors.

More often than not, assets ranking high on one factor rank low on others, making them poor investments. What starts as a bet on the size factor may end up as a bet against the value factor at the same time. But, a pure factor portfolio should be more or less neutral to all other factors apart from the one it is targeting.

For all these reasons, investors must be careful about what they're really exposed to, when buying a factor ETF.

A very good alternative for an individual investor is to follow a DIY approach. For such a purpose the first step is to create a set of rules aimed at identifying the proper factors and then set a selection approach.

As we are approaching a late phase of the business cycle, I'm going to target the value, low volatility, and quality factors. As this is just the plain vanilla from which investors may build more elaborate strategies and also because it is costly for an individual investor to buy and manage a large number of assets. I'm targeting just 10 stocks.

In order to trail the factors, I'm using some simple ratios. Please note that many options exist here. But for the purpose of keeping things simple, and to still be able to properly get the necessary exposure to the factors, I'm using the five ratios described below:

- Daily Volatility Last 3 Years: as the proxy for the volatility factor
- Lease-adjusted EBIT Yield: as the proxy for the value factor
- Lease-adjusted ROCE: as a first proxy for the quality factor
- Debt to EV (including pension deficit): as a second proxy for the quality factor
- Dividend Cover: as a third proxy for the quality factor



I'm using three proxies for quality to better capture this factor. Additionally, I'm imposing a minimum market capitalisation of £100 million / \$100 million to filter some more illiquid stocks and also excluding utilities and financials because they're not properly ranked using the above ratios.

The first step is to get short lists of stocks with data for the above ratios. I selected three different stock universes: UK shares, US shares, and AIM shares. Because the data isn't available in every instance, some initial cleaning is needed. Additionally, some negative ratios can also be filtered out. I ended up with 355 UK shares, 880 US shares and 77 AIM shares (see table).

The next step is the selection process. The simplest possibility is to build three portfolios, a first one for the volatility factor, a second one for the value factor, and a third one for the quality factor. After ranking the lists, an investor could select the top 10 rankings for each factor and build a portfolio. In the case of the quality factor, it is needed to build some average ranking as there are three different ratios, but the process is similar. Ultimately, an investor

could combine the three portfolios, investing equal proportions into each, for example.

But, there's something better that can be done instead of combining the portfolios. Investors may build what is called a bottom-up multi-factor portfolio^{vi}, which consists of stocks selected when considering the three factors under analysis at the same time. The goal is to avoid the problem of selecting stocks ranking high for one factor that rank very low for the others, which is one of the key problems of factor investing.

Under this second option, the first step is to obtain a rank for each factor as above. A second step involves computing an average rank, which is the average of the ranks obtained for each factor. We can then select our top rankings. Please note that higher ranks are associated with higher desirability. A stock ranking 35 on Daily Volatility shows larger volatility than a stock ranking 200, as lower volatility is desirable. Similarly, a stock ranking 35 on EBIT yield shows an inferior EBIT yield than a stock ranking 200, as higher EBIT yield is desirable.

3-FACTOR BOTTOM-UP PORTFOLIOS

	Ticker	Name	Mkt Cap. (mn)	Volatility % 3y daily	EBIT yield	ROCE	Debt to EV	Dividend cover	Rank Volatility	Rank Value	Rank Quality	Starting Weight	Average Rank	Start. Weight x Av. Rank	Rescaled Weight
UK SHARES	ABBY	Abbey	£273	0.80	24.6	17.9	0.0	12.7	354	349	347	10.0%	350.0	35.00	11.79%
	CPS	CPL Resources	£139	0.84	13.9	17.6	0.0	4.2	352	319	339	10.0%	336.7	33.67	11.34%
	QQ.	QinetiQ Group	£1,540	1.38	9.3	15.5	0.0	3.0	312	261	320	10.0%	297.7	29.77	10.03%
	LTHM	Latham (James)	£165	1.33	9.0	14.2	5.9	3.5	319	254	303	10.0%	292.0	29.20	9.84%
	BATS	British American Tob.	£61,933	1.43	27.9	37.7	45.8	2.8	300	354	221	10.0%	291.7	29.17	9.83%
	AEP	Anglo-Eastern Plant.	£216	1.81	26.6	13.4	13.9	22.2	202	353	306	10.0%	287.0	28.70	9.67%
	ECEL	Eurocell	£231	1.39	9.5	23.5	10.5	2.3	310	267	266	10.0%	281.0	28.10	9.47%
	888	888 Holdings	£620	1.82	18.6	72.8	0.0	2.0	197	337	308	10.0%	280.7	28.07	9.46%
	BKG	Berkeley Group Hold	£4,371	1.99	25.6	33.3	8.2	6.1	144	351	344	10.0%	279.7	27.97	9.42%
	DLAR	De La Rue	£466	1.79	10.2	30.7	25.3	170.0	212	281	321	10.0%	271.3	27.13	9.14%
Filtered Universe: 355 shares															
US SHARES	DIS	Walt Disney	\$167,442	1.12	8.1	18.4	11.1	8.4	849	626	835	10.0%	770.0	77.00	10.45%
	DHI	DR Horton	\$13,113	1.68	178.6	233.4	21.3	7.2	534	880	821	10.0%	745.0	74.50	10.11%
	GNTX	Gentex Corp	\$5,806	1.52	10.1	24.1	0.0	3.6	630	743	838	10.0%	737.0	73.70	10.00%
	VGR	Vector Group	\$1,945	1.22	13.8	22.6	0.0	0.4	811	822	575	10.0%	736.0	73.60	9.99%
	EME	EMCOR Group	\$4,124	1.53	9.9	16.5	7.8	14.2	625	733	843	10.0%	733.7	73.37	9.96%
	LEA	Lear Corp	\$8,595	1.65	17.8	25.1	21.7	8.4	555	856	789	10.0%	733.3	73.33	9.95%
	TJX	TJX Cos	\$57,954	1.19	7.0	47.3	3.9	3.3	827	534	836	10.0%	732.3	73.23	9.94%
	PCAR	PACCAR	\$20,842	1.51	11.0	13.2	0.0	4.3	637	776	779	10.0%	730.7	73.07	9.92%
	GD	General Dynamics	\$52,108	1.16	7.9	19.6	7.5	2.8	837	614	729	10.0%	726.7	72.67	9.86%
	DLX	Deluxe Corp	\$2,186	1.47	14.0	21.9	25.0	4.7	674	826	673	10.0%	724.3	72.43	9.83%
Filtered Universe: 880 shares															
AIM SHARES	SOM	Somero Enterprises	\$181	1.87	12.0	52.8	0.0	2.0	42	73	64	10.0%	59.7	5.97	10.60%
	LTHM	Latham (James)	\$165	1.33	9.0	14.2	5.9	3.5	71	66	40	10.0%	59.0	5.90	10.48%
	GTLY	Gateley (Holdings)	\$170	1.39	8.6	33.4	2.9	1.5	70	64	38	10.0%	57.3	5.73	10.18%
	AMS	Advanced Medical Sol.	\$583	1.64	4.9	17.1	0.0	8.6	58	42	72	10.0%	57.3	5.73	10.18%
	TRCS	Tracsis	\$172	1.74	5.6	18.6	0.2	15.9	48	47	75	10.0%	56.7	5.67	10.07%
	CLL	Cello Health Group	\$103	1.26	11.0	12.8	10.8	2.2	73	71	24	10.0%	56.0	5.60	9.95%
	CHH	Churchill China	\$121	1.65	6.9	19.3	0.0	2.2	56	57	53	10.0%	55.3	5.53	9.83%
	NICL	Nichols	\$543	1.59	5.8	28.9	0.6	2.0	63	49	52	10.0%	54.7	5.47	9.71%
	SCH	SafeCharge Intern.	\$397	1.54	7.2	19.0	0.0	1.0	66	58	37	10.0%	53.7	5.37	9.53%
	TFW	Thorpe (FW)	\$334	1.65	6.6	16.9	0.0	2.6	56	55	49	10.0%	53.3	5.33	9.47%
Filtered Universe: 77 shares															

Source: Own calculations, Sharescope

For those willing to go a step further, we can even tweak the weights given to each selected stock using our final rank figure. If you look at the last two columns of the table, you'll see a Starting Weight x Average Rank and a Rescaled Weight calculations. The idea is straightforward. If we depart from an equal-weight portfolio featuring 10 stocks, each stock would have a weight of 10%. But, if we multiply this weight by respective rank, we get a rank-weighted figure. If we finally rescale these numbers to fit 100%, we get our weights. The advantage of this process is that it attributes more weight to stocks ranking high for the factors, giving more tilt to the portfolio.

Final Thoughts

Starting as a theoretical explanation for stock returns, factors help investors properly identify and mitigate risks when managing portfolios. Unlike asset classes, factors are mildly correlated at most, then allowing for a much more powerful diversification. While the offer of factor ETFs is vast, most of them have hundreds of holdings and a high overlap, which make them not much different from the market itself. But, with the help of a few simple accounting ratios, an individual investor may quickly build his own factor portfolio.

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.

- i The CAPM was developed by Sharpe (1964), Lintner (1965), Mossin (1966), and Treynor (1961, 1962).
- ii Ross, S. (1976); The arbitrage theory of capital asset pricing; Journal of Economic Theory; 13, 341-360.
- iii Fama, E. F., & French, K. R. (1993); Common risk factors in the returns on stocks and bonds; Journal of financial economics; 33(1), 3-56.
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- v The most important work on the Momentum effect is Jegadeesh, N., & Titman, S. (2001); Profitability of momentum strategies: An evaluation of alternative explanations; The Journal of finance, 56(2); 699-720.
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BY NICK SUDBURY

FUNDS IN FOCUS

THE BEST FUNDS FOR BREXIT

When the UK voted to leave the European Union on 23 June 2016, it prompted a sharp fall in the value of sterling on the foreign exchanges, as investors believed that it would have a significant negative impact on the domestic economy. The pound is still lower than it was before the referendum and could react sharply once the political shenanigans play out and we find out what is actually going to happen.

Generally speaking, whenever a hard Brexit or a no deal has become more likely, it has had a negative impact on sterling, whereas the prospect of a soft Brexit has been more positively received.

Ben Willis, head of portfolio management at Chase de Vere, says that if we went down the hard Brexit route, it would be reasonable to surmise that the pound would weaken. He added, however, that "...we would not expect it to take such a significant leg down as it did post vote."

The value of sterling against the currencies of key trading partners, such as the euro and the US dollar, plays an important role in determining the performance of the different parts of the UK stock market.

After the result of the referendum was announced, the FTSE 100 and FTSE 250 indices both fell sharply, but it was the blue chips that recovered the quickest as their overseas earnings became that much more valuable when translated back into pounds. The mid-caps with their

greater reliance on the domestic economy have been much more muted.

"Sterling weakness benefits plenty of UK large and mega cap companies, particularly those that generate profits overseas in US dollars, but it has a detrimental effect on UK small and mid-cap stocks. In the event of a hard Brexit, these would be likely to be indiscriminately sold off as investor sentiment would see this area of the market as domestically focused and sterling exposed," explains Willis.

"GENERALLY SPEAKING, WHENEVER A HARD BREXIT OR A NO DEAL HAS BECOME MORE LIKELY, IT HAS HAD A NEGATIVE IMPACT ON STERLING, WHEREAS THE PROSPECT OF A SOFT BREXIT HAS BEEN MORE POSITIVELY RECEIVED."



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88.335
82.936
52.398
23.564
38.541
91.333
21.987

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24422.562
232.345
424.222
3513.567
288.456
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1349.234
343.567
342.246
31.532
662.232
44445.785
354.234
636.111
78.673
8339.111
67.632
98.232
2333.452
12.543
55.896
3341.332
6441.323
62227.112
33.562
271.286
77.218
3.682
87.322
332.321
59.113
79.322
332.321
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97.234
332.435



Uncertainty hangs over the UK market

The FTSE All-Share has lagged behind most of the other main equity regions since the vote to leave in June 2016, with the majority of the returns in the UK being driven by sectors such as oil & gas and basic materials, which have both benefitted from rising commodity prices. More domestically focused areas like Telecoms and Consumer Goods have struggled.

Laith Khalaf, a senior analyst at Hargreaves Lansdown, says that it's in the best interests of both the UK and the EU to come to a deal, although it may prove politically difficult.

"A no deal Brexit would be more disruptive than an orderly withdrawal, but predicting the market response to political events is fraught with danger. There are too many moving parts – such as currency or commodity movements – to predict the winners and losers with any degree of certainty."

Given the lack of clarity, it is perhaps not surprising that domestic and international investors have been reducing their exposure to UK stocks on a mas-

sive scale, with outflows from the relevant open-ended funds totalling more than £10bn since the referendum. This has left the London market trading on a wider than normal discount to the US when measured in terms of their PE ratios.

The different scenarios

The Bank of England has said that the outcome of the negotiations could force it to change its interest rate policy. If there is a disorderly Brexit that is damaging for economic growth it might have to reduce rates, although a run on the pound might force it to raise them. An orderly agreement could also see rates move higher as it would remove a key source of macro-economic uncertainty.

Darius McDermott, MD of Chelsea Financial Services, says that the uncertainty is hurting the UK as investment and development is being put off to a large extent.

"If we have a hard Brexit, the pound will likely fall and while there may be an initial sell-off in the UK stock market, the large dollar earners should do OK due to the currency movement. If we have

What if it all goes horribly wrong?

The worst case scenario is that a disorderly Brexit could prompt a sharp sell-off in the UK stock market and the contagion then spreads to the other main equity regions. If you think that is possible it would be sensible to maintain a reasonable weighting in a gold-backed ETF, such as **ETFS Metal Securities Physical Gold (LON: PHAU)**. There are also ETFs that can provide a pure exposure to safe haven currencies like the US dollar and the Swiss Franc, such as **ETFS Long USD Short GBP (LON: GBUS)** and **ETFS Long CHF Short GBP (LON: GBCH)**.

a soft Brexit there may be a relief rally, but we've never had a Brexit scenario before so it's really just a guess."

The safest strategy is to have a high quality diversified portfolio spread across different assets and geographies. Overseas holdings would do well if the pound falls, but it is worth keeping some money invested in the UK as it is so unloved that any good news could cause the London market to rally quite strongly.

Adrian Lowcock, head of personal investing at Willis Owen, says that no-one actually knows what sort of deal we will get, which is what is scaring markets.

"The EU have a tendency to leave it until the eleventh hour to agree a deal, so on balance I think a softer Brexit is more likely, but of course it is still not clear if the deal would be accepted in the UK."

Brexit bounce

The uncertainty has affected the 31 investment trusts that operate in the UK All Companies and UK Equity Income sectors. According to calculations by Winterflood Securities, around two-thirds of them have underperformed the FTSE All-Share Index over the period since the referendum in NAV terms, but the movements in their discounts have varied enormously from one fund to another.

"A NO DEAL BREXIT WOULD BE MORE DISRUPTIVE THAN AN ORDERLY WITHDRAWAL."



“IF WE GET A HARD BREXIT IT IS LIKELY THAT THE POUND WOULD WEAKEN, SO AN OVERSEAS FUND WOULD STRENGTHEN IN VALUE.”



Income, where Neil Woodford is backing the UK irrespective of the Brexit outcome.

Ewan Lovett-Turner, director of investment companies research at Numis Securities, says that if we have a soft Brexit, the UK small caps could do well, with his top picks in the sector being **Henderson Smaller Companies (LON: HSL)** and the value-oriented **Aberforth Smaller Companies (LON: ASL)**.

Another option would be large-cap investment trusts with more of a domestic bias, with his favoured funds being **Edinburgh Investment Trust (LON: EDIN)**, **Keystone (LON: KIT)** and **Jupiter UK Growth (LON: JUKG)**.

Funds for a hard Brexit

If we get a hard Brexit it is likely that the pound would weaken, so an overseas fund would strengthen in value, which is what happened after the referendum. Khalaf says that those who want to benefit could try the passively managed **L&G International Index** or a well-run active equivalent such as **Lindsell Train Global Equity**.

McDermott recommends **Evenlode Global Income**, which holds a mixture of overseas stocks and UK-listed dollar earners. Alternatively, he suggests **Brown Advisory US Flexible Equity**, which would reward UK investors if the pound falls sharply against the dollar.

Another possibility is the **Fundsmith Equity** fund, which Lowcock describes as one of the strongest options for those seeking exposure to high-quality global equities.

Lovett-Turner says that in a hard Brexit, it may be best to own non-UK funds with little sterling exposure. He particularly likes **Scottish Mortgage (LON: SMT)** and **Monks (LON: MNKS)**, both managed by Baillie Gifford, which target disruptive growth companies.

Finsbury Growth & Income (LON: FGT) and **City of London (LON: CTY)** have both held up pretty well and remain on small premiums, whereas others have suffered a significant de-rating. These include **Perpetual Income & Growth (LON: PLI)**, **Temple Bar (LON: TMPL)**, **Murray Income (LON: MUT)**, and **Edinburgh Investment Trust (LON: EDIN)**, which are all trading near to their widest discount levels of the last 10 years.

The value-oriented managers amongst them have naturally been drawn to the cheaper areas of the market, especially the UK domestic cyclicals, which rely on the performance of the local economy, such as consumer goods and consumer services. These have lagged the wider market and would be likely to benefit from a soft Brexit.

According to Winterflood Securities, the funds with the biggest exposure to these areas that would benefit the most are **Aurora (LON: ARR)**, **Perpetual Income & Growth (LON: PLI)**, and **Temple Bar (LON: TMPL)**. PLI and TMPL offer particular value as they are trading at wider discounts than aver-

age and yielding 4.2% and 3.6%, respectively.

Funds for a soft Brexit

Those who are anticipating a soft Brexit might want to consider **Standard Life Investments UK Equity Income Unconstrained**, which McDermott says can invest in companies of all sizes, but has a bias towards the mid-caps and a value style that has been out of favour. A good complementary holding would be **Chelverton UK Equity Growth**, which also invests outside of the FTSE 100 and has a significant exposure to smaller companies.

Other funds with a high sensitivity to the UK economy suggested by Khalaf include **Woodford Income Focus** and **Jupiter Income**, with both likely to see a pick-up in performance in the event of a soft Brexit.

Lowcock prefers **Merian UK Alpha**, which is managed by Richard Buxton, who is a traditional contrarian investor that buys unloved stocks and waits for the market to change its view. Alternatively, there is **CF Woodford Equity**



FUND OF THE MONTH

Given the high degree of uncertainty over the outcome of the Brexit negotiations, it would seem sensible to pick a fund that should hold up reasonably well whatever the outcome. A prime example is **Mid Wynd International (LON: MWY)**, a global investment trust that has comfortably outperformed the MSCI World Index and its peer group since Artemis was appointed to run it in May 2014.

The managers identify a number of long-term trends from around the world and then put together a diversified portfolio of high quality companies that can benefit from them. The themes include: online services, automation, healthcare costs and tourism. They only invest when they are happy with the price and are mindful of the downside risk as well as the upside potential.

One of the things that sets the fund apart is that it has delivered out-performance in both up and down markets. Investors can also take comfort from the fact that the managers can hold up to 20% in cash when they feel that the market is overvalued and there is a discount control mechanism that is intended to limit the discount to 2% in normal market conditions.

It is an interesting portfolio and completely different from its peer group with the largest position, MasterCard, accounting for just 2.7% of the assets. There are popular tech stocks, like Microsoft and Alphabet, sitting alongside less familiar names, such as Boston Scientific, Union Pacific and Accenture. Investors can rest easy as Brexit is unlikely to have any major long-term impact on these sorts of holdings.



Fund Facts

Name:	Mid Wynd International (LON: MWY)
Type:	Investment Company
Sector:	Global Growth
Total Assets:	£190m
Launch Date:	October 1981
Current Yield:	1.1%
Net Gearing:	0%
Ongoing Charges:	0.70%
Website:	www.artemisfunds.com

Scottish Mortgage has massively outperformed its MSCI World benchmark over the last 5 years due in part to its high weighting in technology stocks like Amazon, Alibaba, Baidu and Tencent. It has an extremely concentrated portfolio with the 10 largest holdings accounting for more than half of the £7.7bn of assets and has the scope to invest up to a quarter of the fund in unquoted companies.

Baillie Gifford took over the management of Monks in March 2015 and has completely transformed its fortunes with the improvement in performance, eliminating the wide discount. It has a much more diversified portfolio

than Scottish Mortgage and provides a lower risk way to benefit from the firm's best ideas.

Turner also suggests **Mid Wynd International (LON: MWY)**, a £190m international investment trust that has done well since Artemis was ap-

pointed manager in May 2014. It has a reasonably diversified 64-stock portfolio that aims to offer some capital protection by capturing a higher percentage of the upside market moves than the downside. See fund of the month above.

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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BY JOHN KINGHAM

DIVIDEND HUNTER

IS IMPERIAL BRANDS THE ULTIMATE DIVIDEND- PAYING CIGAR BUTT?

The tobacco industry appears to be in terminal decline. Annual global cigarette volumes have consistently shrunk over the last few years and the number of countries with plain packaging laws has gradually increased.



This is obviously bad for the long-term future of tobacco companies like **Imperial Brands (LON:IMB)** (formerly Imperial Tobacco). So bad in fact, that the company currently has a dividend yield north of 7%. With such a high yield, many investors will assume that a dividend cut is imminent, but I'm not so sure.

I'm not sure because a company in terminal decline is not necessarily a bad investment. After all, both Warren Buffett and Ben Graham spent many years as 'cigar butt' investors, buying businesses with terrible long-term prospects at extremely low prices (like cigar butts found in the street) and offloading them for a small profit at the first sign of optimism (akin to taking a single 'free' puff).

So is Imperial Brands a high yield cigar butt offering a hearty but relatively short-lived dividend drag, or is it a yield trap offering a huge dividend which will never be paid? Let's take a look.

A consistent record of growth in a declining market

Starting at the top of the income statement, Imperial Brands has increased its revenues per share by about 12% over the last decade, giving an annualised growth rate of 1.6%. That's pretty weak and fails to keep up with inflation.

“THE COMPANY CURRENTLY HAS A DIVIDEND YIELD NORTH OF 7%.”

Turning to reported earnings per share, they're down over the last ten years by a few percent. And just as worrying, those earnings have failed to cover the dividend in six out of the last ten years. That's just about the last thing a dividend investor wants

to see in a company, so at this stage it seems as if yield trap may be a better description than (the not exactly flattering) cigar butt.

However, in this case, reported earnings may be more misleading than they are helpful. The reason goes back more than ten years ago to when Imperial Tobacco (as it was then) was an aggressively acquisitive company looking to become a big player in the global tobacco scene.

Acquired goodwill and the distorting effect of amortisation

After re-joining the stock market as an independent company in 1996 (following ten-years as a wholly owned subsidiary of Hanson Trust PLC), Imperial Tobacco spent more than £17 billion acquiring other companies en route to becoming the world's fourth largest tobacco manufacturer. This acquisition spree ended in 2008, coinciding with the Great Financial Crisis. Since then,



further acquisitions have totalled less than £5 billion.

What does all this have to do with misleading reported earnings? Well, as with most acquisitions, the price paid for these companies far exceeded their tangible assets. After each acquisition, the premium paid above tangible assets ended up on Imperial's balance sheet as accounting goodwill, an intangible rather than tangible asset. That's relevant because intangible assets are, for the most part, depreciated over anywhere from three to 30 years, just like tangible assets (although for intangibles it's called amortisation). Eventually, Imperial Brands ended up with more than £20 billion of intangible assets and that requires a lot of amortisation.

Amortisation is a non-cash expense which reduces the company's profits by varying amounts, but it currently runs close to £1 billion per year. That's a big recurring non-cash expense, especially for a company where pre-amortisation profits are only around £3.5 billion. The result of so much amortisation is that the company's dividend is often uncovered by reported earnings, but only because of a huge non-cash expense largely caused by acquisitions made more than a decade ago.

To get a better view of Imperial Brands, I think (and following in the footsteps of a certain Mr Buffett) a more accurate picture of a company's operating performance is given when amortisation is excluded from earnings. There are various ways to do this, but one simple approach is to look at free cash flow instead of reported earnings.

Free cash flow is an attempt to measure the amount of cash generated by the company's business operations (known as net operating cash flow), minus any cash reinvested into the business to pay for new capital assets such as property, plant and equipment (otherwise known as capital expenses or capex).

Like any performance measure, free cash flow isn't perfect, but it does exclude Imperial's huge non-cash amortisation of goodwill expense. It also replaces the non-cash expense of depreciation (which reflects the reduction in historic value of old capital as-



“FREE CASH FLOW IS PROBABLY A BETTER MEASURE THAN REPORTED EARNINGS.”



sets) with the cash expense of capex (which reflects the current cost of new capital assets). Replacing depreciation with capex is generally a conservative move because capex is usually a larger expense than depreciation. That's because a) growing companies will usually be investing more in fixed assets today than they were five or ten years ago and b) the cost of replacing assets goes up over time thanks to inflation.

More generally, free cash flow is probably a better measure than reported

earnings if you're looking for reliable dividend payments.

Growing free cash flow easily covers a progressive dividend

Unlike reported earnings which are down over the last decade, Imperial Brands' free cash flow per share has increased by more than 30%, with an annualised growth rate of 4%. That's better than the company's 1.6% annualised revenue growth and reflects

increasing margins thanks to the company's focus on cost cutting and higher margin products.

More importantly, free cash flow has covered the dividend every year, with an average free cash flow dividend cover of 1.9. Free cash flow dividend cover has been decreasing, though, going from around 2.5 a decade ago to 1.5 today. The reason is that management has seen fit to increase the dividend by an average of almost 11% per year for a decade. This makes for happy shareholders, but it isn't sustainable. At some point in the next few years the dividend's growth rate will have to be reduced if it's to remain well-covered by free cash flows.

Extraordinary returns on tangible capital employed

One thing you can say about the tobacco industry is that it's spectacularly profitable. That's because smokers are relatively insensitive to price increases and the price charged by tobacco companies is often only a small percentage of the price paid by consumers.

For example, in the UK, tax typically makes up 80% to 90% of the price of a pack of 20 cigarettes. Under the current tax rules, if Imperial charged £2 for a pack of 20, the retail price would be £9.18 thanks to fixed and variable tobacco duty and VAT. If Imperial increased its price by 10% to £2.20, that would increase the retail price from £9.18 to £9.46. For most companies, a 10% price increase would drive customers away towards cheaper competitors, but most smokers I know would be unlikely to quit or change brands because of a 28p price rise. And that, in a nutshell, is the sort of pricing power Tesco or Balfour Beatty would kill for.

This pricing power translates into extreme levels of profitability. By 'profitability' I mean free cash flow return on tangible capital employed. It's a bit of a mouthful, but the basic idea is simple. Since we're ignoring amortisation of acquired intangible goodwill (by using free cash flows instead of reported earnings) it makes sense to ignore those same intangible assets which are largely made up of goodwill. This will allow us to see what sort of return the company makes on the actual physical assets it uses to generate those

returns, i.e. factories, cigarette manufacturing equipment, etc. It's the sort of return the company might make on a new factory built to increase production.



In contrast, including intangibles in the capital employed figure would show us the sort of return the company makes on the total amount of capital invested by management, including large acquisitions which may have been made ten or twenty years ago.

I'm interested in the return the company can make on the cash invested in new fixed assets today, not what the return is on an acquisition made by a long-gone CEO ten or twenty years ago. And that's why I'm looking at the free cash flow return on tangible capital employed.

Over the last ten years, Imperial Brands has generated average free cash flows

of £2.4 billion per year. During the same period, it had on average £2.5 billion of tangible capital employed. That's an astonishing 96% free cash flow return on tangible capital employed.

Generating annual free cash equal to almost 100% of tangible assets employed is something very few companies can do. Such high returns on tangible capital means that Imperial Brands can grow while reinvesting just 11% of its operating cash flow back into the business as capex. The rest is available for acquiring other businesses, paying down debt, buying back shares or putting dividends into the pockets of shareholders.

Large debts and a plan for reducing them

One negative aspect of Imperial Brands (other than the obvious health costs of its highly addictive products) is its relatively high debt levels. At £12 billion, the company's total borrowings are about five-times its ten-year average free cash flows of £2.4 billion. That's about as much as I'd be willing to call prudent, despite the stability and defensiveness of the tobacco market.





However, this isn't quite enough to put me off because the company has a plan to substantially reduce its debts in the years ahead. This debt reduction will be driven to a large extent by a series of large divestments which are expected to generate around £2 billion of cash. This divestment plan is important because it's a key part of the company's strategy for succeeding in an ever-shrinking tobacco market.

Multiple tactics for coping with a shrinking tobacco market

Smoking is in decline around the world, which is good for all those people who won't be dying of lung cancer, but bad for companies like Imperial Brands. The global market for cigarettes and other tobacco products has been declining by a few percent each year, and that makes it hard to see how Imperial Brands and the other tobacco companies can continue to deliver dividend growth.

But there are ways to avoid declines in the short, medium and perhaps even the longer-term. There are a range of options, including: moving customers from low margin brands to high margin brands; moving customers from declining brands to growing brands; increasing market share; increasing

prices; cutting costs and increasing efficiency; divesting from declining and non-core brands; investing more behind growth brands; buying back shares; paying down debts; acquiring other tobacco companies and investing in non-tobacco products.

“THE COMPANY HAS A PLAN TO SUBSTANTIALLY REDUCE ITS DEBTS.”

Imperial Brands is doing all the above and more. It's a long list, so I'll just focus on a couple of major tactics.

Moving customers onto higher margin growth brands

Imperial Brands has dozens of cigarette, cigar and tobacco brands in its portfolio, some of which are both well-known and sold across the globe (such as Davidoff, JPS and West) while others are obscure and sold in a limited geographic region.

The big global brands tend to be higher margin and higher growth, so it makes sense to transition customers from

lower margin regional brands to the global growth brands. This increases the geographic spread and market share of the growth brand and is more efficient because it reduces the number of packet designs, cigarette ingredients and, potentially, layers of management.

The idea is to take a local brand (say, Brand X) where you want to transition the customers and stick "by JPS" (for example) on the label underneath the main brand name. After a while, customers get used to seeing JPS on the label. If sales numbers are holding up, you can then switch the brands around so that the main brand name is JPS and it's subtitled "by Brand X". Then you can change the rest of the packet design and eventually it looks the same as a packet of JPS from anywhere else in the world. I don't know for sure, but I assume they do something similar with the ingredients and flavour to maximise economies of scale.

Investing in non-tobacco alternatives

Non-tobacco Next Generation Products (NGP) is where most of the current speculation around tobacco companies is centred. Will Big Tobacco be able to convert billions of smokers into

billions of 'vapers', or not? I have no idea, but if they can it's going to take a very long time. There are, however, some encouraging early signs.

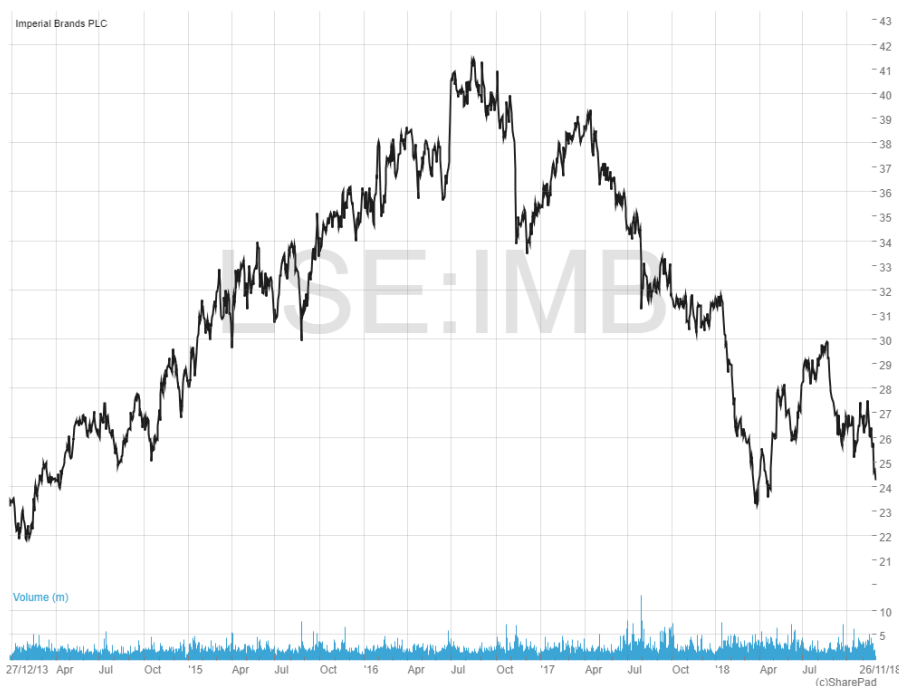
For example, in 2018, Imperial Brands' net revenues (after tobacco-related taxes) were up by 2%, with 1% coming from tobacco products and 1% coming from NGP revenue growth. That's impressive, especially given the small size of the NGP business.

How small? Well, management hope that NGP net revenue can grow by up to 150% per year, which would see it reach £1.5 billion by the end of 2020. Compare that to the company's current total net revenues of £7.7 billion and you can see that – even with super-optimistic growth rates – it will take the company's non-tobacco products a long time to generate significant revenues and profits.

As for the profitability of those NGPs, I seriously doubt whether they'll be anything like as profitable as the existing, highly polished and massively scaled cigarette business. The jury is very much out on this one as Imperial's NGP business is still loss-making, thanks to massive investments to drive awareness and a lack of economies of scale.

Is this a profitable cigar butt or dangerous yield trap?

With a dividend yield of more than 7% and a long-history of 10% annual dividend growth, Imperial Brands is seriously attractive as a dividend investment. The key question of course is whether that dividend can keep going up, or whether it's likely to stagnate or decline.



“IMPERIAL BRANDS IS SERIOUSLY ATTRACTIVE AS A DIVIDEND INVESTMENT.”

Personally, I'm more of a tobacco optimist than a pessimist, at least for the next decade or two. Yes, the market is in long-term decline, but for now I think Imperial Brands has a good chance of more than offsetting those declines. It could do this by moving customers to higher margin growth brands, cutting costs, divesting non-core brands, investing in growth brands, investing in non-tobacco brands and buying back shares.

And while all the excitement is around non-tobacco alternatives because they're shiny and new and look a bit

like a tech product, I'd rather see the company focus on margin improvements, efficiency and maximising cash returns to shareholders via dividends and share buybacks. In other words, I'd rather see management extract the maximum amount of cash from a declining cigar butt business than invest shareholder funds into a highly uncertain and highly competitive non-tobacco future.

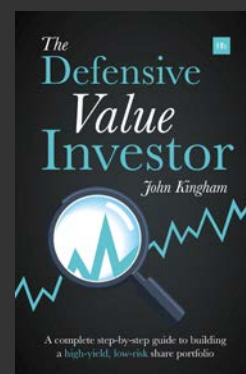
Either way, I think the decline of tobacco is going to take a very long time, so I'd be happy to invest in Imperial Brands at anything under 4,000p.

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 JAMES DE BUNSEN AND PETER WEBSTER

ALTERNATIVE TIMES CALL FOR ALTERNATIVE SOLUTIONS

With so much uncertainty shrouding 2019 already, now might be a good time to diversify your portfolio and seek alternative returns away from mainstream markets, say James de Bunsen and Peter Webster, Co-Fund Managers of Henderson Alternative Strategies Trust.

It's been a fantastic decade for equity markets, but now there is a growing consensus among money managers and economists that we are entering the latter stages of the business cycle. That could mean recession, volatility and ultimately a downturn for equity markets is likely in the next 18-24 months.

What's more, investors are confronted by some unusual geopolitical and socioeconomic factors that are shaping markets and business prosperity. For UK investors, Brexit is at the top of the list, while Trump's tenure as President of the USA has indelibly shaped global economics with (at least) two years to go. Digital disruptors and Europe's political turbulence are also forces at play as we enter 2019.

The complexity and inherent uncertainty of these factors makes it difficult to say with any real conviction how markets are likely to develop over the next 18 months or so. At Henderson Alternative Strategies Trust (LON:HAST), we have been gradually reducing the portfolio's riskier positions in anticipa-

tion of a downturn and October's sell-off was a comforting nod to the team's efforts.

Encouraging signs

October may have been a sign of things to come, with increased volatility typical of the latter stages of the business cycle. The FTSE World Index, which HAST aims to outperform over the long-term, returned -5.5% during the month. The Trust returned -2.2%, which means it outperformed the benchmark by 3.3% (Source: Bloomberg) during a tough month for global investment markets. The Trust's NAV

was also less sensitive to the late January/early February sell-off in global equity markets.

This is encouraging in the sense that we have built the portfolio to be less correlated with mainstream equity and bond markets over recent years and we have proactively reduced the portfolio's exposure to riskier assets (risk-off). It gives us some confidence that we are moving in the right direction and – if tough times are indeed ahead – we can weather the storm and keep our shareholders happy.

Reorienting the portfolio to a 'risk-off' position has been a gradual process, but now we are close to where we want to be. We have divided the portfolio into six distinct categories: hedge funds (23.7% as at 21st November), private equity (29.6%), listed equity (15.4%), property (12.2%), commodities (4.0%) and credit (11.1%). This helps us navigate away from the mainstream markets and aim to deliver uncorrelated returns for our shareholders, which we believe will be resilient during challenging periods.

**“WE HAVE BEEN
GRADUALLY
REDUCING THE
PORTFOLIO’S RISKIER
POSITIONS IN
ANTICIPATION OF A
DOWNTURN.”**



Hedge funds

We took the opportunity during October's sell-off to top up a few of our hedge fund positions with the sector taking a heavy beating during the month. Our largest hedge fund holding is in Blackrock European Hedge Fund. The fund takes both long and short positions to invest in the public equity markets of Europe. It invests in stocks of companies operating across diversified sectors and invests across all market capitalisations, with the primary aim of maximising total returns.

We like the fund's flexibility and the management team is very skilled, hence our confidence in the fund's ability to deliver attractive returns. After a stellar 2017, European equities are once more out of favour with global investors, but we think the fundamentals for growth in Europe remain intact. There are some political concerns across the region, but value has returned to the continent and we believe it's a strong diversifier to the US' long-running bull market.

Private equity

Private equity has traditionally formed a key part of the Trust's strategy and we have been pleased with the segment's performance this year. One pick from the private equity sleeve of the portfolio is Mantra Investment Partners' Mantra Special Opportunities Fund, also one of the Trust's largest holdings. The fund invests in a broad range of private equity businesses and we like it because it buys these businesses at significant discounts to net asset value. Mantra is able to do this because it acts as a liquidity provider for investors in private investments that are seeking an exit of what is usually a small holding for them. Mantra is small in size and is nimble as a result, picking up small positions at large discounts and then seeking an exit. It has executed the strategy very successfully to date.

Listed equity

Burford Capital was one of two new positions added during October and it is one we are very keen on. We have undertaken significant work looking into litigation finance as an emerging asset class. The market sell-off in early



Glossary

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

Quantitative tightening: A contractionary monetary policy applied by a central bank to decrease amount of liquidity within the economy. The policy is the reverse of quantitative easing aimed to increase money supply in order to stimulate the economy.

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

Liquidity: The ability to buy or sell a particular *security* or asset in the market. Assets that can be easily traded in the market (without causing a major price move) are referred to as '*liquid*'.

October provided a good entry point for us to open a position in Burford, which suffered as did many small and medium-sized high growth businesses during the month. However, we see litigation finance as an uncorrelated asset class generating high returns, a very underpenetrated market with significant barriers to entry. Burford is undoubtedly the leading litigation financier and we were able to open a position at an attractive level as the stock fell by 23.5%, peak to trough in October.

Credit

In pursuit of a diversified and uncorrelated portfolio, we are always active in global credit markets. It's not been an easy year for traditional fixed income investors, but HAST's mandate

to source alternative investment opportunities often takes us well off the beaten track and can lead us towards good performers like Asmore Sicav Emerging Markets Short Duration Fund.

The fund invests in short duration emerging market bonds, typically issued by governments or companies, which are denominated in USD. The average length of the portfolio's assets are typically between one and three years. Since its inception in 2014, the fund has delivered a three-year annualised return of 16.86%.

Property

Perhaps one of the most straight-forward sleeves of the Trust's portfolio is property. Within property, one



“BURFORD CAPITAL WAS ONE OF TWO NEW POSITIONS ADDED DURING OCTOBER.”

portfolio and how the team is working towards a resilient portfolio that can outperform during times of market stress.

We see a number of reasons to be cautious on markets going forward, including Brexit, rising interest rates, the onset of quantitative tightening, high valuations, trade wars, high levels of corporate debt in the US and mistimed US fiscal policy.

We believe that investors will have to adjust to greater volatility going forward. At this stage of the market cycle, missteps by policy makers are likely to be more keenly felt. Global growth seems to be gently rolling over, mainly led by China, although the US remains solid for now and this should support risk assets. However, we are becoming increasingly cautious and so remain vigilant and will look to react accordingly.

stock we are excited about is Urban Logistics REIT (Real Estate Investment Trust). Urban logistics is a fast-growing segment within the real estate sector and includes warehouses and facilities used for the storage and delivery of consumer goods. The growth of online shopping, the death of the high street and increasing demand for home delivery has led to increasing demand for urban logistic centers and it's a trend we think will continue in the long term.

Commodities

Commodities are another great diversifier to some of the mainstream equity markets and a natural protec-

tion against inflation. We hold Bank of America Merrill Lynch Global Commodities fund because we believe that a truly diversified multi-asset fund should have an allocation to commodities. We do not have a strong belief that commodity markets will rise over the coming years and like the Bank of America Merrill Lynch strategy because it is market neutral in nature. The fund aims to generate attractive returns no matter what the outlook for commodity markets is by taking positions both long and short.

Spread your bets

These examples should provide a sense of the diversity within the Trust's

Before investing in an investment trust referred to in this article, you should satisfy yourself as to its suitability and the risks involved, you may wish to consult a financial adviser. Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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BY VICTOR HILL

OPPORTUNITIES IN FOCUS

TWO MAJOR FAULT LINES FOR 2019

Last month I wrote in this column that there are three dimensions of global analysis: global financial markets, underlying economic fundamentals (GDP growth etc.) and geopolitics. I wrote about the first two last month. This month I want to flag two major geopolitical fault lines that could experience tectonic re-adjustments (aka earthquakes) as early as 2019. They concern America's relationship with the rising rival superpower, China; and its relationship with its up-until-now friends in Europe.



Each of these fault lines delineates opposing parties with competing interests. Even minor dislocations can be of potentially high economic risk as they can impede world trade, and therefore growth. Moderate dislocations cause political turbulence, and therefore increased volatility in the global financial markets. Major dislocations could cause – let's be frank – war.

We have lived in an era of prevailing peace between the great powers since 1945 – give or take a few dozen relatively "minor" wars. Some of them have been internecine like the Vietnam War (1955–75) or the Balkan Wars pursuant to the break-up of Yugoslavia (1991–1999). They have all taken place in marginal or peripheral countries. But we should not assume that world peace is a natural state, despite the *mutually assured destruction* of nuclear war.

On the contrary, history teaches us that the moment when rising nations challenge established hegemony is the most dangerous. Here, I just want to consider how the escalating trade war between America and China is actually becoming a new cold war. Also, I want to examine how America's evolving (a polite word for deteriorating) relationship with Europe may even accelerate the risks of a US-China clash.

**“WE SHOULD NOT
ASSUME THAT
WORLD PEACE IS A
NATURAL STATE.”**



The challenge to the post-1945 states system

We are currently in a transition to a new global states-system. This is replacing the post-1945 settlement, the principle architect of which (paradoxically) was the United States of America. Liberals may not like this very much – but it is happening. The post-1945 states architecture was based on multi-national institutions – with the United Nations (UN) at its centre. The new states system is based on the return of powerfully assertive nation states, mostly led by a new breed of popular (I do not say *populist*) strongmen. Increasingly, these 21st century strongmen rule, not just for years, but for decades.

Most commentators date the post-cold war era in which we live from the breach of the Berlin Wall by protestors on 9th November 1989, some 29 years ago. Then it was clear that the Cold War was over – the West had "won" and state socialism, especially as exemplified by the Soviet Union, had been defeated as an economic model for good. Just over a year after the fall of the Berlin Wall and the self-liberation of the countries of Eastern Europe from communist tyranny, the Soviet Union itself dissolved on Christmas Day 1991. The world seemed to be careering on a new trajectory – one in which capitalism was triumphant and the USA emerged as hegemon, or sole superpower.

But there is another key event from which we can date the age in which we live – particularly if we re-focus

away from Europe towards Asia. That date is 4th June 1989. That was the day that the top leadership of the Communist Party of the People's Republic of China (CCP) lost patience with a brief experiment in relative democracy. The two-month student protest which had brought Tiananmen Square to gridlock was halted. The protestors were massacred.

“MULTINATIONAL COOPERATION NOW SEEMS SO LAST CENTURY.”

Having reasserted its absolute authority, the CCP did a tacit deal with the Chinese people. You stay out of politics, which will remain our sole domain: but you are free to set up businesses and get rich. *To get rich is glorious*, said [Deng Xiaoping](#). The Chinese, who are amongst the most naturally entrepreneurial people on planet Earth, took up the offer with gusto.

Western observers, inured with the idea that capitalism and democracy are the horse and carriage of the modern world, looked on expecting that sooner or later China would adapt to its growing prosperity by aping the Western model of liberal democracy. That didn't happen. Instead, if anything, China became even more autocratic: using modern technology to enhance the Big Brother surveillance

machines used to suppress all dissent in the first digital autocracy.

The end of multilateralism

In the time of Trump, Putin, Erdogan, Xi, Duterte and Mohammed bin Sultan, Bolsonaro (not to mention Brexit) multinational cooperation now seems so last century. But what about the collaborative Europeans: Macron, Merkel, Juncker and Tusk? It turns out that they are trying to construct another state, in federal form, to challenge America.

It was the United States, supported by Britain, which propelled the foundation of the United Nations on 24th October 1945, at a moment when much of the world lay in ruins. Then it had 51 members; today it has 193. The UN was underpinned by the [UN Charter](#) and by the [Universal Declaration of Human Rights](#) (UDHR, 1948). All states that joined the UN would therefore have at least to pay lip service to the values of Western liberal democracy. And a panoply of supra-national or internationalist institutions then began to proliferate: the World Bank (1945), the IMF (also 1945), UNESCO (1946), the World Health Organisation (1948) and so on.

Within this ideology of collaborative association and collective security the proto-EU emerged with the Treaty of Rome (1958). The flowering of this was the birth of the euro in the late 1990s which, as [I have explained before in these pages](#), was the French solution to the German problem which arose from the re-unification of Germany in 1990. (Paradoxically, however, the same forces that gave rise to international financial cross-fertilisation also resulted in the catastrophe of the Financial Crisis of 2008).

More than that, the elimination of trade barriers and commercial borders gave rise to the form of stateless capitalism that we now call *globalism*. A small mountain resort in the Swiss Alps became the nexus of the Champagne-fuelled globalist conspiracy – *Davos* – a name that now rings with infamy in the post-globalist age of economic nationalism...

Then, as if on cue, mass migration came to the top of the political agenda on both sides of the Atlantic at the



Alexandros Michailidis / Shutterstock.com

The culture war

Reaction against mass immigration, multiculturalism and globalism occurred at a moment when western society was riven by a social revolution which threatens to transform society in ways that traditional conservatives fear. Conventional feminism has been superseded by the #MeToo movement which, for many men, looks like an attack on masculinity; the gay rights movement – now happily successful in the west – has been superseded by something that many find difficult to understand: namely militant transsexuals and indeed intersex (the precise definition of which eludes me) activists being aggressive about conventional bathroom arrangements. All this is now called the *culture war* which overlays the widening gulf between conventional left and right.

more or less same time. The over-filled boats travelling from lawless Libya to Southern Italy, or from Morocco to Spain, mirror the caravans heading from Central America to the US-Mexican border. For American Republicans and European populists, the globalist liberal elites who have encouraged the mass immigration of people of alternative culture – some of whom support the doctrines of Islamicist terrorism – are now responsible for the sabotage of national culture and life...

Anti-immigration sentiment – especially on the part of indigenous working class communities whose incomes were most vulnerable to an influx of low-skilled workers who dragged wage rates down – gave rise to the political movement which people on the left call *populism*. I have argued before that populists are not neo-fascists but are actually traditional conservatives, established conservative parties (like the UK political party of that name) having become both globalist and liberal.

Alternative für Deutschland (AfD) is now the official opposition in Germany. It is ironic that the populists have gained strength in Europe at a moment when the American president – whose views they share in many respects – has signalled that the NATO alliance may be out of time.

Interventionism

In the aftermath of the collapse of the Soviet Union the US became more assertive and adopted a strategy of active interventionism – much egged on by, for example, UK Prime Minister Blair. First, NATO attacked Serbia and detached Kosovo as a separate state – in total violation of the UN Charter, by the way, and to the horror of a much weakened Russian Federation. Then the Western alliance invaded Iraq in 2003 on the spurious pretext that it had *weapons of mass destruction*. (The same Mr Blair was instrumental in propagating this false prospectus.) The aftermath of the Iraq war, having smashed all the power structures of that country

and several of its neighbours, was to create a massive power vacuum across the entire region into which Iran, Syria and Turkey were ineluctably drawn – with horrific consequences.

After 9/11 (11th September 2001) America acted in its self-proclaimed *War on Terror* as if its NATO allies did not matter. The 2003 invasion of Iraq was spurned by France and Germany – though "Old Europe", Poland et al, signed up. Peter Hitchens¹ thinks that the disastrous liberal interventionism of George Walker Bush and Tony Blair and the post-war ideal of internationalism are uncomfortably connected. The idea that states should intervene just because they disapprove of the morality of other governments has proved extremely destabilising. In contrast, the Chinese stance that they wish only to do business with, and have no desire to criticise African governments for their human rights record, has won them many friends across that continent.

At the same time, by re-embodiment the Russian threat and by changing European borders by decree, President

“TRUMP HAS BEEN THE MOST UNFAVOURABLY INCLINED POTUS TOWARDS NATO.”



Evan El-Amin / Shutterstock.com



Putin has given new life to the need to create a new military front against Russia. Yet President Trump has been the most unfavourably inclined POTUS towards NATO since its inception. NATO was always an alliance conceived to counter Russia; but, as far as he is concerned – is Russia the problem? There is a much larger and more powerful country that directly now challenges American supremacy – and that is, of course, China.

This is the single most potent reason why a president was elected in the USA in 2016 who was himself a challenger to the international status quo. This president is not only opposed to the post-war order – he is hostile to it.

Welcome to the new world disorder...

The USA versus China

There was a bust-up in the South Pacific last month. It might be seen in future as the moment a new Cold War began. Such was the furore around Brexit that many British readers might have overlooked a very important incident which was little reported by British media. The event demonstrated beyond doubt that the trade war between the US and China is only tangentially about trade.

On 17th November US Vice President Mike Pence and Chinese President Xi Jinping exchanged barbed comments at the annual Asia Pacific Economic Cooperation (APEC) summit in Papua New Guinea. APEC is a forum of 21 countries which have coastlines on the Pacific Ocean which has held annual meetings since the late 1980s.

The summit ended the next day in unprecedented disarray, with no joint communiqué – for the first time in its history. At this summit, proceedings were overshadowed by the regional (and global) rivalry between the United States and China, of which the escalating trade war is just one manifestationⁱⁱ.

Apologists for the Trump administration will say that the US has, at last, formulated a response to China's *Belt and Road (New Silk Road)* programme – China's strategy of rolling out huge infrastructure projects, executed by Chinese contractors, at favourable rates across Southern Asia and Africa.

Launched in 2013, with a projected budget of nearly one trillion dollars, the idea is a blatant attempt to drag developing nations (and their abundant resources) into China's orbit.

As more states are pulled into that orbit, so fewer states will adhere to the established *Pax Americana*. So for Americans of a strategic bent, the New Silk Road is a kind of post-modern Marshall Plan designed to promote not just Chinese trade but Chinese values too. A 5,000 mile four-lane motorway linking Beijing to St. Petersburg opened last month. The road runs from western China (Xinxiang – where the native Uighur population is in latent revolt), and then crosses Kazakhstan into Russia. Russia might seem like a threat if you live in Estonia; but Russia is itself now within China's gravitational field.

One diplomat told Reuters that tensions between the US and China erupted when the Chinese government's top diplomat, Wang Yi, objected to two paragraphs in a draft document. One referenced *unfair trade practices* and the reforming of the WTO, while another concerned *sustainable development*. Chinese delegates were outraged, saying the references were barbs against China. Chinese delegates attempted to bully Papua New Guinea officials into issuing a statement that conformed to Beijing's outlook. According to AFP po-

lice were called by officials at the Papua New Guinea ministry of foreign affairs to eject Chinese officials. The Chinese vigorously denied these claims.

Instead of issuing a document that all 21 participants could agree upon, Papua New Guinea Prime Minister Peter O'Neill announced that he would issue a summary statement. The Prime Minister said the main area of disagreement was the insistence by one country – evidently the US – that the communiqué would endorse the reform of the World Trade Organization (WTO). Mr O'Neill added: "APEC has got no charter over the World Trade Organisation".

China benefits from the WTO under the current dispensation and therefore does not back reform. European Union proposals to reform the institution are expected to be tabled at the G-20 summit in Buenos Aires, Argentina, scheduled for 30th November 2018. The US is increasingly hostile to the WTO because it believes that it is *soft on China* – especially with regard to the theft of intellectual property.

Vice President Pence admitted that there had been major differences between the US and China, citing tariffs, quotas and *forced technology transfer* (aka the theft of intellectual property). He added that the US had concerns over freedom of navigation on the high

“FOR AMERICANS OF A STRATEGIC BENT, THE NEW SILK ROAD IS A KIND OF POST-MODERN MARSHALL PLAN.”



“THE US IS THREATENING TO RAISE TARIFFS ON CHINESE IMPORTS FURTHER.”

seas (a reference to Chinese military activity in the South China Sea) and human rights.

After the summit, Vice President Pence warned developing nations to avoid loans that would leave them indebted to Beijing. He said the US was not in a rush to end the current trade war and would "not change course until China changes its ways".

While the USA can depend on allies like Japan, Australia and Taiwan, nations such as South Korea and the Philippines that have defence arrangements with America will become "fence sitters" according to Minxin Pei, professor of government at Claremont McKenna College in California. These states don't want to make themselves an enemy of China. [I wrote earlier this year](#) about the relentless Chinese penetration of Australia's economy. Many Australians think that their elite have been complacent in letting this happen.

While in Asia, Vice President Pence also tried to pull more nations away from China's sphere of influence, saying the US provides a *better option* for nations in the region. He announced a plan along with key Pacific allies to build a

The evolution of the European Union

The European Union (as it has been called since the Treaty of Lisbon, 2011) – or the European Economic Community (EEC) as it was originally called – came about a decade or so after the foundation of the UN at a time when it seemed that states needed to coalesce in order to progress. Britain was not a signatory to the Treaty of Rome (25 March 1957) which brought the EEC into existence. The original six were: France, West

Germany, Italy, the Netherlands, Belgium and Luxembourg. For five of those nations the logic was compelling: they no longer had to worry about German expansionism.

Britain, Ireland and Denmark joined the EEC in 1973; Greece in 1981; Spain and Portugal in 1986; Sweden, Finland and Austria in 1995. Ten Eastern European and Mediterranean countries joined on 1st May 2004; and then Bulgaria and Romania in 2007. Croatia was the most recent recruit in 2013.

\$1.7 billion electricity grid in Papua New Guinea. The US also joined with Australia to redevelop a naval base – a show of force which will infuriate Beijing – and held a meeting of "the Quad", a group that also includes India and Japan, to discuss China's rising economic and military strength in the Pacific. (There have been rumours that the Chinese are trying to establish a military base on the Pacific island state of Vanuatu).

As a result of this rising geopolitical tension, the US is threatening to raise tariffs on Chinese imports further as early as January 2019. As I write, nobody is expecting Presidents Trump and Xi will reach a trade deal when they meet at the G-20 summit in Argentina in late November. President Trump has previously threatened to pull out of APEC, claiming that its rules unfairly favoured China. For now it is just another forum in which to joust.

Most economists would argue that no one wins a trade war in the long run. Free trade creates a level playing field for producers of goods, wherever they may be; and this always lowers costs for consumers and businesses. But, as we know, productive capacity tends to be located where labour costs are cheaper, causing job losses in the manufacturing heartlands of more developed economies. This prompts claims of *unfair* competition – something that Mr Trump tapped into during his 2016 presidential election campaign.

In my view, the US-China trade war has only just begun. It might turn out in decades to come to be the harbinger of a more lethal kind of war.

Europe: fault lines north-south – and east-west

There are two major fault lines within the EU of which one in particular within the 18-state Eurozone itself. Essentially, the Eurozone rift runs North-South: it reflects the disparity between the surplus countries such as Germany and the Netherlands and the deficit countries which aboard the Mediterranean. (These are sometimes referred to, somewhat disparagingly in my view, as *the Olive Belt*).

Then there is an even deeper fissure on cultural lines which runs East-West. The Western EU states are liberal and relatively amenable to mass immigration; the Eastern EU states are socially conservative, like Catholic Poland, and find the prospect of the obligatory imposition of migrant quotas totally unacceptable.

Let's look at the North-South rift within the Eurozone first. I call this Brussels versus Rome, but you might also want to call it Frankfurt (the home of the ECB) versus Athens; or even Berlin versus the South.

Brussels versus Rome

The stand-off between Rome and Brussels over Italy's 2019 budget claimed its first casualty on 12th November. Italy's major banks were forced to club together to support an emergency bond issue by **Banca Carige SpA (BIT:CRG)** after the rise in Italian government bond yields – triggered by the Brussels-Rome budget battle – eroded the second-tier bank's capital base, pushing it to the brink of collapse.



The Germans versus the rest

In his book *Brexit: the road to freedom*, Will Podmore explains that the EU was conceived as a means to achieve free trade *within Europe* – much to Germany's advantage – but was never a free trade enterprise. The founders of the EU – Frenchmen and Germans – never embraced the goal of international free trade. On the contrary, their goal was to protect the EU against foreign competition by imposing tariffs on goods imported from its industrial rivals in America and elsewhere. When the EU talked about free trade, it meant protecting itself by means of treaties against other trade blocs like NAFTA and the Trans-Pacific Partnership. The single currency was largely a successful means by which German exporters could eliminate exchange risk on the part of their major export markets. The outcome is a system which is inherently flawed – and which may not be able to withstand another Europe-wide recession.

That intervention averted a failure, and the contagion that would inevitably have followed. But the need for a rescue emphasises that the *doom loop* (the term used by the World Bank) between Italian government debt and Italy's banks is an accident waiting to happen. This is a problem both for the country's banks and for the Italian government.

Since 2008, Italy's banks have more than doubled their holdings of Italian government debt from €165 billion to €387 billion. This has largely occurred since 2011, when the ECB introduced its programme of making preferential loans to Eurozone banks in order to stimulate lending. These allowed Italy's banks to borrow from the ECB at fixed rates as low as minus 0.4 percent and to invest the proceeds in Italian gov-

ernment debt (which carries a zero-risk weighting under the Basel III capital adequacy framework). Such a trade made for a handsome carry.

As a result, today Italy's banks own 20 percent of all outstanding Italian sovereign bonds – 10 percent of their asset base – up from less than 5 percent before the crisis. Now the budget plans of Italy's new populist government have turned the size of that holding into a major issue for the markets.

After Rome tabled budget proposals that will push Italy's 2019 deficit up to 2.9 percent of GDP (according to Brussels), the yield on 10-year Italian government bonds has climbed from 1.71 percent after April's election to 3.27 percent as I write. That implies a major fall in the value of government bonds on banks' balance sheets, eroding their capital bases. It seems that the European mandarins now believe that the Italians could bring the Euro crashing down...

America versus Europe

Just before the centennial commemoration of the 1918 armistice President Macron announced that Europe needed to build its own army in order to protect Europe against its prospective adversaries: *the USA, China and Russia*. That was a strange thing to announce in front of a visiting US President – especially *The Donald*.

Monsieur Macron's oration prompted a tirade from Mr Trump, whose bromance with the French President is clearly over. But on 13th November Frau Merkel, in a speech to the European Parliament in Strasbourg, unequivocally spoke in support of President Macron in favour of the establishment of a European Army. She said that an EU army would counter *unreliable allies*. (By which French and German listeners would have understood America and Britain.)

As if to underline the East-West split in Europe, the Poles were celebrating the

100th anniversary of the re-establishment of their nation. At an Independence Day event in Warsaw, Polish President Duda addressed the multitude. Polish soldiers stood side-by-side with members of a right-wing group (comparable, perhaps, to the English Defence League) which is vociferously opposed to Muslim immigration, as well as representatives of *Forza Nuova*, an Italian right-wing movement.

Monsieur Macron's attempt to re-configure the Western security apparatus, supported by the out-going and increasingly enfeebled German Chancellor, makes him a much more dangerous figure than Mr Trump. It is now clear that the Franco-German alliance is trying to push Europe – and particularly the 18 Eurozone countries – in the direction of fiscal harmonisation (that means a common budget and identical taxes), and political union – all with a common defence identity.

As usual, the French and the Germans are out on a limb. Who will pay for this shiny new European Army? As President Trump is keen to remind Europeans, most NATO members do not even meet the alliance's aspiration to spend just two percent of their GDP on defence. Most Eurozone states have



“THE ITALIANS COULD BRING THE EURO CRASHING DOWN...”

debt-to-GDP levels at record highs. Their welfare states are expanding and the cost of healthcare is rising. Where is the money for this new defence arrangement going to come from?

Moreover, not all Eurozone states are NATO members even now. The Republic of Ireland, Sweden, Austria and Finland were resolutely neutral states during the Cold War (the first two by choice, the latter two by virtue of treaties). They benefitted from the collapse of the Soviet Union – but contributed nothing towards the defence of Europe from (what Ronald Reagan called) *the evil empire*. It is funny that the EU negotiating team has taken such a supportive stance to the Irish on the matter of the UK-Ireland border when Ireland, unlike Britain, contributed nothing to their current freedom.

But the real point is that Monsieur Macron's proposal has fundamentally shifted US opinion in the direction of Mr Trump's outlook. Not only does the US subsidise European defence costs – to the extent that the Germans can run a massive trade surplus with the USA – but now Macron & Co. are potentially going to point France's *force de frappe* missiles at Washington. That would be a very big mistake.

I now think that Mr Trump will campaign in the 2020 presidential election on a platform of the US leaving NATO altogether. Europe is actually a distraction for the US from its main focus – which is, of course, the containment of China. Most Americans are now tiring of Europe's combination of penny-pinching and arrogance. If Mr Putin were to decide to quash Estonia as he quashed Georgia in 2008, I suspect that most Americans would conclude that Monsieur Macron and Frau Merkel (if she is still around) should sort it out with their own threadbare army.

So President Obama's pivot towards Asia will actually accelerate under Mr

Trump. Europe is making a huge mistake in its liberalist-globalist contempt for Mr Trump. And its peoples may very well live to regret it.

Conclusion & Action

What should investors make of this re-configuration of the global geopolitical landscape?

We are living at a time of rapid technological change – which offers huge opportunities – but also of a revolution of the states-system that has obtained for nearly 75 years. The peace of 1815 which was sealed at the Congress of Vienna, and which drew a line under the era that we now call the Napoleonic Wars, lasted 99 years until 1914. Will the period of peace between great powers which began in 1945 last that long?

Investors can't really prepare for a major shock that will most probably occur at an indeterminate time over the medium to long term. But they can position themselves for fundamental shifts that are likely to occur over the short term.

One prospective outcome of a US-China Cold War (even more than a hot war) is that the countries that have most invested in the internet (the world wide web) may start to want to fragment that web into mutually impenetrable silos. The day of reckoning for the internet giants is coming – especially for the titans of social media, **Facebook (NASDAQ:FB)** and **Twitter (NASDAQ:TWTR)** – as Europe and the USA begin to regulate that sector more pro-actively.

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.

“THE DAY OF RECKONING FOR THE INTERNET GIANTS IS COMING.”

Chinese influence now stretches well beyond South and Central Asia as far as central Europe and even Greece, and the Chinese media giants are a part of the Chinese power-play; just as Chinese construction companies are instrumental in the roll-out of the *New Silk Road*. In my opinion, the second phase of Mr Trump's cold war against China will be that, as well as tariffs, the administration will take measures to staunch the flow of American capital into China. That will inevitably impact the Chinese stock market, but especially its tech sector which is widely held outside China. China's social media giants – **Baidu (NASDAQ:BIDU)** and **Alibaba (NYSE:BABA)**, in particular – will suffer a similar fall from grace as their US analogues.

There will be other consequences which I would like to explore in 2019. In Europe, the risk of a major crisis has thus far been underestimated by the markets. The Eurozone economy is already slowing down at a time of increasing risk of economic shock – whether from an Italian default or from a major recession which would reveal the huge economic imbalances on which the single currency is sustained. I'll be shining a laser-beam into that dark pit very soon.

- i **Speaking to Bridget Kendall in The death of the post-war settlement.** Available at: <https://www.bbc.co.uk/search?filter=programmes&q=The%20Death%20of%20the%20Postwar%20Settlement&suggid=urn%3Abbc%3Aprogrammes%3Am0000t68>
- ii **See:** https://www.zerohedge.com/news/2018-11-18/apec-summit-ends-unprecedented-chaos-after-dramatic-collapse-us-china-relations?fbclid=IwAR3Fuojvfgt8IFCAGIjEl8USRuDpfprvcWroUJL_XRGhd-mAIR5Gp5otN3I





BY DAVID JONES

FORENSIC FOREX

WHY ISN'T THE EURO TROUNCING THE POUND?

Given the uncertainty surrounding the ongoing Brexit discussions, and the instability at the top of the UK government at the moment, the casual observer could be forgiven

for thinking that the euro is able to buy many more pounds now than it would have at the beginning of 2018. But actually, the euro/sterling rate (EURGBP) is not showing too much

change for the year to date, with one euro still getting you around 89 pence. Let's have a quick catch-up with the history of these two major world currencies.

EURGBP – the last three years



Not surprisingly, the pound weakened and the euro strengthened on the back of the referendum result in June 2016 in which the UK voted in favour of leaving the EU. One euro was worth 0.78 (78 pence) just before the vote and it increased to 0.93 (93 pence) in October 2016. But since then it's fair to say that there has not been much in the way of excitement. The exchange rate has been contained within a well-defined range for the past couple of years. It

“THE PAST 12 MONTHS HAVE SEEN AN EVEN TIGHTER RANGE AGAIN FOR EUR/GBP.”

**“WE COULD SEE
SOMETHING OF A POUND
COMEBACK IN THE RUN-UP
TO THE PLANNED EXIT IN
MARCH 2019.”**



reached a low of 0.8300 in December 2016, before increasing back to the 0.93 zone in September 2017. The past 12 months have seen an even tighter range again for EUR/GBP, which may come as a surprise to many.

What's holding the euro back?

The various gyrations for the pound over the last couple of years have been extensively covered by the media, but this year has definitely not been plain sailing for the euro either. If we take the pound out of the equation, the euro has dropped by 10% against the US dollar since February.

An obvious reason for this is widespread dollar strength crushing all that comes before it. This has been the case across the board for many currencies this year – not just the euro and the pound. The dollar has staged a comeback after a disastrous performance in 2017. But the euro problems go wider than just this one reason.

The aftermath of the referendum, regardless of whether you are a Remainer or Brexiteer, has caused uncertainty in financial markets. But the lack of progress in finalising the divorce package clearly doesn't just impact UK sentiment; any trade problems are also going to cause some degree of disruption to the European economy too – and when economies suffer, their currencies tend to as well. This is one of the main reasons why we are seeing EUR/GBP engaged in such a tight dance in terms of the lack of real volatility this year – both economies could be impacted in an unfavourable outcome. Of course, this won't be the case forever – but whilst so much remains unknown, it is not surprising that there is very little commitment in either direction for a brave new trend in EUR/GBP.

Let's – no doubt, to the relief of many readers – take Brexit out of the equation for a second. The wider European economy has not had a good year. The third quarter of the year saw its rate of growth come in at a paltry 0.2% – and the German economy actually shrank. Admittedly, the car industry could help its economy accelerate in the short-term. Production here has been slowed during the summer due to a

backlog of new tests on emissions, but the EU's economic slowdown is not just due to that. The global slowdown, particularly in power houses such as China, has taken its toll on European exports and that is a situation that doesn't look set to change anytime soon.

Then, of course, there is the Italian complication. Its government has locked horns with the European Union Commission over its budget plans. The EU had asked Rome to rein in its high-spending budget plans or run the risk of being fined. Italy's debt is around 130% of its GDP and the EU is trying to reduce the risk of a financial

crisis. It's early days, but the fact is, as a percentage of GDP, the Italian debt is second only to Greece – and plenty of us remember the problems that that small nation caused the EU. The defiance being shown by Italy is another reason why investors are probably right to be cautious on the outlook of the medium-term prospects of the economic zone's single currency.

The short-term outlook for EUR/GBP

The short answer to how the euro is going to fare in the near term against the pound is probably: little change. It has spent most of this year doing very

“THE GLOBAL SLOWDOWN, PARTICULARLY IN POWER HOUSES SUCH AS CHINA, HAS TAKEN ITS TOLL ON EUROPEAN EXPORTS.”





little of note, and until and if the UK actually leaves the EU, we should expect more of the same.

Arguably, based on the trend over the past few months, the latest Brexit-inspired strength has dragged the euro up to an extreme, and it is due some cooling off and we could see something of a pound comeback in the run-up to the planned exit in March 2019. EUR/GBP has struggled to hold on to gains above 0.8900 since this summer. If the UK government actually finds some unity and starts to progress the Brexit agreement, don't be surprised if the euro starts to weaken and EUR/GBP slips back towards the 0.8600 area.

If, following the referendum result, you placed a trade in favour of the euro continuing to gain against the pound, then that would have been a naïve trade. The Eurozone has problems both politically and economically, and it is certainly not immune from Brexit-inspired wobbles. I think it will be a relief for many of us when the current slow progress negotiations get resolved one way or another because we will end up with a much freer flowing market in terms of the euro pound exchange rate.

Four month chart EUR/GBP



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 RICHARD GILL, CFA

BOOK REVIEW

HOW TO THINK ABOUT MONEY

MAKE SMARTER FINANCIAL CHOICES AND SQUEEZE MORE HAPPINESS OUT OF YOUR CASH

BY JONATHAN CLEMENTS

How to Think About Money is a personal finance book, written by author Jonathan Clements, whose previous version enjoyed cult status amongst investors in the US. UK readers have now been treated to a new edition of the title, it being billed as, "the ultimate smart thinking book for those who want a more prosperous and less stressful financial life."

The book is the culmination of decades worth of work from Clements, a US based financial writer who spent almost 20 years at The Wall Street Journal as a personal finance columnist. He also worked at Citigroup as director of financial education for the US wealth-management business. Via his writing, he wants to help readers worry less about money, make smarter financial choices and get more happiness from the money they already have.

A long time to be happy

How to Think About Money is based around five key concepts, or "steps", with each discussed in a separate chapter.

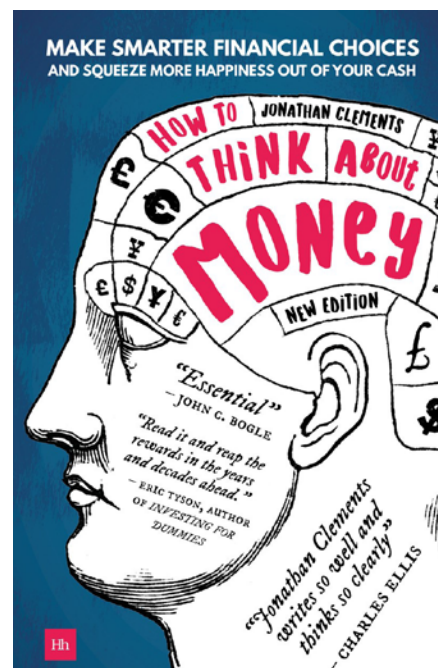
The first chapter covers a timely topic as I am writing this review on the day of the materialistic mega-event Black Friday. "Money can't buy you happiness", the old saying goes. "People who believe that don't know where to shop", Gertrude Stein responded. But Jonathan Clements has a different view, sug-

gesting that while we all need material possessions for our basic needs (food, shelter etc.), money doesn't buy much more happiness after that. He argues that while money *can* buy happiness, it can't buy nearly as much as we imagine and we soon get bored with any new possessions we purchase.

So to get the most out of our money we need to use it carefully and wisely. Spending on experiences for example makes us happier than spending on possessions. We can form memories from experiences which last a lifetime. So maybe next time you're thinking about forking out thousands on a new radio controlled, interactive fridge, consider paying for a holiday or Michelin star lunch instead. You could even spend it on someone else, with many studies suggesting that we get more pleasure when we buy things for, and spend time with, others.

**"WE'RE ALL
PROBABLY SET FOR
MANY MORE YEARS
OF LIFE."**

“PRUDENTLY SAVING AND INVESTING SENSIBLY IS THE KEY TO LONG TERM WEALTH.”



Another saying, popular amongst the inspirational quote community, is "live each day like it's your last". This is of course very silly advice because it probably won't be. So you don't want to be frittering all your cash away on one 24 hour splurge. Instead, we're all probably set for many more years of life, so need a good financial plan to steer us through the decades to come.

Along those lines, step 2 advises readers to bet on a long life. That seems sensible as, according to the Office for National Statistics, UK life expectancy at birth is expected to reach 88.9 years for females and 86.4 years for males by 2066. That's up from around 83 for girls and 79 for boys right now. To meet this challenge the author advises saving early in life and investing in an unexciting but reliable diversified portfolio of global stocks. Trying to pick individual shares yourself is highly discouraged.

Managing money, reducing risk, cutting costs

Step 3 advises readers to, "rewire your brain", discussing how a natural human cognition to fail at finance can be over-ridden by applying sensible money management skills. Instead of following the natural desires of our ancestors to focus on the short-term, quickly react to danger and find patterns, Clements argues that when it comes to finance we should think a little more. The chapter covers 22 behavioural finance related mental mistakes

that we have all made at some time or another (including lack of self-control, finding patterns that don't exist and confirmation bias), helping readers to identify and eliminate them.

A brief chapter four covers bringing order into our financial lives by focussing on our pay cheque, or, in other words, our human capital. After all, in the earlier years of our working life this is our most valuable income producing asset. By focussing on this we can recognise the financial trade-offs we need to make and what kind of investment portfolio we need to construct for retirement.

Finally, step 5 covers what any self-respecting Yorkshireman already knows: if we want to increase our wealth then we need to minimise our outgoings. In broader financial terms, if we want to win, make sure we don't lose. Some of those outgoings could come from poorly performing actively managed funds which, as well as not beating their index, also have high management charges in contrast to low cost tracker funds. Clements also advocates buying insurance to cover those unexpected but potentially catastrophic events which could set you back financially 10 or 20 years.

A new way of thinking

While there are thousands of personal finance books on the market, *How to Think About Money* is unique, it bringing together a number of sensible and

practical ideas to help us all enjoy a more stress free financial life. As the author explains in his final thoughts, none of the advice in the book is complicated or clever, but putting it into practice is a difficult skill. While the book is mainly written for an American audience, the concepts can easily be applied to investors in the UK.

Clements' overall goal isn't for readers to "get rich" per se but to have enough money to live the life they want. He argues that prudently saving and investing sensibly is the key to long term wealth, not sitting in front of three screens every day trying to guess which way the Ruritanian Splev will go in the next 5 minutes. Overall, after reading this book investors will, after putting the five steps into practice, enjoy a more fulfilling and less stressful financial life.

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.

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BY TIM PRICE

THE FINAL WORD

WHEN NO NEWS IS THE BEST NEWS

"Briefly stated, the Gell-Mann Amnesia effect is as follows. You open the newspaper to an article on some subject you know well. In Murray's case, physics. In mine, show business. You read the article and see the journalist has absolutely no understanding of either the facts or the issues. Often, the article is so wrong it actually presents the story backward—reversing cause and effect. I call these the "wet streets cause rain" stories. Paper's full of them."

"In any case, you read with exasperation or amusement the multiple errors in a story, and then turn the page to national or international affairs, and read as if the rest of the newspaper was somehow more accurate about Palestine than the baloney you just read. You turn the page, and forget what you know."

– Michael Crichton (1942–2008),
quoted by Ben Hunt in '[Gell-Mann Amnesia](#)'.


Historians take great pains to distinguish between primary and secondary sources. The primary source is the closest source to the original event: an eye witness of the time, say, or a contemporary diary entry. The primary source is absolutely key to historical integrity. The secondary source bears an arm's length relationship to the original event: a journalist's account, say, or some other correspondent reliant on somebody else's primary material. The secondary source may be anecdotally useful, but it comes some way down the pecking order compared to the heightened primary 'truth'. Think of it like the children's

game of Chinese Whispers: the more people there are between you and the original quote, the more likely that original quote is going to be hopelessly distorted by the time it finally reaches you.

It turns out that our news media are less reliable than we might have thought, or hoped. I thought and hoped at the time, after Donald Trump was elected US President, that our media was lazily conflating the Trump election with the debatably comparable political shock of Brexit. I'm increasingly minded to believe that they were onto something – that something being their own hys-

terical and insular, notionally liberal, bias.

The two British publications with the strongest claim to prestige when it comes to a reputation as a journal of investment record are arguably *The Financial Times* and *The Economist*. So it is perverse in the extreme to see these publications take such biased perspectives when it comes to reportage relating to either Brexit or Trump (only the biggest stories of our time). A good example of their inherent metropolitan, left-leaning and violently elitist bias was Gideon Rachman's recent coverage, for the FT, of the US mid-term



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“BRITNEY SPEARS IS OVERRATED. IPCC REPORTS ARE UNDERRATED.”

elections: 'Midterms: why the world fears 'Trumpism' is here to stay'. There, in a nutshell, you have the urban elite perspective, which might as well be paraphrased "my view is the world's view – and everyone who doubts me is wrong." There may have been a time when our news media was expected to be broadly impartial. But if there ever was such a time, it is long gone now.

The Swiss author Rolf Dobelli has published the definitive hatchet job on our news media and its capacity to add value to the enquiring consumer. His definitive 2012 essay is titled '[Avoid news: towards a healthy news diet](#)'. It is a wholesome and nutritious antidote to gullibility. Among his observations:

- News misleads us systematically.

News reports do not represent the real world.

Our brains are wired to pay attention to visible, large, scandalous, sensational, shocking, people-related, story-formatted, fast changing, loud, graphic onslaughts of stimuli. Our brains have limited attention to spend on things that are small, abstract, ambivalent, complex, slow to develop and quiet, much less silent. News organizations systematically exploit this bias.

The news media, by and large, focus on the highly visible. They display whatever information they can convey with gripping stories and lurid pictures, and they systematically ignore the subtle and insidious, even if it is more important. News grabs our attention; that's how its business model works. Even if the advertising model didn't exist, we would still soak up news pieces because they are easy to digest and superficially quite tasty.

The highly visible misleads us.

As a result of news, we walk around with the completely wrong risk map in our head.

- Terrorism is overrated. Chronic stress is underrated.
- The collapse of Lehman is overrated. Fiscal irresponsibility is underrated.
- Astronauts are overrated. Nurses are underrated.
- Britney Spears is overrated. IPCC Reports are underrated.
- Airplane crashes are overrated. Resistance to antibiotics is underrated.

We are not rational enough to be exposed to the press. It is a very dangerous thing, because the probabilistic mapping we get from consuming news is entirely different from the actual risks that we are exposed to. If you watch an airplane crash on news television, it's going to change your attitude toward that risk regardless of its real probability, no matter your intellectual sophistication. If you think you can compensate this bias with the strength of your own inner contemplation, you are wrong. Bankers and economists – who have powerful incentives to compensate for news-borne hazards – have shown that they cannot. The only solution: cut yourself off from news consumption entirely.

- News is irrelevant.

Out of the approximately 10,000 news stories you have read in the last 12 months, name one that – because you consumed it – allowed you to make a better decision affecting your life, your career, your business – compared to not having swallowed that piece of news.

The point is: the consumption of news is irrelevant to the forces that really matter in your life. At its best, it is entertaining, but it is still irrelevant.



Assume that, against all odds, you found one piece of news that substantially increased the quality of your life – compared to how your life would have unfolded if you hadn't read or seen it. How much trivia did your brain have to digest to get to that one relevant nugget? And that is a hindsight analysis. Looking forward, we can't even identify the value of a piece of news before we see it. So we are forced to digest everything on the news buffet line. Is that worth it? Probably not.

- News limits understanding.

News has no explanatory power. News items are little bubbles popping on the surface of a deeper world.

News organisations pride themselves on correctly reporting the facts, but the facts that they prize are just epiphenomena of deeper causes. Both news organizations and news consumers mistake knowing a litany of facts for understanding the world.

It's not "news facts" that are important, but the threads that connect them. What we really want is to *understand the underlying processes*, how things happen. Unfortunately, precariously few news organisations manage to do this. The problem is that the underlying processes that govern significant social, political and environmental movements mostly are invisible. They are complex, non-linear and hard for our (and the journalists') brains to digest. Why do news organizations go for the light stuff, the anecdotes, scandals, people-stories and pic-



or, for want of a better phrase, inherently biased towards a liberal left (and pro-EU) agenda.

But it doesn't have to be this way.

When it comes to financial market commentary and reportage, there is only one primary source: the price at which a given instrument – a stock, bond or fund – changed hands. That price was dictated between two willing counterparties in free exchange. There was no coercion. There was clearly the part-paradox of both the buyer and the seller thinking they had a good deal at the time the bargain was struck, but that's the extent of any confusion. In all other respects, the price is the price and it neither was not nor is not subject to negotiation. Every other statement about why the market in X did Y is simply supposition, guesswork and narrative.

So in the narrow context of financial reportage, ignore news. Pay attention to prices and to valuations, by all means. But the narrative fallacy is alive and well and breeding in our conventional news media even as that media fragments before our very eyes. Try not to give it the oxygen of your own attention. To this end I have been trying to wean myself off conventional news media and turn my attention to independent podcasts and YouTube content instead. Those who feel so inclined can dip in to my own archive of 'State of the Market' podcasts, conducted with my friend and colleague, Paul Rodriguez, [here](#). Paul is a technical analyst. That is to say, he has only **ever** been interested in the price – and never in the narrative. You are cordially invited to adopt and embrace the same approach. It's lovely once you're in!

“IN THE NARROW CONTEXT OF FINANCIAL REPORTAGE, IGNORE NEWS.”

tures? The answer is simple: because they are cheaper to produce.

The important stories are non-stories: slow, powerful movements that develop below the journalists' radar but have a transforming effect.

Most people believe that more information makes for better decisions. News organizations support this belief. Hell, it's in their own interest. Will the accumulation of facts help you understanding the world? Sadly, no. The relationship is actually inverted. The more "news factoids" you digest, the less of the big picture you will understand.

There is no evidence that information junkies are better decision makers. They are certainly not more successful than the average Joe. If more information leads to higher economic success we would expect journalists to be on top of the pyramid. That's not the case. Quite to the contrary. We don't know what makes people successful, but amassing information is certainly not part of it.

Reading news to understand the world is worse than not reading anything. What's best: cut yourself off from daily news consumption entirely. Read books and thoughtful journals instead of gulping headlines.

News constantly triggers the limbic system. They spur the release of cascades of glucocorticoid (cortisol). This deregulates your immune system and inhibits the release of growth hormones. In other words, your body finds itself in a state of chronic stress. The effects of high glucocorticoid levels are impaired digestion, lack of growth (cell, hair, bone), nervousness and susceptibility to infections. *News consumers risk impairing their physical health.* The other potential effects of news include fear, aggression, tunnel thinking and desensitization.

- News is toxic to society.

At which point, I would simply refer you to the socially 'cohesive' effects of watching our national, taxpayer-funded broadcasters, the BBC and Channel 4, and whether you regard their news output as objective

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'.



- News is toxic to your body.





DECEMBER 2018

INVESTOR EVENTS DIARY

EVERY WEDNESDAY

Event:	SR Live
Organiser:	SyndicateRoom
Time:	12:30
Place:	Webinar
Link for tickets:	https://www.syndicatoroom.com/events/sr-live

WEDNESDAY, 5 DECEMBER

Event:	Investment Week Market Focus: Fixed Income
Organiser:	Investment Week
Time:	16:00-19:30
Place:	Grosvenor House Hotel, 86-90 Park Lane, Mayfair, London W1K 7TN
Link for tickets:	http://events.investmentweek.co.uk/fixedincome

THURSDAY, 6 DECEMBER

Event:	Capital Cell Investor Pitching Event
Organiser:	Capital Cell and Gieves and Hawkes
Time:	08:00-17:00
Place:	No. 1 Saville Row, London W1S 3JR
Link for tickets:	Please RSVP to donna@capitalcell.net

FRIDAY, 7 DECEMBER

Event:	Prime Advantage Capital Partners Breakfast
Organiser:	Prime Advantage Capital
Time:	08:30
Place:	The Clubhouse, Mayfair, 50 Grosvenor Hill, London W1K 3QT
Link for tickets:	https://www.eventbrite.co.uk/e/pa-capital-partners-breakfast-tickets-50643775897

WEDNESDAY, 12 DECEMBER

Event:	UKBAA Winter Investment Forum & Networking Supper
Organiser:	UKBAA
Time:	14:00-21:00
Place:	CMS, Cannon Place, 78 Cannon Street, London EC4N 6AF
Link for tickets:	https://www.futureforwardukbaa.org Use code Master Investor for a £10 discount

THURSDAY, 13 DECEMBER

Event:	OION Ltd Showcase
Organiser:	OION
Time:	16:00-19:30
Place:	Sophos Global Headquarters, Abingdon Science Park, Oxfordshire
Link for tickets:	Email contact@oion.co.uk to register interest

TUESDAY, 5 FEBRUARY

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

FRIDAY, 8 MARCH

Event:	International Women's Day: Female investor meetup
Organiser:	Master Investor
Time:	18:00-21:00
Place:	TBC, London
Time:	Email amanda@masterinvestor.co.uk to register interest

SATURDAY, 6 APRIL

Event:	Master Investor Show
Organiser:	Master Investor
Time:	09:30-17:00
Place:	Business Design Centre, 52 Upper Street, London N1 0QH
Time:	https://masterinvestorshow-2019.reg.buzz

TUESDAY, 9 APRIL

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

TUESDAY, 14 MAY

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



MARKETS IN FOCUS

NOVEMBER 2018

GLOBAL EQUITIES

Index	Last Month %	YTD%	52-Week Strength
Hang Seng	6.1	-8.9	
Bovespa	2.4	17.6	
IBEX 35	2.1	-8.6	
Nikkei 225	2.0	-3.2	
S&P 500	1.8	4.4	
Dow Jones	1.7	4.5	
FTSE All-World	1.3	-3.4	
CSI 300	0.6	-19.1	
Russian TSI	0.4	0.2	
NASDAQ 100	-0.3	10.4	
Euronext 100	-1.3	-5.2	
DAX Xetra	-1.7	-11.8	
CAC 40	-1.8	-5.3	
FTSE 100	-2.1	-8.5	
S&P/ASX 200	-2.8	-5.8	

COMMODITIES

Commodity	Last Month %	YTD%	52-Week Strength
Natural Gas	41.9	48.4	
Palladium	7.6	10.9	
Copper	4.3	-14.8	
Cotton	2.4	6.1	
Gold	0.8	-5.6	
Aluminum	0.2	3.9	
Silver	-0.2	-15.6	
Coffee	-0.4	-10.5	
Sugar (No. 11)	-2.4	-5.5	
Cocoa	-3.1	21.8	
Platinum	-4.8	-13.2	
Iron Ore	-13.3	-3.6	
Crude oil (Brent)	-20.9	-7.3	
Crude oil (Light Sweet)	-22.0	-11.9	
Bitcoin	-38.1	-73.5	

FOREX

Pair/Cross	Last Month %	YTD%	52-Week Strength
AUD/USD	3.2	-5.6	
USD/CAD	1.0	4.9	
EUR/JPY	0.7	-4.9	
USD/JPY	0.6	0.1	
EUR/GBP	0.2	0.5	
EUR/USD	0.0	-5.0	
GBP/USD	-0.1	-5.4	
EUR/CHF	-1.0	-3.0	
USD/CHF	-1.0	2.2	
GBP/AUD	-3.2	0.2	

CENTRAL BANKS - RATES & MEETINGS

Central Bank	Key Rate	Next	After
Bank of England (BoE)	0.75%	Dec 20	Feb 07
European Central Bank (ECB)	0.00%	Dec 13	Jan 24
Federal Reserve System (FED)	2.25%	Dec 19	Jan 30
Bank of Japan (BoJ)	-0.10%	Dec 20	Jan 23
Bank of Canada (BoC)	1.75%	Dec 05	Jan 09
Reserve Bank of Australia (RBA)	1.50%	Feb 05	Mar 05
Swiss National Bank (SNB)	1.50%	Dec 13	Mar 21
Banco Central do Brasil (BCB)	6.50%	Dec 12	Nov 08
Central Bank of Russia (CBR)	7.50%	Dec 14	Feb 08
Reserve Bank of India (RBI)	6.50%	Dec 05	Feb 06

FTSE 350 TOP RISERS

Company	Last Month %	YTD%	52-Week Strength
BTG PLC	51.3	9.0	
Micro Focus International PLC	26.3	-38.5	
Hill & Smith Holdings PLC	20.8	-11.0	
Greggs PLC	20.1	-1.0	
Provident Financial PLC	19.0	-7.9	

FTSE 350 FALLERS

Company	Last Month %	YTD%	52-Week Strength
Indivior PLC	-45.9	-75.1	
Kier Group PLC	-42.0	-62.3	
Intu Properties PLC	-41.9	-55.6	
Premier Oil PLC	-34.6	-4.3	
Thomas Cook Group PLC	-33.3	-82.5	

FTSE 350 SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Mobile Telecom	13.0	-28.8	
Technology Hardware & Equip	9.6	-0.1	
Fixed Line Telecom	8.9	-3.2	
Software & Computer Serv	8.3	-24.8	
Health Care Equip & Serv	5.0	-3.8	

FTSE 350 SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Tobacco	-16.6	-40.9	
Industrial Metals	-16.3	17.1	
Oil Equipment, Services & Dist	-11.9	0.1	
General Industrials	-9.3	-17.2	
Forestry & Paper	-7.3	-5.1	

IA SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
UK Index Linked Gilts	3.3	0.8	
UK Gilts	0.8	-0.8	
UK Direct Property	0.3	3.6	
£ Corporate Bond	0.2	-1.5	
Short Term Money Market	0.0	0.3	

IA SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
China/Greater China	-11.2	-15.5	
UK Smaller Comp	-10.1	-5.9	
Japanese Smaller Comp	-9.6	-5.0	
European Smaller Comp	-9.4	-7.7	
North American Smaller Comp	-8.9	5.6	





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