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CRYPTO DAWN

IS FACEBOOK'S LIBRA THE FUTURE OF CRYPTO?

PLUS...

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IS THE SLUMP FINALLY OVER FOR SILVER?

WELCOME

Dear Reader,

Given that many of us look to our investment portfolios as a source of income, it's great to see that UK dividends reached record levels in the second quarter of 2019, despite the ongoing Brexit saga. According to the Link Dividend Monitor, UK dividends rose 14.5% on a headline basis to a record £37.8 billion, boosted by exceptionally large special dividends and the very weak pound.

Herein lies the beauty of investing: despite all the siren calls of how bad Brexit is for UK businesses and investors, many of the firms listed on the UK stock market generate a lot of their earnings overseas, meaning that a weak pound translates into higher earnings once income from abroad has been converted into pounds. Owning global companies based in the UK is therefore a natural hedge against Brexit and a weaker pound.

But the good news does not come without a caveat. Underlying dividend growth (ie – adjusting for the effects of one-off 'special' dividend payments) was much weaker at 5%. Moreover, large-cap companies, which tend to benefit the most from a weak pound, grew their dividends the fastest, whilst the more domestically-focused mid-cap and small-cap companies grew their dividends at a slower rate.

Despite some strong share-price gains over recent months, the UK market still offers one of the highest yields of any major stock market. This suggests there is still good value to be had in the UK – and this is a view shared by other commentators, not least our very own Jim Mellon.

Of course, the short-term outlook will depend on whether or not our new Prime Minister can make any progress in Brussels. A no-deal Brexit – regardless of what one might think of the long-term implications – would surely entail significant short-term upheaval for UK markets. But for those willing to hold their nerve and take a long-term view, the next few months could offer a window of opportunity.

As always, I wish you the best of luck for the month ahead.

Best regards,

James Faulkner
Editor

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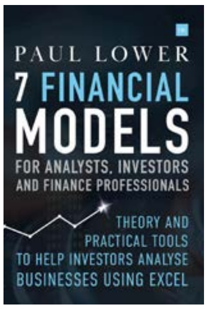

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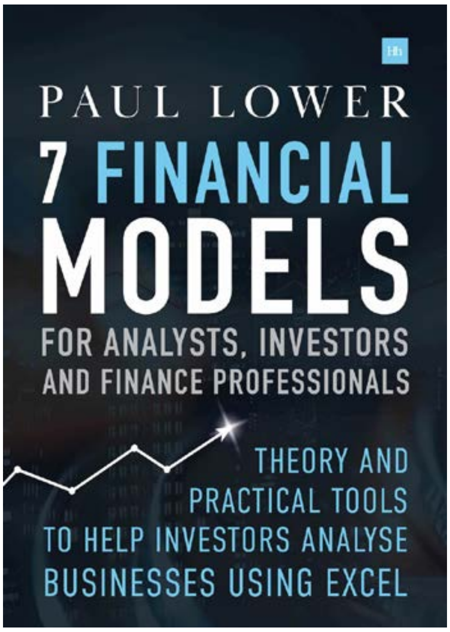


BY JIM MELLON

MELLON ON THE MARKETS

Inside the mind of the Master Investor: influential British investor Jim Mellon reveals his latest thoughts on the markets. The month, Jim looks at precious metals, dividend-yielding companies and other investment opportunities that are likely to prosper in a recession.

Is it better to melt in the heatwaves or to mitigate discomfort by using air conditioning? Singapore and many parts of Asia, as well as the Middle East, have prospered, in part as a result of the invention and proliferation of air conditioning. However, it is a huge user of electricity, much of it generated in a climate-unfriendly way, so Greta Thunberg, the teenage climate activist, and her chums will no doubt deploy their agitative tactics in this direction soon.

I hope they don't succeed, as although my house in Ibiza is now entirely and, of course, virtuously solar, restrictions on air conditioning would cause my summer productivity, already severely impaired, to plummet further. And I have two books to write, companies to nurture and investment bets to make.

And what a great time to be placing those bets. Be in no doubt, the absolutely best bets available to Master Investor readers right now, are in the precious-metals complex. Gold and silver, in particular, are the easiest of these to trade and can also be represented in portfolios through selected mining companies.

My total and utter conviction on this is enhanced by the fact that 'looney tunes' monetary policy has thrown one third or more of all government debt around the world into negative territory. This means that people foolish enough to buy such bonds have to pay to hold their cash, for any period right up to 10 years, and in some cases, beyond.

The old argument against holding gold and the like was that they carried no yield, and indeed, there was a cost to store them.

"BE IN NO DOUBT, THE ABSOLUTELY BEST BETS AVAILABLE TO MASTER INVESTOR READERS RIGHT NOW, ARE IN THE PRECIOUS-METALS COMPLEX."

> **"I ALSO URGE READERS TO CONSIDER BUYING UK STOCKS AGGRESSIVELY NOW."**

That's another argument gone, and I urge everyone to climb on board the gold train; last month I said it was leaving the station. If you run fast, you might just catch the last carriage. I am pretty sure we will see $1,800-$2,000 before this year ends, and see gold miners move much, much higher. The recent Fed interest-rate cut by 25 basis points was disappointing to gold bulls, but this will be temporary, as no doubt another cut is coming.

Buy British

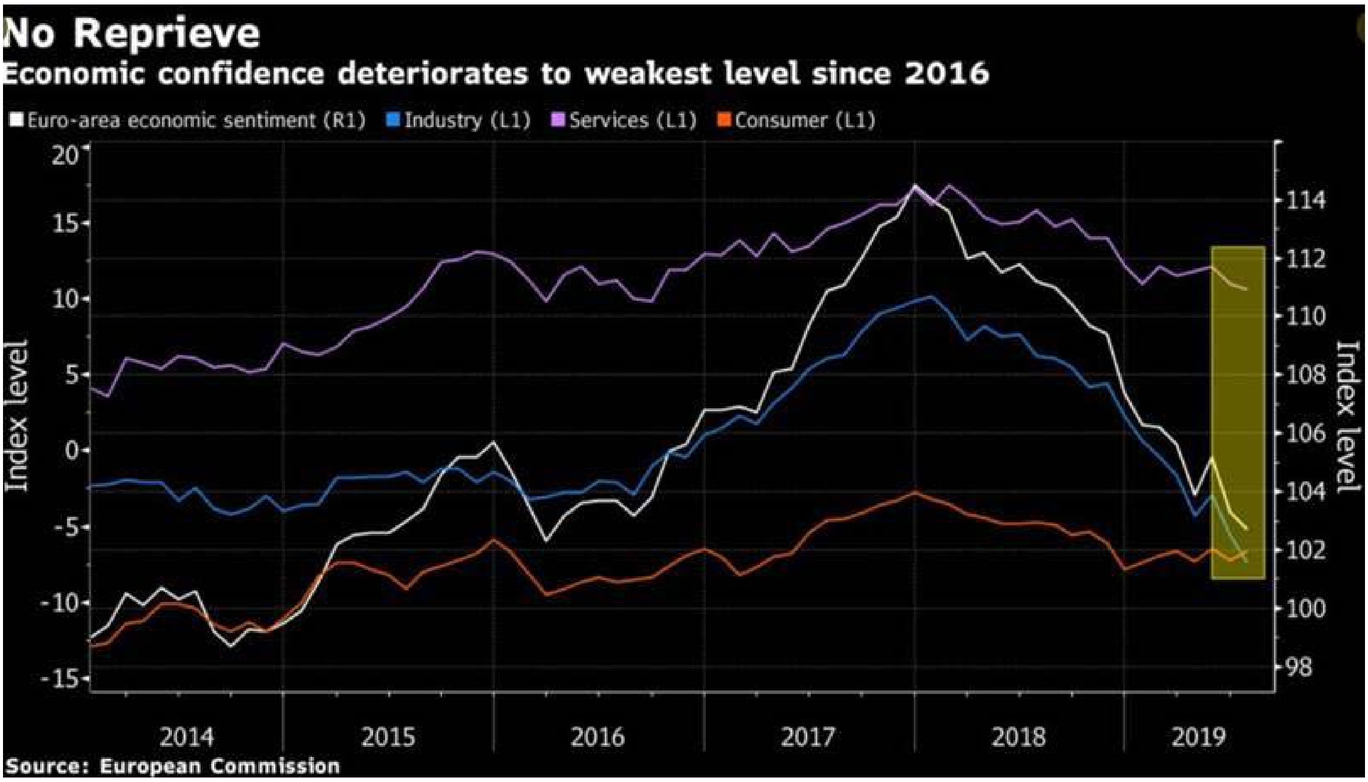
The next most obvious trade to me is the UK. It beggars belief that a country, which in part contrast to the eurozone, enjoys its own unique currency, shares very low costs of government borrowing and also has, unlike the eurozone, exactly the right mix of future industries – eg fintech, biotech, materials and battery tech etc – should be trading at ludicrous levels, with regard to both the currency and the stock market.

I also urge readers to consider buying UK stocks aggressively now; which ones? Well I would suggest those that prosper in a low sterling environment, such as **Vodafone (LON:VOD), Rio Tinto (LON:RIO)** and **Prudential (LON:PRU)**. These are steals, with high and generally well-covered dividends.

From an international point of view, I like **Carnival (LON:CCL)**, listed in the UK but effectively an international business, catering to an ageing demographic; and **Raven Properties (LON:RAV)**, which has a high yield and a strong position in Russian logistics. Russia may well be somewhat rehabilitated in due course and this is a well-managed UK based company, recently released of a large shareholder, in the form of the embattled Neil Woodford.

On the subject of Neil, I thought he might ride it out, but I am afraid his PR has been dreadful, his continued insistence on levying fees on trapped investors is lamentable, and his overreliance on unquoted stocks is unwise. I can't really see redemption. I prematurely bought his **Patient Capital Trust (LON:WPCT)**, and I note that he has bailed out of a lot of his personal shares.

On the other hand, a year ago, very few would have foreseen redemption for Boris Johnson – but now look where we are! I am pretty sure there will be a deal. Look at the chart to see why.



The European situation is dire, and there is a chance, which should not be discounted as negligible, that the Italian and German banking systems go bust all at once. This would be a complete disaster for the euro project and propel gold to unforeseen highs.

The Europeans, I believe, are now rattled by the prospect of a no-deal Brexit, which, whatever the Financial Times says, will be worse for Europe than for the UK. I think some fudging is coming, and the pound is going up big time.

So, get positioned.

The hunt for yield

The hunt for yield, as interest rates stay lower for longer, will mean that investors will start moving away from tech (and I sense this is happening now, as rent-seeking, quasi-monopolist companies like **Amazon (NASDAQ:AMZN)** and **Facebook (NASDAQ:FB)** appear to have stalled) and seek out dividend-yielding companies with strong fundamentals. This is the view of my chum John Mauldin, one of the great global economics commentators, who I spoke to recently and is super excited about yield opportunities.

The search for yield with strong companies is important, as a recession must be coming, or at least significant slowdowns across the globe. My friend Steen Jacobsen, an excellent forecaster who goes to China regularly, tells me that the Chinese situation is dire and that growth has ground to a halt.

The US is absolutely slowing, and the eurozone is in terrible trouble. Not a good outlook for leveraged companies, of which there are plenty.

Other companies, with what I think are positive characteristics, you might consider are **Kraft Heinz (NASDAQ:KHC)**, − very beaten up, but backed by Warren Buffet; **Gilead Sciences (NASDAQ:GILD)** − looking healthy and with a reasonable dividend; and **Veon (NASDAQ:VEON)**, a Russian mobile-telecoms operator, with an excellent yield.

I made a pretty bad error in buying **Intu Properties (LON:INTU)** in the UK, which was a very good case of catching a falling knife and getting a bloodied hand. It has more or less halved since I started buying, and is a salutary lesson to me. My friend Will Nutting believes that the best shorts are when the company is crippled, and I think he is short Intu. I'm going to ride it out, as I suspect the largest shareholder, the Isle of Man based John Whitaker, might seek a buyer for his shares (triggering a full bid), as Intu has excellent malls, and retailing, contrary to the perceived wisdom, is not dead.

So here we are, close your eyes, prepare for a bit of a ride, but buy gold, silver, gold miners, pounds and high-quality dividend shares. Sell bonds, sell tech and prepare for glory!

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.

BY VICTOR HILL

COVER FEATURE

TIME TO GET ABOARD THE CRYPTOCURRENCY BANDWAGON AS FACEBOOK LAUNCHES LIBRA

Facebook will launch its own digital currency in the first half of 2020. What are the implications for banking and finance globally – and how can investors profit?

As I predicted last year, Facebook will launch its own digital currency in the first half of 2020. This will be available on its platform for users to buy and sell products and services, and to make payments to each other. The new digital currency, to be called Libra, will be a stablecoin – ie, unlike bitcoin and Ethereum, it will be backed by a basket of 'real' currencies (and possibly government bonds, too). Therefore, so it is hoped, it will not be subject to wild speculation and will maintain a stable value.

Despite Facebook's hype, this is a collaborative effort – these ain't 'Zuckerbucks'. Facebook has teamed up with some of the world's top payment platforms and credit-card companies to roll out this revolutionary medium of exchange. They include PayPal, Visa and MasterCard.

This could turn out to be Facebook's boldest innovation yet. While the company is known as a global technology giant, to date, virtually all of its revenues have come from advertising. These advertising revenues are possibly already in decline, therefore Facebook is under pressure to diversify its revenue stream.

How much impact will Libra have on the way we live? Will it generate huge shareholder value for Facebook and its partners? How will it impact on banking and finance globally? And – the most important question of all – how can investors profit?

New age, new money

In June this year, **Facebook (NASDAQ:FB)** unveiled its much-anticipated digital currency – Libra – which it hopes will go live in the first half of next year. In so doing, the social-media titan has changed the nature of the debate about the future of digital, or cryptocurrencies for good.

The new cryptocurrency will be orchestrated from Geneva, by an association of 28 founding sponsors. These include mature credit-card companies like **Visa (NYSE:V)** and **MasterCard (NYSE:MA)**, but also 'upstart' technology companies like **Uber (NYSE:UBER), eBay (NASDAQ:EBAY), Spotify (NYSE:SPOT), British telecoms**

"IF LIBRA WORKS, THEN FACEBOOK WILL CEASE TO BE A SOCIAL-MEDIA GIANT; IT WILL BECOME A COLOSSUS OF FINTECH AS WELL."

giant Vodafone (LON:VOD) and the Silicon Valley venture-capital firm Andreessen Horowitz. The sponsoring entities might, according to some sources, expand to 100 by next year. The deal is that each association member pays $10 million a year to become a 'validating node' – a status that enables them to validate transactions conducted in Libra.

Libra will ultimately be 'controlled' by the Libra Association – of which Facebook is but one (though the most important) member. However, Facebook and WhatsApp users will provide users with their own digital 'wallets' called Calibra. This will enable Facebook users to make payments via Facebook Messenger or WhatsApp. Initially, the new digital currency will provide a convenient way for expatriate workers to send remittances to their families back home. (Think of the millions of Indian and Pakistani nationals working in the Gulf region.) Their remittances are often subject to exorbitant fees). But they – and others – will also be able to buy goods online with Libra.

Facebook states that the principal objective of Libra is to deliver a stable, universally accepted currency available to people who do not have bank accounts. In countries with large numbers of people without bank accounts, such as India, where cash is still 'king', users will be able to go to kiosks if they want to convert their Libra balances back into physical cash.

Cryptocurrencies, of which bitcoin is the most famous (or notorious), have been around for over a decade, based on the revolutionary blockchain technology developed by the mysterious Satoshi Nakamoto. The problem with bitcoin and its imitators (or competitors – depending on your point of view) is that its value has been subject to exorbitant speculation. Most people who buy bitcoin, it seems, do so because they are betting on its value rather than using it as a medium of exchange. That said, estimates of how many people who use bitcoin et al to buy and sell goods range from seven million to 25 million. Facebook has well over two billion user accounts, and even if many of those are corporate or duplicate identities, that is still nearly one third of all humanity.

Some of those bitcoin aficionados, so it is widely thought, are either criminals or tax evaders. Certainly, a number of cyber attacks using ransomware have demanded ransoms in digital currency. Facebook clearly wants to make cryptocurrency a legitimate means of exchange, and in the first instance, it will probably be made available to more than 200 million WhatsApp users in India. Mr Zuckerberg has carefully cultivated a close relationship with India's Prime Minister Modi over the years, so one expects that the authorities there will be sympathetic.

Once it is rolled out, users will be able to make payments in Libra to one another as easily as they exchange photos on WhatsApp right now. So far, digital currency has been the domain of online operators of uncertain provenance; but everyone knows what Facebook is – it has an unrivalled user base and extremely deep pockets. (The company has a market capitalisation of $573 billion as I write).

The issue of trust is a delicate one. Facebook has been pilloried for its supposedly unethical and unauthorised use of its users' data.

Why the crypto-purists hate Libra

For the free spirits who pioneered the bitcoin boom, Libra is a not really a cryptocurrency at all. They argue that, with bitcoin et al, anyone can run a validation programme and thus verify that all transactions are 'pukka'. But, within the Libra blockchain, only the association members, who control that blockchain, can do that. So, these association members effectively control the cryptocurrency. That means that, for example, if they think you are a terrorist, or a criminal – or just don't like your political views – they can freeze your wallet or even empty it on their say-so. Many people would regard that as reasonable – but, for the crypto-anarchists, that represents a fall from grace. That's why a lot of bitcoin enthusiasts think that the emergence of Libra will actually boost demand for a 'real' cryptocurrency – and pull bitcoin higher.

But, at the same time, all of that data has been freely given by users who benefit from using the platform.

The techno-conservative Europeans, however, are less than enthralled. French Finance Minister Bruno Le Maire pronounced that it was "out of the question" that Libra be considered a sovereign currency. He demanded that the banking committee of the G7 examine whether Libra could be used to finance terrorism or other illegal activity.

Regulating and taxing the internet

The launch of a digital currency comes at a critical moment in the regulation of the internet for Facebook and the other tech giants. Governments are increasingly moving towards tightening control of internet content and taxing cyberspace.

As I revealed last year, Facebook acquired an EU banking licence in Dublin back in 2016. More tellingly, this year Facebook has engaged in a PR offensive. Sir Nick Clegg, Facebook's head of global policy and communications (and, of course, a former UK deputy prime minister) has been extensively deployed to articulate Facebook's philosophy in the corridors of power around the world – but especially in Europe (Sir Nick speaks five European languages).

In a speech in Berlin at the end of June, Sir Nick spoke about how Facebook wants to work with western governments to regulate the internet without censoring it. One of his (or Facebook's) big ideas is that of data portability. That means that users could remove all their personal data and content (eg photos) from Facebook and move it as a kind of package elsewhere. (Quite where is not entirely clear since Facebook has no true rival).

Sceptics point out that even if this idea were practicable, it would be to Facebook's advantage. If users could export all their data elsewhere in one go then, by the same logic, they could import all their data from other service providers (for example, Google) into Facebook.

These days Mr Zuckerberg is saying that he favours "globally harmonised" privacy laws modelled on the EU's General Data Protection Regulation (GDPR) – even though Facebook moved responsibility for 1.5 billion users out of Facebook's operation in Ireland and back to the US last year, presumably to escape the impact of GDPR.

Surprisingly, Silicon Valley seems now to regard the EU as the model for regulation. Last year, Tim Cook, Apple's CEO, told a conference on digital regulation in Brussels that "... it's time for the rest of the world, including my country, to follow your lead." Even Mark Zuckerberg wrote in the Washington Post earlier this year: "People around the world have called for comprehensive privacy regulation in line with the EU's...and I agree." According to Paul Schwartz, director of the Berkeley Centre for Law and Technology, the EU has won out in the battle of ideas.

Margrethe Vestager, the EU's Commissioner for Competition, a sworn enemy of Silicon Valley and who fined Google €7 billion, is likely to be ferociously sceptical of Libra. She is thought likely to remain in her post under the new EU Commission President, Ursula von der Leyen, who takes over on 1 November.

Other commissioners have forced Facebook, **Twitter (NYSE:TWTR)** and YouTube (owned by **Google/ Alphabet (NASDAQ:GOOGL)**) into adopting codes of conduct on fake news, political advertising and hate speech. In Germany, Angela Merkel's government passed the Network Enforcement Act which sets deadlines for the deletion of illegal content. In France, Emmanuel Macron's minister for the digital economy, Cédric O, has convinced Facebook to provide French courts with the identities of hate-speech suspects. The US remains one of the few advanced democracies which does not have comprehensive privacy legislation, although the State of California has passed its own digital-privacy bill, explicitly inspired by GDPR.

On 15 July, the Federal Trade Commission imposed a $5 billion fine on Facebook in connection with data breaches occurring during the

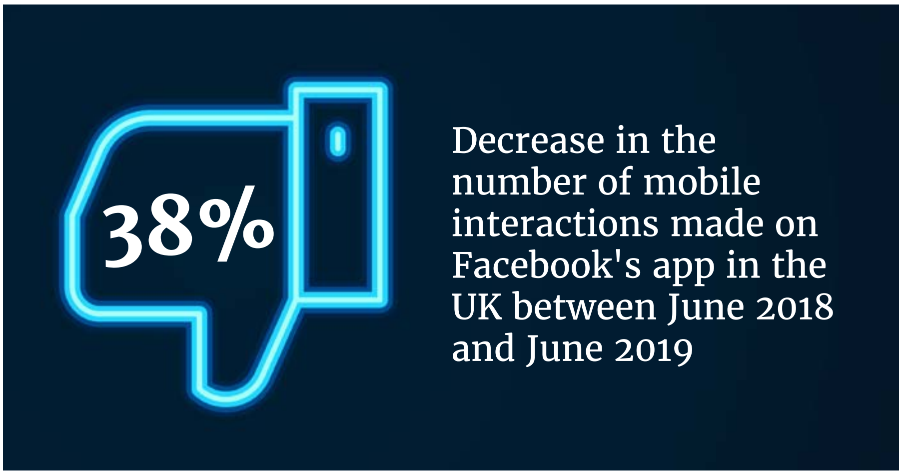
Cambridge Analytica scandal in the spring of 2018. Facebook's share price seemed to take this in its stride – the fine was at the lower end of expectations.

Facebook and YouTube now systematically publish statistics on how much content has been taken down. At the same time, there has been a perceptible shift in opinion since the controversy around the involvement of Chinese tech giant Huawei in the roll out of the new 5G network, which I discussed in this magazine last month. Essentially, many people, even within the Brussels mandarinate, now believe that the threat of Russian and Chinese cyber-aggression outweighs the threat posed by Silicon Valley's abuse of user data. Regulation and taxation of tech companies will remain a salient political issue in Europe and America – but ultimately I doubt if they will much stifle the tech giants' ambitions.

Why Facebook needs to revamp its business model

First the bad news. The number of Britons using Facebook actively is falling rapidly. The number of mobile interactions made on Facebook's mobile app in the UK plummeted by 38 percent between June 2018 and June 2019, according to Mixpanel, the data-analytics company. Interactions occur when users click on a hyperlink or ad while they are using Facebook.

Facebook's own numbers show a slow but steady rise in monthly active users across Europe – which



may well be true. But the key driver for revenues is the social-media platform's ability to convert users into potential buyers of its advertisers' products and services.

One year ago, in July 2018, an unexpected drop in Facebook users in Europe, plus some disappointing growth forecasts, cost Facebook about $120 billion in its market capitalisation in a single day. Last October, Mr Zuckerberg said that Facebook's user base in North America was "pretty close to saturation" and that future growth in user numbers would come from the developing world.

These days Facebook prefers to disseminate figures which aggregate user interaction across all of its platforms – Facebook 'proper', Instagram and WhatsApp (which is still essentially a messenger service). While the first may now be mature, the latter two are still growing rapidly and appeal to the younger demographic,

which seems to prefer images over text.

Conversely, the Mixpanel figures measure how interactively the platforms are used rather than how many times users log on. Their figures suggest that users are behaving more passively. That means that people log on, exchange messages with friends, 'like' a few cute puppies (pugs are *so* 2018)– and then go back to what they were doing anyway (probably involving watching a Netflix box set in pyjamas with best friend). Unfortunately for Facebook, this kind of interaction doesn't generate any revenue. What's more, the advertising-research consultancy eMarketer announced in May that US users spent an average of three minutes *less* on Facebook per day in 2018 than the year before.

Facebook assumes that most of us are connected to the internet in the background most of the day. My laptop is connected continuously – even when I have abandoned it in favour of the garden on a hot July afternoon. Similarly, most under 40s are continuously connected to Facebook through their smartphones (literally day and night). But that doesn't necessarily mean that we are using the social-media giant more actively. It's just part of the background décor of modern life.

We prefer shopping online in the second decade of the 21st century, yet the payments systems we use are firmly anchored in the 20th century. Facebook will apparently give discounts to advertisers who pay in Libra. I can think of all kinds of accounting issues that might arise there – but no doubt that is a problem for another day. The real point is that if Libra works then Facebook will

Can the Europeans ever catch up with the US and Asian tech giants?

A recent report by investment boutique GP Bullhound argues that Europe's tech ecosystem is growing faster than the US tech sector. It cites Swedish music app **Spotify (NYSE:SPOT)** and Dutch payment-systems company **Adyen NV (AMS:ADYEN)** as fast-growing European tech giants. True, the Europeans have some way to go before they can boast trillion-dollar corporations like **Microsoft (NASDAQ:MSFT), Apple (NASDAQ:AAPL)** and **Amazon (NASDAQ:AMZN).** But, according to GP Bullhound, last year was a record year for investment in the tech sector in Europe, with $28 billion in start-up capital raised – that's nearly 10 times the $3 billion raised just five years ago. GP Bullhound reckons there are now 27 unicorns in Europe with a combined estimated valuation of $80 billion. These include Deliveroo (private), **Asos (LON:ASC)** and the gaming company Improbable (private). The UK has 11 unicorns followed by Sweden with eight. Five new British unicorns have emerged in the last year including Monzo, Darktrace and BenevolentAI.

But what about specialist expertise in digital currency? In February this year, Facebook acquired a little-known, London-based start-up called Chainspace. Founded by a group of University College London (UCL) academics, Chainspace is thought to be preeminent in designing new financial technology. UCL is a centre of excellence in blockchain technology. Reportedly, former Chainspace employees are playing a critical role in the roll-out of Libra. George Danezis, co-founder of Chainspace, was a fellow of the Alan Turing Institute. What Chainspace has created is a method of making transactions in digital currency more private. With bitcoin, all transactions are recorded on the blockchain – the digital ledger. Chainspace's technology provides additional layers, called shards, to the blockchain. These layers include an execution layer and a verification layer.

cease to be a social-media giant; it will become a colossus of fintech as well. That could propel Facebook into a league of its own amongst the tech titans.

Likely consequences of Libra

Let's just speculate on how the world might change if Facebook's new digital currency were widely adopted as a medium of exchange.

First, banks, which are already much out of favour with investors, would face a serious challenge. What ails the banks now is that they have been in retreat at least since the financial crisis of 2008 and their levels of customer service and satisfaction have been in freefall. As they lay off staff (without adequately enhancing the advantages of AI), this can only get worse. One of the inherent advantages that banks have is that, until now at least, we all need a bank account before we can subscribe to a mobile phone or apply for a credit card. Libra will appeal not only to the 1.7 billion adults in the world who do not have a bank account but who do possess a mobile phone – of which several hundred million are in India – but to all those, particularly the younger demographic, who prefer to bypass the banking system altogether.

Second, Libra will be a truly international currency, which makes cross-border transactions more efficient with much lower transaction costs. The internet, as we know, tends to facilitate the creation of monopolies. Just as Facebook is the natural monopoly in the domain of social media, so Libra is likely to become the monopoly digital currency because its user base will be many thousand times that of the exotics like bitcoin and Ethereum. Travellers will no longer need to take foreign currency when they go abroad on business or holiday: they'll be able to settle hotel and restaurant bills with a swipe of their smartphone – and indeed their cab rides, using **Uber (NASDAQ:U)**. Of course, there are huge security implications associated with this.

Even Facebook has admitted that Libra could be exploited by fraudsters. On 16 July, David Marcus, the Facebook executive who is leading the project, told a Senate hearing that Libra's governing council will leave fraud prevention to the associated entities which provide digital wallets in which to hold Libra 'coins'. The issue is whether there will be an adequate vetting process before those entities are allowed to provide Libra wallets. "It will be the role of the Libra Association to ensure that there's proper education so that consumers can make informed choices", said Mr Marcus. The eminent senators were not impressed.

Concerns about privacy

In June, cryptography expert Peter Todd, who was a bitcoin pioneer, declared that Libra was poorly designed. He said that Libra's privacy features were "even worse than bitcoin's". Facebook claims that Libra is designed such that individual Calibra wallets cannot be linked to people's Facebook personas. The company says that it will not share account information or financial data with third parties without their consent. This is qualified by the statement that there may be "limited cases" where data could be shared to prevent fraud or ensure compliance with the law (a reference to money laundering). The company says that it will make future decisions about the future of Calibra transparent. The fact is, however, that the details surrounding Libra's blockchain architecture are scant.

"QUITE APART FROM THE RISK THAT LIBRA COINS MIGHT BE STOLEN, THERE IS THE ISSUE OF DATA SECURITY."

Quite apart from the risk that Libra coins might be stolen, there is the issue of data security. As a member of the Commons Digital, Culture, Media and Sport Committee, Julian Knight MP, asked: "What are they going to do with the data?" Of course, Facebook users' spending patterns will be fed back into the increasingly subtle algorithms which will soon be able to predict the product you are going to buy next even before you know that you want or need it. Certainly Facebook and others will learn more about our spending habits and foibles than they know even now.

Also, currently with bitcoin et al you can buy illicit drugs (narcotics) online without censure. Facebook has stated that it will prevent Libra users from buying even prescription drugs let alone illegal ones. That's fine – except that there will always be ethical disagreements concerning the use of medications, just as there are about dietary supplements, eg anabolic steroids. If bodybuilders want to take them, is that really the business of the state? In which case, why don't we ban sugar, which is by far the leading cause of the obesity epidemic? Such debates around health are inevitable, but do we really want Facebook to be 'Chief Nanny'?

Although Libra, a so-called stablecoin, will be linked to the value of a basket of major currencies (certainly including the US dollar, the euro and the yen), it will not be long before the value of those old-fashioned national currencies are widely expressed in Libra.

Thirdly, if people choose to receive their wages in cryptocurrency, then the contraction of the global-banking system could happen quickly. That will have huge consequences for monetary policy and would be deflationary. It would reduce the clout of the central banks to manipulate the economy by setting interest rates and printing money. Eventually, digital banks and fintech champions will begin to offer credit in Libra. But who will set the interest rate? And would reserve requirements be imposed as on conventional lending? Monetary policy – the main characteristic of the contemporary economy as I explained recently – will be rendered marginal. That is why some central bankers are quietly muttering about banning Libra – if only they could.

The Governor of the Bank of England, Mark Carney, said last month that Facebook's cryptocurrency Libra "should be approached with an open mind, not an open door". Mr Carney added that if Libra was widely adopted, this would be "systemically important" and that it would need to be regulated. His remarks coincided with an interesting new regulatory development. Historically, only

The Libra Association

This Association offers a line-up of some stellar companies. **Visa (NYSE:V)** is a truly global payments platform which processed 100 billion transactions in 2014. Its shares have done well year to date and the company is now trading on a P/E ratio of about 40. **MasterCard (NYSE:MA)** had revenues of $12.5 billion in 2017. Its shares have followed a smooth upward trend year to date. Opening at $180 on 3 January, they are trading at $275 at time of writing. **PayPal (NASDAQ:PYPL)** is probably the dominant global payments system on the internet with about 277 million users. Its shares have gone from $82 at the beginning of the year to around $118 at the end of July. **Uber (NYSE:UBER)**, the global taxi-hailing app with about 110 million regular users worldwide, had its debut on the stock market in early May. Its shares are trading only just above the initial offer price as of the end of July.

Competitors

The question is not whether Libra will happen – it has been a long time in gestation – but how the other tech behemoths will respond. Amazon, Apple and Google are not likely to sit back serenely while Facebook takes over the world. Jamie Dimon, the long-time chief executive of JP Morgan, told shareholders in his annual letter a few years ago,: *"Silicon Valley is coming...There are hundreds of start-ups with a lot of brains and money working on various alternatives to traditional banking...".* At least one bank chief executive is aware of the challenge to traditional models and is preparing to adapt. Watch this space.

"IF YOU BELIEVE AS I DO, THAT LIBRA WILL BE TRANSFORMATIVE, THEN THERE MUST BE A CASE TO PUT TOGETHER A LIBRA ASSOCIATION PORTFOLIO CONSISTING OF ALL OF THE LISTED ENTITIES IN THE 28-MEMBER CONSORTIUM."

commercial banks were required to maintain overnight deposits or reserves with the UK central bank in proportion to their loan portfolios. But, from now on, payments companies will also be included in the reserve system.

But the most immediate consequence for investors is that – fourthly – Facebook could easily cease to be that nebulous thing, a social-media hub (giant that it is) and become a financial, or at least a fintech, stock. In this respect it is behind the curve. The Chinese messaging app WeChat (owned by Chinese tech titan **Tencent (HKG:0700)**) has already become a financial colossus which enables users to pay bills, summon taxis and much more.

Fifth, there will be people for whom all this feeds into a credible, global conspiracy theory. Alex Mashinsky, chief executive of Celsius Network, a kind of cryptocurrency bank, has written: "From the people who brought you fake news and fake friends and a fake president...now you get a fake blockchain..." Ultimately, Libra has to be the anti-globalists' worst nightmare. It means that nation-states – including emerging multinational states like the European Union – which issue fiat currencies and enact fiscal and monetary policy, become beholden to global digital corporations.

How the central banks might respond

Given all of the above, it is possible that with the launch of Libra – and if it is rapidly and widely adopted, which I expect it will be – the central banks will be girded to respond by accelerating their own programmes to launch state-sponsored digital currencies. Agustín Carstens, chief executive of the Bank for International Settlements, is a keen supporter of digital money – so long as it remains under state control.

Let's just remember that the use of physical cash is in terminal decline across the developed world. In Sweden few retailers even take cash any more – and the Bank of England's recently published Future of Finance report suggests that the UK is only about five years behind Sweden. Add to that the secular decline in the role of banks within the international financial system which central banks may regard as their duty to reverse. That said, the Bank of England said last month that it has no plans to issue a digital currency. It said its main focus was to ensure the resilience of the next generation of electronic payments systems.

Action

If you believe as I do that Libra will be transformative then there must be a case to put together a Libra Association portfolio consisting of all of the listed entities in the 28-member consortium[i]. Whatever reservations you may have about the direction of Facebook's share price, the payments-platform sector has been having an amazing run this last year, which will only be enhanced by Libra.

The risk is that excessive regulation may hold back Libra's potential, but countries like India with large numbers of unbanked citizens are likely to adopt a permissive stance. And if Libra works in India, what justification would the authorities have for restricting it in Europe and North America? The worst-case scenario is that the Libra Association will have to suspend the roll-out of Libra – which will not damage its existing revenue streams at all. (Perhaps because numerous big central banks advance their plans for monopoly digital currencies – which is quite possible in the medium term). The upside opportunity, therefore, is much greater than the downside risk.

In contrast, this development is very bad news for traditional commercial banks. I explained back in January why I am very bearish about the banking sector. Since then, if anything, the outlook for banks has become even gloomier with **Deutsche Bank (ETR:DB)** a sobering case study in how the mighty can fall.

The direction of travel is clear.

i **For the full list see: https://www.theblockcrypto.com/2019/06/14/facebooks-cryptocurrency-partners-revealed-we-obtained-the-entire-list-of-inaugural-backers**

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.

BY MARK WATSON-MITCHELL

PORTFOLIO INTELLIGENCE

THE UK HOUSEBUILDING SECTOR

SAFE AS HOUSES?

Mark Watson-Mitchell looks at the UK housebuilding sectors and evaluates the investment opportunities.

Is it crumbling or is it building?

Are prices collapsing across the country?

Will Brexit – whether 'No Deal' or with a deal – bring about the financial 'Armageddon' that Remainers have been forecasting?

Unfortunately, I do not have a crystal ball to answer these questions.

However, I remain convinced that there is a massive demand for houses in the UK, and that the demand is not currently being satisfied.

Annually 340,000 new homes required, but only 165,000 built

A research survey by Heriot-Watt University stated that in England alone, the backlog of homes required stands at 3.9m. Their conclusion was that a total of 340,000 new homes need to be built per year for the next 13 years.

Yet the UK government has only set a target of 300,000 homes a year. And to date that is far away from being met.

The number of new builds last year was around 165,000, of which 28,000 were built by housing associations and 2,600 by local authorities. The balance of the total is made up by private enterprises, the majority of which are quoted companies.

Plans to scrap Help to Buy and the 'buyer's tax'

This woeful lack would surely show that the unsatisfied demand almost guaranteed the housebuilding sector years of work and profit ahead.

But government has been reining things in financially, across the

"IT IS ESTIMATED THAT JUST 6% OF UK LAND IS BUILT ON, INCLUDING ROADS, BUILDINGS, AIRPORTS, QUARRIES AND THE LIKE."

board. Although it requires a 45% uplift annually in new homes, it is not really helping to achieve that target.

Yes, the government started the Help To Buy scheme, which has encouraged hundreds of young buyers into the marketplace, but, on the other hand, it continues to apply a punitive 'buyer's tax' for anyone in the housing sector.

In the recent political hustings, it has been mentioned that perhaps the buyer's tax will be abolished. That would certainly be a great help to more young couples needing to get on the housing ladder, easing their cash requirement for getting their own roof over their heads.

The Help to Buy scheme has proved to be a big help for the UK's housebuilders over the last few years. Unfortunately, because big profits have been made, it has also helped to push up land-sale values, which in turn pushes new-build prices higher.

The average asking price of a home, courtesy of Rightmove, is around £308,692.

Big profits push leads to lower standards

In the developers' push for greater profits, a number of them have apparently lowered their standards of construction and finish.

Persimmon (LON:PSN), Britain's most profitable housebuilder, has been regularly featured in the media for building faults and regulation violations. Considering that it builds one in seven of all UK houses, that is not an impressive fact. But it is actually quite scary, because if all the developers see that the big profits are made from poor quality control, then this could well become the norm. Persimmon is said to make £66,000 profit on every house that it sells.

James Brokenshire, Secretary of State for Housing, Communities and Local Government (until the recent Cabinet reshuffle by the new UK prime minister, Boris Johnson), was not happy with companies like Persimmon. He is quoted as saying that:

> *"For most people, buying a home is one of the biggest financial and emotional investments of their lives. And for that to go from being a cherished dream to becoming a nightmare of snagging problems months after moving in and with punitive costs is simply unacceptable."*

Brokenshire later went on to warn the housebuilders that, if they want to continue to benefit from the Help to Buy scheme, then it was very important to end the unacceptable punitive costs and the snagging problems in new homes.

Where is all this new-build land coming from?

Although it is correctly being suggested that developers are hoarding their land stocks, in order to achieve higher values, there is still a massive amount of land available for building new homes.

In the UK more than half of the land area is farmland, including fields and orchards. Over a third of UK land could be called 'natural' or 'semi-natural', covering moors, heathland and natural grassland.

Another 2.5% is classed as 'green urban' including parks, gardens, golf courses, sports pitches and similar. It is estimated that **just 6% of UK land is built on**, including roads, buildings, airports, quarries and the like.

Brownfield and contaminated land

I have recently featured several quoted companies that are specialists in identifying 'brownfield' land that had previous industrial or mineral uses, where new planning applications can now be made for residential use.

Old coalfields, military bases or even contaminated property such as old petrol stations can all be treated and later regenerated as useful landbanks for future housing developments.

Easing of planning permissions

Drive around Britain's road system, especially on the motorways, and it becomes apparent just how much new build is underway, especially on former farmland.

"THERE IS A STRONG DEMAND FOR RENTAL SPACE AND A GROWING NUMBER OF PLAYERS ARE INVOLVED OR ARE ENTERING THIS MARKET."

The gaining of planning permissions has got noticeably easier over the last few years, leading to some quite large urbanisation. However, as yet, central government has done very little about imposing a correct balance of infrastructure space, such as areas for doctor's surgeries, chemists, post offices, schools, shopping and other amenities, and making it a required planning condition for new-build quotas.

Local authorities have yet to realise that they could benefit significantly from the development of such parallel infrastructure.

Government and the economic impact of new build

From an economic point of view, hopefully the government realises that there is an almost instant 'pick-up' for every 100,000 new homes that are developed, in that the gross domestic product of the country is boosted by another 1%, and it also supports over 150,000 jobs.

Unfortunately, the impact of Brexit has been pushed by Chancellor Philip Hammond and his 'Project Fear' team, including the Bank of England Governor Mark Carney – by saying that in a disorderly Brexit, house prices could fall by as much as 30%.

I disagree and believe that the Remainers will soon be proved wrong in that assumption.

Other players in the sector

As was seen in the new-build figures previously stated, operators in the UK housing sector include publicly quoted companies, private development companies, housing associations and local authorities. Other corporates are now also getting involved. For instance, Ikea and construction firm Skanska, who have built 11,000 homes across Scandinavia, have recently tied up a deal with Worthing Council to construct 500 of their BoKlok affordable factory-built homes.

Japan's biggest housebuilder Sekisui has also moved into the market, in a £90m investment boost. It has taken a 35% stake in Urban Splash, a modular-house business, which is in a partnership with Homes England.

In addition, Croydon Council has established Brick by Brick, a development company with the aim of building 2,000 new homes on multiple sites across the borough.

Furthermore, Hugg Homes, a new south-east based modular-housing concept, has completed 22 stylish and efficient properties with Southampton City Council. Those affordable homes were all let within six weeks of completion. Hugg Homes is a wholly owned subsidiary of the London-quoted **Inland Homes (LON:INL)**.

The build-to-rent' sector is fast-growing

Elsewhere, the build-to-rent (BTR) sector is showing continued strength, with over 140,000 units completed, under construction or in planning by the end of March this year. Schemes cover the country – with Leeds, Liverpool, Manchester and Birmingham leading the way.

BTR homes are developed to generate rental income, as opposed to capital profit. There is a strong demand for rental space and a growing number of players are involved or are entering this market.

Both **British Land (LON: BL)**, with projects for 4,000 homes, and **Grainger (LON: GRI)**, in a Transport for London 3,000 homes scheme, are showing an active interest in the BTR market, while **Legal & General** has launched its own UK BTR Fund and is already working on a £500m development of 1,000 new homes.

Telford Homes (LON:TEF) is committed to the BTR sector, and has already partnered with Invesco Real Estate and M&G Real Estate on 400 properties. However, it may well develop an even deeper interest in the market following its £267m cash bid from the US giant CBRE.

Other large players coming into the BTR fold are PfP Capital, which is raising £550m for a new fund, and Greystar, which is seeking £750m for its first BTR fund.

UK house builders – data and comment

Barratt Developments (LON:BDEV)

Price:	630p
Market cap:	£6.42bn
Sales:	2019: £4.85bn 2020: £4.91bn
Net income:	2019: £721m 2020: £723m
PE:	2019: 8.9x 2020: 9.1x
Yield:	2019: 7.20% 2020: 7.38%

Comment: Not expensive relative to its peers. After the recent trading update, Morgan Stanley is cautious, but recommends being 'overweight' with an increased target price of 675p, up from 625p.

Bellway (LON:BWY)

Price:	£28.37
Market cap:	£3.51bn
Sales:	2019: £3.11bn 2020: £3.21bn
Net income:	2019: £537m 2020: £550m
PE:	2019: 6.5x 2020: 6.5x
Yield:	2019: 5.17% 2020: 5.57%

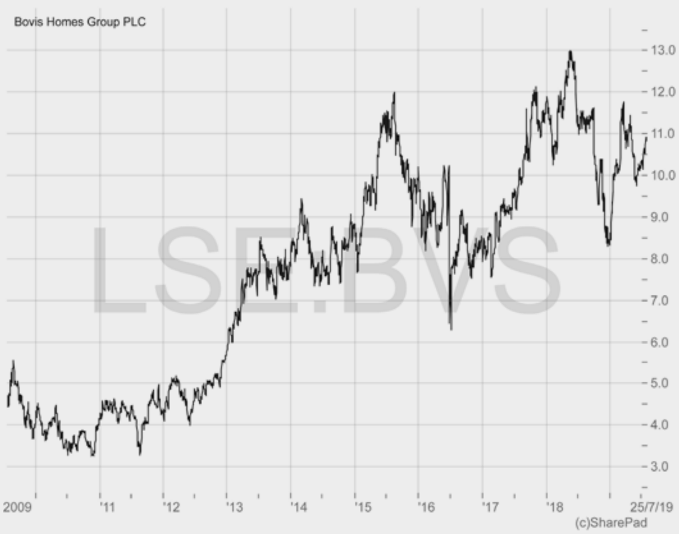
Comment: The company's forward order book rose to 6,312 homes, with 68% of plots already contracted. Canaccord has a target price of £34.50. However, Shore Capital has recently downgraded the shares to "hold" after having turned bearish on the UK housebuilding sector.

Berkeley Group (LON:BKG)

Price:	£37.80
Market cap:	£4.86bn
Sales:	2020: £2.19bn 2021: £2.32bn
Net income:	2020: £433m 2021: £471m
PE:	2020: 11.6x 2021: 10.9x
Yield:	2020: 5.41% 2021: 5.42%

Comment: Despite its London market showing sluggish signs, the company's strong balance sheet and its ability to deliver strong results in a 'soggy' sales market encouraged Berenberg to rate the shares as a "buy", with a target price of £38.50.

Bovis Homes Group (LON:BVS)



Price: £10.37

Market cap: £1.42bn

Sales: 2019: £1.09bn
2020: £1.13bn

Net income: 2019: £153m
2020: £168m

PE: 2019: 9.7x
2020: 8.8x

Yield: 2019: 9.69%
2020: 9.60%

Comment: The recent trading update, was 'solid' and showing that the group's turnaround strategy is still on track. Canaccord rates the shares as a "buy" with a target price of £11.40.

Countryside Properties (LON:CSP)

Price: 287p

Market cap: £1.29bn

Sales: 2019: £1.40bn
2020: £1.56bn

Net income: 2019: £176m
2020: £198m

PE: 2019: 7.4x
2020: 6.6x

Yield: 2019: 5.16%
2020: 6.45%

Comment: Berenberg continues to rate the shares as a "buy" with a target price of 380p. Numis is going for 407p, whilst Jefferies is saying "buy" with an even more bullish target of 422p.

Crest Nicholson Holdings (LON:CRST)

Price: 350p

Market cap: £909m

Sales: 2019: £1.14bn
2020: £1.12bn

Net income: 2019: £122m
2020: £125m

PE: 2019: 7.5x
2020: 7.4x

Yield: 2019: 9.32%
2020: 9.32%

Comment: Higher costs hit the interim profits, impacted by flat pricing and continued build cost inflation. Rating the stock as a "buy", Liberum is looking for 405p as its target price; it sees fruits of its revised strategy showing through.

Galliford Try (LON:GFRD)

Price:	642p
Market cap:	£697m
Sales:	2019: £2.76bn 2020: £2.71bn
Net income:	2019: £126m 2020: £128m
PE:	2019: 6.5x 2020: 6.2x
Yield:	2019: 10.40% 2020: 10.50%

Comment: The group, which recently rejected a £950m bid from Bovis, sees its annual profits for the June 2019 year end in line with market expectations. Canaccord has a "hold" on the stock, with a target price of 860p.

MJ Gleeson (LON:GLE)

Price:	798p
Market cap:	£435m
Sales:	2019: £230m 2020: £254m
Net income:	2019: £33.2m 2020: £36.8m
PE:	2019: 13.1x 2020: 11.8x
Yield:	2019: 4.29% 2020: 4.49%

Comment: This company's home division is comfortably on track to achieve its volume target of doubling new homes to 2,000 a year by 2022. It sold 1,529 homes during the year, which was 25% up on the previous year. Liberum has a "buy" rating with a target price of 900p.

Inland Homes (LON:INL)

Price:	66.5p
Market cap:	£138m
Sales:	2019: £185m 2020: £215m
Net income:	2019: £17.6m 2020: £19.4m
PE:	2019: 8.7x 2020: 7.7x
Yield:	2019: 3.94% 2020: 4.60%

Comment: The recently announced planning permission for an 'urban village' on the former Tesco site at Cheshunt Lakeside, will see the development of 1,725 new homes and 19,000 sqm of commercial space. This is positive news for Inland, but is yet to be recognised by the market. Its directors have been buying at around this current price. I know this company and its directors and rate them very highly. I have set an 110p target price.

Persimmon (LON:PSN)

Price:	£19.72
Market cap:	£6.26bn
Sales:	2019: £3.64bn 2020: £3.72bn
Net income:	2019: £833m 2020: £839m
PE:	2019: 7.3x 2020: 7.2x
Yield:	2019: 11.9% 2020: 11.9%

Comment: Despite its ongoing negative media coverage, both UBS and Peel Hunt have been impressed by the company's shift towards improved quality, despite its revenue slip back. Peel Hunt rates the stock as a "hold" with a target price of £20.25, while UBS is much more bullish with a "buy" rating and a target price of £26.50.

Redrow (LON:RDW)

Price:	542p
Market cap:	£1.91bn
Sales:	2019: £2.05bn 2020: £2.11bn
Net income:	2019: £322m 2020: £332m
PE:	2019: 6.0x 2020: 5.8x
Yield:	2019: 9.4% 2020: 7.1%

Comment: Shore Capital Markets has turned cautious and has downgraded the shares to a "hold". However, I do think that it is still inexpensive in comparison with its peers. An average from 14 analysts following the company suggests 641p is the target price.

Springfield Properties (LON:SPR)

Price:	110p
Market cap:	£108m
Sales:	2019: £185m 2020: £208m
Net income:	2019: £12.9m 2020: £14.8m
PE:	2019: 8.4x 2020: 7.3x
Yield:	2019: 4.1% 2020: 4.9%

Comment: Strong growth across its housing division in the first half year carried over into its second half. The company's recent acquisition of Dawn Homes has performed well. For the full year to end May 2019, improved gross margins and sales have combined with tight cost control to pump through some significant growth over the previous year. The finals are due on 17 September. I rate these shares highly; however, across three analysts following the company their average target price is only 125p.

Taylor Wimpey (LON:TW)

Price: 165p
Market cap: £5.38bn
Sales: 2019: £4.16bn
2020: £4.28bn
Net income: 2019: £670m
2020: £694m
PE: 2019: 8.0x
2020: 7.8x
Yield: 2019: 10.9%
2020: 11.2%

Comment: The company considers that its market remains stable despite political uncertainty. Goldman Sachs has recently upgraded its rating on the company from "neutral" to "buy". HSBC rates the shares as a "buy" with a target price of 230p, while Berenberg goes for 200p.

Telford Homes (LON:TEF)

Price: 351p
Market cap: £266m
Sales: 2019: £375m
2020: £476m
Net income: 2019: £20.2m
2020: £24.3m
PE: 2019: 13.3x
2020: 10.9x
Yield: 2019: 4.8%
2020: 4.8%

Comment: The CBRE cash bid may be too low for some holders. And although CBRE thinks it may have it 'in the bag', it has left the door open to bid again if a higher bid is made by another party.

About Mark

Director of SQC Research and Author of mw-m.com.

Mark, who has over fifty-five years' experience in the UK stock market, established SQC Research in 1993. He previously worked as a dealer for four stockbroking firms and an investment fund management business. Prior to SQC Research, which provides investment information and comment on smaller quoted companies, he published financial and investment magazines and newsletters.

BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

THE DOGS OF AIM 2019

PROFIT FROM THESE HIGH YIELDING SMALL CAPS

Richard Gill, CFA, revisits his Dogs of AIM portfolio, where he seeks out some of the most unloved small-cap stocks on the market.

Just over two years ago, I launched my 'Dogs of AIM' portfolio, a selection of 10 shares based on the popular Dogs of the Dow method. This investment strategy sees investors put equal amounts of money into 10 individual companies, otherwise known as 'dogs', which are constituents of the blue-chip-focused Dow Jones Industrial Average index. The term 'dogs' refers to the companies with the highest historic dividend yields. Instead of the Dow, my strategy applies the same approach to the Alternative Investment Market, using the FTSE AIM 100 Index to ensure that constituents are of a decent size and sufficient quality.

A ruff year

In its first year, the portfolio performed extremely well, with the 10 shares rising in value on average by a whopping 44.78%. With the companies deliberately chosen for their high dividend yields, assuming dividends were held as cash and not reinvested, the value of the portfolio rose to a 'Warren-Buffet-busting' 53.38%. So, a notional £1,000 invested in each company would have risen to a total of £15,338, excluding any transaction costs.

"IN ITS FIRST YEAR, THE PORTFOLIO PERFORMED EXTREMELY WELL."

Under the original Dow strategy the Dogs portfolio is periodically rebalanced, typically annually, with the previous year's holdings sold and replaced with a revised, but again equally weighted selection based on the same criteria. I last did this on 27 April last year, so let's look at how the portfolio has performed since then, over a period which included the crippling small-cap sell-off of autumn 2018.

Company	Price 27/04/2018	Price 22/07/2019	% Change	Dividend (p)	Total return
Highland Gold Mining	151.6	224.6	48.15%	13.4	56.99%
Redde	174	122.4	-29.66%	11.65	-22.96%
Manx Telecom	191	215	12.57%	12	18.85%
Central Asia Metals	282.5	207	-26.73%	14.5	-21.59%
Plus500	1406	652.8	-53.57%	158.04	-42.33%
Polar Capital Holdings	526	584	11.03%	30	16.73%
Andrew Sykes Group	537	740	37.80%	35.7	44.45%
Eddie Stobart Logistics	142	78	-45.07%	10.7	-37.54%
SafeCharge International	324	443	36.73%	21.77	43.45%
XLMedia	186	80	-56.99%	5.56	-54.00%
		AVERAGE	-6.57%	TOTAL	0.21%

Data source: Sharepad – as at 23/7/2019.

As expected, given the prevailing market conditions, the portfolio had a tough year, with several constituents seeing double-digit percentage falls in value. Notable was trading firm **Plus500 (PLUS)**, which saw a near 54% fall, losing the 223% gains it made in the previous portfolio period, after guiding lower on profits because of regulatory issues. Also more than halving were shares in digital-performance-marketing business **XLMedia (LON:XLM)**, which warned on profits on more than one occasion and undertook a strategic review.

"ALL THE CONSTITUENTS CONTINUED TO MAKE BUMPER PAYOUTS TO SHAREHOLDERS."

Offsetting these losses, however, was an excellent performance from **Highland Gold Mining (LON:HGM)**. Its shares grew by 48% after a consistent operating performance and a rising gold price seen in recent months. Another 'diamond dog' was specialist hire group **Andrew Sykes (LON:ASY)**, also a top performer after growing pre-tax profits by 22% in 2018. Overall, the portfolio saw a 6.57% fall in capital value, but this was well ahead of the AIM 100 Index which fell in value by 13.5% over the same period.

As discussed, one of the main benefits of the Dogs portfolio is that its constituents are deliberately chosen for their high yields. Encouragingly, all the constituents continued to make bumper payouts to shareholders during the period. If we add these into the valuation, then the overall gain since our last rebalance is a modest 0.21% − not much in absolute terms but pretty good considering the torrid time small caps had in late 2018. Since we began the portfolio on 28 March 2017, it has gained an overall 53.7%, light years ahead of the AIM 100 Index's gain of 4.6% − of course ignoring transaction costs.

Time for walkies

Once again it's time to rebalance the 'terrible terriers', liquidating the current holdings and replacing them with the current breed of top 10 yielding AIM 100 companies. Looking at the current set reveals a few familiar faces, with five new entrants to the portfolio this time around. We say goodbye to Plus500 which has joined the Main Market of the LSE; Manx Telecom, which has been taken over; SafeCharge and Andrew Sykes, following their share-price rises and subsequent yield falls; and XLMedia after it fell out of the AIM 100.

Company	EPIC	Capital (£m)	Yield (%)	Sector
Redde	REDD	374.8	9.5	Financial Services
Eddie Stobart Logistics	ESL	295.9	8.1	Business Support Services
Diversified Gas & Oil	DGOC	757.2	7.9	Oil & Gas
Central Asia Metals	CAML	369.1	7.2	Mining
Somero Enterprises	SOM	149.3	5.9	Industrial Engineering
Premier Asset Management Group	PAM	190.4	5.8	Financial Services
Polar Capital Holdings	POLR	565.3	5.7	Financial Services
Greencoat Renewables	GRP	515.3	5.5	Equity Investments
Highland Gold Mining	HGM	803.5	5	Mining
Numis Corporation	NUM	262.8	4.9	Financial Services

Data source: Sharepad – as at 23/7/2019.

The new entrants are oil company **Diversified Gas & Oil (LON:DGOC)**, machinery group **Somero Enterprises (LON:SOM)**, asset manager **Premier Asset Management Group (LON:PAM)**, clean-energy investor **Greencoat Renewables (LON:GRP)** and financier **Numis Corporation (LON:NUM)**. Should all 10 companies maintain their historic yields then investors will be looking at a 6.55% boost to their portfolio over the next 12 months. For those investors who don't have the capital to invest in all 10 companies, or who want to invest in a few stocks only, here are three of the most interesting:

SOMERO ENTERPRISES

We may currently be enjoying record-breaking temperatures in the UK but for some stock-market constituents, extremes in weather can be bad for trading. This was so recently for **Somero Enterprises (LON:SOM)**, a US-focused designer and manufacturer of concrete-levelling equipment, and provider of related training, education and support services to customers in over 90 countries. The company's technology allows clients to install high-quality horizontal concrete floors faster, flatter and with fewer people. Its equipment incorporates laser-technology and wide-placement methods, and is used to place and screed (level) concrete in all building types and for a wide range of commercial construction projects.

Trading has been particularly strong at Somero over the past few years, with 2018 a year of record annual revenue and profit. Sales for that year were $94 million, up from $45.1 million in 2013, with pre-tax profits up from $6.5 million to $29.1 million over the same period. The 2018 numbers surpassed a five-year strategic target set in 2014 to reach $90 million in revenue for the year. The company also has a reputation for returning decent amounts of cash to shareholders, with the dividend up from 2.2 cents per share to 19 cents over five years. Last year also saw a special dividend payment of 11.7 cents per share.

April showers

The most significant news of recent times came in June when Somero announced a profits warning. Trading during the five months to the end of May, which are usually particularly strong, was said to have been affected by adverse weather conditions in the key US market (69% of sales in 2018), which saw the highest levels of rainfall on record. In reaction, this delayed the start of projects and slowed the pace of equipment purchased by customers. Trading improved in May but Somero said that it doesn't expect to make up the shortfall in the current financial year. We are now looking at revenues of around $87 million for 2019, EBITDA of $28 million and net cash at the period end of around $18 million. Encouragingly, a further update in July confirmed that these new targets are set to be achieved.

"THE COMPANY ALSO HAS A REPUTATION FOR RETURNING DECENT AMOUNTS OF CASH TO SHAREHOLDERS."

A concrete company

Despite the minor setback this year, Somero remains a solid growth company with strong IP-protected technology, expansion opportunities in the US and worldwide, and high margins – 57% at the gross level in 2018. Of course the business remains exposed to weather conditions and economic cyclicality, but with the shares having fallen from a peak of 425p in September last year to the current 270p, I see a good buying opportunity.

Analysts at the house broker FinnCap have set a 420p target price on the shares based on a 2020 price earnings multiple of 14 times and EV/EBITDA multiple of 9.5. This implies upside of 56% from current levels. The dividend policy is also highly attractive. FinnCap sees a total payout of 19.6 cents (15.83p) in 2019, rising to 27 cents (21.8p) in 2020. These include additional supplementary payouts; Somero has a policy of distributing 50% of excess net cash over a year-end target of $15 million. On that basis, the yields are a high attractive 5.86% and 8.1% respectively.

For growth and income, Somero is a buy.

Somero SkyScreed® 25. Source: Company

GREENCOAT RENEWABLES

As readers of my article in last month's magazine will know, I believe that there is currently an excellent opportunity to make some money in the renewables/green-energy sector of the market. Incidentally, followers of my three tips have already seen the trio of Good Energy, Ceres Power and Aquila European Renewables rise in value by an average of 11.4%. One more company which looks like it could benefit from the positive industry drivers is **Greencoat Renewables (LON:GRP)**, the owner and operator of renewable-infrastructure energy assets.

Greencoat is a relative newcomer to the public markets, joining AIM and the Enterprise Securities Market of the Irish Stock Exchange in July 2017. At IPO it raised €270 million with a remit to spend the funds on investing in and consolidating the Irish wind-generation market. The Irish market was targeted in particular due to a substantial pipeline of acquisition opportunities, with 4.3GW of onshore wind operations expected to be in operation in the country by 2020. Echoing a similar situation in the UK, it is estimated that Ireland's transition to a low-carbon economy will need over €40 billion of new capital investment by 2050.

The business was setup and is managed by Greencoat Capital, a European renewable investment manager with over €3.5 billion of assets under management across a number of funds in wind and solar infrastructure. Its broad strategy for Greencoat Renewables is to provide investors with a progressive dividend while growing the capital value of its investment portfolio through reinvestment of excess cash flow and the prudent use of borrowings.

Hurricane Energy

A variety of wind assets have been snapped up quickly by the company over the past two years, with 2018 being a very active period for Greencoat. During the year, €411 million was spent on buying 10 wind-generation assets, increasing the portfolio to 12 wind farms and taking net generating capacity from 137MW to 384MW by the period end.

The portfolio generated 440.5GWh of electricity in 2018, enough to power around 95,000 average households, although this was 9% below budget, primarily due to low wind speeds. Nevertheless, there were no material unplanned outages and net operating cash flow from the operations after group costs was €23.1 million.

On the balance sheet, net assets grew from €262 million to €394 million over the year, but accounting for share issues, the NAV per share grew from 96.6 cents to 103.4 cents.

"IRELAND'S TRANSITION TO A LOW-CARBON ECONOMY WILL NEED OVER €40 BILLION OF NEW CAPITAL INVESTMENT BY 2050."

The company further increased its financial firepower during the year, with €111 million raised in an oversubscribed placing at €1.01 per share and a revolving credit facility increased to €380 million. There were €490.7 million of outstanding borrowings at the period end, equivalent to 56% of gross asset value.

Greencoat has been quiet on the newsflow front so far in 2019, but in mid-March, it announced the completion of an impressive €147.7 million placing. The money was raised at €1.055 per share and had to be increased in size by 40% compared to the company's original plans, due to substantial excess demand. In line with its strategy to reduce debt, the funds were earmarked for paying down the revolving credit facility, freeing up capital to take advantage of further value-accretive acquisition opportunities.

The most recent news, released at the end of March is that the company acquired a further 25% stake in the Cloosh Valley wind farm, part of the 174MW Galway Wind Park, the largest renewable generation site in Ireland, taking its holding to 75%. Following completion of the acquisition, total net generating capacity of the portfolio increased to 411MW and total borrowings stood at 44% of gross asset value.

"I EXPECT FURTHER STEADY GROWTH IN THE COMPANY'S ASSET VALUE."

The answer my friend is blowing in the wind

From the IPO issue price of €1.00, shares in Greencoat Renewables have had a steady if unremarkable ride up to the current €111.25, just short of recent highs of €113.75. The market cap is €578.5 million, which according to my estimates is a modest 8% premium to net assets. This takes into account the net proceeds of the recent placing but not any profits made in the first half of the current year. Considering that this is a relatively safe and steady business (the portfolio benefits from around 11 years of secured pricing contracted under Ireland's REFIT tariff regime), that premium looks justified to me.

Over time I expect further steady growth in the company's asset value but of course there are income attractions here too. In its last set of results, Greencoat increased its target 2019 dividend payout to 6.03 cents in line with its progressive policy. That equates to a decent yield of 5.4%. Being denominated in euros the shares also offer a hedge against any falls in sterling should the UK's exit from the EU later in the year result in any forex market slides. Greencoat Renewables is a solid **buy and hold.**

EDDIE STOBART LOGISTICS

Finally, a familiar face to both investors and trucking fans alike is transport and logistics group **Eddie Stobart Logistics (LON:ESL)**, well known for its distinctive green, red and white delivery trucks which do their business up and down the country. Since rejoining the stock market in 2017, after being spun out of infrastructure and support-services business Stobart Group (STOB), the shares have had a torrid time, falling from an IPO price of 160p to just 74.5p as I write. However, with a decent set of results being announced for 2018, I believe that there is a value opportunity here.

Today, Eddie Stobart is a leading logistics and supply-chain operator focusing on the business segments of e-commerce, manufacturing, industrial & bulk, retail and consumer. Based in Warrington, the company operates 2,700 vehicles, 5,000 trailers and 43 distribution centres throughout the UK and Europe, providing its services to a range of national and international customers.

The strategy is to become a full-service logistics and supply-chain organisation, taking advantage of the trend for companies to outsource their logistics, with several acquisitions having been made recently to advance progress. One recent deal was that of The Pallet Network Group, a provider of pallet-distribution services, bought last June for £52.8 million.

Keep on trucking

The company's first set of results as a newly listed public company were pretty good, showing revenue growth of 35% to £843.1 million, driven by new contract wins, organic growth from existing customers and contributions from acquired businesses. Encouragingly, all divisions saw significant growth; most notably, e-commerce revenues rose by 65% to

"I BELIEVE THAT THERE IS A VALUE OPPORTUNITY HERE."

Jaroslaw Kilian / Shutterstock.com

£171 million and retail increased by 43% to £241.1 million. At the bottom line, adjusted earnings per share increased by 16.3% to 11.4p.

More recently, a mixed July trading statement gave an update on performance for the half year ending 31 May 2019. Encouragingly, revenues were up 25% year-on-year following organic growth and a full first-half contribution from The Pallet Network. Like-for-like revenues grew by 8%, reflecting continuing organic growth and a number of new contract wins. While adjusted EBIT for the first half is expected to be towards the lower end of management expectations, due to a problem contract and slower-than-anticipated productivity improvements, the traditionally stronger second half is expected to deliver an in-line full-year result.

Deliver the goods

Currently trading just off all-time lows, Eddie Stobart Logistics is now on a historic price to (underlying) earnings ratio of just 6.5 times. Analysts at Edison are looking for revenues to breach £1 billion in 2020, with earnings rising to 13.6p, meaning the multiple falls to a super-cheap 5.5 times. Based on last year's dividend of 6.3p per share, the yield is a 'top in class' 8.45%.

I believe the shares are cheap for several reasons. First, general Brexit-related concerns, although the company recently pointed out that less than 2% of revenue is generated through crossing the English Channel. Second, the troubled Woodford Investment Management has a 22.89% stake in the business and has been selling its stake down recently so this could continue to hold back the share price. Finally, the net debt position as at 31 May was £154 million, but with interest payments covered over six times by underlying operating profits in 2018, that position looks to be comfortable.

Following the latest trading update, analysts at Berenberg set a price target of 130p on the shares, with Edison having a 154p discounted cash-flow-based valuation. The latter target implies that the shares are worth more than double their current price. So with a bumper dividend to boot, Eddie Stobart is a buy for a likely recovery in the medium term.

Ceri Breeze / Shutterstock.com

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 2018.

BY JAMIE ROSS OF HENDERSON EUROTRUST

THE ANATOMY OF A GOOD COMPANY: NOVO NORDISK

Jamie Ross, fund manager of Henderson EuroTrust, explains the rationale behind the inclusion of the Danish pharmaceutical company Novo Nordisk in his portfolio.

When considering an investment for the **Henderson EuroTrust (LON:HNE)** portfolio, we tend not to focus on market 'noise' or any technical factors; the main thing we are doing is trying to establish whether what we are looking at is a good company or not. This is a key part of the research process.

There tend to be many features that most good companies have in common, but there are myriad characteristics and features to analyse that will be unique to each and every business. By undertaking detailed analysis of the 50 or 60 companies we have on our radar (a portfolio of around 40 positions and a watch list of 10-20 companies) we try to ascertain whether a business is a good business and if so, whether now is the right time to be invested or not. In this article we will highlight aspects of our process using one of our portfolio companies, the Danish pharmaceutical company **Novo Nordisk (CPH:NOVO-B)**.

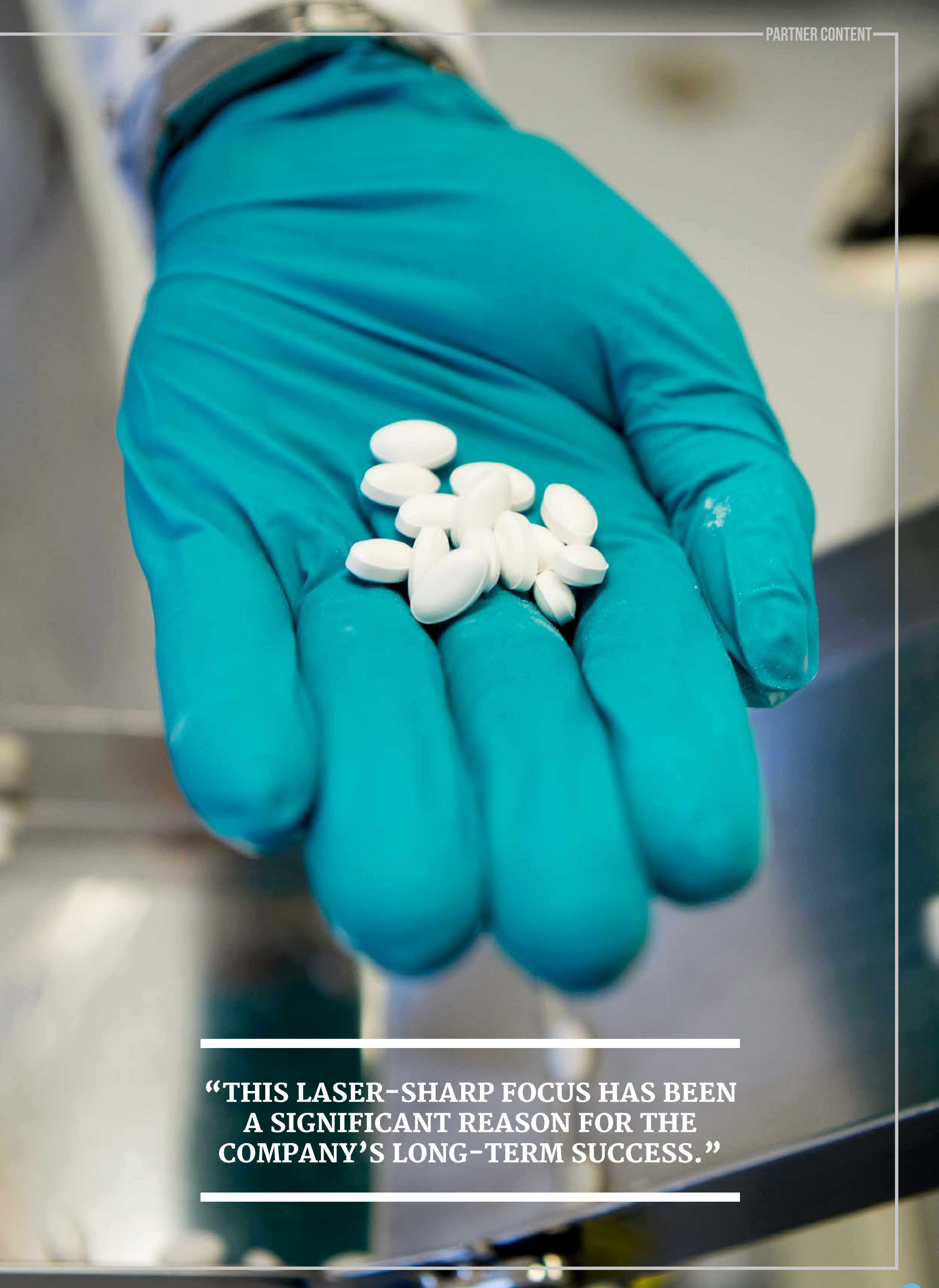
What does the company do?

Based in Denmark, but very much a global business, Novo Nordisk ('Novo') has, for over 90 years, been focused largely on one therapeutic area; diabetes care. The business started with the merger of two Danish companies in the 1920s that began to sell insulin, which at the time had just been discovered and was, as such, a novel product. Novo has grown strongly since the 1920s into a globally recognised pharmaceutical business, but crucially, its focus has remained firmly on diabetes care and on closely adjacent categories. I will come back to discuss the return on invested capital (ROIC) characteristics later, but needless to say, this laser-sharp focus has been a significant reason for the company's long-term success.

Novo still generates around 85% of its revenues from diabetes care, but over recent years, the focus has shifted from insulin, which almost 100 years after it was first produced is finally becoming commoditised, to a new category of diabetes drugs called GLP-1. Novo is a clear leader in the GLP-1 category and has produced a daily injectable product called Victoza, a weekly injectable product called Ozempic and is in the process of developing an orally administered product (oral semaglutide) which is yet to be given a brand name. These GLP-1 products tend to come earlier in the treatment cascade for diabetes and, as well as controlling blood-sugar levels, have important secondary benefits to cardiovascular health and weight control, both of which are very important features for diabetic patients.

Does this company generate strong return on invested capital (ROIC)?

The firm's gross margins (total revenue minus cost of goods sold) are exceptionally high at over 80% and are expected, by the company, to be able to be held at these levels.



"THIS LASER-SHARP FOCUS HAS BEEN A SIGNIFICANT REASON FOR THE COMPANY'S LONG-TERM SUCCESS."

"WITH EXCEPTIONALLY HIGH MARGINS AND BELOW-AVERAGE CAPITAL EMPLOYED IN THE BUSINESS, NOVO IS ABLE TO GENERATE EXCEPTIONALLY STRONG ROIC."

The strong gross margin is driven by the company's very powerful market position (they are market leaders in all that they do) and the very attractive demand dynamics in the industry (demographic changes are driving higher incidence of diabetes on a global basis). The strong supply-side and demand-side characteristics combine to create pricing power for Novo.

Novo spends around 26% of sales on selling and distribution costs (SG&A) and another 13% on research and development costs (R&D). With only around 3-4% of sales spend on administrative costs, Novo is able to generate an exceptionally high EBIT (earnings before interest and tax) margin of around 42%. We believe that this is sustainable, largely due to an efficient and focused R&D department. In terms of invested capital, most is tied up in working capital and fixed assets; the company has very little intangibles and essentially no goodwill (it has not been a big acquirer of businesses; a feature of the company that really appeals to us). Overall, with exceptionally high margins and below-average capital employed in the business, Novo is able to generate exceptionally strong ROIC (above 60% on our numbers). This will be a truly exceptional investment if these levels of ROIC can be sustained over the coming years.

What are the risks to the business and to this ROIC profile?

As explained previously, we view the singular focus of the company on diabetes as a positive for the long-term investment case and ROIC structure. However, this focus does bring its risks. For example, Novo is far more exposed to the risk of someone else developing an alternative to one of its key products than a company such as Roche for example, whose product suite is far more diversified. In addition, if Novo were to fall behind on innovation/R&D success, then you could see the company's earnings power and ROIC characteristics come under material pressure; pharmaceutical products are exposed to patent 'cliffs' and therefore they constantly need to be developing new products in order to replace their off-patent products. Another risk lies in the company's exposure to governments as customers (especially in the US). Large customers generally bring bargaining power, especially if the product you are selling them is not unique. Novo has traditionally fended off this bargaining power by selling innovative products, but it is a risk factor that we must constantly monitor. Another key risk with Novo is that it loses talent, especially in its R&D team. We would highlight Mads Thomsen, who heads up the R&D team, as being one of the key individuals that Novo must retain. Finally, as with other high-quality companies, the high valuation that the company trades on means that any doubts from the market about the company's ability to deliver on its targets could see the share price underperform. So, the valuation itself adds risk to the investment case.

Is there scope for growth?

There are several reasons for us to feel confidence in the future growth profile of the company. First, as briefly mentioned previously, demographic changes continue to drive a growing diabetic- patient population. There are many factors at play here, but ageing populations and increasingly poor diets (including the 'westernisation' of some Asian countries' eating habits) are two of the most important drivers. In addition, growth will also occur via market-share gains. Novo has some of the best products in the industry and this is driving share gains (the ongoing rapid update of Ozempic in the US is the best example of this at present). Finally, we see a very interesting long-term opportunity in Novo developing drugs focused on weight loss. Weight loss has been a very positive side effect of some of Novo's recent products and Novo is in the process of trying to harness these properties into a specifically weight-loss-focused product. Given the huge demand and unmet need for an efficacious weight-loss product, this could be a significant future growth driver that we do not see reflected in the current share price.

Investment decision?

We have held Novo for a relatively long period of time now and fully intend for it to remain a core long-term holding for the strategy. Our analysis will continue to focus on the long-term drivers of growth and on any potential risk factors that could challenge the business' attractive ROIC profile.

About Jamie

Jamie Ross is a Fund Manager of European equities at Janus Henderson Investors, a position he has held since 2016. He was appointed as joint Fund Manager of Henderson EuroTrust plc in 2018. He is also a Fund Manager on the International Opportunities strategy. Prior to this, he was a fund manager on the UK Equities Team, where he co-managed a UK equities pooled fund. Before that, he was an assistant fund manager on the Pan European Equities Team. He started his career with Janus Henderson Investors (then Henderson Global Investors) in 2007. Jamie graduated with a BA degree (Hons) in economics from Durham University. He holds the Chartered Financial Analyst designation and has 12 years of financial industry experience.

Henderson Global Investors merged with Janus Capital Group in May 2017.

BY FILIPE R. COSTA

THE MACRO INVESTOR

CENTRAL BANKS

ARE WE GOING UNDER AGAIN?

EXPECTATIONS FOR BOLD INTEREST-RATE CUTS MAY FALL SHORT OF REALITY

After more than 10 years without an interest-rate cut, the Federal Reserve is set to loosen monetary policy - but how far are policymakers willing to go?

"The Federal Reserve's job is to do the right thing, to take the long-run interest of the economy to heart, and that sometimes means being unpopular. But we have to do the right thing."

— Ben Bernanke, Former Chair of the US Federal Reserve

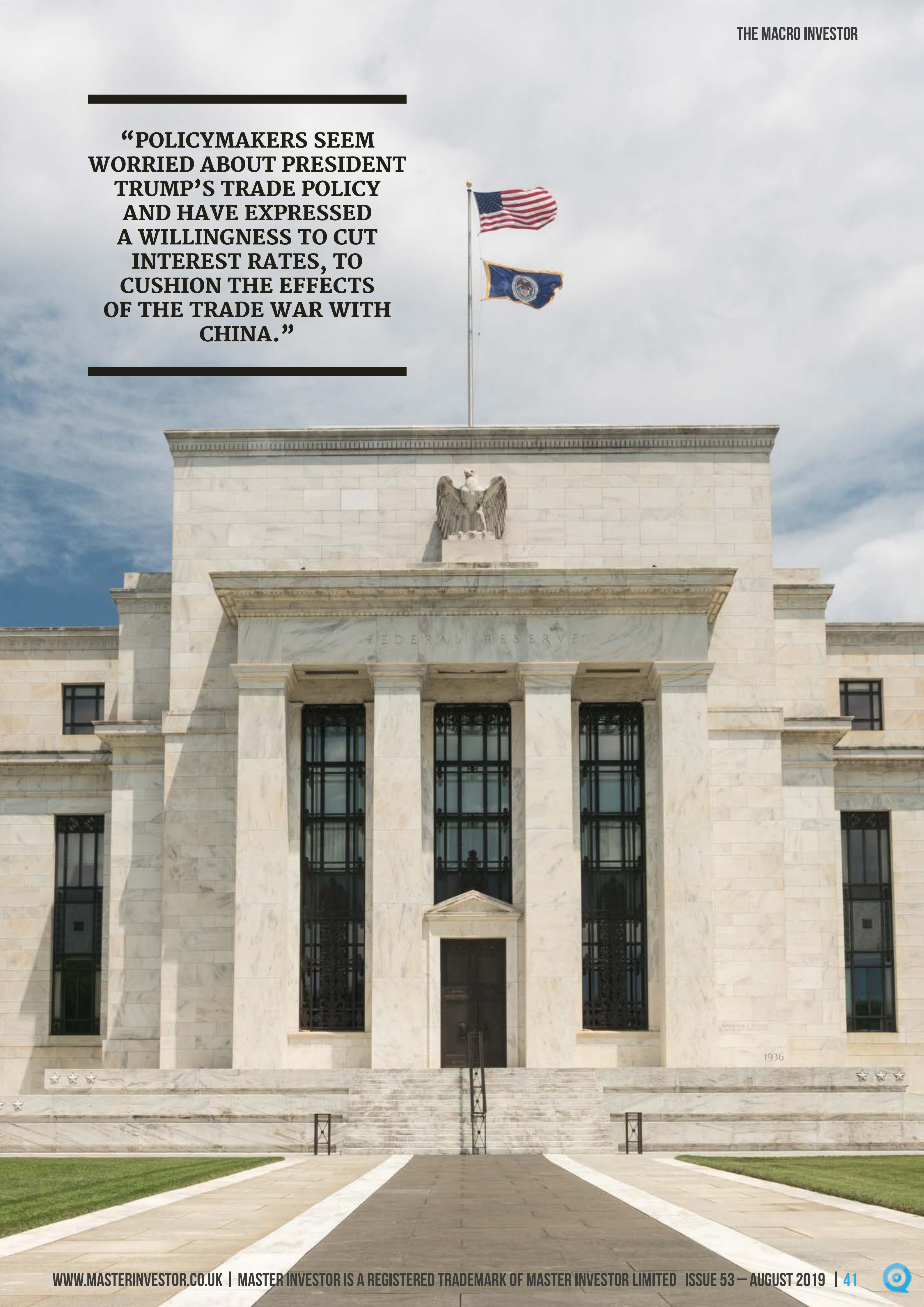
After more than 10 years without an interest-rate cut, the Federal Reserve (Fed) is set to loosen monetary policy – despite the recent growth in the US economy. However, unlike in September 2007, when the key rate was cut suddenly to avoid the collapse of the financial system, the Fed is looking to get ahead of the curve and take preventative measures. But, how far are policymakers willing to go?

The US economy is growing at a slower pace than a few decades ago, but it's still growing. The unemployment rate is at a near record low; nonfarm payroll numbers are strong; inflation is within a healthy range; factory production and investment are at reasonable levels; equity prices are trading at record highs; and volatility is very low. Still, the Fed has just reduced its key rate by 25 basis points (bps) and indicated further cuts. Policymakers seem worried about President Trump's trade policy and have expressed a willingness to cut interest rates, to cushion the effects of the trade war with China. At the same time, the Fed is under intense scrutiny from Trump's administration, which is pushing hard for substantial rate cuts to support the economy.

On one hand, the healthy state of the US economy doesn't require rates to be cut, in particular at a time when policy normalisation would actually require rates to increase slightly. On the other hand, everyone expects the central bank to take the opposite action to the government's hard-nosed measures, to balance things out. Which forces will prevail? Will Trump push the trade war to the point of no return? What can investors do and which trades are more exposed to interest-rate volatility?

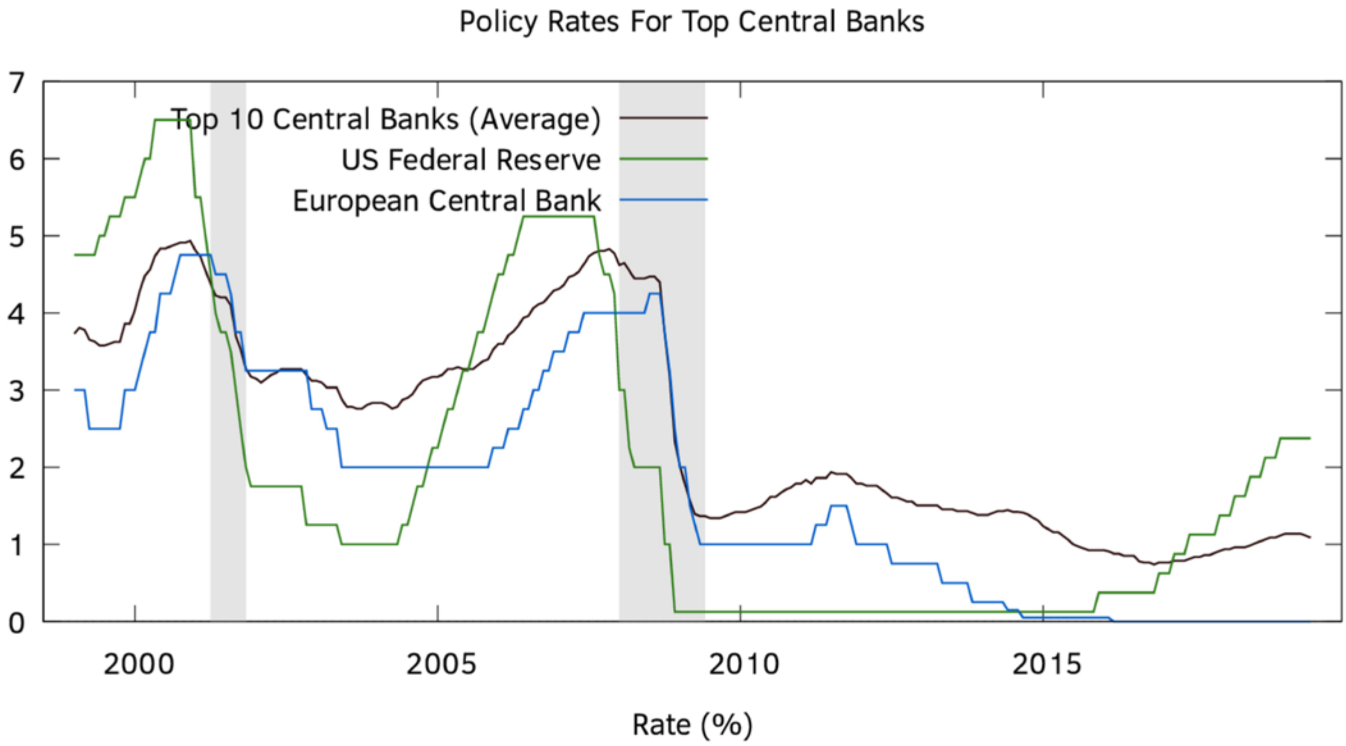
Trade barriers are not a monetary problem

Recent data points to softening growth of the US economy. The US president has, for some time now, been heavily advocating a reduction in interest rates. The increase in trade barriers has already resulted in higher prices for goods and services as well as a reduction in corporate investment. Still, the effects are likely to be temporary, and are better dealt with using fiscal policy, rather than monetary policy.



"POLICYMAKERS SEEM WORRIED ABOUT PRESIDENT TRUMP'S TRADE POLICY AND HAVE EXPRESSED A WILLINGNESS TO CUT INTEREST RATES, TO CUSHION THE EFFECTS OF THE TRADE WAR WITH CHINA."

“IF THE NEW LONG-TERM RATE IS 2.5%, THEN WE CAN CONFIDENTLY SAY THAT THE CENTRAL BANK’S STRATEGY IS RISKY, BECAUSE THE DEGREE OF MARGIN TO CUT RATES FURTHER IS NARROW.”



After a prolonged period of monetary easing, the Fed has been gradually raising interest rates, from a record low of 0.00 – 0.25% (last seen in December 2015) to a recent high of 2.25 – 2.50%. Still, after nine 25 bps rate hikes, the policy rate seems well behind its long-term level.

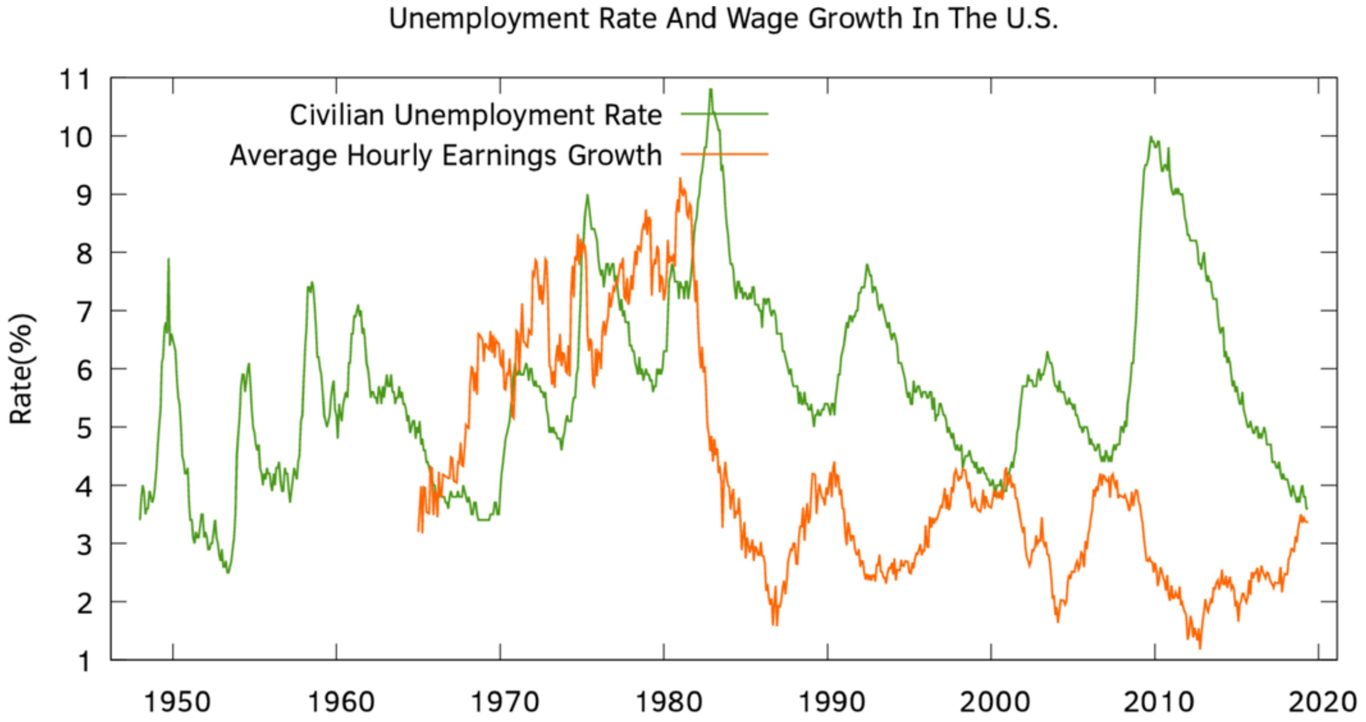
If the new long-term rate is 2.5%, then we can confidently say that the central bank's strategy is risky, because the degree of margin to cut rates further is narrow. In the last two cycles (2001-2003 and 2007-2008), the Fed cut its key rate by more than 500 bps, but that was only possible because the rate was above 5% before the rate cut. At a new long-term rate of 2.5%, the room for manoeuvre is much lower.

Build-up in rate-cut expectations

There are arguments both for and against rate cuts. On 31 July, the rate was cut by 25 bps and, at the same time, the Fed dampened the most optimistic rate-cut expectations.

For some time now, Trump has been campaigning for an ultra-dovish policy, challenging the Fed's independence by threatening to fire Jerome Powell. And while the central bank's chair dismissed these threats, many believe that Trump may get his wish, of further rate cuts.

Powell's testimony before Congress on 10 July corroborated the view that the Fed was considering precautionary rate cuts. After the testimony, the market moved to a 50-50 chance of a series of three rate cuts occurring this year. For a few days, the expectation for a July rate cut was so high that



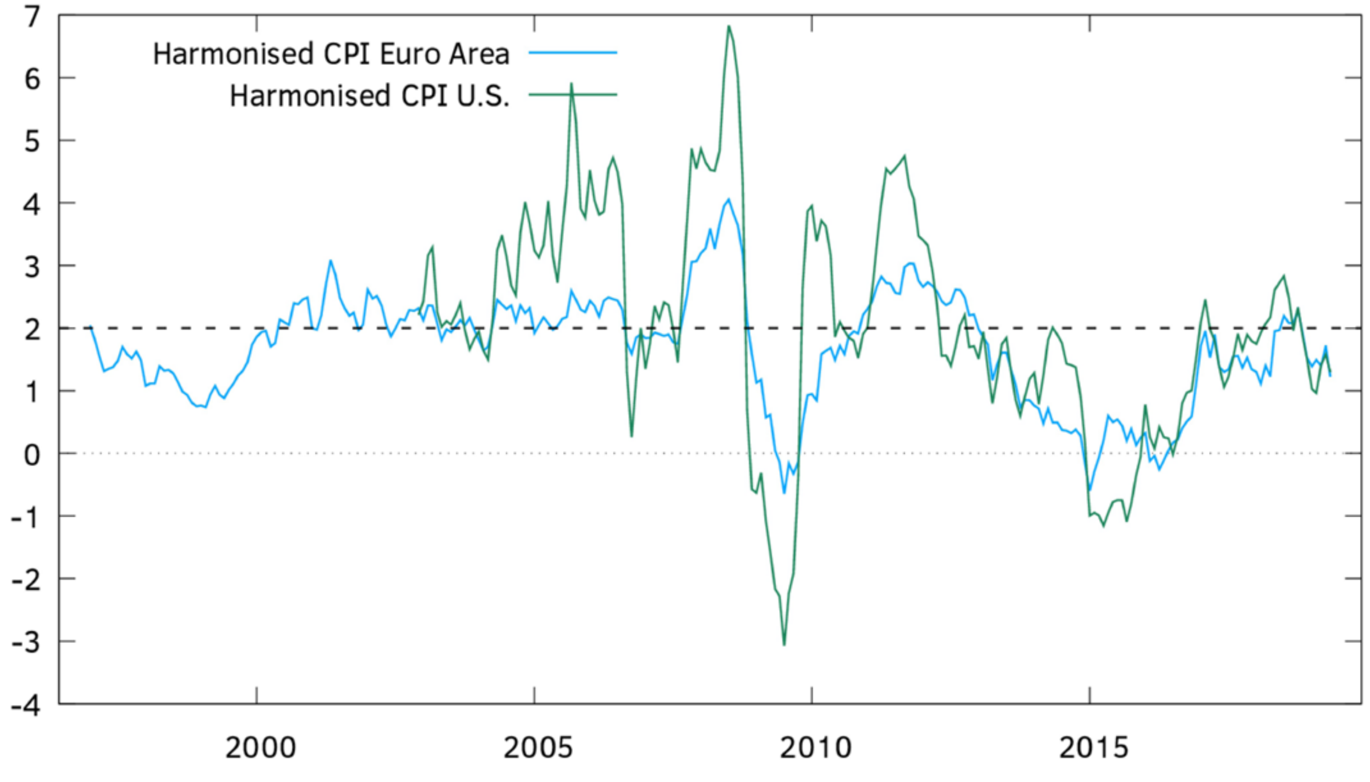
investors not only took the rate cut as a certainty, but they also increased the chances of a 50 bps rate cut to around 40%. The higher expectations created a level of discomfort among policymakers. While the policymakers somewhat succeeded in reducing expectations for a rate hike in July, investors are expecting further rate hikes to come during the remaining course of the year.

While a cut of 50 bps would have initially ignited optimism, I believe the sentiment would have been short-lived as it would likely have been interpreted as a sign of economic weakness. The Fed will, I'm sure, take that into consideration.

How is the US economy faring?

Despite the trade-war issues and some softer economic data, the US economy is still in good shape. The unemployment rate is now at 3.7%, which is just 0.1% above last month's numbers and near levels not seen since 1969.

The latest nonfarm payrolls report confirms the robust health of the employment market, with the economy adding 224,000 payrolls in July (figures above 200,000 are usually considered very strong). GDP growth slowed from 3.1% in Q1 to 1.8% in Q2, but much of the decrease has been attributed to trade and inventory idiosyncrasies. Despite the slowing economy, the released data marks the twenty-first in a row, of figures showing quarterly growth, as the last time the economy shrank was on Q1 2014.



The latest inflation numbers reported by the US Bureau of Labor Statistics point to a rise in prices of 1.8% in May (year-on-year). After two years of inflation above 2%, the figure is stabilising near 2% this year. While the Fed prefers to target inflation numbers obtained from personal-consumption expenditures, it's undeniable that prices are rising. This reality is confirmed with the evolution of hourly earnings. There seems to be a clear negative relationship between unemployment and average hourly earnings, as depicted in the chart. After weighting everything, I would say there's more upside than downside risk for inflation, which doesn't fit a scenario of interest-rate cuts.

In summary, it's difficult to find reasons for the Fed to reverse its policy. I believe the central bank has just cut rates to buy some time. Trump is pressing the central bank because of his own agenda, but the central bank is still independent. Besides, monetary policy is good for managing monetary problems, which is not the case here. There's no financial crisis, no risk of deflation and no foreseen systemic risk. Powell is just keeping all options open while avoiding fighting market sentiment.

While the expectations for rate cuts corrected a little after the 25 bps cut which was below expectations, investors are still expecting too much. The Fed Watch Tool is attributing a high likelihood to a total of three rate cuts this year. The odds for a second rate cut occurring in the next meeting (an additional 25 bps cut) are 56.5%. For the October meeting, the odds for an accumulated 75 bps cut or more (an additional 50 bps or more) are now 23.0%. For the end of the year, the odds for three accumulated rate cuts (an additional 50 bps cut) are currently 39.6%, while the odds for two or more are 82.6%. The data from the Watch Tool reflects high expectations from investors regarding rate cuts. The Fed is expected to cut its key rate by an additional 25 to 50 bps this year. My view is that these odds are curved towards rate-cut optimism. If the trade wars ease, these odds will change dramatically. At the same time the depicted scenario seems to place the US in trouble. But what happens if we compare the country with Europe? With all this in mind, I believe there are a few places in financial markets where investors may be relatively safe for the next couple of months.

Placing a few trades against the crowd

My key investment themes this month are:

- A scenario of slower-than-anticipated rate cuts in the US
- A deterioration of the euro area relative to the US due to political and economic factors.

FED TARGET RATE PROBABILITIES FOR NEXT FOMC MEETINGS

	18/Sep/2019	30/Oct/2019	11/Dec/2019	29/Jan/2020
Current level	43.50%	25.80%	17.40%	12.80%
-25 bps	**56.50%**	**51.20%**	**43.00%**	**36.20%**
-50 bps	0.00%	23.00%	32.10%	35.00%
-75 bps or more	0.00%	0.00%	7.50%	16.00%

Source: CME FedWatch Tool @ 08:45 GMT 1/Aug/2019

Andriy Blokhin / Shutterstock.com

"IF THE EXPECTATIONS PROVE TOO OPTIMISTIC REGARDING RATE CUTS IN THE US, OR IF EUROPE ENGAGES IN A MORE DOVISH MONETARY STANCE, THE DOLLAR MAY GAIN VALUE AGAINST THE EURO."

EUR/USD

In general, interest-rate cuts (or an expectation for them to happen) should lead to currency depreciation to some extent. If there is a serious risk-off event, the reserve currency status of the dollar may prevail over any rate cuts, but for a normal scenario where a few preventive rate cuts are expected, the dollar may lose some of its appeal. However, if the expectations prove too optimistic regarding rate cuts in the US, or if Europe engages in a more dovish monetary stance, the dollar may gain value against the euro.

Europe hasn't experienced the growth the US has after the financial crisis, not even after sorting out much of its fiscal trouble. And, at a time when global growth is slowing, there's no reason to expect Europe to shine, in particular not at a time when negative European sentiment abounds. The European Central Bank hasn't been able to hike its refinancing rate after pushing it down to the current 0.00% level.

Reflecting economic and policy developments on both sides of the pond, the euro managed to hit a high against the dollar at 1.25 on January 2018 but differences in growth between the regions have contributed to drive the euro down ever since. Some enthusiasm regarding rate cuts has been boosting the dollar a little. But such enthusiasm may prove short-lived. If not, there's still a high likelihood of the euro area experiencing slower growth than the US, which would push the euro down. All this puts pressure on the euro side, opening an opportunity to be long on the dollar and short on the euro. By the end of 2016, the euro tested parity against the dollar. It may be tested again.

US bonds

Bonds are expected to benefit from rate cuts as yields and bond prices are inversely related. Because long-term interest rates have been low for a long time, expectations for rate cuts are having an effect mostly on the short-maturity side of the yield curve, up to three years. For this reason, the best way to trade against current expectations is by means of shorting bonds with maturities between one and three years. One possible course of action is to sell short a bond ETF like the **iShares 1-3 Year Treasury Bond ETF (NASDAQ:SHY).**

Gold

While it may appear controversial for some, I'm not optimistic on gold for the shorter term. Gold has been rising on the expectation that central banks would resume rate cuts. It was in particular boosted by the possibility of the Fed cutting rates three times this year. If rate cuts come short of expectations, gold may enter a correction and return to its May levels at $1,270, from the current $1,403.

Final words

After the bold measures deployed by the Fed to fight the 2007-2009 financial crisis, the central bank is now being called upon to act again. After nine rate hikes in the aftermath of the recovery, the central bank reversed its policy and cut its key rate by 25 bps. But, unlike what has happened in the past, this time there's no financial crisis or economic downturn. The cut is mostly preventative. But the question that should be raised is: does it make sense for the central bank to cut its key rate several times as preventative action when rates are already low? For me it doesn't, so I am willing to take an opposing stance.

About Filipe

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

BY DAVID JONES

CHART NAVIGATOR

USING CHARTS TO HELP MAXIMISE PORTFOLIO PROFITS

David Jones uses charts to help determine when to close out winning positions – before it is too late.

Given that, at the time of writing, the broader US stock market is reaching all-time highs – and even the somewhat lagging FTSE100 is less than 10% below its own ultimate peak – I thought it would be appropriate to turn to the subject of charts. I am assuming we are all investors (or traders) for the same reason: to make some money. And of course, a profit is not a profit until it is banked, but knowing when to come out can be tricky. I am therefore going to examine how charts can help with that.

You will always sell at the wrong time

I think it's important to emphasise this right from the start. Plenty of us probably started off naively feeling that the key to success is to buy at the bottom and sell at the top, and then our experience has taught us a somewhat different lesson. Whenever we close a position, we will almost always do so after or before the investment reaches its peak price; in other words, we will sell the investment too early or too late.

If we accept that – and we should, because it is true – then we'd be able to move on to something that we can actually control, and that is determining that the investment has run far enough, and then cashing in on our profits.

"A PROFIT IS NOT A PROFIT UNTIL IT IS BANKED, BUT KNOWING WHEN TO COME OUT CAN BE TRICKY."

The investing balancing act

As usual, there is no perfect answer to the question of when to cash out, but there are steps we can take to help us make a decision. When we have a profitable position, investing or trading is a balancing act. Do we let it run in the hope of making more profits? Or do we take the profit? If we let it run, then we risk giving back a portion of what has been made so far; but on the other hand, if the position is closed now, then you give up the chance of even greater profit. Again, we won't get that right all the time, but there are a couple of approaches that can be used to take the emotional element out of the decision.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Reckitt Benckiser May 2012 – June 2017

"WHENEVER WE CLOSE A POSITION, WE WILL ALMOST ALWAYS DO SO AFTER OR BEFORE THE INVESTMENT REACHES ITS PEAK PRICE; IN OTHER WORDS, WE WILL SELL THE INVESTMENT TOO EARLY OR TOO LATE."

Let the market show you that things are changing

It can be tempting after a good run up in a share to think that now is the time to sell, but why not wait for the market to tell you that, rather than second guessing? The utility of support and resistance trendlines can provide an early warning that profits are about to take a turn for the worse and, therefore, the best time to cash in on your profits is soon.

I thought I would use an old holding of my own to illustrate the basics here. Household-goods business Reckitt Benckiser had a great run. Starting at around 3300p a share in 2012, it went on to reach 6500p by the end of 2016. All the way up, it would have been tempting to sell out and take profits, only to see the price continue to rise. That is why I feel that it may be best to take a more mechanical approach, and remove the emotional knee-jerk approach of 'it's gone up so much, it can't go any higher'.

All good things come to an end, and that was the case with Reckitt, following the strong trend growth. At 8000p, the shares sold off, and broke below both the trendline and the previous major low. If you had been waiting for this break, then, yes, you would have given back a good chunk of profit. However, I am sure that on the way up many people would have sold and, therefore, missed out on larger profits.

Reckitt Benckiser May 2012 – May 2018

The trailing stop loss

There is another mechanical approach that has 'following the trend' at its core: the trailing stop loss. Let's assume that you buy shares in XYZ company, and resolve to sell if the price drops by 15%. Happily for you, the share price actually rises, and, after six months, XYZ is trading 15% higher than where you bought in.

At that point, you can employ the trailing stop-loss approach. You simply resolve to sell if the price drops back by 15% from a recent major peak. As usual, a picture speaks a thousand words, so let's take a look at this approach with Reckitt Benckiser once again.

The jagged line under the price is the trailing stop loss. If the price fails to move through a major high, then the stop-loss level remains the same. However, as soon as the Reckitt share price climbs, then the stop loss trails the share price, providing an opportunity to make further gains while also exiting the investment if there is a significant sell-off.

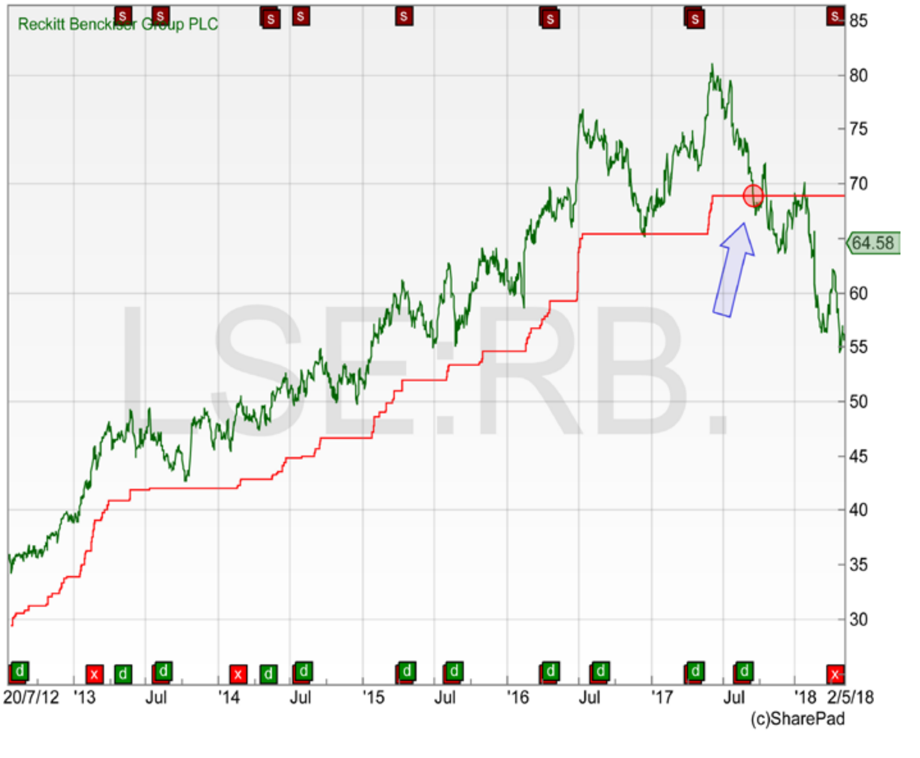
Coincidentally, the 15% trailing stop-loss approach resulted in the exit of the investment at roughly the same level as the trendline break in the previous chart. Nevertheless, it once again achieved the objective of staying with the major trend for as long as possible.

Why it is important to run profits?

As investors, we start off thinking that we are better than we actually are at picking winners. In reality, the overall performance of a portfolio can be greatly affected by a small number of picks that do much better than your other investments. It is important to stick with these winners for as long as possible, and not randomly jump out on the concern of giving back profits.

As I said at the beginning, a profit is not a profit till it is banked, so having a more mechanical and disciplined approach to selling out is something that I believe will reap dividends over the longer term.

Reckitt Benckiser – with 15% trailing stop loss



"IN REALITY, THE OVERALL PERFORMANCE OF A PORTFOLIO CAN BE GREATLY AFFECTED BY A SMALL NUMBER OF PICKS THAT DO MUCH BETTER THAN YOUR OTHER INVESTMENTS."

Chart of the Month

BAE Systems – September 2018 to July 2019

I thought for this month we would turn the idea of a trailing stop loss somewhat on its head, and take a look at a share that has finally managed to rally by 15% after a period of sliding lower. Accordingly, I have picked a company where investor sentiment is shifting from positive to negative, thereby providing a potential opportunity to get in at the start of a recovery.

I thought BAE Systems was an interesting example, given its share-price performance since September last year. The price slid from 640p a share, down to 440p in December, and has held steady since then. On the way down, the 15% trailing stop moved lower as the shares lost ground. Earlier this year, however, the price started moving above the stop-loss limit price, recovering more than 15% from its recent low.

Of course, that is not enough to base a buying decision on; there are other key factors to consider. Firstly, 440p has been an important floor (or support level), and it therefore makes sense to base the 15% stop-loss level from there.

Secondly, the strength of the share price in July looks like the first tentative steps of a breakout, in which a stock price moves outside a defined support or resistance level with increased volume. I have written about these in the past, and they can be a powerful signal that a new trend is well underway. While early days, it is good to see that BAE Systems does have momentum on its side.

Employing the trailing stop approach here would require the share price to move around 100p higher from where it is trading at the time of writing, assuming your initial stop loss is around the 430p level. It's important to be patient, and wait to see if the share price moves out to the 630p level before applying a trailing stop, to lock in the profit and to give the price room to 'breathe' in the hope of realising further gains.

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 NICK SUDBURY

FUNDS & TRUSTS IN FOCUS

THE BEST EMERGING MARKETS FUNDS AND TRUSTS

Emerging markets are in recovery mode. Nick Sudbury looks at some of the best ways to gain exposure via funds and trusts.

"THE PROSPECT OF LOWER US INTEREST RATES AND A LESS SEVERE DOWNTURN IN GLOBAL GROWTH HAS BROUGHT ABOUT A DECENT RECOVERY IN THE FIRST HALF OF 2019."

2018 was a difficult year for emerging markets, but the prospect of lower US interest rates and a less severe downturn in global growth has brought about a decent recovery in the first half of 2019. The region has some attractive valuations and could generate strong returns, especially if the US-China trade war is resolved satisfactorily.

Last year was the worst for global equities since the 2008 financial crisis, with emerging markets the first to feel the pain. The region was badly affected by the impact of slowing growth in China – which was partly due to the US-China trade war – and tighter global liquidity, as a result of the increase in US interest rates. This was particularly problematic for those countries with large current-account deficits or significant dollar-denominated borrowings.

The MSCI Emerging Markets index fell by 14.5% in local-currency terms last year, significantly underperforming the loss of 8.7% recorded by MSCI World. In the first six months of 2019, it recovered by 10.6%, which was well behind the 17% achieved by its global equivalent.

Using traditional metrics, the region looks attractively valued. The main MSCI Emerging Markets benchmark is yielding 2.8%, and trading on a forward P/E ratio of 12.1 and a price-to-book ratio of 1.6, all of which are much cheaper than the comparable figures for MSCI World.

"The fundamentals of emerging markets remain attractive as do the valuations, which are still at levels that have historically indicated good long-term returns over the subsequent 10 years," notes Adrian Lowcock, head of personal investing at Willis Owen.

Tough call

The year-to-date recovery is mainly a result of a more dovish monetary policy in the US and the eurozone. This has suppressed the returns in these areas and encouraged people to seek better gains in higher-risk areas like emerging markets, as evidenced by the large investor inflows.

Another key factor is the renewed confidence in the stability of global growth, particularly as regards the US and China. These two economies are by far and away the most important markets for goods and services in the region.

Ryan Hughes, head of active portfolios at platform provider AJ Bell, says that the key attraction of investing in emerging markets is the ability to gain access to the most dynamic and fastest-growing economies across the world.

"In aggregate, all of the countries classified as emerging are growing significantly faster than their developed counterparts and given the changing structure of these economies, it is a trend that looks likely to persist on a multi-year basis. The key to this is China, which has seen phenomenal growth, with a GDP rate that developed countries such as the UK can only dream of."

"USING TRADITIONAL METRICS, THE REGION LOOKS ATTRACTIVELY VALUED."

If the supportive macro environment continues it should help to drive returns across emerging markets, but it's obviously a highly fluid situation that could reverse very quickly. It would only take a global economic slowdown, an escalation of trade tensions or higher-than-expected US interest rates to spark a potentially severe reversal.

"With tariffs being levied on a tit-for-tat basis, there is a danger that this could stall the growth rates in certain parts of the world, particularly as the US looks to be more protectionist. There are also the ever-present issues of government interference, weak corporate governance and a less stable macro-political environment," warns Hughes.

Top picks

If you are optimistic about the prospects and comfortable with the inevitable volatility, then the most practical way to invest would be to use one of the specialist funds that concentrate on the region.

According to data from FE Trustnet, there are 105 open-ended funds in the IA Global Emerging Markets sector and over the last five years they have returned an average of 49.4%. The top performers were: **Vontobel mtx Sustainable Emerging Markets Leaders** (107.7%), **Hermes Global Emerging Markets** (89.7%) and **Baillie Gifford Emerging Markets Growth** (83.3%).

Lowcock recommends the **JPM Emerging Markets** fund. He believes that manager Leon Eidelman makes good use of the analysts within the firm's extensive Emerging Markets and Asia-Pacific team, assessing their best ideas and challenging assumptions to build his own conviction.

"INVESTING IN A SINGLE COUNTRY EMERGING MARKET FUND CARRIES A MUCH HIGHER LEVEL OF RISK THAN ONE OF THE MORE DIVERSIFIED REGIONAL ALTERNATIVES, BUT ALSO HAS THE POTENTIAL TO DELIVER BETTER RETURNS."

"He takes a long-term, stock-picking approach and focuses on quality, growth firms. The fund has also had a persistent bias towards sectors positively affected by domestic demand and consumption, rather than areas influenced by commodity prices and currency moves."

Over the last 10 years it has generated an annualised return of 9% versus the 7.7% achieved by its MSCI Emerging Markets benchmark. The fund is a decent size with assets under management of almost £1.4bn, although the ongoing charges of 1.15% makes it more expensive than some of its peers.

For those who want a slightly lower-octane option, Hughes suggests its stablemate, the **JP Morgan Emerging Markets Income** fund. This focuses on companies that have the ability to grow their dividends over time, and as a result has exposure to businesses that could be considered high quality.

"Fund manager Omar Negyal has been running the fund for seven years and is backed by a large team of analysts to help with idea generation. While this type of approach will typically lag in rapidly rising markets, it often comes into its own when things become more challenging."

The £373m fund is yielding 3.8%, and since it was launched in July 2012, has generated an annualised return of 7% per annum, which is in line with its benchmark.

The best investment trusts

Data from Winterflood Securities reveals that there are nine investment trusts operating in the Global Emerging Markets sector. These have generated an average five-year total share-price return of 56% and are trading on an average discount to net asset value (NAV) of 7.8%. The two largest are **Templeton Emerging Markets (LON:TEM)**, with total assets of £2.3bn, and **JPM Emerging Markets (LON:JMG)**, with £1.3bn.

The investment-trust analysts at Numis and Winterflood both recommend the latter as a core buy. It was launched in 1991, and since 1994, has been managed by Austin Forey, who has delivered strong long-term relative returns for investors.

Forey looks for quality, growth companies that are trading at reasonable valuations and takes into account both the fundamental analysis of the business and the wider macroeconomic perspective. He adopts a long-term approach and runs his winners, which helps to keep the turnover and trading costs low.

"THE MANAGER BELIEVES THAT CHINA WILL REACH AN AGREEMENT WITH THE US BECAUSE OF THE MUTUAL DAMAGE THAT A PROLONGED TRADE WAR WOULD BRING TO BOTH ECONOMIES."

At the end of May, **JPM Emerging Markets** held a 58-stock portfolio with the top 10 positions accounting for 45% of the assets. The two largest country weightings were China and India, with each making up just over a fifth of the allocation. Over the last five years, the shares have returned 98%, which is well ahead of the benchmark and peer group, yet they are trading on a 7% discount to NAV.

Numis also recommends the £102m **Mobius Investment Trust (LON:MMIT)**, which began trading last October. It is completely different from anything else in the sector as it invests in a concentrated portfolio of 20-30 small-to-mid-cap stocks in emerging and frontier markets, and has an absolute return focus. The plan is for the managers to work with the companies to help unlock the value.

MMIT has a strong management team that includes Mark Mobius and Carlos Hardenberg, who were both formerly responsible for running the Templeton Emerging Markets investment trust. By the end of May, they had invested 77% of the cash raised at the IPO in 20 companies spread across 11 different countries. It is also worth noting that they have significant personal stakes in the fund, which makes them highly motivated to succeed.

The single country route

Investing in a single country emerging market fund carries a much higher level of risk than one of the more diversified regional alternatives, but also has the potential to deliver better returns.

A good example is **Fidelity China Special Situations (LON:FCSS)**, which has been managed by Dale Nicholls since he took over from Anthony Bolton in April 2014. Nicholls mainly focuses on companies operating in the 'new economy' sectors, which are set to benefit from the growth in

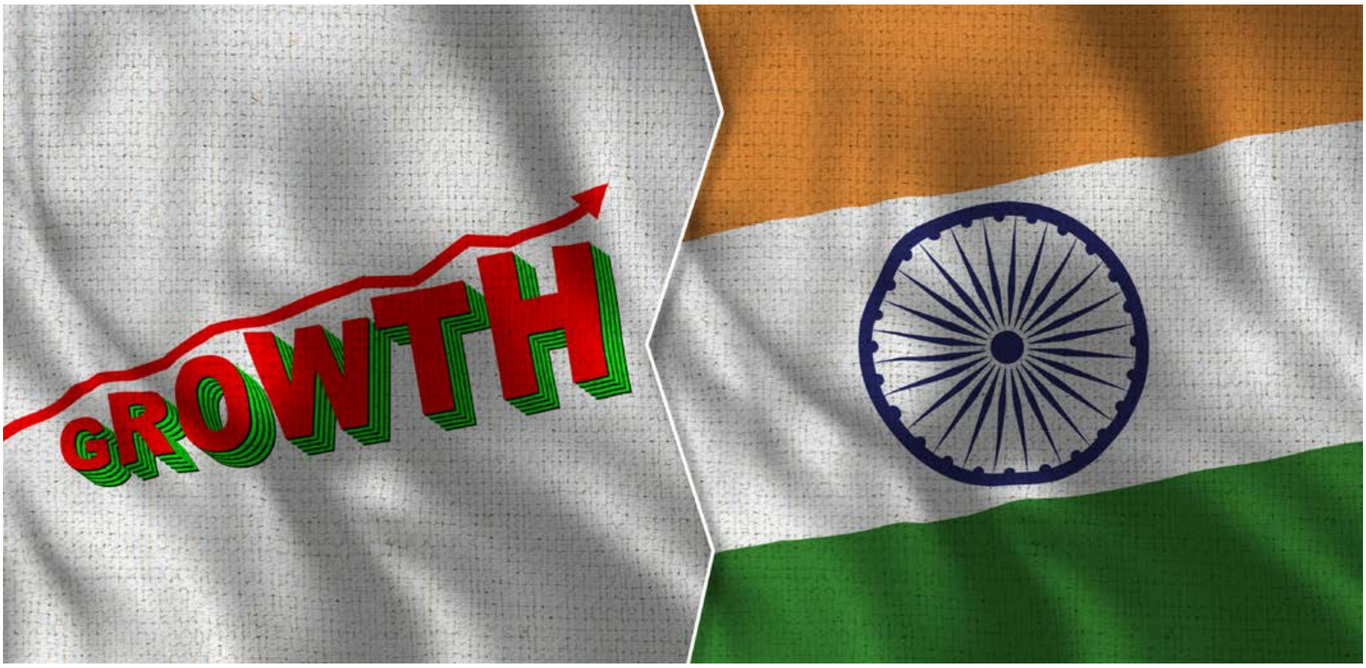
the middle class, rising incomes and increasing penetration of the internet and e-commerce.

The manager believes that China will reach an agreement with the US because of the mutual damage that a prolonged trade war would bring to both economies. Numis rates him highly and points out that he has comfortably outperformed his benchmark since taking over the fund. Over the last five years the shares have returned 128% and they are currently trading on a discount to NAV of 8%.

Numis also likes **JPMorgan Indian (LON:JII)**. India's incumbent Prime Minister, Narendra Modi, has recently won a landslide election victory, securing another five-year term for the ruling BJP. The fund's managers, Rukhshad Shroff and Raj Nair, believe that the result will be helpful for the local stock market as it means that his business-friendly policies are set to continue.

JPMorgan Indian focuses on high-quality growth franchises and is positioned for a recovery in domestic earnings, while having an underweight

exposure to sectors sensitive to the global economy (IT services and energy), as well as consumer staples, which are more defensive and typically trading on high multiples. It is by far the largest and most liquid London-listed Indian equity investment trust with total assets of £930m and competitive ongoing charges of 1.09%. Over the last five years the shares have returned 93% and they are currently trading on a discount to NAV of 9%.



FUND OF THE MONTH

The safest way to gain exposure to the region would be to use one of the diversified regional funds, with a prime example being the £2.3bn **Fidelity Emerging Markets**, which has been managed by Nick Price for almost a decade. It has been a first-quartile performer over the last five years, with an annualised return of 9% per annum versus the 7.6% achieved by its benchmark.

Price focuses on companies which offer quality growth and display a superior and sustainable return on assets. He has put together a 62-stock portfolio with the main country overweight positions relative to the MSCI Index being Hong Kong, Russia and India. The chief areas where he is underweight are mainland China and South Korea.

Lowcock, who recommends the fund, says that the investment process is based on a deep analysis of each company and its accounts: "Price looks for strong, unleveraged balance sheets, shareholder-friendly management and reasonable valuations. He then actively manages it as a best-of-breed portfolio, topping up or trimming holdings based on his price targets and technical analysis."

Hughes, who also likes the fund, says that the portfolio is well diversified to mitigate some of the stock-specific risks that exist when investing in emerging markets: "There are limits on the stock and sector positions to give a further layer of risk mitigation, although this still gives the manager significant flexibility to focus on companies that can really add value."

Fund facts

Name:	Fidelity Emerging Markets
Type:	OEIC
Sector:	Global Emerging Markets
Total assets:	£2.3bn
Launch date:	May 2013
Historic yield:	0%
Ongoing charges:	0.96%
Website:	www.fidelityinternational.com

Another favoured market is Vietnam where Numis has trading buy recommendations on both **Vietnam Enterprise (LON:VEIL)** and **VinaCapital Vietnam Opportunity (LON:VOF)**. It says that the key drivers for the country are: healthy economic growth, strong foreign direct investment and the government's privatisation programme, all of which leads it to conclude that investors should have exposure over the next few years.

VOF has returned 145% in the last five years, yet the shares are currently trading on a 15% discount. VEIL was only launched in July 2016, but has done pretty well and again the shares are available on a wide 14% discount. Both are likely to be highly volatile and they are also expensive with ongoing charges of 2.39% and 3.01%, respectively.

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.

BY JOHN KINGHAM

DIVIDEND HUNTER

STAGECOACH

IS IT TIME TO HOP ON BOARD?

John Kingham looks at Stagecoach and whether now is a good time to buy the shares of the UK's leading bus and coach operator.

Stagecoach is the UK's leading bus and coach operator with a rail franchise business on the side. It also had a small (in terms of profit) international business, mostly focused on the US, but that was recently sold off.

Stagecoach is an interesting company because it's a market leader, it operates in a relatively defensive sector and, at a share price of 130p, it has a dividend yield of almost 6%. These are all attractive features and it's why I wanted to take a closer look. However, when I glanced at the stock's long-term price chart, I was somewhat surprised to see some very large peaks and troughs, spread out over the last 20 years.

According to SharePad, in 1997 you could have bought shares in Stagecoach for around 130p and offloaded them two years later for around 250p. And then almost a decade later in 2006, you could have bought back those shares at 130p and sold about a year later also for 250p. And now after yet another decade or so, you can pick up Stagecoach's shares, once again, for that same 130p.

For shareholders who have been with Stagecoach since 1997, this has clearly been a very bumpy ride, but with the price now back down towards the lower end of its twenty-year range, it looks as if this could be a good buying opportunity. Or is it?

1980 – 2000: Rapid growth fuelled by acquisition

Stagecoach began life in 1976 as a family-run minibus hire business in Scotland. Following deregulation in the early 1980s, the company expanded into the intercity coach market, operating routes from Dundee to London.

This early success was followed by a long period of expansion, primarily by acquisition. The company acquired competitors and then improved them by stripping out layers of management, to shorten the chain of command. This increased decision-making speed and accountability while reducing costs. It also competed

"STAGECOACH IS AN INTERESTING COMPANY BECAUSE IT'S A MARKET LEADER, IT OPERATES IN A RELATIVELY DEFENSIVE SECTOR AND, AT A SHARE PRICE OF 130P, IT HAS A DIVIDEND YIELD OF ALMOST 6%."

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Ceri Breeze / Shutterstock.com

more aggressively, using tactics such as front-running (ie scheduling a Stagecoach bus to reach each bus stop a few minutes before a competitor's bus) and heavy discounting (including offering free travel on certain routes at certain times).

This strategy worked incredibly well for many years as the UK bus market was new to the world of deregulated markets and was still very inefficient. Stagecoach's meteoric rise eventually led to a decision to expand outside the UK bus and coach market. It began to acquire non-UK and non-bus travel businesses, including a Chinese toll-road company and a Scottish airport, and it bid for and won several rail franchises.

However, acquisition-driven expansions are dangerous things and management teams often become intoxicated by how easy it all seems. After all, all you have to do is borrow some money, use it to buy a weak competitor, squeeze the acquired business hard to drive costs down and profits up, and then do it all again, only on a bigger scale. It's simplicity itself, or at least it seems simple until management become complacent and think they can buy huge companies at inflated prices and still make it work.

In Stagecoach's case, the peak of its debt-fuelled acquisition spree came in 1999 when it bought Coach USA for around £1.2 billion. This was at the peak of the dot-com boom and record-breaking mergers and acquisitions were happening left, right and centre − this mega-acquisition cost almost three times Stagecoach's entire profits of the previous decade.

Acquisitions on this scale can be problematic because the integration process can be so distracting for management and disruptive to the acquirer's core business, but at the time the market thought this sort of thing was marvellous. Less marvellous was the fact that just two years later, Stagecoach wrote down the value of the acquired US business by £376 million. Shortly after that, you could have bought Stagecoach for just 15p per share (if you were brave enough).

2000 – 2011: Acquisition rehab and refocusing on the core

With an ocean of debt to pay off and an approach to acquisitions that was clearly broken, Stagecoach went into 'acquisition rehab'. This is a common phase where over-acquisitive companies sell off acquired non-core businesses (in this case, airports, international bus operations and that Chinese toll-road business) to pay down their excessive debts.

This process allows companies to stop obsessing about rapid growth and instead focus on improving their collection of core businesses, which for Stagecoach meant its UK and US bus businesses and its UK rail business. And so, having started the new millennium with ambitions of being an international travel business, Stagecoach reached 2011 as a much more focused business, with 61% of operating profits coming from its market-leading UK bus business, 30% from UK rail franchises and the remaining 9% or so from its US bus and coach operations. This long period of divestment also allowed the company to return more than £1 billion to shareholders as one-off payments, which is more than the company's current market cap.

2011 – 2019: Rail woes and an even greater focus on the core bus business

As I would have expected for a company operating in the defensive public-transport sector, Stagecoach came through the financial crisis relatively unharmed and with its dividend still growing. As the economy stabilised, the company roared ahead with operating profits rising from £205 million in 2011 to £273 million in 2013, largely thanks to its core UK bus business.

That growth spurt didn't last though, and in the last few years the bus business has seen profits decline, the rail business has started to close down and the US business has been sold off. As a result of all this, the dividend was cut by 35% in 2018 and the share price is down by about 65% from its 2015 peak.

To understand more about Stagecoach's current problems and whether or not that 6% yield is justified, it's worth looking at how the company generates profit in a bit more detail.

"THE REGIONAL BUS BUSINESS IS RELATIVELY LOW RISK BECAUSE REVENUES ARE GENERATED, LITERALLY, BY LOTS OF RECURRING SMALL-TICKET PURCHASES, AND THAT TENDS TO PRODUCE MORE PREDICTABLE CASH FLOWS FROM YEAR TO YEAR."

Ceri Breeze / Shutterstock.com

Small tickets and big contracts

The UK bus market is split roughly into two segments: regional and London. The regional market operates on a largely deregulated basis so that anyone (more or less) can put a bus on the road and accept paying passengers. Revenues come in from each passenger, expenses are things like fuel, driver wages and the capital expense of the bus, and profits are what's left over. This business currently generates about 66% of Stagecoach's operating profit and the company has a market share of about 25%, which is huge.

The regional bus business is relatively low risk because revenues are generated, literally, by lots of recurring small-ticket purchases, and that tends to produce more predictable cash flows from year to year.

The London market is completely different. It's highly regulated, routes are licensed by a government department (Transport for London) and bus operators bid in an attempt to win contracts with Transport for London (TfL) to run buses on those routes. Revenues come in the form of a fixed fee from TfL, expenses are the usual bus-related expenses and profits are what's left over. These contracts typically run for about five years and Stagecoach is the fourth-largest bus operator in London. This is riskier than the regional bus business because revenues depend upon the company winning large contracts, and large contracts have two main problems.

First, the customer (TfL) is shelling out large amounts of money, so they go over each bid with a fine-tooth comb. In contrast, small-ticket items like bus tickets and cans of fizzy drinks are usually purchased without spending weeks analysing the cost/benefit ratio.

Second, service providers (bus operators) are often desperate to win the contract because of the large sums of money involved. This occasionally leads companies to enter 'suicide' bids, where they offer to provide the service for less than the underlying cost of the service. Obviously, suicide bidding is a very bad idea, but some companies do it unwittingly by being over-optimistic on costs, while others do it knowingly in order to generate at least some revenues from their assets (whether that's drivers, buses or any other long-term asset). Stagecoach sensibly mitigates much of this risk by operating around 80 different routes across many separate contracts, so that when one expires, it isn't the end of the world.

The rail franchise business takes this concept of contract risk and further heightens it. Unlike the London bus market, where contracts are relatively small and numerous, rail franchise contracts are huge and

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few. This increases the scrutiny of the customer and the desperation of bidders enormously. Also, these contracts are so big that even very large companies like Stagecoach are unable to diversify away the risk of individual contracts ending or going wrong.

The riskiness of the rail franchise business has become all too apparent in recent years as Stagecoach's 90% share in the Virgin Trains East Coast company went from fanfare to failure in a surprisingly short time. This is ultimately why the company cut its dividend, so here's a brief review of what happened.

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Virgin Trains East Coast: a rail franchise disaster

Stagecoach only operates a handful of rail franchises, but they generate about half of the company's revenues and most of the company's expenses. This combination of large revenues and expenses leaves Stagecoach with rail profit margins of just a few percent, and that's a very thin margin of safety. If revenues fail to meet expectations, or if the necessary service levels cannot be achieved without raising expenses, a potential goldmine of a contract can turn into a lead weight around a company's neck.

And that's more or less what happened with the Virgin Trains East Coast franchise. Service levels failed to meet the required standard (although the government and Stagecoach disagree on whose fault that was) and as a result the government effectively took control in 2018. Stagecoach was left with losses in the region of £200m (which is a lot for a company with average profits of around £100m) and as a result the company has now become much more cautious about bidding for future rail franchises.

In fact, Stagecoach has become so cautious that it refused to take on some pension-related risks for franchises it recently bid on, leading the company to be excluded from the bidding process. There is now a legal argument going on with the regulator, and Stagecoach has said it expects to be completely out of the rail business by the end of 2019.

Personally, I think this is good news because it leaves Stagecoach to focus fully on its core UK bus business, which has always been the area where Stagecoach excelled.

"I DON'T EXPECT STAGECOACH TO SET THE WORLD ALIGHT IN TERMS OF FUTURE GROWTH, AND DOING MUCH MORE THAN JUST KEEPING UP WITH INFLATION MAY PROVE VERY DIFFICULT OVER THE LONGER TERM."

Focusing on the buses, but even that business has its problems

The recent 35% dividend cut was designed to make the dividend sustainable once Stagecoach's rail business disappears at the end of 2019. Currently the bus business produces about 75% of the company's profits, or about 12p per share in 2019. The dividend is now at 7.7p, so this level of payout does seem reasonable.

But with the US bus and UK rail businesses gone, will we have a company that can grow its revenues, profits and dividends, or will the dividend be stuck at 7.7p until all the buses are replaced by cheap, electric, autonomous, personal-mobility pods (or something similar, which could be just a decade or two away)?

Growth from market-share expansion is probably going to be quite difficult because Stagecoach already has a 25% share of the UK bus market. Growth of the overall UK bus market is also unlikely to be much above inflation plus population growth, which means low single-digit percentages at best. That just leaves growth by expansion into other markets, but Stagecoach has tried that repeatedly over the last 30 years and has only just exited the US bus and UK rail markets, so this also seems an unlikely route to growth.

In fact, just standing still is difficult enough. For example, operating profits from the regional bus business have declined steadily over the last few years, from £165 million in 2013 to £117 million today. This decline has been driven partly by reduced government spending (around 25% of bus profits come from government schemes to cover reduced fares for the elderly or disabled, for example) and also from lower petrol prices, which makes car journeys relatively more attractive.

This negative environment has existed for quite a few years now and it isn't hard to imagine a world where UK government spending is reduced for many more years (given its historically high debt to GDP ratio) and car-travel costs are permanently reduced as electric cars (which are far cheaper to run than petrol cars) become exponentially more popular.

Overall then, I don't expect Stagecoach to set the world alight in terms of future growth, and doing much more than just keeping up with inflation may prove very difficult over the longer term.

High yield, but high risk

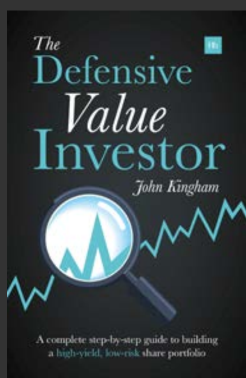
In summary then, although I like Stagecoach's 6% dividend yield and its leading position in the UK bus market, I don't like the lack of growth potential in its core UK bus business and its inability to successfully expand internationally or into UK rail. Yes, it could turn things around and return to steady single-digit growth under the right conditions, but I think it's just as likely to go nowhere until buses become as quaint as horse-drawn carriages.

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 DAVID JONES

FORENSIC FOREX

IS SILVER'S SLUMP FINALLY OVER?

David Jones looks at silver and how investors can profit from a recovery in the price of this precious metal.

Last time around we took a look at the price of gold – and I make no apologies this month for focusing on what's happening with silver. The casual observer would assume − quite reasonably − that gold and silver follow similar paths. But that really has not been the case over the last few years, with silver losing around 70% of its value from the 2011 highs. However, all of this started to change during July, which has put it back on my radar for the first time in a long time.

A painful time for 'silver bulls'

To put things in perspective, let's take a look at the history of the price of silver.

It has been something of a 'wild' decade for silver – particularly the five years from 2008. The price ran up from around $9 an ounce back then, to almost touch $50 in April 2011. As is often the case with these drastic moves, there is no concrete explanation. There was talk of people with very deep pockets trying to corner the market – similar to the story of the Hunt brothers in 1980. And as is also often the case, the return to more normal market conditions was painful for some. The price of silver lost more than a third of its value within a month of that April 2011 peak.

Silver price September 2008 – July 2019

Bringing us back to the present day, at the beginning of this year, the price of silver was trading around $15 – down almost 70% from those highs eight years ago. It had made various attempts over the years to stage a recovery, but these had come to nothing, and it had lagged behind its precious metal stablemate gold. But it did appear to be forming a base in the $13.50/$14 area, with this zone successfully stopping any deeper sell-offs over the past three years.

"THE CASUAL OBSERVER WOULD ASSUME – QUITE REASONABLY – THAT GOLD AND SILVER FOLLOW SIMILAR PATHS. BUT THAT REALLY HAS NOT BEEN THE CASE OVER THE LAST FEW YEARS."

Silver price December 2015 – July 2019

What's driving silver?

It can be a source of confusion why gold had done relatively well, but silver was still languishing in the doldrums. After the financial crash in 2008, gold rallied strongly, but it was a while until silver picked up the pace. Much has been made of this by 'silver-bugs' this year – and in recent weeks they may feel their patience has finally been rewarded. However, the reason behind the recent strength is somewhat clouded. The silver market loves a conspiracy theory, usually around how the price is being controlled by JP Morgan et al. But I always think spending too much time on market conspiracy theories is a waste of energy. Let's say the mythical 'they' are going to take the price of silver back to $50 – are you not going to get involved just because you object to conspiracies? For me, it's about going back to the basics of technical analysis and looking at what the price is doing.

"THE SILVER MARKET LOVES A CONSPIRACY THEORY, USUALLY AROUND HOW THE PRICE IS BEING CONTROLLED BY JP MORGAN ET AL."

Silver price July 2016 – July 2019

The price has been in a clear downtrend since the latest significant peak just above $21 in July 2016. In February this year, things looked to be getting interesting as the price pushed through that trend line – was this finally the start of a more sustainable recovery? 'No' ended up being the quick answer – the price had dropped back by 10 percent by May of this year.

But the price action has got interesting again in July. Silver has made another attack on that trendline, and by the third week of the month, it was trading at its best level since June of the previous year.

It is early days – a one-week break of a trend line does not guarantee the 'mother of all rallies' is just around the corner. But to give the silver bugs some hope – every journey starts with a single step.

How to profit from a silver recovery?

It is all well and good talking about a resurgence in silver, but, understandably, some private investors may be scratching their heads thinking about how they can position themselves to profit from it. Never fear – there are easier ways than traipsing around antique shops and flea markets trying to snap up silver spoons before any expected surge – for instance via a product that tracks the silver price, such as iShares Physical Silver (SSLN), which is quoted in pounds sterling.

For the more adventurous investors, there is also the world of derivatives such as futures, contracts for difference (CFDs) and spread betting. These alternatives let you use leverage so you can magnify your initial investment, but this goes

"REGARDLESS OF YOUR RISK APPETITE, THERE ARE SEVERAL ALTERNATIVES OUT THERE FOR YOU TO ADD SOME SILVER TO YOUR PORTFOLIO IF DESIRED."

iShares Physical Silver July 2016 – July 2019

hand-in-hand with larger losses if the silver recovery does not materialise. You also pay a financing charge for having that leverage: this is admittedly fairly small at the moment given that interest rates are so low, but it is still a cost of carrying a leveraged position. Regardless of your risk appetite, there are several alternatives out there for you to add some silver to your portfolio if desired.

Before getting too carried away, it needs to be borne in mind that there have been plenty of false dawns in the silver price since the 2011 $50 highs. A little patience seldom goes amiss, therefore, when trying to spot major turning points in financial markets. As a comparison, the price of gold made an important bottom in August of last year, but it was arguably not until December that it really found some momentum. For the more prudent investor and trader, giving the price of silver a little time to see if it can build on these recent gains would be the more cautious approach. However, the poor relation to gold is certainly looking a little more exciting than it has done for some time.

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 ANDREW LATTO

QUALITY INVESTOR

PAYMENT POWER

Andrew Latto, CFA, looks at the payment sector and the three leading, global payment companies.

The payment sector is host to some of the world's most attractive companies. Visa and MasterCard have delivered outstanding returns since their IPOs, and PayPal – the leader in online payments – is experiencing rapid growth.

PayPal was the largest position in the Fundsmith Equity Fund at the end of June 2019. It appears to be the only stock that is also held by the Lindsell Train Global Equity Fund and the Blue Whale Growth Fund. The Fundsmith Equity Fund also holds Visa while the Blue Whale Growth Fund used to own MasterCard. Quality investors have a positive view of payment companies, and it is easy to see why.

Stock compounders

The three leading global payment companies – Visa, MasterCard and PayPal – can all be described as stock compounders. I use this term to describe durable businesses that can generate high returns, sustain high returns and realise high-return growth. These factors result in free cash flow per share growth. Share prices move in line with free cash flow per share over the long term.

Stock compounders make for attractive investments, provided investors don't overpay.

Visa, MasterCard and PayPal

Visa and MasterCard were founded over 50 years ago and operate as the leading card-payment networks. In the European Union, the two companies between them process more than 80% of all card transactions.

PayPal was founded in 1998 and makes it easier and safer to shop online. Consumers can use their PayPal accounts to complete purchases, and therefore don't need to enter their card details on every website.

The three companies are considered to be technology businesses and are listed in the S&P 500 IT sector. They go to great lengths to combat fraud and ensure their networks remain resilient.

Visa and MasterCard do not issue loans and are not subject to interest-rate risk or credit risk. PayPal did build up a credit-card business, but sold it in July 2018 to pursue an "asset-light strategy."

Financial powerhouses

All three companies are fast growing, profitable and cash-generative businesses. In the three years to 2018, revenue growth was 48% for Visa, 55% for MasterCard and 67% for PayPal.

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The big three payment companies

	Visa	MasterCard	PayPal
Ticker	V	MA	PYPL
Share price*	$179	$275.6	$118.6
Market cap	$406bn	$286bn	$141bn
Net cash	($8.5bn)	$348m	$5.6bn
IPO date	2008	2006	2015
Listing	NYSE	NYSE	NASDAQ
Founded	1958	1966	1998
Profit per employee	$631k	$456k	$134k
Network	VisaNet	BankNet	-

Source: SharePad (share prices at close on 19 July).

"IN THE THREE YEARS TO 2018, REVENUE GROWTH WAS 48% FOR VISA, 55% FOR MASTERCARD AND 67% FOR PAYPAL."

Growth, profitability and cash flow

	Visa*	MasterCard	PayPal
Revenue % change			
2015-2018	48.5%	54.6%	67%
2018-2021 (f)	37%	44%	62%
Profitability			
EBIT margin 2018	65%	59%	18%
EBIT margin 2021 (f)	70.3%	60.5%	23.8%
Free cash conversion			
2016-2018	95.8%	97.8%	125.5%
2019-2021 (f)	101.9%	100.8%	111%

*Source: SharePad *Visa year-end 30 Sept, (f) – forecast.*

Forecast revenue growth for the next three years is 37% for Visa, 44% for MasterCard and 62% for PayPal. With Visa and MasterCard being long-established businesses, their pace of revenue growth is impressive.

In fiscal year 2018, Visa generated a 65% EBIT margin, MasterCard came in at 59% and PayPal was 18%. Profit margins are expected to improve for all three with PayPal forecast to generate an EBIT margin of 23.8% in 2021.

While Visa and MasterCard's margins are high, the bulk of any card fees go to the card-issuing banks. Free cash flow conversion is around 100% for both Visa and MasterCard, and is forecast at 111% on average for PayPal from 2019 to 2021.

Network effects

To maintain high returns, a business needs to keep its rivals at bay. Pat Dorsey (author of *The Five Rules for Successful Stock Investing* and *The Little Book That Builds Wealth*) identifies five competitive moats, including intangible assets, switching costs, network effects, cost advantages and size advantages.

Network effects are arguably the strongest moat. When they exist, the more people using a service, the more attractive it becomes to new users. Network effects tend to result in one or two firms dominating a market (ie Facebook and Rightmove).

For merchants to accept mainstream bank card payments, they need to be on the Visa or MasterCard networks. And consumers need to use cards that are on the Visa or MasterCard networks in order to pay at physical or online merchants.

OlegDoroshin / Shutterstock.com

"QUALITY INVESTORS HAVE A POSITIVE VIEW OF PAYMENT COMPANIES, AND IT IS EASY TO SEE WHY."

Payment volume and accounts

	Visa*	PayPal
2018	$8.1tn	$587bn
2017	$7.3tn	$456bn
2016	$5.2tn	$360bn
Card/accounts		
2018	3.3bn	267m
2017	3.2bn	229m
2016	2.5bn	199m

** Visa year-end September*

Online merchants also have an incentive to offer PayPal, because it is a more convenient way for shoppers to pay. It is expected to result in more shoppers completing an online purchase, not least on mobile devices.

Payment growth

The main growth driver for payment companies is the move away from cash transactions. Digital payments surpassed cash payments in 2016, but US$17 trillion of transactions were still conducted in cash in 2018.

The introduction of contactless payment has made cards more convenient and has yet to be fully adopted in the US. Visa stated in its 2018 annual report: *"The U.S. market is poised for significant contactless growth in the coming year...We are excited about the prospects of tap-to-pay taking off in the United States".*

Card payment can now be made through smartphones, using services like Apple Pay. The London Underground, for example, now accepts contactless card payment as well as Apple Pay.

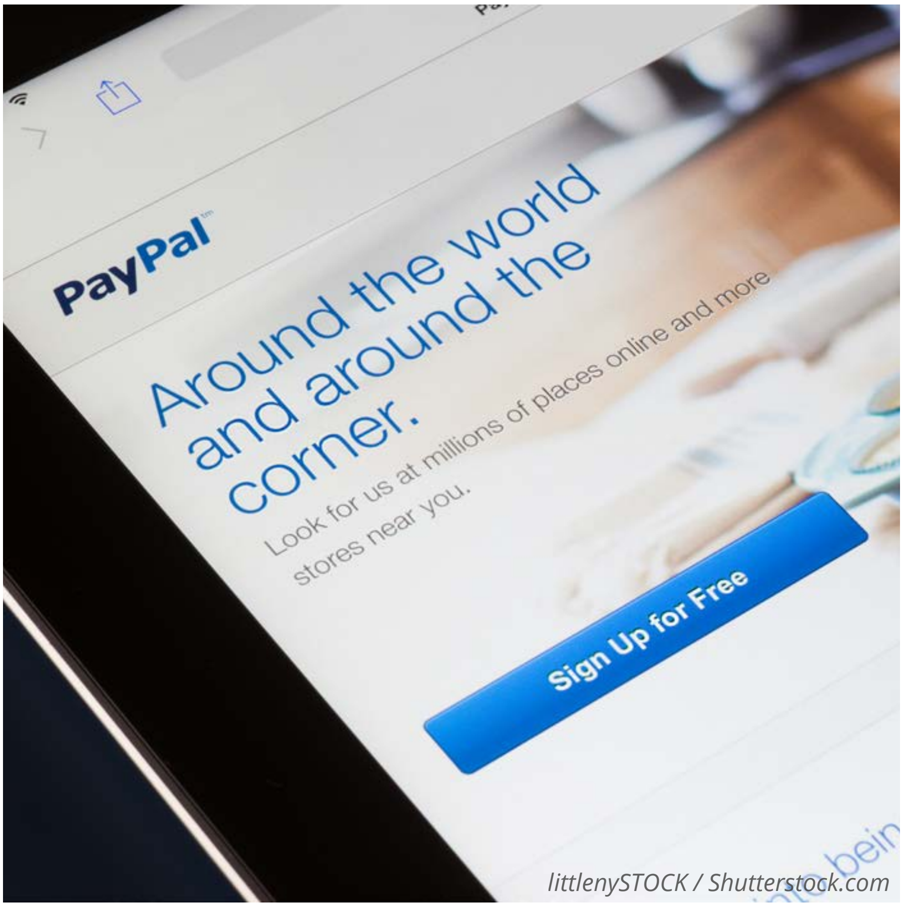
When it comes to online shopping, digital payment is a requirement rather than an option. The rapid growth of online retail underpins the positive outlook for PayPal, which had 267 million user accounts at the end of 2018.

Emerging markets are another part of the investment case for payment firms. Visa, for example, enables consumers to pay with QR codes and mobile phones. This avoids the need for payment terminals and has been popular in India.

PayPal – online payment

PayPal origins go back to two companies started by Elon Musk and Peter Thiel in 1999 and 1998, respectively. The businesses were merged in 2000 and initially targeted eBay "PowerSellers" that were unable to accept card payments.

This allowed eBay buyers to avoid giving their card details to unknown merchants. The group eventually became eBay's exclusive payment provider and from 2003 onwards targeted users outside of eBay.



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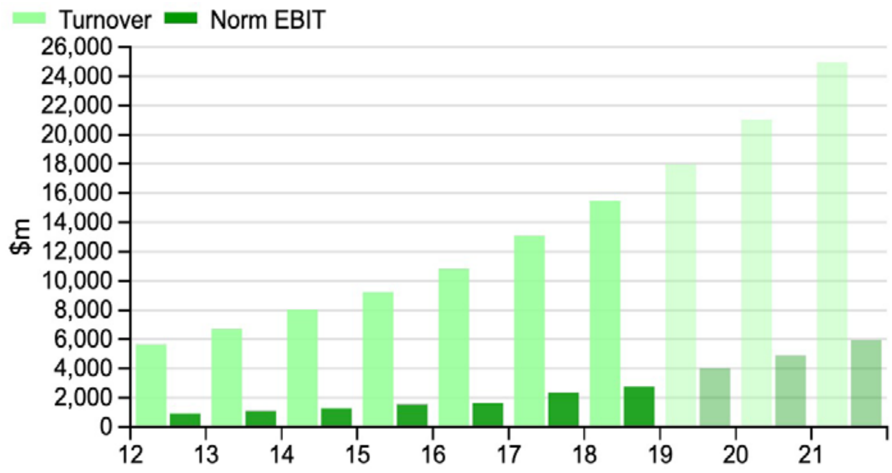
PayPal – revenue and profits



Source: SharePad

> **"PAYPAL WAS THE LARGEST POSITION IN THE FUNDSMITH EQUITY FUND AT THE END OF JUNE 2019."**

A key driver of PayPal's growth is that it has been the default way for buyers and sellers to complete transactions on eBay. This has led to consumers and merchants signing up for PayPal accounts.

PayPal was spun out of eBay in July 2005, and will be replaced by Adyen as eBay's payment option by mid-2020. PayPal will remain as a secondary eBay payment option until July 2023.

PayPal's competition

PayPal offers a trusted way to pay online. It also offers secondary services such as the ability to transfer money between PayPal users. This has helped make PayPal a leading consumer payment brand.

PayPal's key advantage is that 267 million consumers have entered their card details on its platform. This makes it a convenient payment option and one that merchants have an incentive to offer.

If merchants start to move away from PayPal, it may find it harder to attract users. Stripe is a fast-growing alternative that is less expensive for merchants but requires consumers to type in their card details.

Card-payment networks

The roots of card-payment networks go back to the launch of the first mainstream all-purpose credit card in the US. In 1958, the BankAmericard was distributed in Fresno, California and became a huge success.

The payment network underpinning the BankAmericard was licensed out to other card providers and renamed Visa in 1976. Banks were keen to not rely on a single payment network and to this end established MasterCard in 1966.

Visa is ubiquitous

Most debit and credit-card providers sign up to the Visa or MasterCard networks. American Express is the third-largest card network, but is a shadow of its larger rivals – in the UK it is often not even a payment option.

MasterCard and Visa have been accused of blocking rivals through the use of exclusionary clauses. The two companies have also been accused of overcharging, with the supermarket chain Kroger recently in dispute with Visa.

How card networks work

Visa and MasterCard do not offer credit-card services or handle cash. They provide the network needed to complete transactions. There are three stages to a card payment− authorisation, capture and settlement.

In the first stage, the card-payment network checks that a shopper has enough money in their account to complete a purchase. In the second stage, the customer's bank is instructed to put a hold on the funds. In the final stage, the card-payment networks send out the details for settlement between the banks. The card-payment

Photo by Clay Banks on Unsplash

Visa and MasterCard dominate (calendar 2017)

	Visa	MasterCard	American Express
Payment volumes $B	$7,565	$3,814	$1,071
Total volume ($B)	$10,516	$5,242	$1,085
Total transactions (B)	170	87.46	7.7
Cards (M)	3,243	1,825	113

Source: Visa

Card networks enable payments to complete

Source: Visa

networks then charge an interchange fee, which is a percentage of the transaction value.

Visa – the first card network

With Visa establishing the first major card-payment network, it benefits from a first-mover advantage. The group is the largest payment network in the developed world but is smaller than the Chinese domestic group UnionPay.

While Visa doesn't have a licence to operate in China, it is more often than not the payment option on Chinese cards for overseas travel. Visa sponsors major sporting events to maintain the leading payment brand.

Mastercard – the second card network

The fact that Mastercard is number two hasn't held it back in terms of growth and profitability. At the end of 2017, Mastercard had 1.8bn cards using its network as opposed to 3.2bn using Visa's payment network.

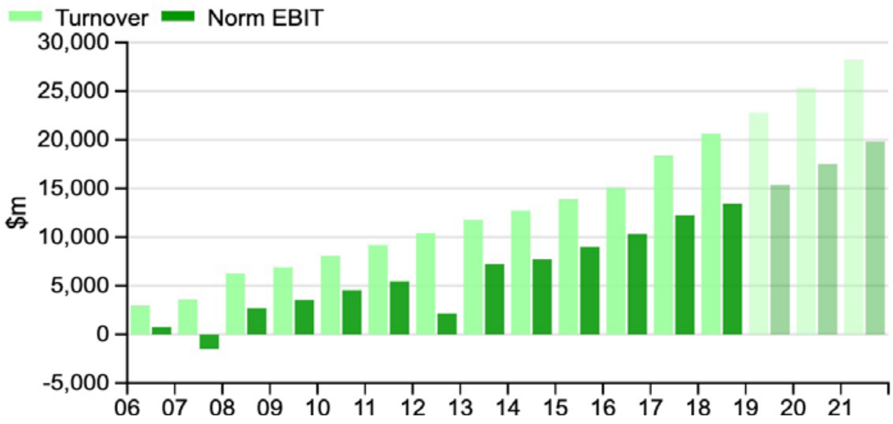
Banks are likely to keep using Mastercard to maintain a degree of choice in the market. The key for Mastercard is to get more card issuers (mainly banks) to use its payment network.

Valuations

In the current fiscal year, Visa has the highest forecast free cash flow yield, at 3.1% versus 2.8% for Visa. PayPal's rapid growth increases the forecast free cash flow yield to 4% in fiscal 2021 versus 3.9% for Visa.

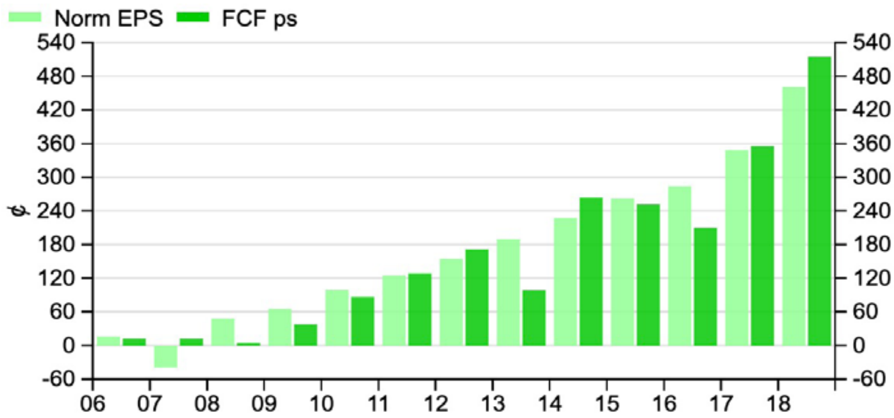
PayPal is yet to pay dividends but has reduced its share count by 4% from 2015 to 2018. Visa's forecast dividend yield is 0.6% in the current

Visa – fast growth and fat margins



Source: SharePad

Visa EPS and free cash flow per share



Source: SharePad

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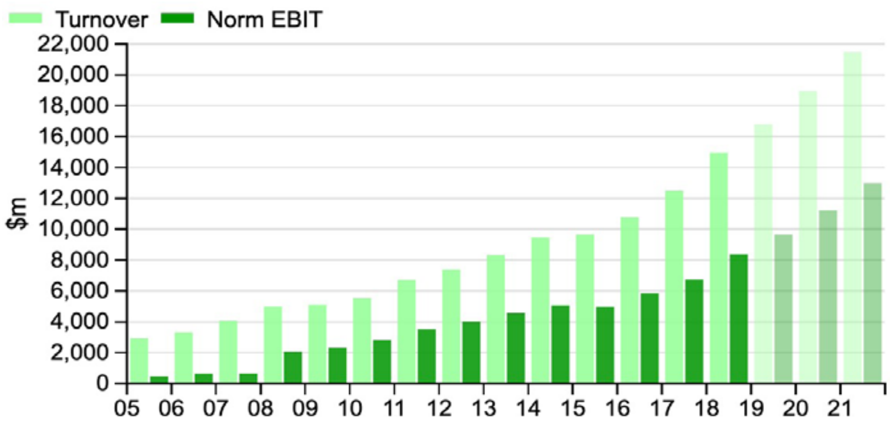
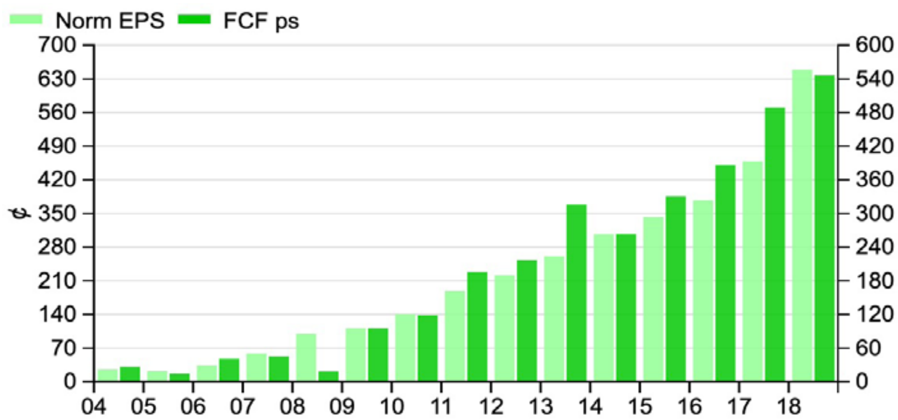
"IN THE EUROPEAN UNION, THE TWO COMPANIES BETWEEN THEM PROCESS MORE THAN 80% OF ALL CARD TRANSACTIONS."

Mastercard revenue and profits



Source: SharePad

MasterCard earnings and free cash flow per share



Source: SharePad

Forecast free cash flow yield

	Visa*	MasterCard	PayPal
2019	3.1%	2.7%	2.8%
2020	3.5%	3.3%	3.3%
2021	3.9%	3.8%	$14%

*Source: SharePad *Visa year-end 30 Sept.*

fiscal year while MasterCard's is 0.4% (6X and 5X dividend cover, respectively).

Visa has aggressively bought back its shares, with 4.3bn outstanding in September 2006 versus 2.2bn in September 2018. MasterCard's share count has declined from 1.35bn at the end of 2016 to 1bn at the end of 2018.

Key risks

Visa and MasterCard form a powerful card-network duopoly that rivals have been unable to challenge. A key risk is that technology and/or new competitors will be able to disrupt their position.

The fees both companies charge are higher on overseas payments, not least for foreign exchange. Several fintech companies have sought to make foreign-exchange transactions less expensive for consumers.

PayPal is continuing to experience momentum but eBay's move away from PayPal is concerning. If online merchants increasingly move away from PayPal as a payment option, it will make it harder for the business to grow.

Summary

The payment sector benefits from underlying market growth and powerful network effects. This has resulted in Visa, MasterCard and PayPal generating strong free cash flow per share growth.

The main driver has been the ongoing move away from cash transactions. This is underpinned by the growth of contactless payment cards, mobile devices and online shopping.

Visa, MasterCard and PayPal are well placed as long as they can keep the competition at bay. The three companies show that the best investments are often products or services that we use every day.

About Andrew

Andrew Latto, CFA, is an independent analyst and the founder of www.fundhunter.co. Fund Hunter's mission is to identify the best investment funds. The Fund Hunter model portfolio has meaningfully outperformed the All-Share index since inception. Andrew previously worked for an investment management company and a research company. He also contributes to www.cube.investments.

BY ROBERT STEPHENS, CFA

STOCKS IN FOCUS

BRITISH LAND

WHY A REFRESHED STRATEGY MAKES IT A BARGAIN BUY

Robert Stephens discusses how British Land can turn around its performance amidst challenging operating conditions.

The increasing popularity of online shopping is having a major impact – not only on bricks-and-mortar retailers, but also on landlords such as British Land. The commercial property real-estate investment trust (REIT) is experiencing a highly challenging period due to almost half of its asset base being comprised of retail properties.

However, the company has put in place a sound strategy through which to capitalise on potential growth opportunities. As part of this, it will refocus its portfolio on mixed-use assets in London. This will lead to a smaller retail portfolio that is made up of higher-quality assets, which are more likely to enjoy elevated levels of demand as online shopping grows in scale.

In addition, the company is investing in flexible office accommodation, as well as the increasingly popular build-to-rent sector. It is also using technology to enhance its offering in comparison with rivals, in order to differentiate itself in a competitive marketplace.

With the stock trading at a significant discount to its net asset value (NAV), it appears to offer good value for money. As a result, it could produce high total returns in the long run, as it moves ahead with an innovative strategy, to capitalise on an evolving UK commercial property market.

Potential challenges

Trading conditions for retailers across the UK have been challenging over the last few years. As a result, an increasing number of British Land's retail occupiers have entered CVAs (Company Voluntary Arrangements) or administration, with a rapidly growing digital economy being a key reason for this. This is a trend that is forecast to continue, with the proportion of UK retail sales conducted online now standing at almost 20%. This figure has risen from less than 4% in 2007, and is expected to grow to reach over 40% in the long run.

Alongside this, retailers are facing continued, weak consumer-confidence levels. According to the GfK UK consumer confidence index, consumers have been 'pessimistic' since early 2016. Since the index currently has a reading of minus

"THE COMMERCIAL PROPERTY REAL-ESTATE INVESTMENT TRUST (REIT) IS EXPERIENCING A HIGHLY CHALLENGING PERIOD DUE TO ALMOST HALF OF ITS ASSET BASE BEING COMPRISED OF RETAIL PROPERTIES."

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"IN RESPONSE TO DIFFICULT OPERATING CONDITIONS ACROSS A RETAIL SECTOR THAT ACCOUNTS FOR 45% OF ITS ASSET BASE, BRITISH LAND IS PIVOTING TOWARDS MIXED-USE SPACE."

13 (where zero represents neither pessimism nor optimism), there is a long way to go until consumers feel upbeat. With Brexit yet to be concluded, it would not be surprising if consumer sentiment remains weak in the near term.

Refreshed strategy

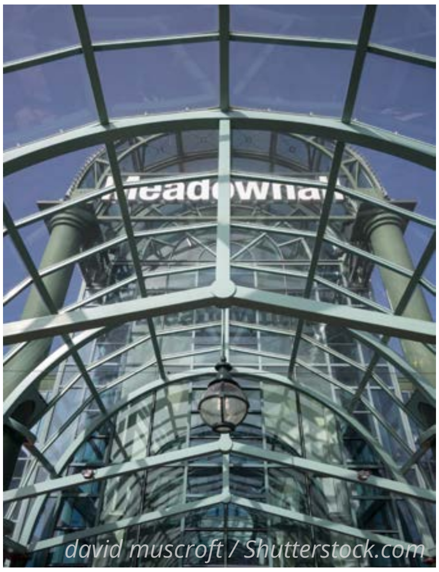
In response to difficult operating conditions across a retail sector that accounts for 45% of its asset base, British Land is pivoting towards mixed-use space. This is largely focused on offices, but also includes leisure and dining areas, as well as some broader retail units. Together, they form a destination that attracts footfall from a wide area.

Mixed-use developments are expected to capitalise on an evolving trend in how people use space. Increasingly, there is demand among consumers to be able to combine their work and leisure time at a single destination. As a result, the company's pipeline is focused on mixed-use developments that are expected to become the main part of its overall portfolio within five years.

As part of this, it is selling off large parts of its retail portfolio. For example, in the 2019 financial year it sold £646 million of retail assets. This takes the total amount sold in the last five years to almost £3 billion. The end result of retail-asset sales is expected to be a reduction in the company's exposure to the sector, with it due to make up around 30% of its portfolio within five years.

With the company's mixed-use assets and pipeline focused on London, its exposure to the UK's capital city is expected to increase over the long run. This transition could take place at an accelerated pace, since many of its retail assets are located outside London.

An increasing presence in London could benefit the long-term prospects for the business. The capital has a relatively robust track record when faced with challenging trading conditions in comparison with the overall UK economy. With the company's performance in London having been stronger than across its regional asset exposure in the 2019 financial year, its evolution towards



being a more London-centric REIT could enhance its growth prospects, as well as reduce its overall risk.

Additional growth opportunities

A key part of the company's long-term growth opportunity may reside within its flexible workspace offer, Storey. It was launched in 2017, and provides workspace on a short-term basis. It has proved popular among technology and creative businesses that are able to brand the space they lease themselves, while benefiting from the amenities across the wider mixed-use campus in which they are based. With Storey expected to double its current footprint over the medium term, it is due to account for 5% of the company's total asset base within five years.

Build to rent is also expected to increase in importance for the company. Its pipeline includes an application for 3,000 new homes in London, with additional opportunities across its existing portfolio. Since the cost of buying a home in London, as well as the rest of the UK, has risen so that it now represents 7.8 times the average UK annual salary, the rental sector could become an increasingly popular option for many people. British Land expects it to contribute around 10% of its total portfolio by 2024, providing the business with enhanced diversity as well as growth potential.

In order to compete more effectively with rival landlords, British Land is seeking to differentiate itself through a greater use of technology. For example, it is aiming to improve the 'experience' for its occupiers through digital platforms that capture sales data. This has been rolled out to over 1,000 retail occupiers and provides them with further insights into customers, while offering British Land additional data on the performance of its assets. The company is also trialling hardware that measures space utilisation in order to improve the efficiency of its portfolio.

Investment potential

Since British Land trades at a 40% discount to its NAV, investors appear to be pessimistic about its future performance. This is understandable, since its 2019 financial results showed that a deteriorating retail environment is weighing on the value of its asset base. In fact, the value of its retail assets declined by over 11% during the year. This trend may continue as the popularity of online shopping continues over the coming years. However, with a price-to-book ratio of 0.6, it seems as though the prospect of declining asset valuations has been priced in.

A low stock price is providing the company with scope to engage in share buybacks. In the last two years, for example, it has repurchased £500m of shares. Further buybacks are likely as the company sells additional retail assets as part of its pivot towards multi-use developments. Alongside share buybacks, the company has a dividend yield of 5.8%, with dividends having increased by 3% in the most recent year.

"WITH BRITISH LAND HAVING A CLEAR STRATEGY THROUGH WHICH TO DELIVER IMPROVING FINANCIAL PERFORMANCE, ITS LONG-TERM PROSPECTS COULD BE RELATIVELY BRIGHT."

With a relatively low loan-to-value ratio of 28.1%, the business appears to have sufficient headroom to capitalise on potential investment opportunities should they arise in future. Likewise, a weighted average cost of finance of 2.9% is relatively low, with it having fallen by 20 basis points in the last two financial years.

Outlook

As the Brexit process is yet to be completed, the UK commercial-property sector may face a period of continued uncertainty. This could impact negatively on valuations across the sector, as well as leasing activity. Furthermore, it may cause investors to demand a wider margin of safety for companies operating across the wider industry. This may mean that British Land's share price comes under further pressure after falling by 16% during the last year.

In addition, the challenges faced by the bricks-and-mortar retail sector are showing no sign of abating. In fact, as technology improves, consumers may rely on e-commerce to an increasing extent for a variety of goods. This may mean that the prospects for the company's retail assets remain challenging – particularly since consumer sentiment is likely to remain weak in the near term.

However, with British Land having a clear strategy through which to deliver improving financial performance, its long-term prospects could be relatively bright. Its decision to focus on mixed-use assets could allow it to capitalise on changing trends in how people use space. Similarly, its increasing exposure to London may provide it with greater resilience to future market downturns, as well as higher growth potential.

Plans to expand its flexible workspace business, Storey, could provide revenue growth. Likewise, its aim to increase exposure to the build-to-rent sector may catalyse its financial outlook at a time when London and the South East has an undersupply of new homes, as well as high prices, that are causing many people to become long-term renters.

With a low valuation, British Land has a large margin of safety. Although the company is set to experience further challenges in the near term, its strategy could lead to a successful recovery in the long run.

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About Robert

Robert Stephens, CFA, is an Equity Analyst who runs his own research company. He has been investing for over 15 years and owns a wide range of shares. Notable influences on his investment style include Warren Buffett, Ben Graham and Jim Slater. Robert has written for a variety of publications including The Daily Telegraph, What Investment and Citywire.

BY RICHARD GILL, CFA

BOOK REVIEW

7 FINANCIAL MODELS FOR ANALYSTS, INVESTORS AND FINANCE PROFESSIONALS

BY PAUL LOWER

Richard Gill, CFA, reviews *7 Financial Models for Analysts, Investors and Finance Professionals*, by Paul Lower, which provides readers with the tools they need to create seven spreadsheet models that will help them better understand and analyse the financials of a business, enabling them to make better investment decisions.

One of the more notable trends of the past few decades has been the rise of the DIY investor – someone who shuns professional advisers and invests using their own skills and knowledge instead. Following the deregulation of the financial markets in the 1980s, and turbocharged by the rise of internet technology in the 21st century, practically anyone can now set up their own trading account and start investing for themselves. According to consultancy firm Boring Money, the number of DIY investment accounts rose to 4.8 million over the year to September 2018, an increase of 22%.

However, despite unprecedented access to trading accounts and the considerable amount of information available, it will always be a challenge for the DIY investor to find quality investment ideas and analysis. Share tipsters for example may only provide limited information and have their own hidden agenda, company announcements may be clouded by 'PR speak' and acquiring institutional-quality research can be hard. For small-cap investors, this is made worse by the much-loved sector having limited analyst coverage. So, what better way to gain access to quality financial analysis than to learn how to do it yourself?

"THE NUMBER OF DIY INVESTMENT ACCOUNTS ROSE TO 4.8 MILLION OVER THE YEAR TO SEPTEMBER 2018."

In *7 Financial Models...*, author Paul Lower shows readers the tools they need to create seven spreadsheet models – the goal is to help them better understand and analyse the financials of a business, and hopefully enable them to make better investment decisions as a result. Lower is a trainer, lecturer and author, specialising in financial planning and analysis, and financial modelling and forecasting. Before moving into training, he enjoyed a successful business career spanning more than 30 years, which included a number of finance director roles with major international companies in the media and publishing sector.

Spread your skills

While the book is mainly intended for investment analysts and finance professionals, in my opinion it is also an excellent guide for clued-up retail investors looking to take their analytical skills to the next level. It is based on the use of the spreadsheet, but, as a caveat, it assumes that readers already have a decent working knowledge of the Microsoft Excel programme.

"AN EXCELLENT PRACTICAL GUIDE FOR PRIVATE INVESTORS LOOKING TO GAIN AN EDGE IN THE MARKETS."

Nevertheless, the first two chapters provide a useful introduction to the principles of financial modelling, including some practical tips for using Excel to build such models (other spreadsheet programmes are of course available). Chapter two provides an accounting basics 'refresher', looking at company financial statements, their purpose and, perhaps most important for financial modelling, how they are interrelated.

The remaining chapters then cover the seven core financial models in detail, explaining how to create them, why they are useful, the theory behind them and how they can be applied to making investment (and business) decisions. There are also some downloadable spreadsheets of the author's original Excel models, so readers can get a better understanding of how they work, and have a play around with the numbers.

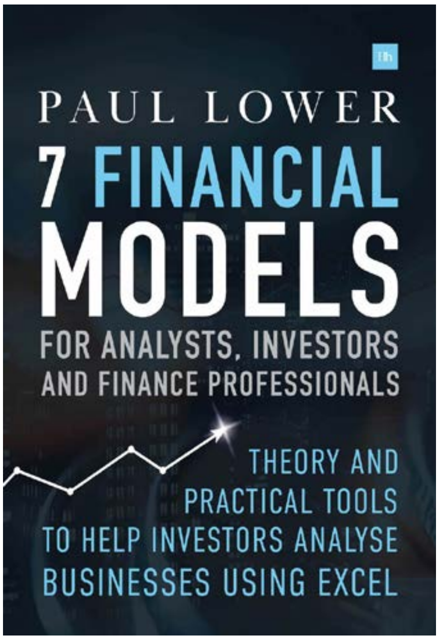
Seven models

The seven models start with one which provides a broad overview of a business's performance over a period of time, useful in identifying any notable trends that are developing. The key financial indicators model sets out the main elements of a company's profit and loss statement and balance sheet, focusing attention on where important changes have taken place over the past five years. This is useful, as it provides an overview of a company's performance over a sustained period, seeing if it has done well over a decent period of time or if things are on the decline.

By using this model, investors might be able to spot a business which is struggling, helping them to avoid investing, or one which has been quietly increasing its assets over time, identifying a potentially good opportunity. Much of the chapter is also dedicated to introducing a range of ratios which can be used in analysing company performance, with all explained in simple terms for those new to the subject.

The next few models look at topics such as sales/cost forecasting; cash-flow forecasting; pricing and profit; making investment decisions; and financial-statement forecasting. Perhaps most interesting for private investors will be the final chapter, which concentrates on business valuation. This is a contentious area of finance, often more of an art than a science. But Lower lays out the key concepts behind the theory, focusing on a cash-flow-based approach, so that a value for a company's shares can be calculated.

A detailed valuation example is given based on forecasting future cash flows for a pharmaceutical company, but it can be applied successfully to any business which is delivering sales and profits. Investors can then use



this knowledge to value a company of their choosing and determine the price at which they would be willing to buy the shares.

Excel at analysis

Overall, *7 Financial Models...* is an excellent practical guide for private investors looking to gain an edge in the markets. While financial modelling can often be a complex subject, the theory behind the models is discussed in an easy to understand manner, with the illustrated examples providing all the information you need to create quality analysis. As well as being useful for investors and finance professionals, a number of models in the book will be particularly useful for business owners looking to gain a deeper insight into the drivers behind their company, and how to manage them effectively.

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 2018.

BY TIM PRICE

THE FINAL WORD

IN PRAISE OF TWITTER

For all its faults, Twitter may be the most useful form of news gathering and information sharing to date.

"The fact is that fraudulent content, and stolen content, are rife on Facebook, and the company doesn't really mind, because it isn't in its interest to mind. Much of the video content on the site is stolen from the people who created it. An illuminating YouTube video from Kurzgesagt, a German outfit that makes high-quality short explanatory films, notes that in 2015, 725 of Facebook's top one thousand most viewed videos were stolen. This is another area where Facebook's interests contradict society's. We may collectively have an interest in sustaining creative and imaginative work in many different forms and on many platforms. Facebook doesn't. It has two priorities, as Martínez explains in *Chaos Monkeys*: growth and monetisation. It simply doesn't care where the content comes from. It is only now starting to care about the perception that much of the content is fraudulent, because if that perception were to become general, it might affect the amount of trust and therefore the amount of time people give to the site.

"Zuckerberg himself has spoken up on this issue, in a Facebook post addressing the question of 'Facebook and the election' After a certain amount of boilerplate bulls**t ('Our goal is to give every person a voice. We believe deeply in people'), he gets to the nub of it. 'Of all the content on Facebook, more than 99 per cent of what people see is authentic. Only a very small amount is fake news and hoaxes.' More than one Facebook user pointed out that in their own news feed, Zuckerberg's post about authenticity ran next to fake news. In one case, the fake story pretended to be from the TV sports channel ESPN. When it was clicked on, it took users to an ad selling a diet supplement. As the writer Doc Searls pointed out, it's a double fraud, 'outright lies from a forged source', which is quite something to have right slap next to the head of Facebook boasting about the absence of fraud. Evan Williams, co-founder of Twitter and founder of the long-read specialist Medium, found the same post by Zuckerberg next to a different fake ESPN story and another piece of fake news purporting to be from CNN, announcing that Congress had disqualified Trump from office. When clicked- through, that turned out to be from a company offering a 12-week programme to strengthen toes... (That's right: strengthen toes.) Still, we now know that Zuck believes in people. That's the main thing."

- Robert Lanchester in the *London Review of Books*, reviewing *Chaos Monkeys* by Antonio García Martínez, August 2017

Ink Drop / Shutterstock.com

I'm not on Facebook. But I do use Twitter. Here's why.

Roughly a year ago, while surfing Twitter on a Saturday night, I came across a tweet from an American user of the service − the topic being Winston Churchill. The post amounted to amazement at Churchill's consumption of alcohol. Deploying my conventional 'fire, ready, aim' approach to social-media interaction, I immediately waded into the 'debate'. Yes, I responded, somewhat defensively, but in ***his*** defence, he saved the country in a battle for national survival when Britain was more or less alone against the Nazi threat. The US correspondent responded, diplomatically, that he wasn't criticising Churchill – merely citing a reference to his drinking habits that features in a monumental biography of our greatest wartime leader, namely *The Last Lion*, by authors William Manchester and Paul Reid.

Henryk Ditze / Shutterstock.com

"FOR ALL THE SHOUTING AND HATE-FUELLED RAGE AND MUDSLINGING THAT UNDENIABLY ENGULFS SOCIAL MEDIA, THERE ARE STILL SMALL VOICES OF CALM AMIDST THE NOISE."

chrisdorney / Shutterstock.com

I went and bought the book – which is actually three volumes, totalling something like 2,000 pages in all.

A year later, having finally devoured *The Last Lion*, I went back to my US correspondent, on Twitter, to thank him for having introduced me to the book. My praise was fulsome, because it's a magnificent biography about one of our most impressive national heroes. It is, in point of fact, the most enjoyable political biography I have ever read.

Within a few minutes, I had a response: "I am glad you enjoyed the book." This tweet was from Paul Reid, the co-author.

So here is a social network that can a) introduce you, serendipitously, to pieces of work and culture that you might never otherwise encounter, and that can also b) introduce you to the very authors of those works and facilitate 'real-world' relationships with them.

That may not sound like much to you, but it impressed the hell out of me.

For all the shouting and hate-fuelled rage and mudslinging that undeniably engulfs social media, there are still small voices of calm amidst the noise. Not only that, but the nature of the network enables relationships to take place in the real, offline world, whenever people of similar mindsets wish to engage at a deeper level. So I now find that I spend increasing amounts of time meeting Twitter contacts in a social setting – eg in the pub – rather than just online.

Another powerful value-add of Twitter is its ability to deliver edgy, independent, but most importantly ***honest*** discussion and analysis of newsworthy (and financial market-related) developments, of a type that the mainstream media are simply no longer capable of delivering.

And, being a broad church where you can choose your own correspondents, Twitter is, perversely, both wildly partial and completely objective, depending on how you choose to curate your feed.

"AND, BEING A BROAD CHURCH WHERE YOU CAN CHOOSE YOUR OWN CORRESPONDENTS, TWITTER IS, PERVERSELY, BOTH WILDLY PARTIAL AND COMPLETELY OBJECTIVE, DEPENDING ON HOW YOU CHOOSE TO CURATE YOUR FEED."

Christian Bertrand / Shutterstock.com

The early days of the World Wide Web prompted much discussion about the possibility of a 'Daily You': the creation of an online newspaper, the content of which was entirely malleable at the hands of the consumer of online content. The 'Daily You' never quite came into being. But Twitter is surely the closest manifestation of it that we have yet managed to obtain. And whether you love or hate President Trump, we must all surely acknowledge that it was Twitter that won him the presidency: a medium that, perhaps uniquely, enables those with something to say to bypass all forms of traditional media.

Here is another reason why I love Twitter: Naval Ravikant. Naval (@naval) is a Silicon Valley angel investor who has become the very definition of a productive member of the Twitter community. Note, too, that he has ignored invitations to be 'blue-ticked' by Twitter (ie verified as authentic and of public interest) – because he doesn't believe that the platform should take any editorial sides.

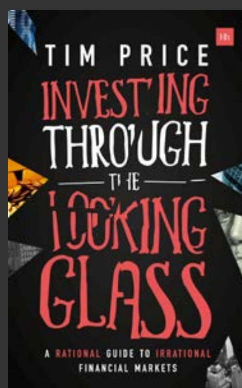
Here are some business and investment-related tweets from Naval that may go some way towards showing you why I find his insights so valuable (the pithiness that the Twitter format requires undoubtedly helps):

- Seek wealth, not money or status. Wealth is having assets that earn while you sleep. Money is how we transfer time and wealth. Status is your place in the social hierarchy.
- Ignore people playing status games. They gain status by attacking people playing wealth creation games.
- Pick an industry where you can play long term games with long term people.
- The Internet has massively broadened the possible space of careers. Most people haven't figured this out yet. [The comic and financial writer Dominic Frisby advocates ensuring that your children avoid the risk of career obsolescence by learning how to code, and he's probably right.]
- Play iterated games. All the returns in life, whether in wealth, relationships, or knowledge, come from compound interest.
- Code and media are permissionless leverage. They're the leverage behind the newly rich. You can create software and media that works for you while you sleep.
- An army of robots is freely available – it's just packed in data centres for heat and space efficiency. Use it.
- If you can't code, write books and blogs, record videos and podcasts.
- Study microeconomics, game theory, psychology, persuasion, ethics, mathematics, and computers.
- When you're finally wealthy, you'll realize that it wasn't what you were seeking in the first place. But that's for another day.

Faced with challenges like Brexit and Trump – and of course social media itself – the mainstream media is rapidly fragmenting towards obsolescence, and shedding relevance and usefulness and audience by the day. But this is not true of Twitter.

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'.



AUGUST 2019

INVESTOR EVENTS DIARY

EVERY WEDNESDAY

Event:	SR Live webinar
Organiser:	SyndicateRoom
Time:	12:30
Place:	Webinar
Tickets:	www.syndicateroom.com/events/sr-live

THURSDAY, 12 SEPTEMBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	08:00-10:30
Place:	Barclays Eagle Lab, Manchester
Tickets:	https://eisa.org.uk/events

WEDNESDAY, 18 SEPTEMBER

Event:	The resilience of prime property in uncertain times
Organiser:	Capital Rise
Time:	18:30-21:00
Place:	The Clubhouse, 50 Grosvenor Hill, Mayfair, London W1K 3QT
Tickets:	https://intelligent-investing.capitalrise.com/september-event-rsvp

THURSDAY, 19 SEPTEMBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	18:00-20:30
Place:	TechHub, London
Tickets:	https://eisa.org.uk/events

TUESDAY, 24 SEPTEMBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	18:00-20:30
Place:	Barclays Eagle Lab, Liverpool
Tickets:	https://eisa.org.uk/events

TUESDAY, 8 OCTOBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	18:00-20:30
Place:	Spaces, Edinburgh
Tickets:	https://eisa.org.uk/events

WEDNESDAY, 16 OCTOBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	18:00-20:30
Place:	PwC, 19 Cornwall Street, Birmingham
Tickets:	https://eisa.org.uk/events

THURSDAY, 17 OCTOBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	14:30-18:00
Place:	The Mac, Belfast
Tickets:	https://eisa.org.uk/events

FRIDAY, 25 OCTOBER

Event:	London Investor Show
Organiser:	UK Investor Events
Time:	09:30-17:00
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	https://www.eventbrite.co.uk/e/london-investor-show-2019-tickets-53471905910

TUESDAY, 12 NOVEMBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	08:00-10:30
Place:	Clarion Solicitors, 13-19 Queen Street, Leeds
Tickets:	https://eisa.org.uk/events

WEDNESDAY 13 NOVEMBER

Event:	Investing in the age of Longevity
Organiser:	Master Investor and Longevity Forum
Time:	10:00-17:00
Place:	Science Gallery, Great Maze Pond, London SE1 9GU
Tickets:	50% discount using code: MIF071 https://milongevity.eventbrite.co.uk

THURSDAY, 21 NOVEMBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	08:00-10:30
Place:	Engine Shed, Bristol
Tickets:	https://eisa.org.uk/events

TUESDAY, 26 NOVEMBER

Event:	Ready Steady Grow!
Organiser:	EISA
Time:	08:00-10:30
Place:	Tramshed Tech, Cardiff
Tickets:	https://eisa.org.uk/events

WEDNESDAY, 27 NOVEMBER

Event:	Future Forward: UKBAA Winter Investment Forum
Organiser:	UKBAA
Time:	14:00-21:00
Place:	CMS, Cannon Place, 78 Cannon Street, London EC4N 6AF
Tickets:	https://www.futureforwardukbaa.org

SATURDAY, 28 MARCH 2020

Event:	Master Investor Show
Organiser:	Master Investor
Time:	09:30-17:00
Place:	Business Design Centre, 52 Upper St, London N1 0QH
Tickets:	50% discount using code: MAG08 https://masterinvestorshow.eventbrite.co.uk

MARKETS IN FOCUS

JULY 2019

GLOBAL EQUITIES

Index	Last Month %	YTD%	52-Week Strength
S&P/ASX 200	2.9	20.2	
NASDAQ 100	2.3	26.1	
FTSE 100	2.2	12.7	
S&P 500	1.3	20.0	
Nikkei 225	1.2	7.6	
Dow Jones	1.0	16.2	
Euronext 100	0.9	18.6	
Bovespa	0.8	15.8	
CSI 300	0.3	27.4	
Swiss Market	0.2	17.7	
FTSE All-World	0.1	15.3	
CAC 40	-0.4	17.5	
Russian TSI	-1.5	26.0	
DAX Xetra	-1.7	16.0	
Hang Seng	-2.7	6.7	

COMMODITIES

Commodity	Last Month %	YTD%	52-Week Strength
Silver	6.9	5.4	
Palm Oil (Crude)	4.9	-2.0	
Platinum	4.5	9.7	
Cotton	3.3	-12.4	
Gold	1.7	11.9	
Crude oil (Brent)	0.4	17.7	
Crude oil (Light Sweet)	0.2	27.9	
Palladium	-0.9	27.3	
Copper	-1.8	1.5	
Iron Ore	-2.0	55.2	
Sugar (No. 11)	-3.3	1.5	
Natural Gas	-3.3	-24.6	
Cocoa	-3.3	-2.9	
Coffee	-9.0	-2.2	
Bitcoin	-19.7	177.0	

FOREX

Pair/Cross	Last Month %	YTD%	52-Week Strength
USD/CHF	1.8	0.9	
EUR/GBP	1.5	1.4	
USD/JPY	0.9	-1.4	
USD/CAD	0.5	-3.0	
EUR/CHF	-1.2	-2.4	
GBP/AUD	-1.8	-2.3	
EUR/JPY	-2.0	-4.9	
AUD/USD	-2.5	-2.7	
EUR/USD	-2.8	-3.5	
GBP/USD	-4.3	-4.8	

CENTRAL BANKS – RATES & MEETINGS

Central Bank	Key Rate	Next	After
Bank of England (BoE)	0.75%	Sep 19	Nov 07
European Central Bank (ECB)	0.00%	Sep 12	Oct 24
Federal Reserve System (FED)	2.25%	Sep 18	Oct 30
Bank of Japan (BoJ)	-0.10%	Sep 19	Oct 31
Bank of Canada (BoC)	1.75%	Sep 04	Oct 30
Reserve Bank of Australia (RBA)	1.00%	Aug 06	Sep 03
Swiss National Bank (SNB)	-0.75%	Sep 19	Dec 12
Banco Central do Brasil (BCB)	6.00%	Sep 18	Oct 30
Central Bank of Russia (CBR)	7.25%	Sep 06	Oct 25
Reserve Bank of India (RBI)	5.75%	Aug 07	Oct 04

FTSE 350 TOP RISERS

Company	Last Month %	YTD%	52-Week Strength
Cobham PLC	55.1	69.9	
EI Group PLC	42.9	54.8	
Indivior PLC	28.4	-48.3	
Energean Oil & Gas PLC	28.3	72.2	
Just Eat PLC	21.8	29.2	

FTSE 350 FALLERS

Company	Last Month %	YTD%	52-Week Strength
Thomas Cook Group PLC	-57.7	-77.2	
Kier Group PLC	-42.0	-79.9	
Intu Properties PLC	-37.3	-60.7	
Metro Bank PLC	-31.7	-79.8	
Fresnillo PLC	-30.9	-29.6	

FTSE 350 SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Mobile Telecommunications	15.3	1.3	
Oil Equipment, Services & Dist	10.3	-1.6	
Aerospace & Defense	10.2	16.7	
Tobacco	8.7	16.1	
Pharmaceuticals & Biotech	8.6	18.2	

FTSE 350 SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Automobiles & Parts	-30.1	-33.7	
Leisure Goods	-8.7	57.0	
Software & Computer Services	-7.7	27.9	
Chemicals	-5.5	0.3	
Electronic & Electrical Equip	-5.1	27.0	

IA SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Technology and Telecom	8.0	30.4	
North American Smaller Comp	7.3	31.0	
North America	7.1	27.3	
Japanese Smaller Comp	6.3	14.7	
Global	5.0	22.8	

IA SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Short Term Money Market	0.0	0.3	
Standard Money Market	0.1	0.4	
UK Direct Property	0.1	0.4	
UK Smaller Companies	0.2	12.1	
£ High Yield	0.6	8.3