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BEST IDEAS FOR 2020

PLUS...

MELLON ON THE MARKETS
THE MASTER INVESTOR REVEALS ALL FOR 2020

FOOD-PRICE SHOCK
STOCKS TO GOBBLE UP

LITHIUM PLAYS
ELECTRIFY YOUR PORTFOLIO

POUND REBOUND
HOW FAR CAN STERLING GO IN 2020?

WELCOME

Dear Reader,

Whatever your political affiliation, it is hard to argue with the notion that the market's reaction to the landslide win for the Conservative Party was nothing short of a resounding endorsement. This may seem counterintuitive to some, given that Brexit – which is generally seen to be a negative for the UK by the markets – is now set to proceed in earnest. But there is a profound sense of Brexit fatigue, and the markets are now looking for some direction for the UK economy, which this new majority government seems to be more than capable of providing.

But perhaps the principal factor behind the recent fillip for UK shares was the collective sigh of relief as the UK dodged the bullet of a Marxist government. Some of the best performing stocks since 12 December have been the utilities, which were threatened with nationalisation under a Corbyn premiership, but banks and housebuilders also put in a strong performance, suggesting that investors expect a cyclical upturn in the coming months and years.

Indeed, there are early reports of a "wall of cash" ready to hit UK shores, with property deals leading the way. Britain is already the biggest destination for foreign direct investment in Europe, but Brexit now offers the opportunity for the UK to further distinguish its 'brand', in contrast to a floundering eurozone economy that looks set to edge closer to another financial crisis in 2020. If the UK plays its cards right – and, yes, that includes getting a good trade deal with the EU – it could become a gateway to the EU market as well as a safe haven for increasingly embattled eurozone investors. Over to you Prime Minister Johnson...

Meanwhile, many investors are preparing themselves for a flurry of activity in the UK market in 2020, as low valuations combine with a still-undervalued pound and a clearer outlook for the UK's post-Brexit future to entice those sitting on the sidelines. The market is currently in jubilant mood, and there is much to be optimistic about as we enter 2020. But my message is don't get carried away, because the scale of Johnson's election victory is matched only by the gravity of the challenges that lie ahead.

Wishing you all a happy and prosperous 2020!

Best regards,

J Faulkner
Editor

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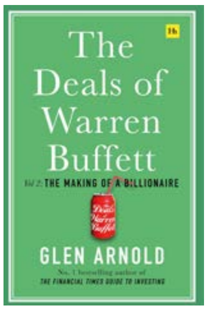

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CONTENTS

ISSUE 58 – JANUARY 2020

ON THE COVER

ALL OTHER TOPICS

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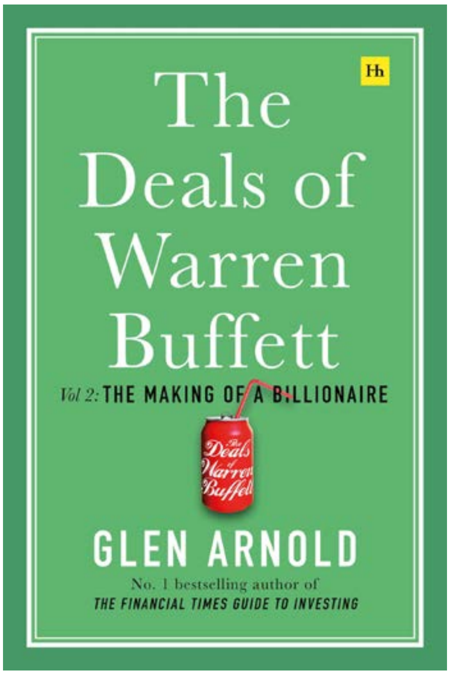

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BY JIM MELLON

MELLON ON THE MARKETS

Inside the mind of the Master Investor: Influential British investor Jim Mellon reveals his latest thoughts on the markets.

Well, December was quite a month. And a good one.

The UK election went as forecast – and amazingly William Hill was offering 'free money' on the results, albeit in small quantities, right up to 2am, by when it was evident to anyone that there would be a Conservative landslide.

It is good that the air has been let out of the tyres on the Brexit issue, with even old stalwarts such as Michael Heseltine giving up on the Remain fight. My own sense is that the UK will do just fine, and that there will be a boom in 2020, eclipsing almost every other European economy.

Of course, the commentators are now talking about the difficulties of concluding a trade deal with the EU, but since the UK and the EU are in perfect regulatory and trade alignment right now, how difficult will it actually be to finalise a deal?

Not too difficult, I believe, as Europe, to requote myself from a year or so ago, has a lot more to lose in trade terms than we do. The only reason that the EU hasn't fallen into outright recession is because of the buoying effect of the large trade surplus with the UK. Simples. They need us and we will get something done.

That is why, as per my advice in the last two articles, it's not too late to buy into UK assets. I forecast that the pound will buy US $1.40 before too long and that the FTSE has another 10% upside. To reiterate, I like **Babcock (LON:BAB), Lloyds (LON:LLOY), Marston's (LON:MARS), GSK (LON:GSK), British Land (LON:BLND), Tesco (LON:TSCO), HSBC (LON:HSBA), BP (LON:BP.), Prudential (LON:PRU), Phoenix (LON:PHNX), WPP (LON:WPP)** and **BT (LON:BT.A)**, as a conservative dividend portfolio, with most of those companies, though not all, domestically focused.

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These will yield you about 5% on average and there is absolutely no need to pay a fund manager to put such a list together for you. On each of them, I would put a limit of 15% as a take-profit level, and then read subsequent Master Investor commentary for what to reload, if anything.

There isn't much to like in the US, as the CAPE (cyclically adjusted price-earnings) ratio at 26x is historically very stretched, and dividend yields low (and please here factor in the withholding tax of 15% on US dividends). But I am convinced by my chum Will Nutting, a commentator at Stifel, that **GM (NYSE:GM), Schlumberger (NYSE:SLB)** and **Seadrill (NYSE:SDL)** are good recovery stocks. Also, I like **Gilead (NASDAQ:GILD)** for its top-quality management and no doubt, 'blockbuster' drugs to come. It also sports a reasonable dividend yield.

“IT’S NOT TOO LATE TO BUY INTO UK ASSETS.”

'Sometimes I wish we could go back to living in precedented times'

Recently, the previously ludicrous amount of negative yielding bonds globally has shrunk by half, and my prediction is that there will be none of them left by the end of 2020. This means that bonds will generally fall, in line with rising inflation, which as I have said before is insidious and becoming even more so. Gilts, in the context of a more profligate government, and an attractive stock market with a remarkable dividend yield, are an obvious short, as are Bunds and Japanese government bonds.

I am not going to apologise for repeating myself again here, but anyone who has failed to load up on gold, silver, platinum or any other precious metal is bonkers. Readers will have noticed that gold is creeping up towards its recent highs, and this is a signal of two things; a different world in 2020, where return profiles will be very different and a recognition that we are about to enter a world of inflation after more than 30 years of deflation.

This means that every investor needs to do the following: buy gold and silver or proxies; sell bonds; buy quality dividend blue-chip stocks in the UK and Japan; and divest of the tech stocks that are over-owned in the US.

The New Year period is a good one to reflect on portfolios – and as hard as possible.

In general terms, I think we should all be interested in meta thematic investment (eg clean meat, longevity and climate change) and tuck relevant investments away for the long term. In the medium term, I think it will be value destructive to carry on in the old way. Recognise that yields are going to tick up globally (note that the Swedish central bank recently raised rates – and this will be the future norm) and that inflation is going to do the same. This will mean that you need to switch out of bonds, as detailed above – and soon.

If you want to buy a well-diversified miner with a decent yield, I would recommend **Rio Tinto (LON:RIO)**. You can expect its iron-ore division to do well over the next year. Long-suffering shareholders of **Condor Gold (LON:CNR)** should be pleasantly surprised, I believe, as gold goes up, and gold pouring comes closer to reality.

I am writing this in a café in Ibiza, which is an island that literally seems to hibernate in the winter, so I was lucky to find this one open. We had some unwanted excitement last night as two of our dogs went missing for 13 hours, without their trackers, which meant we spent a sleepless night hoping that they would return – and avoid traffic and accidents.

They did, but it reminded me of the chaos that can sometimes blindside us as investors. However, despite occasional entropy, things generally resolve themselves (a very good and consistent observation of my wise, good friend Alan Steel).

And this is how I expect it will be this next year, with the chaos taking place in a collapse in bond prices, a fall in the US dollar against most other currencies, a very sharp rise in precious metal prices and a growing recognition that the major tech giants have probably seen their best days. There will no doubt be political fracture points, for instance, in trade wars, Brexit, North Korea and Japan/Korea/China relations, but these will probably present opportunities to buy rather than a reason to sell.

In emerging markets, a falling dollar is generally good, as US-dollar debts of governments and companies become easier to service. My favourites would include Vietnam, which is garnering foreign investment at a rapid pace, as China loses its preeminent role as manufacturer to the world.

"THE NEW YEAR PERIOD IS A GOOD ONE TO REFLECT ON PORTFOLIOS."

I am super-optimistic for us next year, and have been following my own advice (which I don't always do). I really hope that some of you do too – as there will be no better sight than beaming faces and happy friends at the Master Investor show in London in March.

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

FOOD-PRICE SHOCK 2020: RISKS AND OPPORTUNITIES

Food prices are going to rise substantially in 2020 – maybe even in the next few months. Investors need to be forewarned and forearmed, writes Victor Hill.

Food prices globally are going to surge in 2020 and this could start within the first quarter of the year. The rise in food prices will drive inflation worldwide and could undermine confidence in financial markets. The wave of popular demonstrations and unrest in countries such as France, Pakistan and Argentina will only intensify as a result of any food-price shock. But companies at the forefront of agricultural technology could gain in value. Investors therefore need to be forewarned and forearmed.

Indian onions and Chinese pigs

In late November, the Indian government, for the first time ever, banned the export of onions until at least the end of February 2020. Most serious investors will regard the previous sentence as almost entirely irrelevant to their pursuit of alpha. But, hold on – this is highly significant. Let me explain.

In India, onions are an essential ingredient and spikes in the cost of onions have sparked social unrest in years past. A 26 percent year-on-year rise in vegetable prices pushed India's October headline inflation rate above the Reserve Bank of India's four percent threshold for the first time in 15 months.

“PORK PRICES ROSE BY 20 PERCENT IN OCTOBER LAST YEAR AND BY 3.8 PERCENT IN NOVEMBER. THIS HAS SPURRED INFLATION IN CHINA TO A SEVEN-YEAR HIGH.”

India normally ships more than two million tonnes of onions abroad each year – mostly to near neighbours like Bangladesh. But last September, extreme monsoon rains destroyed harvests, which pushed up prices across the country. Now, India's export ban has put upward pressure on onion prices and daily goods generally all over East Asia.

Meanwhile, the price of pork has more than doubled across China on account of the African swine-fever epidemic which I discussed in last month's edition of the magazine. Pig numbers in China have been devastated in the space of a few months by the epidemic. Pork prices rose by 20 percent in October last year and by 3.8 percent in November. This has spurred inflation in China to a seven-year high.

"FOOD PRICES CREPT HIGHER WORLDWIDE IN THE SECOND HALF OF 2019, EVEN IF THIS HAS BEEN DISGUISED IN THE UK BY AN ONGOING SUPERMARKET PRICE WAR."

The Chinese consumer price index reached 4.5 percent in November. Economists expect Chinese inflation to peak at five-six percent in January. Inflation at that level could impede the central bank's efforts to ease monetary policy and boost the economy, given weakening domestic demand. Combined with the country's lowest GDP growth figure for 30 years and the trade war with the US, this bodes ill for the Chinese economy and markets.

On the other hand, according to the Bloomberg Billionaires Index, the net worth of Qin Yinglin, the chairman of Chinese pig breeder **Muyuan Foodstuff Co. (SHENZEN:002714)**, rocketed during 2019, from $US6.6 billion in 2019 to a total of $US8.56 billion.

Food has been getting more expensive – globally

Food prices crept higher worldwide in the second half of 2019, even if this has been disguised in the UK by an ongoing supermarket price war. The UN Food and Agriculture Organisation's monthly food-price index, which measures a basket of essential foodstuffs, surged in November. By early December it was six percent up on 12 months previously.

The Japanese investment bank Nomura thinks that a global food-price surge is an "unappreciated risk". The factors behind it are various. There seems to be an increasing number of extreme weather events, such as the recent floods in India and the wildfires in New South Wales and California. Rising global temperatures and, increasingly, a shortage of fresh water is restricting food production. Demand for foodstuffs is growing faster than supply as the global population continues to rise and developing countries aspire to adopt western-style diets.

The price of food spiked in 2010-11 but then declined gradually thereafter. According to Nomura, by Q4 2019 the cost of essential foodstuffs was 50 percent below its long-term average as measured in the previous 120 years. That sustained fall in prices has discouraged investment in agriculture. At the same time, new land available for agriculture has become more scarce.

Eating habits are changing as developing countries increase their demand for meat. Conversely, in some advanced countries such as Canada where healthy and 'sustainable' lifestyles are becoming more popular, demand for meat is in gentle decline. But the overall rise in global meat consumption is pushing up the price of cereals.

More extreme weather events could trigger sudden spikes in food prices. For example, the complex El Niño weather pattern which can bring disastrous heavy rainfall and long droughts to countries around the Pacific rim – from Peru to Indonesia and Australia – will probably manifest itself again in 2020, researchers have predicted. An international team of scientists has forecast an 80 percent chance of an El Niño recurrence in 2020. This happens when sea-surface temperatures rise substantially above normal levels in the east-central equatorial Pacific Ocean.

Other factors include the oil price and the currency markets. Agricultural

Implications for central banks

While a spike in food prices is painful for poorer consumers, the inflationary impact is unlikely to persuade central banks to tighten monetary policy: they will remain focused on boosting economic growth in the face of the global slowdown. Average inflation across emerging markets is still at an all-time low, according to a Bloomberg gauge of consumer price indices.

But there is a policy dilemma here for central banks. To allow supply-side driven, higher food-price inflation while growth is weakening could have social and political consequences. The main 'unknown' is whether rising food prices are a long-term phenomenon or a transitory trend. Food-price inflation is concentrated on a small number of agricultural commodities and is driven by idiosyncratic factors. Overall, further monetary and fiscal easing will most likely be sustained in 2020.

Storing seeds for posterity

Seeds from 400 wild relatives of food crops such as bananas, rice and aubergines have been collected to save their valuable genetic diversity. These could be crucial for maintaining food production as the global climate warms. Hannes Dempewolf at the Crop Trust in Bonn, Germany, has been at the forefront of the 10-year project. The next step is to use the wild plants to breed new varieties of crops with traits such as increased resistance to drought or disease.

That is important because we know that if farmers keep cultivating the same varieties in the same way, yields can decline as pests and diseases co-evolve and spread. For instance, rice yields in Asia were hit by the rice grassy stunt virus in the 1970s, Dr Dempewolf told *New Scientist* in November. Resistant varieties were then created by crossing rice with a wild relative. Now the virus is becoming a problem again.

The challenge of improving strains of crop is getting more difficult because of climate change, which according to the Crop Trust is already hitting food production. This is why they have set out to save the genetic diversity of as many wild plants as possible. They have collected more than 12 million seeds since 2013, according to the Millennium Seed Bank at the Royal Botanical Gardens, Kew.

Plants sampled include a wild relative of the carrot which grows in saltwater, an oat relative resistant to the powdery mildew that devastates traditional oats and a bean that tolerates high temperatures and drought. The seeds are being sent to non-profit breeding organisations around the world. Some will also be stored in seed banks, including the Svalbard Global Seed Vault in the Arctic (an outpost of the Crop Trust).

As well as improving existing crops, the challenge is to conserve and domesticate wild plants that are rarely grown and eaten. At present, global food production is excessively reliant on a small number of crops, some of which are grown in places where conditions are not ideal. In these places, domesticating local plants – which can now be done rapidly thanks to genetic technology – could allow more food to be grown in a more sustainable way.

prices across the world are sensitive to a surge in oil prices. Oil accounts for roughly one tenth of all agricultural input costs. Currency fluctuations can also have a negative impact on agricultural output. Some agricultural commodities such as cereals are priced in dollars. If the dollar is weak, then often local producers prefer to stockpile cereals because profits are lower in local currency terms.

As referred to previously, Asia's two largest developing economies face a price surge for staple products − pork in China and onions in India − that are central to consumers' diets. In Turkey and Nigeria, supply problems are driving up costs.

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Impact on major emerging markets

African swine fever is spreading beyond China. Neighbouring Vietnam had to cull almost six million pigs to prevent the spread of the disease. This hasn't yet moved Vietnam's consumer price index, but the impact could be felt as soon as Q1 2020. Live pig prices in November were up almost 30 percent from a year earlier.

In Turkey, food-price inflation was just under 30 percent in Q1 2019 and remained above 15 percent for much of the year, due to the currency crisis of August 2018 coupled with supply-side issues and low rainfall. The government has taken to buying produce directly from farmers and selling it in cities, with President Recep Tayyip Erdoğan denouncing alleged racketeers as "traitors and terrorists". Autumn droughts in grain-producing provinces raised concerns about possible supply constraints this year. The Central Bank of the Republic of Turkey is anticipating food-price inflation of 11 percent for 2020.

In southern Africa, drought has negatively affected food production. The Victoria Falls (on the Zambia-Zimbabwe border) actually ran dry for the first time ever in early December; Zambian inflation has risen to a three-year high as result of the corn price; and monthly food inflation in Zimbabwe has reached almost 50 percent as stocks dwindle. In Nigeria, the price of imported rice has surged since August, after President Muhammadu Buhari ordered border closures, partly to counter widespread food smuggling.

The rise of GM crops – and why that is a good thing

The government of Bangladesh is likely to become the first country to licence a variety of yellow rice known as golden rice, despite opposition by critics of genetically modified (GM) foods. These are also known as genetically modified organisms or GMOs.

Golden rice and golden promise barley are two varieties of GM crop.

Golden promise barley was produced in the 1960s by bombarding seeds with gamma rays in a nuclear facility to scramble their genes at random with the aim of producing genetic mutations that might prove to be what geneticists used to call "hopeful monsters." The barley is not actually gold in colour. Despite the involvement of atomic radiation in its creation, it required no special regulatory approval before being released to be grown by farmers in the UK and elsewhere. It went almost straight from laboratory to field and proved popular and profitable.

Golden rice, by contrast, was produced in the 1990s by carefully inserting two naturally occurring genes (one from maize and the other from a common soil bacterium) into a rice plant, disturbing no other genes. It is quite literally golden: its yellow colour arises from its beta carotene content. It was developed as a humanitarian, not-for-profit project in an attempt to prevent

The threat of climate change

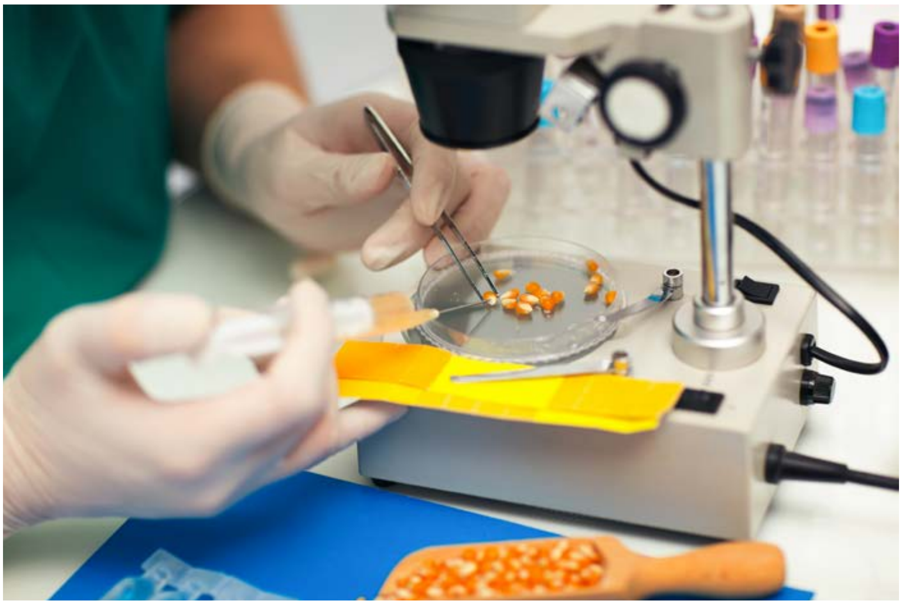
More frequent heatwaves and droughts are raising the risk of simultaneous harvest failures of staple crops such as wheat, maize and soya beans, according to two studies published in early December in the journal Nature Climate Change. This makes potential food-price spikes more likely. Food-price spikes and shortages are historically associated with social unrest. For example, food-price hikes preceded the Arab Spring (2011).

When the jet stream, the high-altitude air current that steers storms and separates air masses, takes on a more undulating and erratic pattern (technically known as Rossby waves after the scientist Carl-Gustaf Rossby), extreme heatwaves become more common in certain parts of the world. These locations include the 'bread basket' regions of western North America, Western Europe, Western Russia and Asia, depending on the exact jet-stream pattern that develops.

Normally, poor harvests in one location tend to be balanced by plentiful harvests elsewhere in the world; but the studies show there's a real possibility that extreme weather patterns can cut the productivity of several of the world's bread basket regions simultaneously. Some studies suggest that global warming may be making the jet stream more volatile.

Another 2017 study found that global warming has increased the severity and probability of the hottest month and hottest day for more than 80 percent of the globe that has weather records. Temperatures in Australia in the second half of December were amongst the highest ever recorded.

The UN Intergovernmental Panel on Climate Change in August last year pointed to the increasing possibility of food crises developing on multiple continents at once because of climate change, land degradation, drought and desertification.



"ACCORDING TO MATT RIDLEY, GMO CROPS HAVE CAUSED NO HUMAN OR ANIMAL ILLNESS AND HAVE HUGE ENVIRONMENTAL BENEFITS."

people dying prematurely every year in poor countries because of a vitamin A deficiency. (Vitamin A deficiency causes children to go blind and weakens their immune system). About 250 million children, predominantly in Asia, subsist mainly on rice and suffer from a vitamin A deficiency.

Yet this product has been vociferously challenged by opponents of GM foods such as Greenpeace and has thus been denied regulatory approval in most countries for the last 20 years. The two scientists who conceived golden rice were supported by **Syngenta (VTX:SYNN)**. Yet they waived their right to patent the product in their own names in order to maximise its benefit in developing countries.

As the science writer Matt Ridley has argued, regulators, especially in the EU, evaluate all possible hazards of a new technology, however implausible, and tend to underestimate all possible benefits, however likely. Ed Regis has written about this in his new book *Golden Rice: The Imperilled Birth of a GMO Superfood*.

The Cartagena Protocol on Biosafety (2000) classified all GMOs as inherently "risky". It also made the testing of different varieties expensive and time-consuming. This has done huge damage to the GMO-biotechnology sectors in the EU. Since 2005, Canada (which did not sign the Cartagena Protocol) has approved 70 different GMO crops, while the EU has approved just one – and that took 13 years, by which time the crop had been overtaken by rivals.

BASF (FWB:BAS) developed a GMO potato in 2005. The European Food Safety Authority (EFSA) initially approved it, but the European Commission then blocked it, citing the precautionary principle. BASF took the Commission to the European Court of Justice, which ordered another evaluation from the EFSA. This confirmed that the crop was safe, and the EU was instructed by the Court to approve its use.

But Hungary then intervened on behalf of green pressure groups. In 2013, eight years after the first approval, the EU General Court upheld Hungary's complaint. By then BASF had lost interest in the sector, withdrew the application and closed its European GMO research centre, moving it to the US (which has never signed the Cartagena Protocol). Syngenta did something similar.

According to Matt Ridley, GMO crops have caused no human or animal illness and have huge environmental benefits, such as greatly reduced pesticide use, less ploughing, lower greenhouse-gas emissions, less land required to grow a given quantity of crop, lower costs and higher yields. Europe is missing out on this.

In 2017, a new variety of golden rice, GR2E, was tested in the Philippines and shown to be robust, true-breeding, high-yielding and with a high beta-carotene content. Australia, New Zealand, Canada and the US approved golden rice as a safe food, though none of these countries plan to cultivate it, as vitamin A deficiency is rare in these countries. This only stirred up more vociferous opposition by anti-GMO agitators, who lobbied the governments of India, Bangladesh and the Philippines to ban the crop.

Leading companies in the GMO foods sector include **Bayer (ETR:BAYN)**, which acquired Monsanto in 2018, **Novartis (VTX:NOVN)** and **Pioneer Hi-Bred International**, a subsidiary of **Corteva Inc. (NYSE:CTVA)**.

Foods to watch in 2020

People in affluent countries are increasingly turning towards healthier or plant-based food options. Uber Eats (a subsidiary of **Uber (NYSE:UBER)**, one of the new global leaders in food-delivery services, published a report recently on what they foresee

"IMPOSSIBLE BURGER PRODUCTS HAVE BECOME SOME OF THE MOST POPULAR ITEMS IN GROCERY STORES ACROSS THE US."

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people will be ordering more of in 2020, based on food searches on their website.

Foods increasing in popularity on Uber Eats include nutritious vegetables like Brussels sprouts, kale and cabbage, as well as foods that look cool on Instagram such as starfruit and foods infused with squid ink. Plant-based meat substitutes like the burgers manufactured by Impossible Foods (private) and milk substitutes like oat milk are also seeing a surge in popularity as people are becoming increasingly conscious about what they eat. Consumers are also looking for foods that contain added health benefits, such as those which contain collagen. A few old favourite staple vegetables, such as cauliflower, are evidently here to stay.

Not only does starfruit make for a great social-media photo on Instagram, but the tart fruit also has a number of health benefits. Starfruit is low in calories, an excellent source of fibre and vitamin C, and has been shown to reduce cholesterol in mice. A number of different food items involving squid ink have recently hit the market, including squid-ink burger buns and pasta. Squid ink adds a slightly salty, briny taste to dishes, and may reduce blood pressure. Research, however, thus far, is inconclusive.

Google searches for collagen reached an all-time high in 2019, with the market for this beauty supplement growing by over 60 percent in the US. Reishi mushrooms, which have long been a staple in Eastern medicine, have become an increasingly popular ingredient on Uber Eats.

The ketogenic or 'keto' diet has seen a significant rise in popularity over the last few years. As more people turn towards a low-carb diet, keto foods are increasing in popularity. Cauliflower gnocchi and other alternatives to starch are also rising in popularity with people who wish to reduce their consumption of carbohydrates. A growing number of food companies are riding this trend by using vegetable derivatives to replace popular carbs such as rice and flour. Consumers are opting for cauliflower in particular because of its versatility and relatively mild flavour.

People will be turning towards Asian cuisine in 2020. Vietnamese dishes like pho and banh mi sandwiches are expected to increase in popularity, as are Japanese udon rice noodles and Korean kimchi. Asian dishes tend to be high in protein. Harissa, a hot chilli-pepper paste, has also seen a rise in popularity. *Time* magazine named it one of the food trends of 2015. Uber Eats reports that people are increasingly ordering dishes with harissa. Furthermore, the market for chickpeas, the main ingredient used for hummus, is growing rapidly along with the rising popularity of Middle Eastern cuisine, especially Lebanese.

The Paleo diet, which has seen a huge increase in popularity over the last decade, uses bone broth which is thought to have a number of health benefits. Bone broth is rich in collagen; it supposedly reduces inflammation, boosts the immune system, strengthens bones and promotes healthy hair and skin.

Impossible Burger products have become some of the most popular items in grocery stores across the US. They are currently also available at a number of fast-food establishments such as Burger King (owned by **Restaurant Brands International**

(TSX:QSR)) and White Castle (private, with 377 outlets), giving casual diners access to plant-based alternatives.

With the rise of non-dairy milk alternatives, online orders for oat milk are soaring. According to Facebook Marketplace, 2019 sales of oat milk in the US soared to $US29 million, up from $US4.4 million in 2017. Oat-milk company **Oatly** is credited with starting the oat-milk craze. Between 2017 and 2018, the company's revenue grew from $1.5 million to more than $15 million, and that was expected to have doubled in 2019.

The popularity of cold beverages has rocketed in recent years, according to CNBC. Cold-beverage sales now make up half of coffee chain **Starbucks' (NASDAQ:SBUX)** US sales. Starbucks has released two new cold-brew beverages in the last year – the Pumpkin Cream Cold Brew, its first new pumpkin coffee drink since the release of the highly popular pumpkin spiced latte in 2003 and the brand-new Irish Cream Cold Brew, which launched in December 2019.

Supermarkets which follow food trends most effectively will be able to enhance margins.

Action

I have argued in these pages over several years now that food production (agriculture and industries that supply it) has been generally overlooked by investors, except those who invest directly in farmland. In 2020, fund managers will respond to the coming food-price shock by increasing their exposure to agribusinesses. Most food producers are privately owned but there are a number of quoted conglomerates which own well-established, end-product food brands such **Associated British Foods (LON:ABF)**.

There are a range of funds investing in the biotech sector, but one fund which specifically allocates to companies which are developing GMOs is the Japanese fund **GMO Venture Partners**.

Pubs and restaurants fight back

We can expect branded restaurant and pub chains to respond to the challenge of food-to-your-door offered by the delivery companies in 2020. **New River (LON:NRR)** is a diversified UK property company which owns 700 'wet-led' (meaning most revenues are generated from drinks) pubs. It has invited tech-savvy delivery firms to rent out its 'dark kitchens' (unwanted kitchen space).

In December 2019, pub chain **JD Wetherspoon (LON:JDW)** announced a £200 million expansion plan with a focus on provincial market towns in the UK. The strategy is to make eating out an affordable alternative. Wetherspoon operates 875 pubs and 58 hotels across the UK and Republic of Ireland, employing 44,000 staff.

Companies cited in this article

Company	Status/ ticker
Muyuan Foodstuff Co.	SHENZEN:002714
Syngenta	VTX:SYNN
BASF	FWB:BAS
Impossible Foods (private)	private
Bayer	ETR:BAYN
Novartis	VTX:NOVN
Corteva Inc.	NYSE:CTVA
Restaurant Brands International	TSX:QSR
White Castle (restaurant chain)	private
Starbucks	NASDAQ:SBUX
Oatly	private
Marks and Spencer	LON:MKS
John Lewis Partnership	private partnership
Uber	NYSE:UBER
NewRiver	LON:NRR
JD Wetherspoon	LON:JDW
Associated British Foods	LON:ABF
GMO Venture Partners	private venture capital (Japan)

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

LITHIUM PLAYS TO ELECTRIFY YOUR PORTFOLIO

Lithium is already an integral component of modern life but its importance is only set to grow in the coming years. Here's how investors can grab a slice of the action.

Will we achieve net zero carbon by 2050? Who knows, but without doubt the move is on and gathering pace. Undoubtedly by now we all realise that electric vehicles will feature more prominently in the 2020s.

Everything in the future automation world appears to be going electric – in fact governments are looking to ban non-electric vehicles over the next few decades. France and the UK have already declared that they will stop the sale of cars running on petrol or diesel by 2040.

The electric vehicle makers

Whether you like him or not, you have to admit that Elon Musk is a 'mover' and his Tesla electric vehicles will continue to gain interest, whether his windows will be unbreakable or not.

It is not just Tesla that is in production; other car manufacturers such as Volkswagen and BMW have been in the game for quite a long time. Volkswagen has a target of producing 1m vehicles a year within the next three years, compared to Tesla's target of 500,000 after its new factory in Shanghai has been completed. BMW has announced that it is set to create 25 new electric vehicles for its range by the end of 2023, half of which will be fully electric. It also envisages that its sales of electric vehicles by the end of next year will have doubled those recorded in 2019.

> **"FRANCE AND THE UK HAVE ALREADY DECLARED THAT THEY WILL STOP THE SALE OF CARS RUNNING ON PETROL OR DIESEL BY 2040."**

Building up demand

Those leading manufacturers recognise their future and they are creating a demand for the power, portable or not, to make their vehicles operate. In turn, this is building up a requirement for lithium ion batteries, the energy source that is used by electric cars.

The demand for lithium has been projected to rise by 1,000% in the 2020s. Lithium has unique chemical properties – it is the lightest of all metals, versatile, heat resistant and capable of storing substantial amounts of energy in batteries. It

"AN ELECTRIC CAR REQUIRES 5,000 TO 10,000 TIMES AS MUCH LITHIUM AS A MOBILE PHONE, SO NOW ELECTRIC VEHICLES ARE SET TO BECOME THE TRUE DRIVERS OF DEMAND."

is light and soft, able to be cut with a knife, and light enough that it floats on water.

The lithium mineral was first documented way back in the 1790s. It was discovered by Johan August Arfwedson in 1817, when he detected the new element when he was analysing petalite ore.

His boss, chemist Jons Jacob Berzelius, gave the alkaline material the name of lithium, derived from lithos, the Greek word for stone.

Lithium and its compounds have several industrial applications, including heat-resistant glass and ceramics, lithium grease lubricants, flux additives for iron, steel and aluminium production, lithium batteries and lithium-ion batteries. These uses consume more than three quarters of lithium production.

It is well used in the nuclear-fusion industry, for military weapons, and also in medicine − lithium salts are used as a mood-stabilising drug in the treatment of bipolar disorder in humans. Primary food sources of lithium are found in grains and vegetables, and drinking water also contains significant amounts.

It was not until 1991, when Sony popularised the lithium ion battery, that it started to become a vital part of nearly every electronic device. Electronics smartly followed mobile phones in pursuing the new battery over the last three decades. Advances in manufacturing and engineering have helped to cut cost, while improving the energy density of lithium ion batteries since 1991.

An electric car requires 5,000 to 10,000 times as much lithium as a mobile phone, so now electric vehicles are set to become the true drivers of demand. As we go forward into the 2020s, we will see continued demand from mobile devices, as energy storage for electric grids and renewable energy and, most definitely, for electric vehicles.

Using batteries for storing renewable energy will become increasingly important, but the vehicle growth will be more rapid. Just three years ago only 1.1m electric vehicles were sold, but it is forecast that this figure will rise smartly to 11m by 2025, before leaping to 30m by 2030. By that time, it is estimated that some 20% of the global fleet of 230m vehicles will be electric. By 2040, a third of the global fleet is forecast to be electric.

The industrial and economic backdrop

In 2009, the lithium ion battery accounted for around 21% of all lithium consumption. By 2017, about 46% of lithium produced went to batteries – more than doubling its share (in a growing market) in less than a decade. Other important uses include ceramics and glass (27% of the market) and lubricating greases (7%).

The annual global demand for lithium, which was up to 40,000 metric tons in 2017, is still in the early stage of ramping up; in fact, that year saw more lithium being mined than was being consumed.

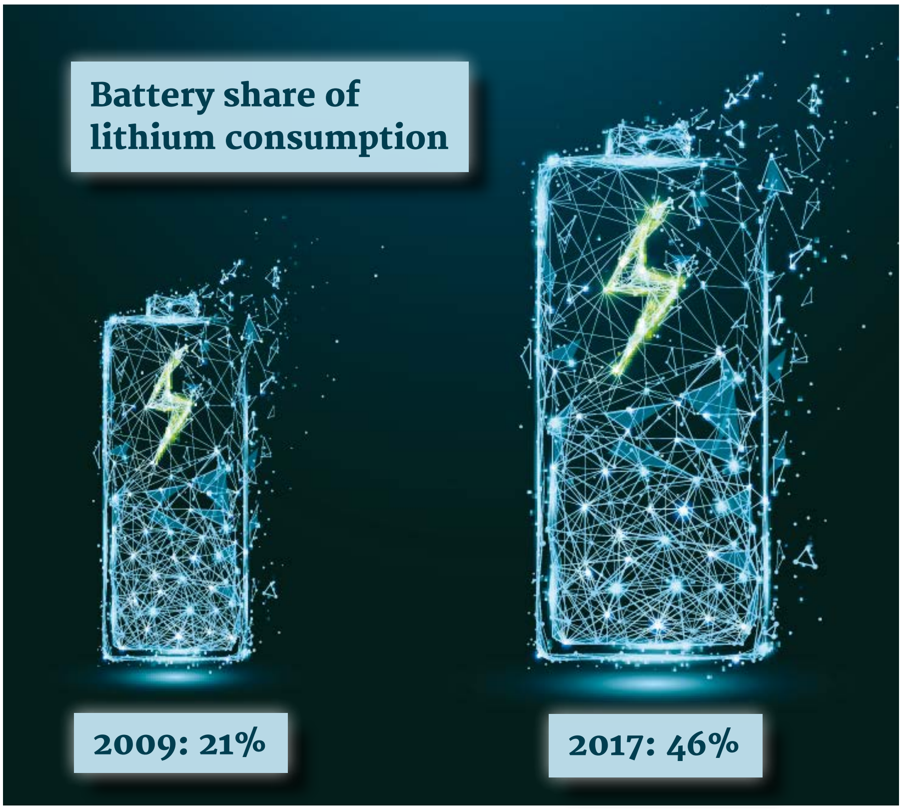
But we do not need to be mathematical wizards to work out that demand could match production within this new decade. And that could well see lithium prices increase in proportion, then possibly out of proportion. Prices have nearly tripled since 2015.

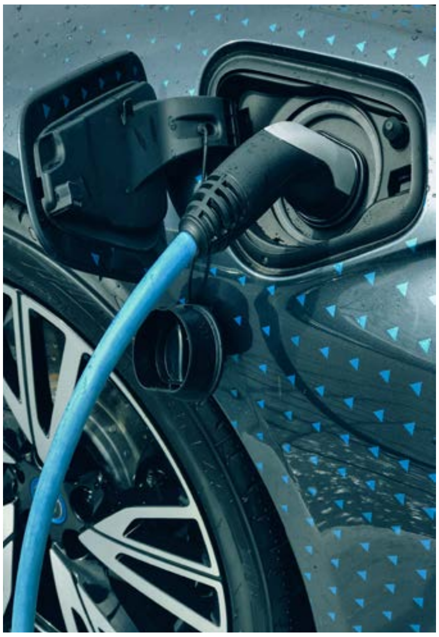
Lithium deposits around the world are estimated at about 53m metric tons. In the extraction of lithium, Australia is the biggest player, but the continent of South America has the greatest reserves.

The extraction process

Lithium can be produced from either hard rock minerals, which is faster but more expensive, or from brine, which is a cheaper but longer process. Hard rock minerals were the main source of lithium until the 1990s, when brines, a cheaper source of lithium, then came to the fore in production.

Lithium-containing minerals are mined underground or from surface pits, such as spodumene generally found in pegmatites, which are





"THE ANNUAL GLOBAL DEMAND FOR LITHIUM, WHICH WAS UP TO 40,000 METRIC TONS IN 2017, IS STILL IN THE EARLY STAGE OF RAMPING UP."

coarse-grained, igneous rocks. There are some 145 minerals that contain lithium but only five are used in extraction, of which 90% are from spodumene.

For hard rock minerals, making up two thirds of extraction, the production time is generally around a month from mine extraction to physical separation and then on to chemical processing. The hard rock is crushed, then the minerals are separated out into a concentrate. Processing, including acid leaching and roasting, then yield lithium-based chemicals.

Varying concentrations of dissolved lithium are found in underground saltwater solutions called continental brines. The brine process, making up one third of extraction, can take from eight up to 18 months in production time. It is based upon wells being drilled into underground aquifers. They then are used to pump lithium-bearing brine to the surface. Next, the brine is moved through a series of surface ponds, which helps to concentrate the lithium and remove any impurities. Through evaporation, the concentrated brine is treated to create lithium chemicals, which are then filtered and dried, causing the lithium sulphate to crystallise.

Lithium-mining operations can now be found on every one of the world's continents, barring Antarctica. The 'Lithium Triangle', which is the area of the world's biggest reserves, covers Chile, Argentina and Bolivia. The salt-bed deposits in Chile have been in production since the 1980s and those in Argentina since the late 1990s. Bolivia's have only recently gone into production.

Global lithium reserves, at some 16m tons, are around 180 times last year's production levels. Chile holds 46.9% of worldwide reserves, China 20%, Australia 16.9% and Argentina 12.5%, while other reserve countries include Bolivia (as yet to quantify), Portugal, Brazil, the US and Zimbabwe.

By 2018, the global production of lithium was up to 85,000 metric tons, of which Australia contributed 60%, Chile 18.8%, China 9.4%, Argentina 7.3%, Zimbabwe 1.9%, Portugal 1%, Brazil 0.7%, Namibia 0.6% and Bolivia 0.02%.

Getting in on the action

How do investors participate in what is going to be a very expansive market?

There is one fund that covers the market – the Global X Lithium & Battery Tech ETF. This fund's assets have grown from just $68m in June 2016 up to an impressive $478m by November 2019. Its portfolio ranges cover the full cycle of mining, refining and battery production.

With 40 or so equity positions, the top 10 of the fund's constituents include: Albemarle Corporation, Sociedad Quimica Y Minera de Chile, Tesla, Varta, GS Yuasa, Livent, Panasonic, Samsung, Enersys and LG Chem.

Lithium-mining companies

The three biggest lithium mining companies are SQM, Albemarle and FMC Corporation, accounting for around 85% of the global lithium market through their various direct and indirect holdings. The three companies, all quoted on the NYSE, could be considered to be an oligopoly having been referred to as the "Big Three".

Other mining companies include Tianqi Lithium, Jiangxi Ganfeng Lithium, Galaxy Resources, Orocobre, Pilbara Minerals, Altura Mining, Sichuan Yahua Industrial Group, Mineral Resources and Jiangxi Special Electric Motor.

Lithium-battery companies

The 'lithium-battery stocks' include some of the top lithium ion battery manufacturers, including Tesla, Panasonic, Samsung SDI, Toshiba, LG Chem, A123 Systems, BYD, Contemporary Amperex Technology and Johnson Controls.

The vehicle makers

Although not a direct lithium play, investors could also enjoy the ride with the electric-vehicle (car, van, scooter and motorbike) makers.

Take a look at BAIC, the Chinese car maker; BMW, which was the first premium car manufacturer to launch an electric vehicle in 2013; BYD, the Chinese batteries and car maker (in which Warren Buffett has a big stake); Askoll, the Italian electric motorbike and scooter maker; Energica, which is also an Italian e-motorbike manufacturer; Niu, the smart electric scooter company; Pierer Mobility, the leading European motorcycle and electronic-vehicle producer; Toyota, the Japanese hybrid-maker now into electric vehicles; and VW, which is now expanding its range into electric vehicles.

UK quoted companies into lithium

The UK quoted companies involved to varying degrees in the lithium market include two funds – Gore Street and Gresham House, who are both investing in energy-storage projects and systems.

Others include Ilika, which has developed solid-battery technology with several applications, such as for the Internet of Things, medical devices and for automobiles; the IP Group, which is involved with a number of early-stage technology companies, like Ceres Power and Nexeon; Johnson Matthey, which is looking at speciality chemicals for battery fuel cells; and Versarien, which is focusing on developing materials into the battery market.

Some interesting side-players

Ilika (LON:IKA)

Price: 23.5p; market capitalisation: £23.68m

This company is based in Romsey in Hampshire and has operations in the US, China and Japan. It is a pioneer in materials innovation and has been inventing new materials for energy and electronics applications for over a decade, including in the automotive, aeronautical and electronic-component sectors. Global brands such as Rolls Royce and Toyota have long-term collaborations with the company's development teams.

Using its patented materials invention, the company has developed groundbreaking, solid-state battery technology, which it is now licensing technology IP to partners for sensors for the global smart home, medical, automotive and transportation sectors.

The company's interim results to end October 2019 will be announced on 23 January.

The IP Group (LON:IPO)

Price: 67p; market capitalisation: £709m

This company, which has operations in the UK, the US and Australasia, is a leader in intellectual-property commercialisation. Working in partnership, particularly with universities, it finds game-changing ideas and helps to build the businesses of tomorrow.

Its approach is to develop these ideas and the resulting businesses by providing access to business-building expertise, capital, networks, recruitment and business support. It has a strong track record of success and its portfolio comprises holdings in early-stage businesses through to mature businesses, across the life sciences and technology sectors.

Its results to end December 2019 will be released in late March.

Johnson Matthey (LON:JMAT)

Price: 2,890p; market capitalisation: £5.6bn

This group is a global leader in science that enables a cleaner and healthier world. With over 200 years of sustained commitment to innovation and technological breakthroughs, it looks to improve the performance, function and safety of its customers' products.

It has a global impact in areas such as low-emission transport, pharmaceuticals, chemical processing and making the most efficient use of the planet's natural resources.

The results for the year to end March 2020 will be announced in late May.

Versarien (LON: VRS)

Price: 92.5p; market capitalisation: £142.4m

This advanced engineering materials group has developments on many fronts. It uses proprietary materials technology to create innovative engineering solutions capable of having a game-changing impact on a broad variety of industry sectors.

It is involved with the Spanish company Gnanomat, using its graphene products in the development of energy-storage technology. A Spanish patent was granted in April 2019, with formal collaboration agreements with potential partners in discussion.

Its funding comes, in the main, from Versarien's resources, but it has also been successful in obtaining a grant from the Spanish Ministry of Science and is applying for further grants from the newly formed European Battery Alliance, as well as from other EU sources.

The results for the six months to end September 2019 were announced in the middle of November.

About Mark

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

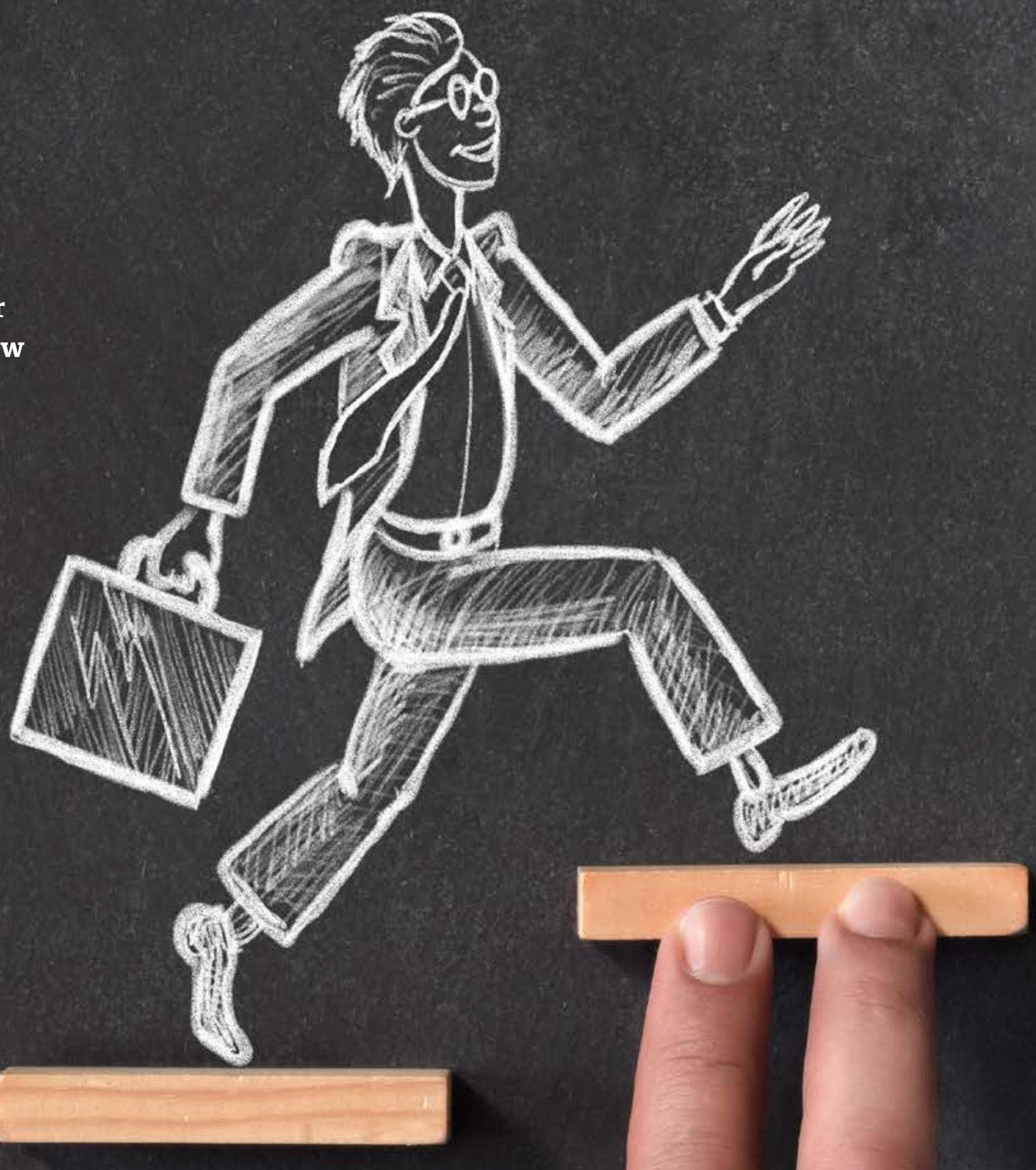
Mark, who has over fifty-five years' experience in the UK stock market, established SQC Research in 1993. He previously worked as a dealer for four stockbroking firms and an investment fund management business. Prior to SQC Research, which provides investment information and comment on smaller quoted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

BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

FOLLOW THE FUND MANAGERS FOR A PROFITABLE 2020

As we say goodbye to an eventful 2019, it's time for Richard Gill's annual review of how the UK small-cap markets have performed – and to provide a few investment ideas for the new year.



Despite huge volatility in individual stocks, 2019 turned out to be a pretty good year overall for small-cap investors and a lot better than the dire 2018 which saw the FTSE AIM All-Share lose 18.2% of its value. The index pretty much bottomed out at the start of January 2019, rallied through the spring and fell again in summer. But after a welcome 'Santa rally'/'Boris boost', the index finished the year (with half a trading day to go) up by a decent 11.6%, at a level of 957.72. However, there remains some way to go before we return to the decade-long high of 1,107 seen in September 2018. The FTSE Small Cap Index put in a slightly better performance, gaining 15.1% in 2019.

Blue-chip stocks performed just as well as small caps during the year, with the FTSE 100 rising by 13.3% but remaining short of its 2018 all-time highs. Nevertheless, an impressive 82 of the 100 constituents finished the year with a higher share price. The FTSE 250 delivered the most impressive performance of the major markets, with the UK-focused index soaring by 25.6% after Brexit-related blues were blown away.

> **"2019 TURNED OUT TO BE A PRETTY GOOD YEAR OVERALL FOR SMALL-CAP INVESTORS."**

Small-cap blue-chips once again drive returns

Given their larger weighting in the All-Share index, it's no surprise that AIM's biggest companies continued to drive the wider performance in 2019. The FTSE AIM UK 50 was up by a more pronounced 18.6%, seven percentage points higher than the All-Share. There are now 15 companies listed on AIM with a market cap of over one billion pounds, up from 10 at the start of the year.

Online fashion retailer **Boohoo Group (LON:BOO)** overtook rival **ASOS (LON:ASC)** to become AIM's largest company, after rising in value by 84%. The company, now valued at just under £3.5 billion, announced a number of positive updates over the year, with growth surging both in the UK and internationally. Other major movers included analytics business **GlobalData (LON:DATA)** which soared by 120% after some good financial results, and identity-verification firm **GB Group (LON:GBG)** which rose by 86% after doubling profits in its first half. Elsewhere, airline owner **Dart Group (LON:DTG)** added 119% to its share price following the demise of rival Thomas Cook.

At the other end of the market, it was a dreadful year for litigation financing firm **Burford Capital (LON:BUR)**; its shares plunged by 57% after the infamous short attack from research firm Muddy Waters. It was also a bad year for **Impellam (LON:IPEL)**, with the staffing business experiencing difficult markets and the shares falling by 37%. Former punters' favourite and wafer manufacturer **IQE (LON:IQE)** also dropped, by 24%, after a disastrous November profits warning.

Everyone's not equal

According to my calculations, the top 10% of AIM All-Share constituents make up 64% of the index's value, so its performance is highly dependent on these select few stocks. Therefore, as in previous years, as an alternative way of reflecting small-cap performance, I have used an equal-weighted approach − assuming that an equal amount of money was put into each qualifying AIM company at the start of 2019.

To complete this analysis, I take all AIM companies (including those not listed in the All Share index) which were listed on the market at the beginning of 2019 and remained listed for the whole year (new listings during the year or those which left the market are excluded). There are 866 qualifying companies, each given an equal weight in my theoretical index.

Of these, 409 companies (47.2%) finished the year with a higher share price, 13 (1.5%) were flat and 444 (51.3%) lost value. There was therefore a slightly higher probability that an AIM share would have lost value rather than increased in value last year. My headline metric shows that on an equal-weighted basis, the average gain per AIM share in 2019 was 9.6%, two percentage points behind the All-Share. While still a pretty decent result, this goes to show that the larger-cap stocks drove the additional gains in 2019.

Soaring stocks

There were some stonking performances from small-cap companies last year. Top of the pile with a dazzling 1,050% gain was oil-and-gas explorer **Petrel Resources (LON:PET)**, after attracting investment from a group of influential shareholders. Also up there was **Leaf Clean Energy (LON:LEAF)**, with the renewable-energy investor, which is set to de-list shortly, surging

Name	Market Cap (m)	Gain in 2019 (%)	Sector
Petrel Resources	£32.5	1050	Oil & Gas
Leaf Clean Energy	£0.2	965	Investment
Eurasia Mining	£102.4	668	Mining
Silence Therapeutics	£276.6	575	Pharmaceuticals
Shield Therapeutics	£211.5	492	Pharmaceuticals

Table: Five biggest AIM risers in 2019. Performance measured from 1 January 2019 to 30 December 2019

Name	Market Cap (m)	Loss in 2019 (%)	Sector
Motif Bio	£1.9	-98.8	Pharmaceuticals
Wilmcote Holdings	£20.1	-97.1	Investment
Anglo African Oil & Gas	£1.8	-96	Mining
Xeros Technology Group	£8.9	-94.5	Industrial Engineering
Nu-Oil and Gas	£1.3	-93.7	Oil & Gas

Table: Five biggest AIM losers in 2019. Performance measured from 1 January 2019 to 30 December 2019

by 965% after winning substantial damages in a court hearing. In third place was Russian palladium miner **Eurasia Mining (LON:EUA)**. Its shares rocketed by 668%, mainly on the back of two Chinese and Russian investment banks assisting the company with the potential sale of its Kola and Urals assets.

Biggest losers

The worst performer in this period was drug developer **Motif Bio (LON:MTFB)**. Its shares collapsed by 98.8% after US regulator, the Food and Drug Administration, said that it could not approve the company's new drug application for skin-infections drug iclaprim in its present form. Not far behind were shares in investment company **Wilmcote Holdings (LON:WCH)** which lost 97.1% over the year after the acquisition of a speciality chemicals business fell through. After an awful 2018, shares in water-saving and filtration products firm **Xeros Technology Group (LON:XSG)** lost a further 94.5% as it remained loss-making and sought further funding.

Follow the fund managers

Given the volatility in the market there was a highly favourable environment for small-cap fund managers in 2019, and most did not fail to impress. According to Trustnet's universe of 51 small-cap funds, all but four beat the AIM All-Share in 2019, with only three showing a negative return. Congratulations to Harry Nimmo, who runs the ASI UK Smaller Companies fund, which posted a market-and-peer-beating 46.4% return in 2019, helped by stocks including Gamma Communications, Dart Group and GB Group.

So, will it pay off to take guidance from the professionals this year? Here are two growth stocks which some top fund managers are hoping will perform well in 2020.

PEBBLE GROUP

In the last edition of Master Investor magazine, I discussed the moribund small-cap IPO market, with 2019 turning out to be the lowest ever year for new listings on AIM since the market was formed in 1995. In early December, however, promotional-products company **The Pebble Group (LON:PEBB)** cheered the market by completing the largest listing of the year. The company raised around £79 million for itself at IPO with selling shareholders receiving another £56 million on top.

Fund	Gain in 2019 (%)	Manager(s)
ASI UK Smaller Companies	46.4	Harry Nimmo
JPM UK Smaller Companies	39.8	Georgina Brittain, Katen Patel
M&G Smaller Companies	38.6	Garfield Kiff, Rory Alexander
ASI (AAM) UK Smaller Companies	38.2	Harry Nimmo
Invesco UK Smaller Companies Equity (UK)	37.7	Jonathan Brown

Data source: Trustnet. Performance measured from 1 January 2019 to 30 December 2019

Pebble Group is a provider of products, services and technology to the global promotional-products industry. Following an acquisition at the end of 2018, the business now comprises two differentiated units, focused on specific areas of the promotional-products market, which management estimates to be worth $50 billion per annum. Companies are attracted to promotional products as they can increase brand awareness among various stakeholders and can also provide a high return on investment.

The original business, Brand Addition, is a provider of promotional products, such as bags, t-shirts, packaging and so on, to global brands. These items are are sourced and delivered by Brand Addition through a global network of suppliers. Clients are typically major global brands, using products for corporate programmes and consumer promotions, which operate in a range of sectors from FMCG to banking and finance. The division contributed 92.5% of total group revenues in the last financial year.

The Pebble Group

The smaller division, Facilisgroup, is a software as a service (SaaS) business which provides subscription-based services to SME promotional-product distributors in the US and Canada. Proprietary software @ease offers a SaaS technology platform that enables clients to improve order management and CRM, as well as sales analysis and reporting.

Making a splash

Pebble came to market 'IPO ready', with a good recent record of financial growth. From 2016 to 2018, group revenues grew at a compound annual rate (CAGR) of 16% to £99.8 million, with adjusted EBITDA up from £7.6 million in 2016 to £13.7 million in 2018 – that's an impressive CAGR of 34.3%. Further, the six months to June 2019 saw revenues up 30% at £48.1 million and adjusted EBITDA surging from £2.5 million to £5.3 million. The IPO proceeds have been applied to paying off debt, leaving the company with a pro forma net-debt position as at 30 June of just over £6 million.

The growth strategy is relatively simple, with the company looking to continue growing the number of clients that use promotional products as a stakeholder-engagement tool and SME distributors that are looking to professionalise and grow their promotional-products business in the US. Pebble is also looking to increase sales to existing customers and provide a number of new services across the divisions.

Notably, the company operates in a highly fragmented industry, typified by a large number of promotional-product distributors. Management already have a good track record of acquiring and integrating complementary businesses and believe there may be further opportunities to buy other businesses in the US and Europe.

Shares are rocking

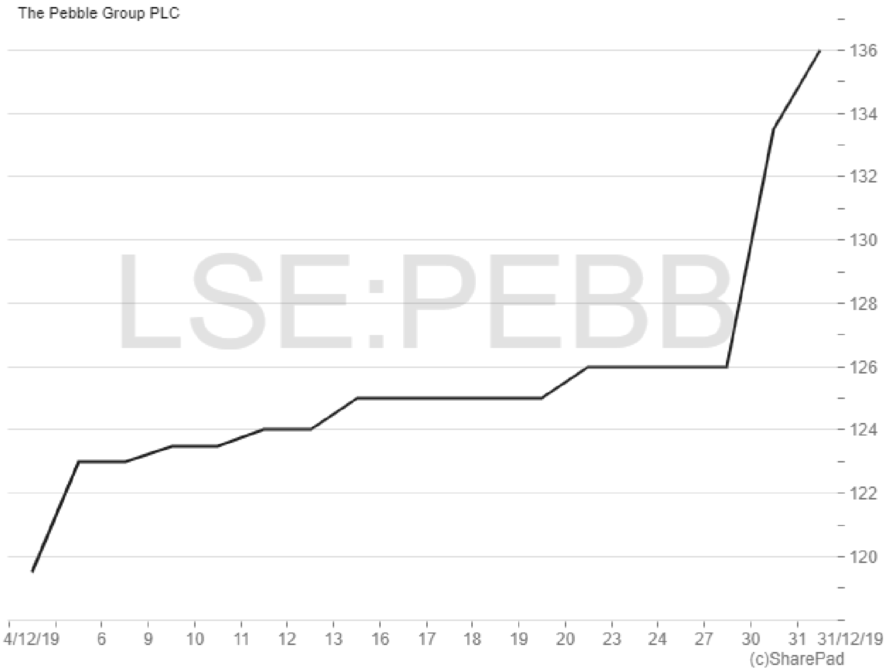
Shares in Pebble Group have had an excellent start to life on the markets despite the company not having announced any further significant trading news since its IPO. From the IPO placing price of 105p, the shares have risen by almost 30% to 136p, capitalising the business at £228 million.

Notable about Pebble's shareholder list is a long line of quality institutional investors, with Liontrust Asset Management the largest holder, with a 16.12% stake. Others include BlackRock, M&G, Fidelity and George Soros' vehicle Soros Fund Management. Adding to that list, Yvonne Monaghan, non-executive director, recently bought 15,000 shares at a price of 126p each.

In terms of valuation, the shares are on a historic EV/EBITDA multiple of just over 17 times, but that doesn't look so high when we consider that profits have consistently grown by over a third every year over the past three years. Income seekers will be interested to know that the dividend policy is to pay out around 30% of annual profits to shareholders, with the first expected to be declared following publication of the financial results for the year to 31 December 2020. **As a growth play, Pebble Group is a buy.**

ALUMASC GROUP

From growth we now move to value and income in the form of premium



building-products business **Alumasc Group (LON:ALU)**. Previously part of mining giant Consolidated Gold Fields in the 1960s, Alumasc today is a UK-based supplier of premium building products, systems and solutions which operates through three divisions.

The core roofing and water management division, which made up 66% of sales in the last financial year, is a provider of high-performance flat-roof systems, waterproofing and green-roof systems. One recent large project was to provide a 'rain to drain' water-management system for Tottenham Hotspur's new £1 billion stadium. In the architectural screening, solar shading and balconies division, which makes up a fifth of sales, the business is involved in the design and supply of said offerings along with balustrading systems, through the Levolux brand. Finally, the smallest division, housebuilding products, manufactures a range of premium products through the Timloc brand including cavity trays, cavity closures, access panels, loft hatches and ventilation.

alumasc

Providing a degree of resilience in what can be a cyclical market, almost 80% of Alumasc's revenues are driven by building regulations and specifications because of the performance characteristics offered. Key strategic aims are to grow revenues at a faster average rate than the overall UK construction market and to complement UK sales through the development of selected export markets.

Tough trading

The last financial year was a mixed one for Alumasc. While roofing and water management and housebuilding performed well, both growing revenues and profits, Levolux experienced numerous project delays and incurred losses. In reaction, a plan to restructure the business was announced in June. Highlights include the solar shading, screening and balconies offerings being combined within the roofing business in a new division, and an increase in sales resources, to accelerate growth in the profitable US business.

The overall result for the year to June 2019 was a 4% increase in revenues to £90.1 million and underlying pre-tax profits slipping by £0.4 million to £5.6 million. Encouragingly, the total dividend for the year was maintained at 7.35p per share, reflecting confidence in the future and the expected positive impact of the restructuring actions. Net debt at the year end rose slightly to £5.1 million, with cash interest payments covered 5.5 times by net cash from operations. One major caveat to the investment case, however, is a required £3.2 million of annual contributions to pension schemes.

The most recent statement, released in October, reported that first-quarter revenues from continuing operations were similar to those of a year ago against the backdrop of a challenging UK construction market. Importantly, the company said it was on track to deliver a planned £2 million of cost savings in the current financial year, with changes having so far improved operating margins by one percentage point. The recovery plan at Levolux is said to be progressing broadly in line with expectations.

Time to rebuild

In light of its troubles, shares in Alumasc have been on a long-term downtrend for over four years now and in my opinion look oversold, especially given the recent restructuring actions. At the current price of 95.5p, the shares trade on a multiple of just 7.7 times underlying earnings for the last financial year. This falls to 5.7 times for the year to June 2020 on broker FinnCap's forecasts for 16.9p of earnings.

What's more, should the dividend be maintained at current levels, the yield is a huge 7.7%. FinnCap comments that as earnings resume growth in 2020, the dividend cover will rise to a safer more than two times. Given that the payment was maintained in a down year and that it takes into account pension-scheme funding commitments, I believe that the payment is relatively safe unless a significant trading downturn occurs.

FinnCap has a target price for the shares of 122p, which suggests potential upside of 28%. The broker also points out that Alumasc shares trade at less than half the value of many of its building products industry peers. Amongst the fund managers holding the shares and hoping FinnCap's target will be hit include the likes of AXA Investment Managers, Unicorn Asset Management and Chelverton Asset Management. **For value, recovery and income, Alumasc is a speculative buy.**

Alumasc Roofing – Green Roof - Banbridge, N. Ireland

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 FILIPE R. COSTA

THE MACRO INVESTOR

HOW TO PLAY THE BIG THEMES OF 2020 USING ETFS

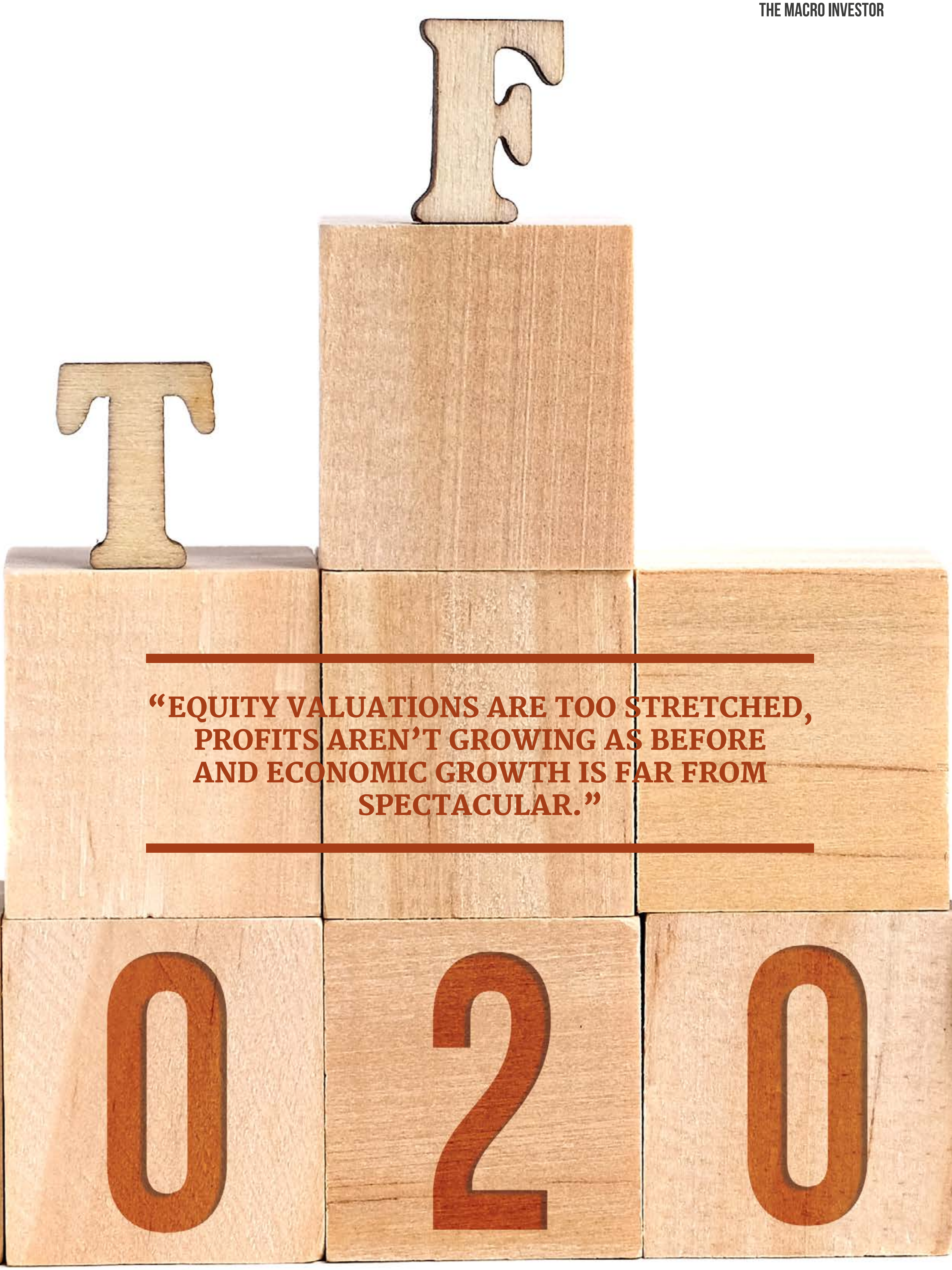
Filipe R. Costa unveils his big themes for 2020 and explains how investors can apply them using a low-cost portfolio of ETFs.

"We politicians have squandered the last three years, three and a half years in squabbles – we've even been arguing about arguing, and arguing about the tone of our arguments. I will put an end to all that nonsense and we will get Brexit done on time by January 31st."

— Boris Johnson, in a victory speech on 13 December

Equity markets around the world have been on an impressive run over the last 10 years. After a deep, global financial crisis, no one could have foreseen such a prolonged uptrend. Even more impressive is the fact that not even negative geopolitical events like the rise of protectionism, Brexit uncertainty and President Trump's impeachment were enough to dent investor sentiment. A bear market is nowhere to be seen, and last year alone saw the S&P 500 and the Nasdaq markets rise around 30%.

Nevertheless, we cannot forget that the business cycle has ups and downs and that no central bank has ever been able to keep the economy growing forever. The late phase of the business cycle is approaching its peak and while a recession may be delayed, we shouldn't expect another 30% rise for US equities in 2020. Equity valuations are too stretched, profits aren't growing as before and economic growth is far from spectacular. Not even China can maintain the double-digit growth rates of the past.



"EQUITY VALUATIONS ARE TOO STRETCHED, PROFITS AREN'T GROWING AS BEFORE AND ECONOMIC GROWTH IS FAR FROM SPECTACULAR."

"THE TOOLS AVAILABLE TO CENTRAL BANKS TODAY ARE MUCH MORE LIMITED THAN 10 YEARS AGO. IF A RECESSION SETS IN AROUND THE GLOBE, THEY WILL HAVE MUCH LESS FIREPOWER IN THEIR ARSENAL THIS TIME ROUND."

The momentum and growth strategies of the past are unlikely to bear fruit. Choosing quality and profitable businesses, while replacing growth with value, seems more suitable for the upcoming volatility. At the same time, and in contrast with the past, large multinational companies may not provide the peace of mind investors look for when a recession arrives. This time, protectionism and nationalism are painting a bleaker picture for these giants as they have to deal with an increasing number of barriers that are placing huge pressure on their competitiveness. Instead, finding a group of smaller domestically oriented companies may prove a good strategy, both in the US and in the UK.

As if all this were not enough, investors still have to deal with an epic decision regarding fixed income: should they or should they not increase exposure to the asset class? High-quality government and corporate bonds have traditionally outperformed in environments of increasing volatility. But interest rates have often been much higher than they are now. In 2007, just before the global financial crisis, the key rates were set at 5.25%, 5.75% and 4.25% by the Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) respectively. However, with those rates now set at 1.75%, 0.75% and 0.00%, we might well wonder how much upside there is for bonds (as bond prices are inversely related to interest rates). Thus, just cutting the proportion of equities while increasing exposure to bonds may be insufficient.

Beware of the peak

If we look at the Nasdaq run for the last 10 years, we see a cumulative increase of 371%, which converts to an annual growth rate of 16.8%. In this kind of scenario, we really don't need any portfolio managers. All an investor would need to do is 'follow the money' and buy the **Invesco QQQ Trust (NASDAQ:QQQ)**. That's what happens when central banks manage downside risks.

Markets around the world did very well over the last 10 years, even though GDP growth has averaged only 2% in the US, and 1% in the EU and Japan. The Nikkei rose at a rate of 9.0% per year and the DAX at 8.4%. Even the Euronext 100 index posted gains averaging 5.3% per year, despite all the issues haunting the euro area over the decade.

Markets have been rising steadily despite growing concerns and sluggish economic performance, mainly relying on the heavy demand for assets from central banks around the world. However, the tools available to central banks today are much more limited than 10 years ago. If a recession sets in around the globe, they will have much less firepower in their arsenal this time round.

The latest manufacturing indicators show deteriorating conditions in both Europe and in the US, which may lead them towards recession in the near future. The risks are mounting, and investors may wish to prepare their portfolios for turbulence. The biggest investment banks are still predicting a positive year for equities, but their upside projections mostly point towards single-digit gains, as they weigh the huge accumulated gains of the recent past against modest economic conditions.

Rotate from growth to value... and to quality

Investment strategies based on momentum and growth have been providing the largest returns to investors. But as the uptrend becomes crowded, the stocks targeted by those strategies have begun to seem overvalued. In the near future, investors are likely to rotate from growth to value stocks while increasing exposure to quality stocks.

Equities Performance Over The Last 10 Years

Name	Last 10 Years (% Chg.)	Last 10 Years (Annualised % Chg.)
NASDAQ 100	371.0	16.8
S&P 500	186.0	11.1
Dow Jones Industrial Average	169.0	10.4
Nikkei 225	136.0	9.0
FTSE 250	135.0	8.9
DAX Xetra (Germany)	125.0	8.4
FTSE All-World	**86.5**	**6.4**
Euronext 100	67.8	5.3
Swiss Market Index	59.7	4.8
CAC 40 (Paris)	52.7	4.3
S&P/ASX 200 (Australia)	44.6	3.8
FTSE 100	38.2	3.3
Hang Seng (Hong Kong)	28.1	2.5
CSI 300 Index (Shanghai)	11.4	1.1
Russian Trading System Index	3.6	0.4

Source Data: Sharescope

There are several ways of getting exposure to factors. The best would be to build a rules-based strategy targeting specific accounting ratios and use a few filters applied on a stock screener to select the best outfits. I have covered this topic in the past, in particular in the January 2019 edition of the magazine (pages 48-53) and in the September 2019 issue (pages 36-42).

In order to capture value, an investor could use price ratios like the price-to-earnings, price-to-sales or price-to-book value ratios to then order stocks from the lowest (cheapest) to the highest (more expensive). To capture the quality factor, investors may look for companies with a high return on capital employed and cash return on capital invested, low debt-to-enterprise value, high interest cover and low EBIT growth volatility.

Alternatively, there are a few ETFs that target these accounting characteristics using a rules-based approach. In order to capture global value and quality factors, I like the BlackRock offer of iShares Edge MSCI World Value Factor ETF and iShares Edge MSCI World Quality Factor ETF. The **iShares Edge MSCI World Value Factor UCITS ETF (LON:IWVL)** gives investors a global equity exposure with a focus on undervalued stocks relative to their fundamentals. The fund manages $2.4 billion in assets and has ongoing fees of 0.30%. The **iShares Edge MSCI World Quality Factor UCITS ETF (LON:IWQU)** seeks to track the performance of an index composed of a subset of MSCI World stocks with a focus on strong and stable profits. The fund manages $1.7 billion in assets and targets over 300 stocks around the world. The ongoing fees are also 0.30%.

Get some downside protection

When investors expect downside risks to increase, they usually decrease exposure to stocks and increase exposure to bonds. Such a strategy has traditionally worked well, because downturns are usually followed by interest-rate cuts, which push bond prices higher. But, as I mentioned in the introduction to this piece, the last time the Fed, the ECB and the BoE started cutting rates, these were hovering around 5%, not 1% as is the case today. The margin for rate cuts is low. Central banks may still use non-standard policy measures, purchasing assets en masse. However, with bond yields already negative up to maturities of 15 years in Europe, it seems ever more difficult to get the needed boost using such a measure. In the US the Fed can reignite quantitative easing, but with asset prices as stretched as they are, I doubt they will use this as a tool before any major crash happens in financial markets.

One way of surmounting the negative-rates problem is by increasing the duration of a portfolio, targeting the long spectrum of the yield curve, and buying bonds with maturities of 50 years or more. But, at a time when interest rates are so low, the interest-rate risk derived from such an option would be unbearable for someone looking for downside risk protection. Floating rate bonds or defensive stocks are my preferences for the fixed-income part of a portfolio. I like the iShares Treasury Floating Rate Bond ETF for government-issued bonds, and the SPDR Barclays Capital Investment Grade Floating Rate ETF for global corporate bonds. An alternative way to play a defensive portion of the portfolio without bonds is through the Invesco Defensive Equity ETF.

The **iShares Treasury Floating Bond ETF (NYSEARCA:TFLO)** provides exposure to US floating rate Treasury bonds, whose interest payments adjust to reflect changes in interest rates. The **SPDR Barclays Capital Investment Grade Floating Rate ETF (NYSEARCA:FLRN)** offers exposure to high-quality global bonds. The issuers list includes Morgan Stanley, Asian Development Bank, Nederlandse Waterschapsbank, Kommunalbanken and the Royal Bank of Scotland, among many others.

The **Invesco Defensive Equity ETF (NYSEARCA:DEF)** is a unique ETF, designed to provide exposure to stocks that perform well during bear markets. The ETF uses a rules-based approach to select companies that potentially have superior risk-return profiles during periods of stock-market weakness, while still offering the potential for gains during periods of market strength. This ETF is particularly useful for the upcoming period where turbulence is expected but interest-rate risk is too high.

Get some smart gold

Gold is usually seen as a good hedge against rising uncertainty, inflation and market turmoil. With markets rising 20% to 30% in 2019, one would expect gold to lose its shine. That didn't happen, though, as gold managed to gain more than 15% in the year. This may be due to a rising scepticism regarding the near future prospects for equities. With risks rising, gold may provide a hedge to a portfolio, particularly if carefully selected.

The ETF industry offers many alternatives when it comes to precious-metals investment. Many of them buy the physical metal and hold it in vaults, meaning investors don't have the hassle of having to buy and hold the valuable precious metals by themselves.

Buying physical gold or silver isn't the only option. Investors may instead buy shares in companies that dig the gold out of the ground, to take a leveraged bet on those metals. Another interesting option is to buy shares in companies that are either actively or passively involved in extracting precious metals from the ground.

The **US Global Go Gold & Precious Metals Miners ETF (NYSEARCA:GOAU)** is composed not only of companies actively engaged in the production of precious metals but also companies owning royalties or production streams. These latter companies rent out mines to earn royalties over time that make up a significant income stream, often unknown to investors. This ETF only holds 29 companies, but it is actively managed in the sense that it chooses carefully which companies to own across the potential universe.

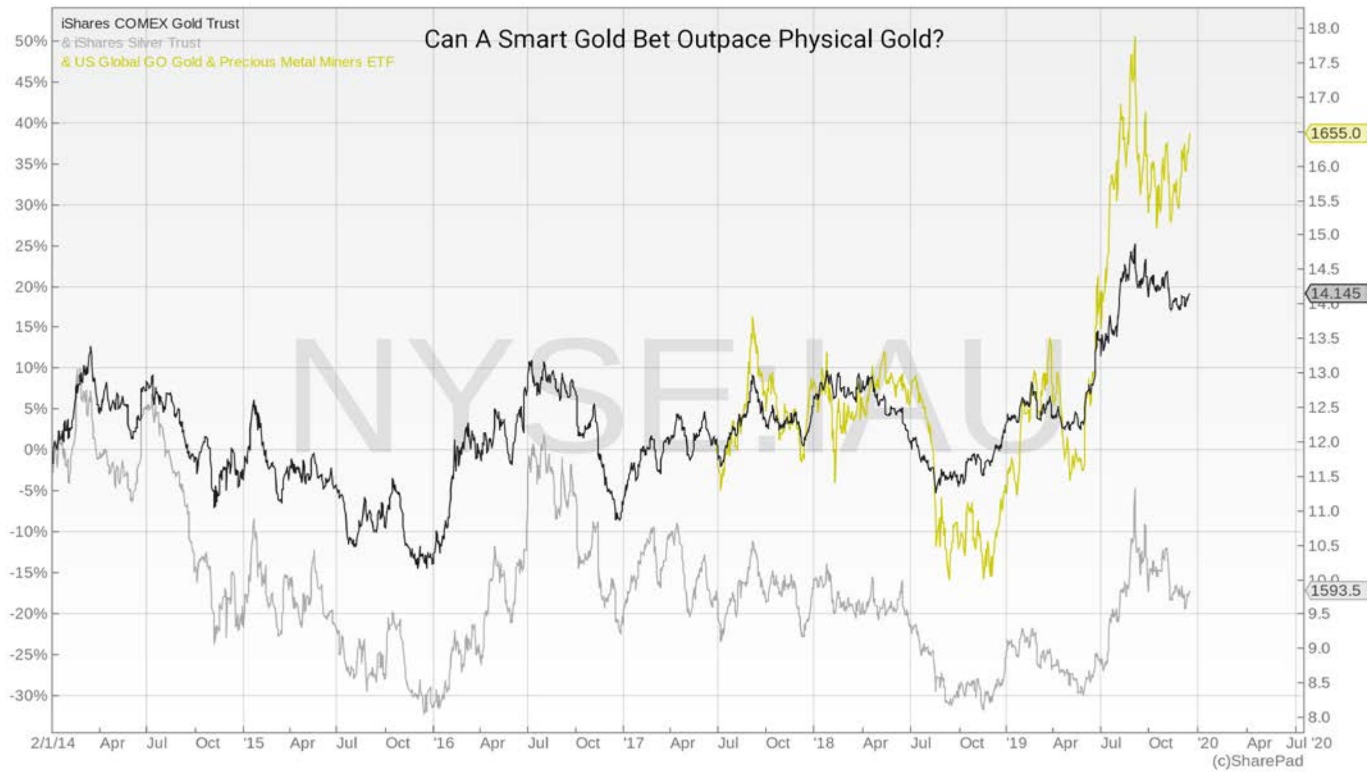
Let Johnson "Get Brexit Done"

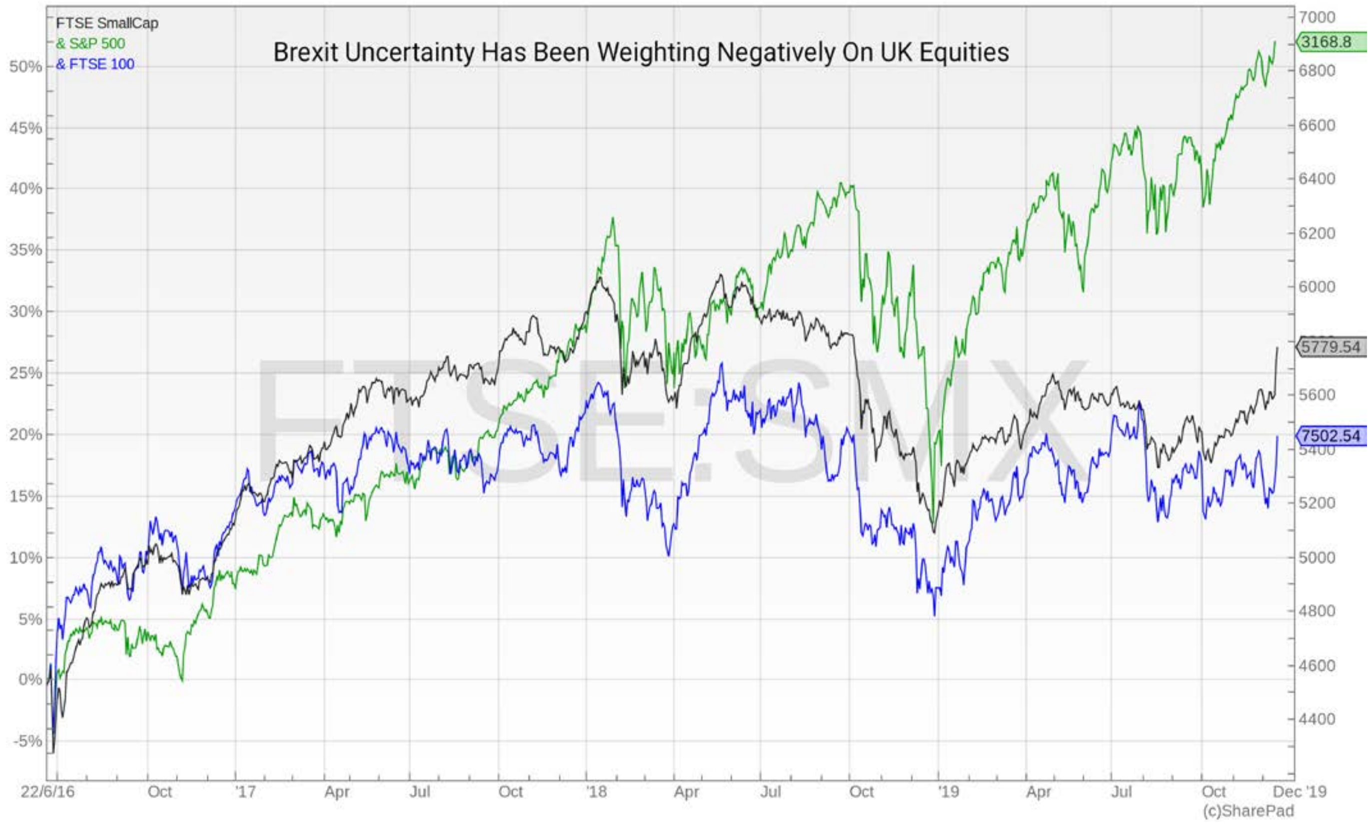
The result of the general election means that Boris Johnson can now negotiate a quicker trade deal with the EU, that will certainly help stabilise financial markets and the UK economy, which was about to enter recession due to the political uncertainty.

I expect Johnson to soften his tone in Brussels, to agree the deal. After all, a nasty 'divorce' doesn't help Brussels or London and it may give credence to Scottish nationalist voices.

"WITH RISKS RISING, GOLD MAY PROVIDE A HEDGE TO A PORTFOLIO, PARTICULARLY IF CAREFULLY SELECTED."

Despite a trade deal being likely, the rise in protectionism is already evident. As such, investing in more domestically oriented companies may pay off. That means selecting the FTSE 250 over the FTSE 100, because companies in the first derive just 50% of their revenues from overseas while the number increases to 70% for the FTSE 100. However, the case for domestically oriented companies is not only related to protectionism but also to sterling. After being pushed down hard due to Brexit uncertainty, the pound is due a rebound against the euro, the US dollar and other major currencies. A rising pound doesn't benefit companies that derive most of their revenues from outside the UK as they get ever less pounds when converting their profits back to their home country.





There are several ways to focus on UK domestic companies. Investors can easily gain exposure to the theme through the Vanguard FTSE 250 UCITS ETF, the Vanguard UK All Share Index Unit Trust and the iShares UK Small Cap UCITS ETF.

The **Vanguard FTSE 250 UCITS ETF (LON:VMIG)** replicates the performance of the FTSE 250 mid-cap index by investing in the index components. It's a well-diversified index for the UK market, offering exposure to the domestically oriented theme described. The ongoing charges for the fund are small at 0.10%. BlackRock has similar offers but is more expensive.

The **Vanguard UK All Share Index Unit Trust (LON:CUKS)** invests in a broader selection of UK equities, including 572 stocks. The benchmark is the FTSE All-Share index instead of the narrower versions. Despite being a broader fund, it still provides exposure to a market that seems undervalued when compared with other developed markets, while providing improved diversification. The ongoing charge is tiny, at 0.06%. The **iShares UK Small Cap UCITS ETF (BLOOMBERG:VUKASSA)** offers exposure to 262 small caps in the UK. The post-election spending may benefit the smaller caps the most; these are also the most domestically oriented companies. Unfortunately, this fund is much more expensive than the other two, with annual expenses running at a rate of 0.58%.

Change your climate habits

Globalisation opened the frontiers for goods and capital and led to lower prices globally. However, it also led to precarious employment conditions, social disruption, slower growth rates and lower productivity in the developed world. Current growth isn't sustainable in social or environmental terms.

Society is now more aware of the future consequences and people are pressing governments to contribute towards leading the world to a sustainable path. I particularly like the iShares Global Clean Energy ETF, for gaining exposure to this area.

The **iShares Global Clean Energy ETF (NASDAQ:ICLN)** invests in 30 companies that produce energy from solar, wind and other renewable sources, from around the world (with 37% in the US, 16% in China and 9% in New Zealand). Unlike the broad S&P 500 market, which has risen 186% over the last 10 years, this ETF has lost 5%. Nevertheless, over the last year alone, it climbed 30% as the world moved towards approving new legislation limiting the use of fossil fuels.

Have a happy New Year!

I hope most of the geopolitical uncertainties of 2019 can be solved early this year, even though I don't expect an easy and quiet 2020. I would have preferred to see the UK remain within the EU, but it seems that's not the will of the majority of the voters. What's really important right now is to complete the exit from the EU and move on. With the parliamentary majority reached in December, Johnson has the tools to make the process run smoothly.

With all this in mind, I wish you a happy and prosperous New Year!

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

CHARTING THE MARKETS INTO 2020

Veteran trader David Jones examines the charting prospects of some of the major markets as we move into 2020.

At this time of year, it is traditional to anticipate what the next 12 months could hold for a range of different financial markets. As a dedicated trend follower, I am not about to break that habit, so this month I will look at some of the major markets' performances in 2019 – and what this could mean for the year ahead.

In 2019, possibly the worst place to be was in cash, as a wide range of risk assets produced good returns. Going into 2020 there are still concerns surrounding the growth prospects for the global economy, with the more pessimistic forecasting the start of a recession in the US at some point this year. Closer to home, Brexit is likely to dominate the headlines, although many will be hoping for slightly more progress this time around, given the Conservatives' general election victory.


2020

US stock markets: S&P 500, December 2018 to present

> **"US STOCK MARKETS ENDED THE YEAR WITH A 'BUY THE DIPS' MENTALITY AND THIS IS EXPECTED TO CONTINUE AT LEAST INTO EARLY 2020."**

Stock markets had a tough time of it in the last quarter of 2018. December saw the broad US index, the S&P 500, hit its worst levels in 18 months, so it was admittedly starting from a relatively low base coming into 2019. However, the bullish sentiment returned right from the start of the new year, and by May the S&P briefly reached a fresh all-time high. Stock markets marked time in the summer as fears of trade wars and global slowdown hit the financial pages – although they become more muted as time went on. It was in the final three months of the year that shares hit their stride − during November and December, the index was setting fresh all-time highs on virtually a weekly basis, defying any naysayers. By the third week of December, the S&P 500 was up by more than 25% for 2019.

When a market is hitting all-time highs, our natural reaction is to be cautious. But that approach would have missed out on many of the stellar gains over recent months. It is important to have a Plan B if markets drop, but for now, this trend remains strong. While the market did look overstretched as 2019 ended, even if the index were to drop back by 10%, it would not dent the longer-term trend. US stock markets ended the year with a 'buy the dips' mentality and this is expected to continue at least into early 2020.

I have taken this chart of the FTSE All-Share right back to the lows of the financial crisis. What is interesting here is where the sell-off at the end of 2018 stopped – almost exactly on that decade-long trend line. UK shares have underperformed their US counterparts over 2019 – the All-Share managed to return around 13% and the FTSE100 slightly less than that. I think the All-Share is the better benchmark here, as so many of the FTSE 100 constituents derive their earnings from overseas.

It can be seen from the very long-term FTSE All Share chart that the major trend is still up. As with the S&P 500 it would take a fall in excess of 10% from current levels for this index to show signs of that trend changing. For now, at least, the logical next target is for a run back up to the all-time high from May 2018 at 4,336.

Given that stock markets had such a positive year, you could be forgiven for thinking that the price of gold would have been under some pressure. Traditionally seen as a safe-haven destination, gold can underperform when other riskier assets are rising in value. But there was a solid return during the year for the yellow metal, which gained around 15%. Concerns about an impending US recession and the ongoing trade-war spat with China fuelled momentum in the summer, and gold traded at its best level in more than six years.

UK stock markets: FTSE All-Share – November 2008 to present

Precious metals: gold – July 2018 to present

Precious metals: silver – December 2018 to present

In the last quarter of 2019, some of that initial momentum was definitely fading but it does not change the bigger picture going into the new year. The last major low for gold was in the summer of 2018 and since then the story has been one of recovery. With stock markets still buoyant and the worries about a global slowdown abating somewhat, there is definitely still scope for further weakness in gold. Conversely, the US dollar has been under a little pressure towards the end of 2019 and further slides here could help lift gold into the new year – I do think that the dollar may well end up being the main factor for gold's fortunes in the months to come. For now, the recovery is intact for gold and the $1,350/$1,400 per ounce mark has been a solid area of support. At the moment, any weakness down to this zone would be seen as a buying opportunity, into that 18-month trend.

If you have been a very long-term holder of silver, then commiserations are due. The precious metal peaked just shy of $50 in 2011 and the price had been in decline for years after, until finally forming a base in the $14 per ounce area. However, 2019 ended up being a lot more interesting from an investing and trading viewpoint. In tandem with gold, the price of silver started to rally in June, eventually reaching its highest level since 2016. The sell-off since those highs has been more brutal than the drop in gold – but silver still ended the year up by over 9%. Going into 2020, it still remains under some pressure, as can be seen from the downtrend line that has been in place since September. But if silver can manage to reclaim the $17 plus area it could be set for another surge, with a run back to the $19.60 high the ultimate target.

Energy: US crude oil – December 2018 to present

As with stock markets, this was another market hard hit in the last quarter of 2018 – so again started last year from a very low base. By the end of April, though, the oil price had rallied by more than 50% from its December low. That rate of acceleration proved ultimately unsustainable − crude spent the rest of the year just trading sideways, with a brief spike higher following the attack on some key Saudi Arabian oil refineries.

Even though a barrel of oil was well off its highs, it was still around 30% higher for the year as a whole as 2019 drew to a close. The final quarter did see the price recover from strong support ahead of $50 and that trend is expected to continue in the short term. There has not been that much conviction to be a buyer of oil when it gets to the $63 area, so any upside may be limited. Barring any major economic catastrophe or boom, oil could well end up having something of an uneventful 2020, continuing to trade in that $50 to $60 band.

I have written about the outlook for the pound elsewhere in this month's issue,, so I will focus here on the euro, for a look ahead at a major world currency. For much of the last two years, the story for the euro versus the US dollar has been one of continual decline as the EU economy narrowly avoids recession and the US appears to go from strength to strength. During 2019, EUR/USD slid once more, dropping by a little over 2.5%.

As the year ended, the euro was still in its downtrend against the dollar, but I wonder if we are finally seeing the first signs of possible recovery, setting the euro up to be the 'comeback king' in 2020. I may yet eat those words, but if the various EU economies can string together some consecutive months of growth, and the US dollar remains under some pressure, then the line of least resistance for the EUR/USD may finally be up. The gradual recovery has continued for a few months now and some more strength into 2020 would see that downtrend line broken. I certainly think it will be an interesting market to watch in the months ahead.

Foreign exchange: EUR/USD – September 2018 to present

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 AND TRUSTS IN FOCUS

THE BEST FUNDS FOR 2020

Nick Sudbury unveils the pick of the experts' best fund and trust ideas for a prosperous 2020.

"TO SUCCESSFULLY NAVIGATE SUCH A COMPLEX YEAR, IT IS IMPORTANT TO THINK ABOUT WHAT THREATS OR OPPORTUNITIES EVENTS OFFER AND THEN FACTOR IN THE ASSETS OR GEOGRAPHIES THAT REPRESENT GOOD VALUE OR LOOK EXPENSIVE."

Despite all the political shenanigans, 2019 turned out to be a positive year for investors, with most of the main stock markets making double-digit gains. It is highly likely that 2020 will also be dominated by global politics, with the EU trade-deal negotiations, the US-China trade war and the US presidential election all having the power to influence returns.

To successfully navigate such a complex year, it is important to think about what threats or opportunities these events offer and then factor in the assets or geographies that represent good value or look expensive.

UK, European, Asian, Japanese and global emerging market equities all look reasonable value, unlike US equities. Bonds, however, are expensive, as despite a recent pull-back there is still $11 trillion of global debt with a negative yield.

It is hard to believe, but a third of world government bonds are negatively yielding, which means that investors actually agree to get back less than they lend. This is an extremely high price to pay for the apparent safety that they offer, and the deal gets even worse once inflation is taken into account.

Ryan Hughes, head of active portfolios at AJ Bell, says that investors need to focus on the policies of the central banks and the yield curve:

"We seem to have moved on from quantitative easing as a financial support mechanism and into a period of fiscal expansion with governments looking to borrow more money and spend it. This could lead to higher inflation and higher bond yields with a steepening of the yield curve, which could have implications for those equities deemed as bond proxies."

There is a good chance that the major economies will continue to grow, albeit at a slower pace than before, which should be broadly positive for equities. However, if there are any disappointments in the growth figures or corporate revenues, some of the markets are going to look expensive as a recovery is already partly priced in.

The home front

The large Conservative majority in the general election put an end to the risk of a hard-left Labour government and should enable the political paralysis that has been holding back investment in this country to be resolved.

Reflecting on the leeway that the prime minister now has, to chart the course of the country, starting with the approval of the withdrawal agreement and EU exit by the end of January, Salman Ahmed, chief investment strategist at Lombard Odier Investment Managers, says:

"More importantly, it makes a move towards the centre possible as the DUP and ERG Brexiteers will now lose power, given the results. We see this result as a very positive outcome for the UK as it raises the likelihood of a soft deal, reduces uncertainty and allows pent-up business investment to take hold, thus driving growth."

In theory this should mean that there is an endgame in sight for Brexit, which should help domestic stocks to rebound from their current low levels. The pound could also recover some of its lost ground, although there is a lot of hard negotiating ahead as the UK attempts to secure a trade deal with the EU:

"A resolution to Brexit will support the UK market in the short term at least as it means things are moving forward; however, with a deal needing to be completed by the end of the year this optimism could be short lived," warns Adrian Lowcock, head of personal investing at Willis Owen.

Trump card

The US presidential election is in November, but it will dominate the airwaves throughout 2020 and investors will need to keep a close eye on developments to see whether the Democrats pose a real threat to Trump.

As Hughes says: "Trade talks between the US and China will also be a big focus with anticipation of some kind of high-level agreement expected rather than an outright deal. We are already seeing the impact of the trade war on the global economy and some kind of resolution seems sensible, but the markets will react to every positive or negative tweet."

Of course, the whole process could be derailed before then if President Trump is successfully impeached, which would be bad news for the markets. Assuming that he isn't, he will be keen to avoid a recession and do a trade deal with China. If this happens, it would be positive for global growth.

UK growth funds

Against this backdrop, Darius McDermott, managing director of Chelsea Financial Services, recommends **Liontrust Special Situations**, where the managers invest in UK companies that have hidden intangible strengths, as he explains:

"Every stock in the portfolio must have intellectual property, a strong distribution network or recurring revenues. Another important factor is how key company employees are motivated, with the preference being for direct ownership of the firm's equity. The resulting portfolio consists of businesses that can grow their earnings independently of the wider economy."

The UK stock market is cheap – in fact, the gap between the dividend yield and the yield on gilts is the widest since Queen Victoria's reign. It is also cheap when looked at on a global basis:

"There are many funds I could pick, but I'm going for Richard Buxton's **Merian UK Alpha** fund," says Ben Yearsley, a director at Shore Financial Planning: "Richard is an excellent long-term manager and his portfolio should benefit from general election and Brexit clarity."

Another fund that is sensitive to the domestic economy is **Merian UK Smaller Companies**, which has been recommended by Lowcock. He says that the firm has one of the most highly regarded small-and-mid-cap teams, headed by Dan Nickols who is the manager of this fund.

Nickols takes a pragmatic approach to valuation that allows growth, value and recovery companies to be held, although the portfolio has tended to show a growth bias. It has £1.1bn of assets under management and has comfortably outperformed its benchmark and sector average over the last five years.

UK income

Alternatively, there is **Montanaro UK Income**. Hughes says that Montanaro is a specialist smaller companies manager with years of experience of investing in this area. The fund yields around four percent with solid dividend growth prospects and over 60% of the assets are invested in companies bigger than one billion pounds in size.

Value managers have had a difficult decade since the financial crisis, with

"THE JAPANESE STOCK MARKET HAS LAGGED THE S&P 500 IN THE LAST FEW YEARS AND IS CHEAP RELATIVE TO THE US. IT MIGHT THEREFORE PRESENT A VALUATION OPPORTUNITY."

falling interest rates favouring their growth counterparts and bond proxies. There have been some early signs that this could be about to change, although it will depend on how the key macroeconomic events pan out.

If there is a rotation back into value, a prime beneficiary would be **Man GLG UK Income**, which would be a good option for income investors as it doesn't just allocate assets to the big dividend payers in the index:

"Manager Henry Dixon takes a multi-cap approach and has a value bias, potentially gaining a double boost from a positive resolution to Brexit. The strategy currently yields over 5% and pays monthly dividends," explains Hughes.

Another option for income seekers is **Franklin UK Equity Income**, where manager Colin Morton blends the economic outlook of the economy and stock-market dynamics with a valuation-aware approach to company selection:

"Morton focuses on large companies with strong and growing free cash flows, sustainable superior competitive positions in their industries and attractive dividend yields and/or dividend growth. The fund benefits from the valuation discipline with which he applies his stock selection process and his assessment of the economic cycle," says Lowcock.

Global growth

McDermott expects there to be some progress in the US-China trade war and if that is the case, one area that should do well is Japan:

"Lost in the escalating trade war tensions between China and the US is the fact that the US has trade deals signed or pending with Japan, South Korea, Canada and Mexico – making up four of the US's top seven trading partners and accounting for a combined 60% of US trade," he says.

Japan has agreed to a trade deal that would allow more agricultural imports from the US and avoid new tariffs on Japanese cars exported to the US. The Japanese stock market has lagged the S&P 500 in the last few years and is cheap relative to the US. It might therefore present a valuation opportunity.

McDermott's preferred way to take advantage is **T. Rowe Price Japanese Equity**, which invests in around 60-100 Japanese companies of all sizes, although with a notable overweight to smaller firms:

"The manager aims to find businesses he believes can deliver sustainable growth before other investors recognise their potential. He will adapt his investing style as needed to suit changing market conditions, which has helped him to outperform in different environments," he says.

Lowcock suggests **Man GLG Japan Core Alpha** as an alternative. Manager Stephen Harker is a contrarian investor who looks for companies that are out of favour. He then selects those with strong fundamentals and management where he believes there is the opportunity for a turnaround.

If you would rather have a 'go-anywhere' kind of mandate you could try **Miton Global Opportunities**, which is available as an investment trust **(LON:MIGO)** or a fund. It provides exposure to a portfolio of investment trusts that the manager thinks are undervalued or 'unloved' where there is an obvious catalyst for the discount to narrow.

Yearsley says that the average discount to net asset value is 23% and if you pay 77p in the pound for assets and exit at par, you will make 30% on your money without any change in the value of the underlying, although there is obviously no guarantee that this is what will happen. Reflecting further on Miton Global Opportunities, Yearsley points out:

"There has been less interest in smaller investment trusts, which makes this an interesting opportunity. Returns tend to be lumpy and it had a dull year in 2019 so 2020 could be more interesting."

Global income

If you are mainly interested in income and want a one-stop shop, you could try **M&G Episode Income**, a multi-asset fund that invests directly in individual stocks and bonds, with property funds providing the commercial-property element. The manager uses behavioural finance to find pockets of value and invest against the herd, although the historic yield is a modest 2.2%.

There is a higher payout of 2.9% available from **First State Global Listed Infrastructure**, which invests in key infrastructure assets and has been a firm favourite of Yearsley's since it was launched in 2007, as he explains:

"They have a hedged share class as well and I have recently switched my own personal holding into this as it takes currency movements out of the equation, something that could be important if there is a sterling surge after a Brexit resolution."

Another option would be **JPMorgan Emerging Markets Income**, where manager Omar Negyal is able to take advantage of the company's deep research coverage provided by 18 emerging market analysts and 12 China specialists. It has an historic yield of 3.9%:

"This rigorous investment process assesses five-year dividend prospects to uncover quality companies with growing earnings and dividends. Although around 60% of the holdings will have a dividend yield of three to six percent, there is the flexibility to invest in companies with lower yields, but greater potential for dividend growth," explains Lowcock.

FUND OF THE MONTH

Contrarian investors might want to consider the **Schroder Global Recovery** fund that applies a deep value approach to stock selection. It was established by managers Nick Kirrage and Kevin Murphy, who have worked together for over 15 years, building an impressive track record, while co-manager Andrew Lyddon was a founding member of the Global Value team in 2013.

The investment process targets companies that are significantly unloved and undervalued. The fund has a concentrated 42-stock portfolio that includes large positions in companies such as Standard Chartered, Barclays, Centrica and HP Inc. As Lowcock says:

"The universe is screened to identify companies which meet their criteria then in-depth research is undertaken by supporting analysts to ensure the financial position is tenable and earnings capable of sustained improvement. Despite the value style being out of favour for a long time, the strict disciplines employed have ensured respectable performance and this fund should be well-positioned if and when the value style returns to favour."

Hughes also sees potential: "The last couple of months have started to show a small turnaround and this certainly has the ability to continue through 2020, particularly if we see a steepening of the yield curve. Valuations of these types of stocks have become very cheap on a P/E basis with some solid businesses now sitting on a P/E ratio of less than 10."

Fund Facts

Name:	Schroder Global Recovery
Type:	Unit trust
Sector:	Global Equity Income
Total assets:	£233m
Launch date:	October 2015
Historic yield:	4.3%
Ongoing charges:	0.96%
Website:	www.schroders.co.uk

About Nick

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

DIVIDEND HUNTER

WHY ADMIRAL IS MY FAVOURITE DIVIDEND GROWTH STOCK

John Kingham doesn't 'fall in love' with individual companies. But if he had to pick a favourite, Admiral would be it. Here's why...

As a general rule, I'm not a huge fan of 'cheerleading' individual companies. My preferred approach is to own shares in a broadly diversified group of companies that I like, and not to 'fall in love' with any of them. The future is, after all, a very uncertain place, and no company is guaranteed a bright future.

However, at this time of year, many investors like to talk about which stock they think will perform best over the coming 12 months, so I thought I would join in and write about Admiral, the UK's leading car insurer. I'm not 'in love' with Admiral, but if I had to pick a favourite, then Admiral would be it.

There are lots of reasons why, such as the fact that Admiral has produced consistent growth and average total shareholder returns of almost 16% per year since I first invested in 2013. But that's all in the past, and when it comes to investing, it's the future that counts. On that front, I think Admiral is probably more attractively positioned and valued today than it was when I became a shareholder.

Admiral: the UK's largest car insurer

Most people in the UK have heard of Admiral. For those who haven't, it's the country's leading car insurer with more than four million UK car-insurance policyholders. As well as UK car insurance, it has almost a million UK home-insurance policyholders and another million policyholders in its international car-insurance operations. It also owns several leading price-comparison websites, including confused.com in the UK.

> **"I THINK ADMIRAL IS PROBABLY MORE ATTRACTIVELY POSITIONED AND VALUED TODAY THAN IT WAS WHEN I BECAME A SHAREHOLDER."**

Admiral has grown rapidly since it was founded in 1993 and is today a multi-billion pound FTSE 100 company. Along the way it helped to disrupt what was previously a broker-based car-insurance market, with the direct model pioneered by Direct Line and Churchill Insurance (Admiral's first and long-time chief executive, Henry Engelhardt, was a member of Churchill's founding team).

Market-leading underwriting ratios

Stripped down to its very essence, I would say that Admiral's long-term strategy is to first develop market-leading underwriting ratios and then to incrementally expand into adjacent markets from a position of strength. Underwriting ratios are important because they drive an

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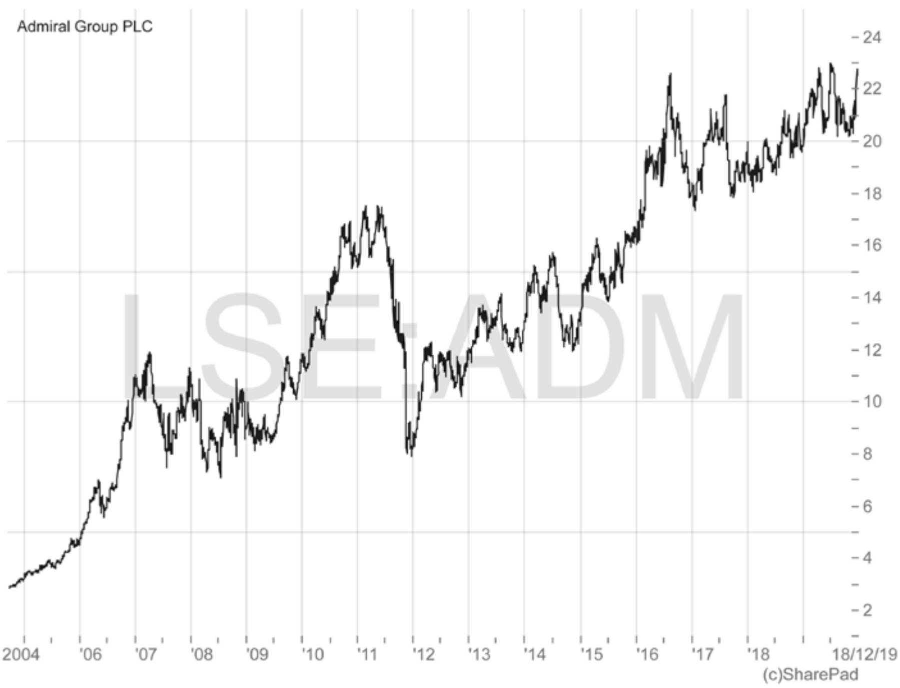
"ADMIRAL'S LONG-TERM STRATEGY IS TO FIRST DEVELOP MARKET-LEADING UNDERWRITING RATIOS AND THEN TO INCREMENTALLY EXPAND INTO ADJACENT MARKETS FROM A POSITION OF STRENGTH."



insurer's profitability, and there are three of them.

First is the loss ratio, which is the ratio of losses (claims) incurred to premiums earned during a specific period (typically a company's financial year).

The trick with the loss ratio is to price risks (ie policies) rationally, and then to get the balance right between volume and value. For example, anyone can write a million car-insurance policies if the premium is set at £10 per year. Cash will come flooding in from premiums, but if the average loss eventually turns out to be £300 per year you'll soon be out of business. On the other hand, you could set the premium at £900 per year, but if the expected average loss is £300 then competitors will undercut you, you won't sell any policies and once again you'll soon be out of business.

Admiral tries to optimise its loss ratio by focusing on the three areas of data, analysis and discipline. It gathers as much data as possible about the risk profile of different driver/car/location combinations, by leveraging coinsurance and reinsurance; invests heavily in people and technology to extract as much risk-pricing information from the data as possible; and it focuses on writing rationally priced policies at all times, even if other insurers are pricing low to gain market share or pricing high to boost short-term margins.

Applying pricing discipline means Admiral may struggle to grow at times when the insurance market is very soft, ie when premiums are low following a period of low claims. However, in the long term, saying no to policies that will eventually be loss-making (even if it means foregoing premiums up front) is the rational choice.

The second underwriting ratio is the expense ratio, which is the ratio of underwriting-related expenses to premiums written during a given period. A low expense ratio comes from efficiency and keeping costs low, and there are lots of ways that Admiral does exactly that.

For example, Admiral has several offices in the UK, all of which are in Wales rather than London. As you may suspect, rent, wages and just about everything else is a lot cheaper in Wales than London. Admiral uses the direct-insurance model, which strips out the cost of insurance-broker middlemen. It owns comparison websites like confused.com because it's more efficient to profit from owning comparison websites than to pay commission to use third-party sites. It also focuses heavily on customer satisfaction, because this increases renewal rates. In addition, it focuses on keeping staff happy (Admiral won the 2018 Sunday Times Best Place to Work award), which means less staff turnover, which reduces recruitment expenses. And Admiral has a very well-known brand which helps it acquire customers at lower prices.

I could go on, but you get the point. In a nutshell, Admiral's strategy for maintaining a low expense ratio is to attract customers cheaply through comparison websites (preferably its own), to offer them rationally priced policies, to retain them as customers by providing a good service and to do all of this with extreme efficiency.

This focus on rational insurance pricing and super-efficient operations shows up in the third underwriting ratio, which is known as the combined ratio.

The combined ratio is the sum of the loss and expense ratios and Admiral's is consistently far below the UK car-insurer average. A combined ratio of more than 100% means that claim losses and underwriting expenses exceeded premiums, which means the company made an underwriting loss. This is surprisingly common, and as a group, the UK's leading car insurers typically have a combined ratio of more than 97%, which is an underwriting profit margin of less than 3%.

Admiral's combined ratio is typically about 90%, giving the company clear market leadership in terms of profitability. This ability to produce consistently above-average profits is

"IF THEY GET ANYWHERE NEAR THE UK's LEVEL OF PROFITABILITY IN THE NEXT FIVE OR 10 YEARS, THEN THEY WILL PROVIDE AN ENORMOUS BOOST TO THE COMPANY'S OVERALL RESULTS."

Admiral's core competency. However, now that Admiral is the UK's leading car insurer, future growth will be driven by the second strategic pillar of incremental expansion into suitable adjacent markets.

Incremental expansion from a strong core

There are many markets which are similar to UK car insurance, where Admiral's long-honed skills in risk pricing and efficient operations may be equally successful.

The most obvious is international car insurance, where the knowledge that comes from insuring millions of UK cars over the last 30 years should come in very handy. Admiral realised this long ago and began to launch overseas operations in 2006, first in Spain, then Germany, Italy and the US. Along with these insurance businesses, Admiral launched several international comparison websites to shake up their broker-based insurance markets and pave the way for direct insurers like Admiral.

These international businesses wrote £140 million of net premiums in 2018, compared to £450 million from the UK business. Just five years ago they produced £50 million of net premiums, so they're growing very rapidly and as a group they'll likely overtake the UK business within the next decade.

As for profits from these international businesses, they don't generate any (yet), but that's because insurance is all about scale, both in terms of data collected and operational efficiency. However, each year, each country has made strides towards positive profits, and as a group they are now very close to breakeven. If they get anywhere near the UK's level of profitability in the next five or 10 years, then they will provide an enormous boost to the company's overall results.

Another adjacent market is UK home insurance. This is a relatively new business, but so far, it's gone well thanks to Admiral's ability to a) advertise at low cost to its existing four million car-insurance customers and b) bundle insurance for a home and multiple cars into one MultiCover policy. The home-insurance business now has almost one million customers after just a few years of operation.

The newest addition to Admiral's collection of adjacent markets is Admiral Loans, which is hoping to leverage Admiral's knowledge of risk pricing in an entirely different (but surprisingly similar) market. This is a very young business, but the market is certainly big enough to produce significant additional profits within the next decade.

Coinsurance, reinsurance and the death of private car insurance

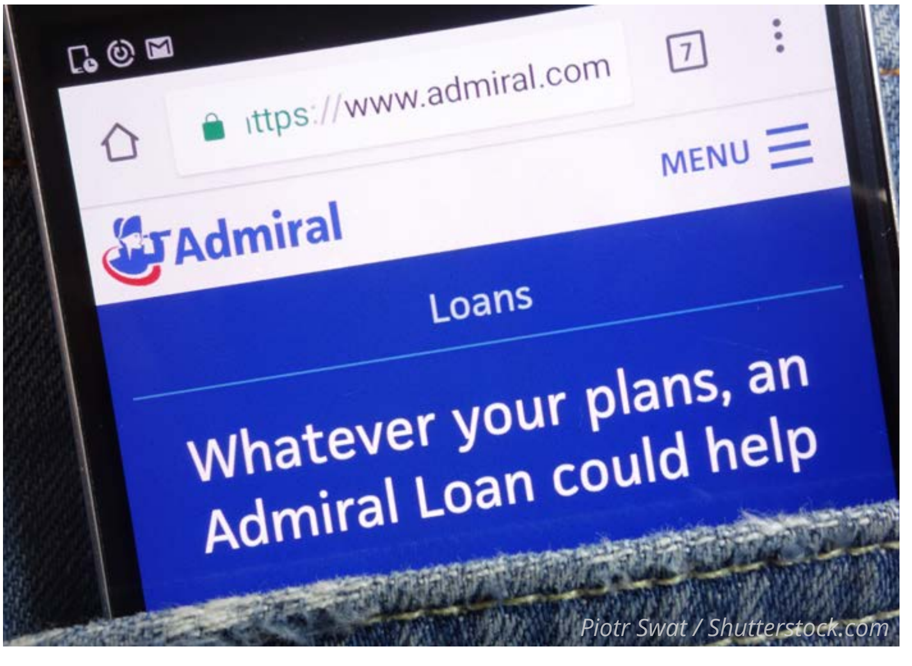
At this point, it might seem that Admiral's continued success is inevitable. But it isn't, and as with any company, there are many risks.

For example, Admiral uses an unusual degree of coinsurance and reinsurance, effectively passing 75% of the risk (ie policies) it writes onto other insurance companies. This allows Admiral to write about three times more policies than it could otherwise, and that gives it access to much more accident data, which helps it to price risk more accurately. It also helps with economies of scale and building a nationally recognised brand. The result is very high returns on equity which have averaged about 40% over the last decade.

However, Admiral is dependent on these contracts staying in place on broadly similar terms. So if it was unable to renew or replace these agreements, Admiral's ability to write insurance at its current scale would be severely impaired.

Admiral has been using this arrangement for many years and the coinsurers and reinsurers seem happy with the steady flow of profitable premiums they have received over the years. As long as Admiral continues to write profitable policies, there seems to be no obvious reason why the coinsurers or reinsurers would end this arrangement, but you never know.

Another longer-term risk could be the end of private car insurers, driven by either autonomous cars or subscription cars, or a combination of both. If we ever get autonomous cars that work reliably and safely, then it's likely that when in autopilot mode these cars will be insured by a third party (possibly the manufacturer)



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> **"ADMIRAL HAS PAID A CONSISTENTLY LARGE SPECIAL DIVIDEND EVERY SINGLE YEAR SINCE IT JOINED THE STOCK EXCHANGE IN 2004, SO FOR ME IT MAKES SENSE TO REGARD THE SPECIAL DIVIDENDS AS NORMAL RATHER THAN SPECIAL."**

rather than the driver. This means the manufacturer is likely to sign large, bulk insurance contracts with a small number of insurers to cover its entire autonomous fleet. The risk from subscription cars is similar, where there is an increasing trend for people to pay for everything on a monthly subscription, including cars. Insurance could end up being bundled into a single monthly payment along with car hire, service costs and so on, and the insurer would probably be selected by the subscription service provider.

Either way, the insurance would be sold in bulk to a corporation, and that's a very different market to insurance sold directly to consumers. This is why it's interesting to see that Admiral recently signed a deal with Ford UK to provide the official Ford-branded insurance to Ford drivers. It's possible that large contracts like this could make up the majority of Admiral's business in 10 or 20 years.

An attractive yield and good prospects for further growth

Despite having grown its total assets (mostly consisting of premium reserves), net assets (the surplus of premium reserves above and beyond expected claim liabilities) and dividends by around 12% per year for the last decade, Admiral still has a very attractive dividend yield of almost 6% at a share price of 2,100p.

That's quite a high yield, and yet Admiral doesn't seem to have any obvious problems at the moment. So why does a company with an excellent track record of growth and a seemingly bright future have a dividend yield close to 6%? I think there are several reasons.

The first is that Admiral is unusual because it pays out almost 100% of its earnings as dividends. It can do that because, with returns on equity averaging 40% or so, it doesn't have to retain a lot of earnings in order to grow. So even though its dividend yield is almost 6%, its price-earnings ratio is relatively high at 15.4. Investors that screen primarily on P/E ratios (and there are many) will not find Admiral very interesting.

For those investors looking for high dividend yields, there's a good chance they'll glance at Admiral and then look elsewhere. That's because Admiral's dividend is split into two parts: a normal dividend and a special dividend. In 2018, Admiral announced normal dividends of 90.4p and special dividends of 35.6p. Most investment websites exclude special dividends in their yield calculations because special dividends are typically infrequent and unreliable. As a result, they show Admiral's yield as 4.3% instead of 6%. A 4.3% yield isn't bad, but it's a long way short of a 6% yield.

However, Admiral has paid a consistently large special dividend every single year since it joined the stock exchange in 2004, so for me it makes sense to regard the special dividends as normal rather than special.

And if you do that, then Admiral starts to look like a market-leading insurer with a long track record of double-digit growth, multiple fast-growing international businesses, an ability to successfully expand into adjacent markets and, last but not least, a dividend yield of around 6%.

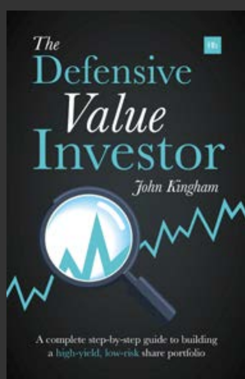
As I said at the beginning, I don't like to 'fall in love' with individual companies, but if I had to pick a favourite, Admiral would be it.

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

WHAT NEXT FOR THE POUND?

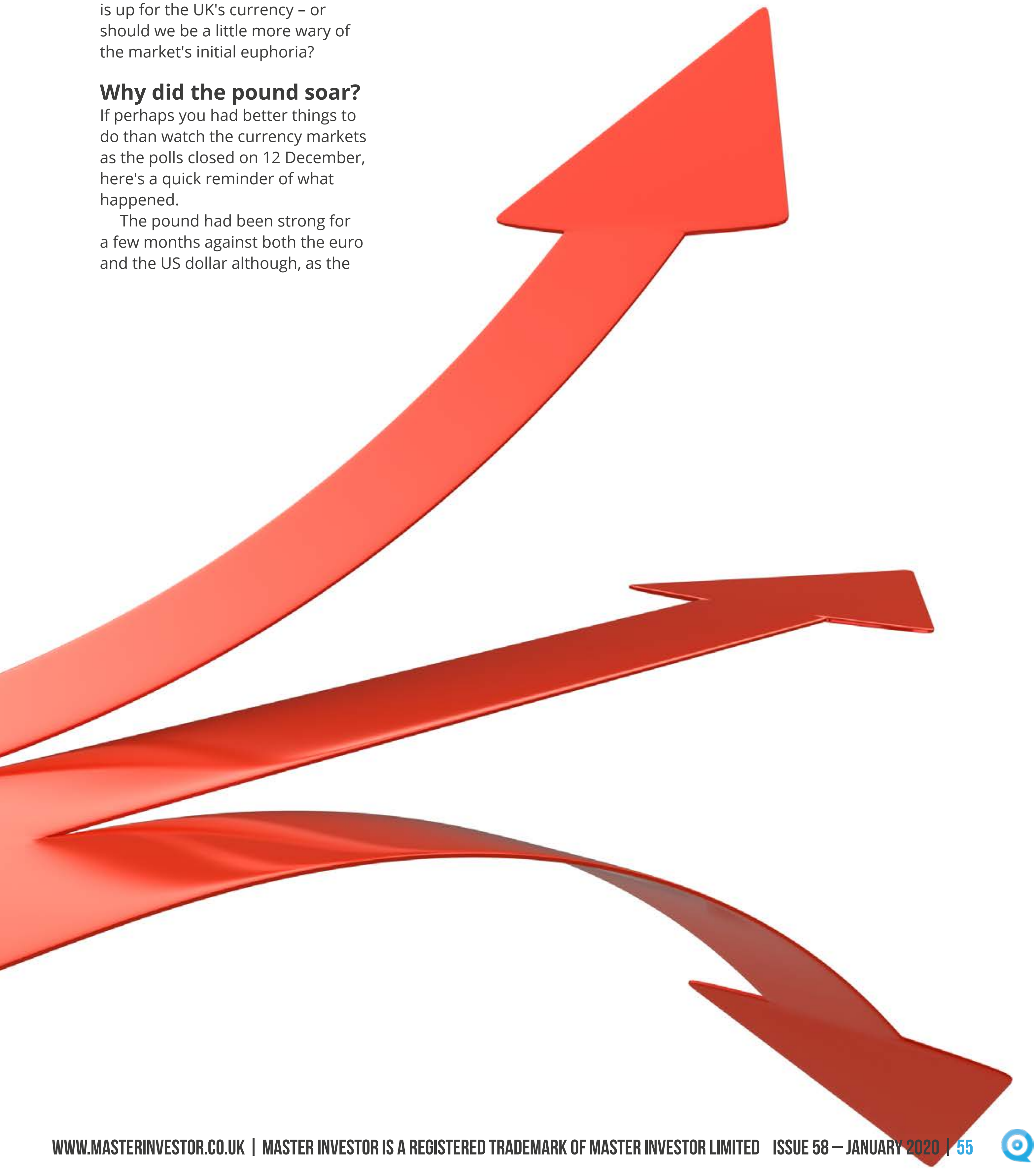
With the pound on the 'front foot' following the Conservatives' election victory, David Jones examines whether this recovery is worth buying into.

At the time of writing, it has only been a few days since the Conservative party won its majority in the UK's general election − and of course the market reacted by putting a rocket under the pound. With the sterling/US-dollar rate hitting its best levels since May 2018, is it a given that the only way is up for the UK's currency – or should we be a little more wary of the market's initial euphoria?

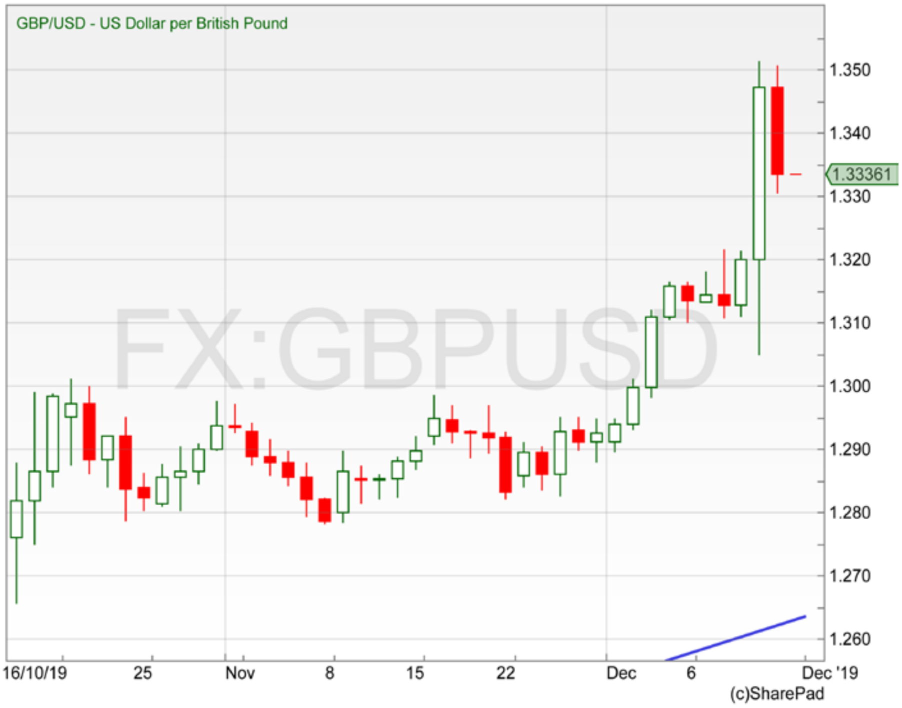
Why did the pound soar?

If perhaps you had better things to do than watch the currency markets as the polls closed on 12 December, here's a quick reminder of what happened.

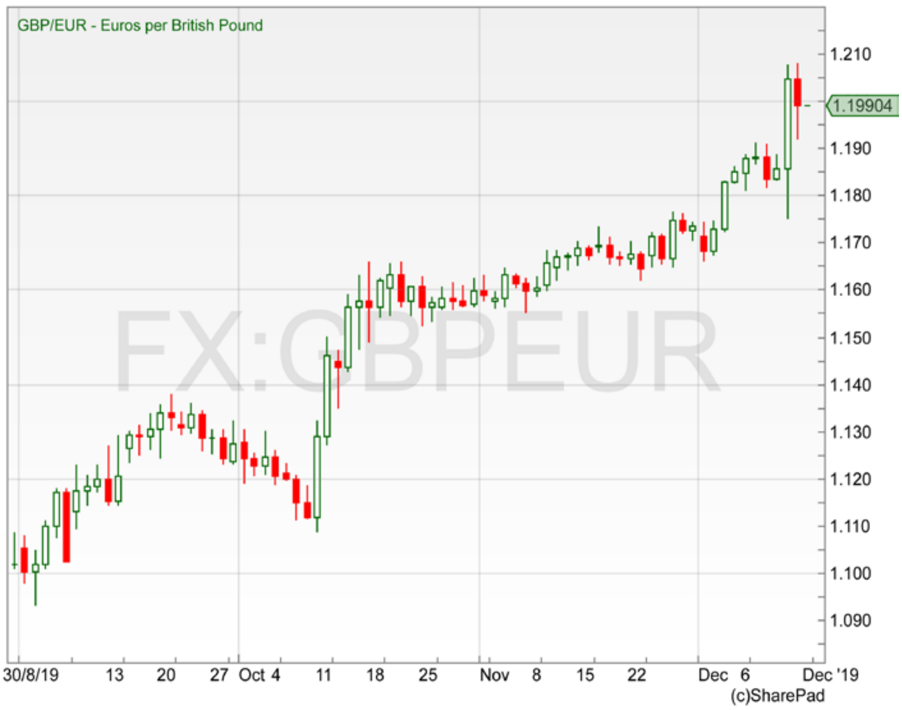
The pound had been strong for a few months against both the euro and the US dollar although, as the election got closer, murmurings of the possibility of a hung parliament had started to unnerve some traders. It is fair to say that a Conservative win was always going to be the one best received by financial markets. But the size of the majority predicted by the exit polls at 10pm on election night was definitely a surprise for most. It suggested that, finally, the UK political system would be free of the log jam that has dogged it since the



GBP/USD exchange rate



EUR/GBP exchange rate



> **"IF POLITICIANS CAN FINALLY AGREE ON WHAT BREXIT ACTUALLY LOOKS LIKE, IT COULD BE A MORE STABLE AND POSITIVE YEAR FOR THE POUND THAN WE HAVE SEEN FOR SOME TIME."**

EU referendum in 2016 and, like it or not, Prime Minister Boris Johnson may actually now be able to follow through on his promise/threat of getting Brexit done. It is a well-worn cliché that markets hate uncertainty and we have all had our fill of that in recent years. This result suggested that the UK may be able to drag itself out of the political ping-pong match and finally move forwards.

There may be trouble ahead

Markets overreact – in both directions, of course. All financial markets can overshoot to the downside or upside in the resulting knee-jerk reaction to surprising news. There was a sense of this with the pound, and after that initial surge it did end the week below those highs – although of course, still significantly higher than where it had been before the election result.

The next focus will be on the end of January 2020, the latest date that the UK is expected to leave the EU. We have been here before of course with these sorts of deadlines – let's just remind ourselves of the pound's progress against the US dollar in the run up to Theresa May's end of March leave date in 2019, and the resulting move after it had passed.

It probably does not need spelling out that the obvious risk to the latest run of pound strength is a lack of progress on Brexit. In the first quarter of 2019, the GBP/USD exchange rate enjoyed a positive move right into the shaded area of the chart – the month of March. But as Parliament was split and the deadline got pushed back, the pound turned lower. By August it had lost 10% from those March highs.

If, once again, the same squabbles and disagreements are experienced, resulting in deadlines being postponed, then the risk is another harsh reaction by markets. Leaving the politics of Leave/Remain to one side, what financial markets want is resolution to this uncertainty – which is exactly the reason we saw the pound soar on election night, in the hope that finally something may actually get done.

Volatility could bring opportunity

If we accept that the next few weeks are unlikely to be plain sailing with

GBP/USD January 2019 to August 2019

GBP/USD August to present

regard to a deal for the UK to leave the EU, then we need to get ready for some potential market volatility for the currency. Rather than fearing major swings in the pound, the savvy investor should take a step back and consider where they could profit. Let's take a look at the GBP/USD recovery that has been in place for the past four months.

In this magazine two months ago, I speculated whether the low was already in for the pound, as the 1.20/1.22 zone continued to stop any further weakness. The recovery since September is still very much intact and the post-election surge shows that sentiment towards the pound is still positive. But, as mentioned earlier, markets do overreact. Financial markets have got the result they were probably hoping for – and with a larger Conservative majority than was expected – but there is still a lot of work to be done. "Get Brexit Done" was a phrase that clearly seemed to have resonated with a large portion of the UK electorate, but I think we all know that this is just the start of getting it done. History has shown us the potential for plenty of obstacles on the way to any deadline.

Looking at the performance of GBP/USD it has clearly become overextended from that recovery trend line and could easily slide back to the pre-election levels (and even lower) without damaging the structure of the recovery. There appears to be lots of support for the pound running from around 1.26 from mid-October, through to the 1.30 levels achieved in December. Any knee-jerk sell-off back to this sort of zone still looks like an opportunity to jump onto the recovery.

When it comes to targets, the highest level the GBP/USD rate has reached since the EU referendum was 1.44 in January 2018. It is perhaps a little early to start talking about these lofty heights for the pound, but based on what happened in the last quarter of 2019 and that shock election result, the year ahead is shaping up to be another interesting one for the UK's currency. If politicians can finally agree on what Brexit actually looks like, it could be a more stable and positive year for the pound than we have seen 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

THE DISRUPTORS: GOOGLE, APPLE, FACEBOOK AND AMAZON

The trajectory of Google, Apple, Facebook and Amazon has been extraordinary over the last 15 years. The next 15 years could be even more remarkable, writes Andrew Latto.

Google, Apple, Facebook and Amazon have changed the way we shop, search online and connect. The four companies have disrupted industries and driven stock markets. Investors cannot afford to ignore their impact.

Fifteen years is a long time in technology. **Facebook (NASDAQ:FB)** was founded 15 years ago and is now the fifth-largest S&P 500 stock. Facebook's key acquisitions, WhatsApp and Instagram, are 10 and nine years old respectively.

Apple (NASDAQ:AAPL) was loss making for much of the 1990s but the iPhone has made it the largest US-listed company. The iPhone was released 12 years ago and was followed by the App Store, iPad, iWatch and AirPods.

Google (NASDAQ:GOOG) was founded 21 years ago and listed 15 years ago (Alphabet is the holding company). Google's mobile operating system, Android, was released 11 years ago and its video service, YouTube, is 14 years old.

Amazon (NASDAQ:AMZN) is 25 years old but its main profit driver, Amazon Web Services (AWS), is 13 years old. Amazon Prime is 14 years old and the Kindle reading device is 12 years old.

Google, Apple, Facebook and Amazon have emerged as disruptive market leaders. They are referred to as GAFA stocks or The Four and include all of the FAANG (Facebook, Apple, Amazon, Neflix and Google) stocks with the exception of Netflix.

"GAFA STOCKS DRIVE GLOBAL MARKETS. THEY INCLUDE FOUR OF THE FIVE LARGEST S&P 500 STOCKS AND REPRESENT 12% OF THE INDEX."

Koshiro K / Shutterstock.com

GAFA stocks key metrics

	Google	Apple	Facebook	Amazon
Annual revenue	$137bn	$260bn	$56bn	$233bn
Net income	$31bn	$55bn	$22bn	$10bn
% Net margin	23%	21%	39%	4.3%
Employees	99,000	137,000	36,000	647,500
Market cap	$929bn	$1,222bn	$554bn	$873bn
Key profit-growth driver	Search advertising	Services and wearables	Social advertising	Amazon Web Services

Source: SharePad

Investment backdrop

GAFA stocks drive global markets. They include four of the five largest S&P 500 stocks and represent 12% of the index. Their success has underpinned US equity-market outperformance since 2009.

The disruptive forces unleashed by GAFA stocks have hit equity markets outside the US. Disrupted sectors include newspaper publishers, broadcasters, advertising agencies, retailers and real-estate companies. This trend looks set to continue, with banks and even oil companies at risk.

GAFA stocks have delivered rapid growth on the back of high-speed broadband and the proliferation of mobile devices, such as smartphones. The Four have become global leaders at an unprecedented pace.

Tech in the markets

The IT sector is increasingly driving markets. It makes up 22.6% of the S&P 500 and only 1% of the FTSE 100. The US appears to be best able to create new technology leaders.

S&P's definition of IT excludes Facebook, Amazon and Alphabet. If we consider them to be tech stocks, the IT sector makes up 30% of the S&P 500.

Facebook and Google were previously in the IT sector but were moved to a new communications sector in 2018. Amazon is in the consumer discretionary sector, but its cloud-computing division makes IT the main profit driver.

Quality investors

Quality investors look for strong business franchises with established track records. They have been reluctant to invest in tech companies. Things are changing, though, with Warren Buffett buying Apple shares in February 2017.

Warren Buffett acknowledged during Berkshire Hathaway's May 2017 annual meeting that failing

S&P 500 and FTSE 100 since 2000 (excluding dividends)

Source: SharePad

"WARREN BUFFETT ACKNOWLEDGED DURING BERKSHIRE HATHAWAY'S MAY 2017 ANNUAL MEETING THAT FAILING TO BUY INTO GOOGLE WAS A MISTAKE. QUALITY INVESTORS THAT SHUN TECHNOLOGY MAY FIND IT INCREASINGLY DIFFICULT TO OUTPERFORM."

Percentage of fund in the IT sector

	Fundsmith Equity Fund	Smithson	Blue Whale Growth Fund	Lindsell Train Global Equity
% IT	30%	41%	48%	10%
Largest sector in fund	Consumer staples	Information technology	Information technology	Consumer staples

Source: Factsheets, end of November.

to buy into Google was a mistake. Quality investors that shun technology may find it increasingly difficult to outperform.

Terry Smith, chief executive of Fundsmith, has focused on unglamorous tech stocks, with stakes in payment companies and accountancy-software firms. But the Fundsmith Equity Fund also bought into Facebook in 2018 and it is now the fourth-largest holding.

Fund manager Lindsell Train has remained cautious about technology, with Nick Train stating in June 2017 that: "We did also think very hard about Google but in the end didn't have the guts to buy it, and that annoys us."

Can tech stocks defy history?

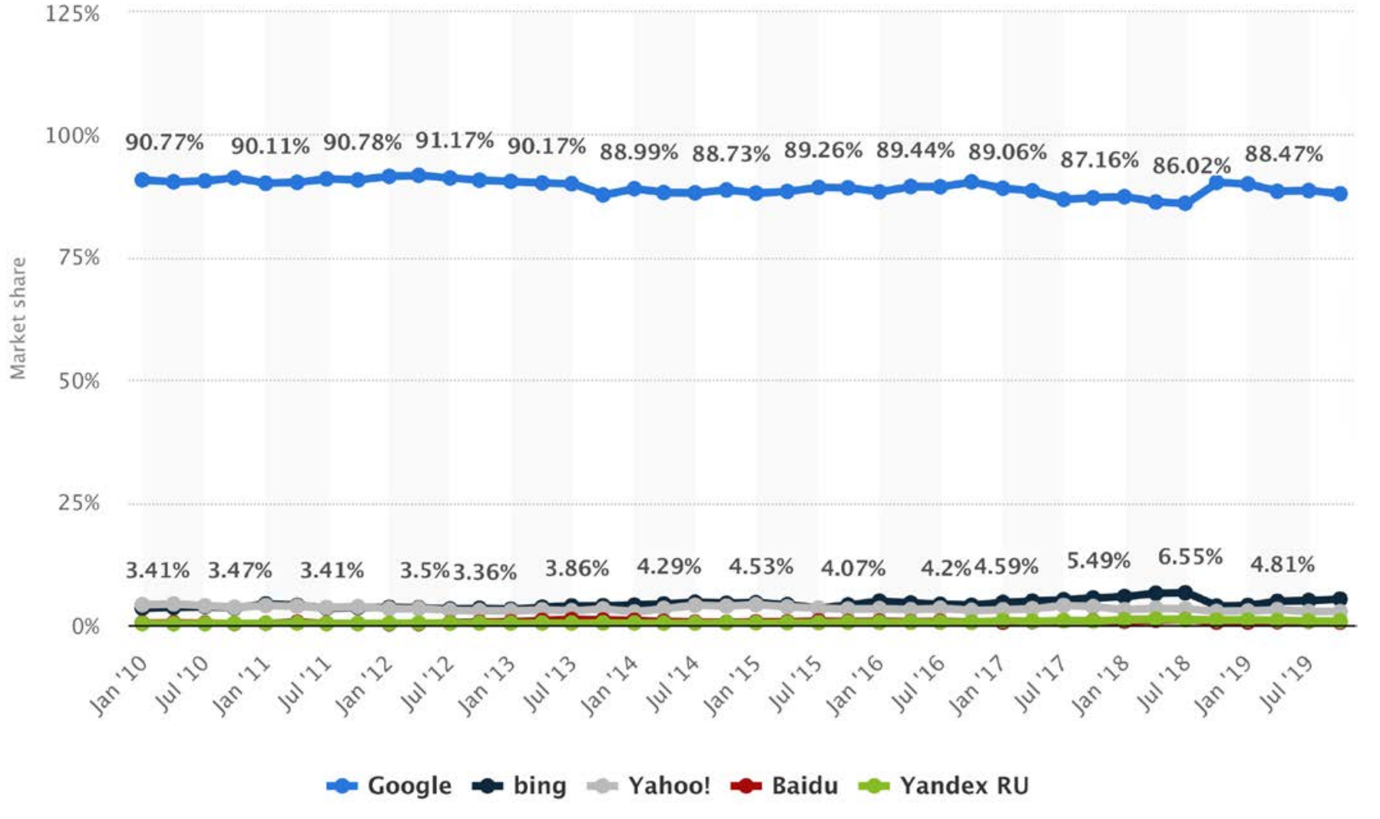
Technology is associated with rapid change and unpredictable trends. Today's tech-stock winner can be tomorrow's loser. But some of the leading tech stocks now appear to have established stable franchises.

Microsoft was the largest S&P 500 stock in 2000 and is one of the largest S&P 500 stocks today. If the GAFA stocks have strong franchises, they should also make for attractive investments.

GAFA competition

Great businesses see off new competitors. Google failed to compete with Facebook and Google+ closed in April 2019. Amazon failed to take on

Worldwide desktop search market share: Google leads



Source: www.statista.com/statistics/216573/worldwide-market-share-of-search-engines iPhone with its Fire Phone discounted after 13 months.

Microsoft's Bing search engine has had little impact with a 5.3% market share in comparison with almost 90% for Google. Amazon hasn't had any serious competition in online retail with its US market share forecast to hit 50% in 2021.

GAFA stocks have not had it all their way. Amazon was the first mover in cloud storage, but its market share fell from 49.4% in 2017 to 47.8% in 2018. Microsoft's share increased from 12.7% to 15.5% in the same period.

While Google has the leading market share in search, we have seen a trend for more product searches to start on Amazon. Facebook is facing a number of upstart rivals in the form of Snapchat and TikTok.

Impact on rivals

We can also evaluate a franchise in terms of its impact on rivals. A recent change in Google's search algorithm can have dramatic results. For instance, online travel agent **Expedia (NASDAQ:EXPE)** recently fell 27% in a single day.

Expedia and TripAdvisor both missed third-quarter earnings, citing weak online search trends. TripAdvisor Chief Executive Steve Kaufer stated: "I think you're seeing this across the industry as Google has gotten more aggressive."

Apple's decision to design its graphic chips in-house had a significant impact on Imagination Technologies. Fitbit has struggled to compete with Apple and it remains to be seen whether Spotify will hold up against Apple Music.

Amazon founder Jeff Bezos famously stated: "Your margin is my opportunity." Department store Sears was the largest US retailer in the 1980s but declared bankruptcy in 2018.

Competitive moats

Competitive moats allow companies to sustain high returns on capital. They include intangible assets (ie brands), switching costs, network effects, distribution, size advantage, capital requirements and cost advantage.

Network effects attract more users and reinforce the position of the largest player. Consumers want to be on the leading social network and

A change in Google search algorithm hit online travel agents

US 500	Worst 5 (220 fallers in total)		
Expedia Group Inc	$98.29	▼-27.4%	-$37.07
TripAdvisor Inc	$31.65	▼-22.4%	-914¢
Booking Holdings Inc	$1849.93	▼-8.06%	-$162.16
Hologic Inc	$46.20	▼-4.86%	-236¢
Johnson Controls Intern…	$42.28	▼-4.39%	-194¢

Source: SharePad

share videos on the top platform. Google's search results improve the more users it has.

The Android operating system gives Google search a route to market on mobile devices. Smartphone or tablet manufacturers need to run on Android given its App Store content. Google's Chrome browser also supports Google search.

Amazon has a cost and size advantage with its infrastructure supporting same-day delivery in some areas. AWS has retained the leading market share and also benefits from a cost and size advantage.

Apple offers a differentiated product and benefits from its store network and the support it delivers. Smartphone switching costs include the potential loss of mobile applications and the time taken to understand a new platform.

Growth backdrop

A strong business franchise without a growth driver is similar to a high-quality bond. Value creation is dependent on growth. The IT sector includes some of the most important global growth drivers at the current time.

Online advertising is the driver for Google and Facebook and is forecast to grow from $300bn in 2018 to $426 billion in 2023. The two key online advertising categories are search and social; video advertising is in fourth place.

Mobile advertising was 41% of the mix in 2017 and is expected to increase to 51% of the mix in 2022. The importance of desktop advertising is declining as we spend more time on mobile devices.

Public cloud infrastructure as a service (IaaS) is the main driver of Amazon's bottom line. Worldwide spending on this area was $32.4bn in 2018 and is expected to more than double to $74.1bn by 2022.

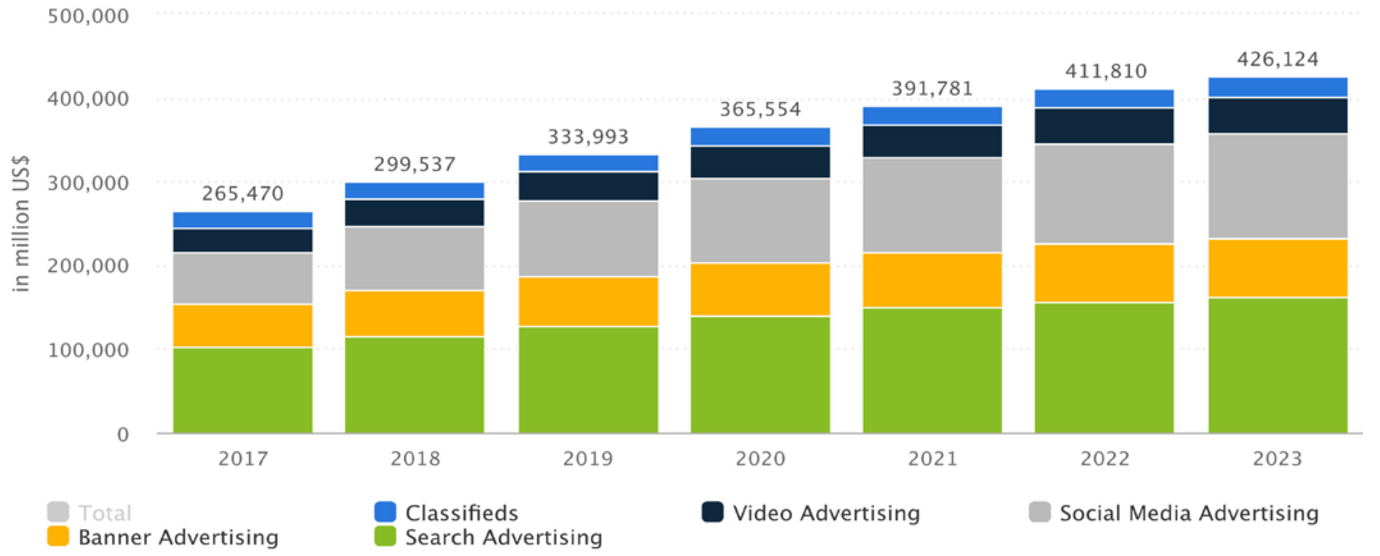
Apple is the slowest growing of The Four with revenue declining 2% in the fiscal year to September 2019. Revenue is expected to increase by 5.8% in the current year in part due to the iPhone 11.

GAFA moats

	Moat	Examples
Apple	Brand, switching costs, distribution and a differentiated product.	The App Store helps lock people into the iPhone; Final Cut Pro is only on Mac OS. Apple Stores support the brand.
Google	Network effects, brand, user data and distribution.	Android and Chrome support Google search. Google search improves the more people use it.
Amazon	Size and cost advantage, distribution and innovation.	Delivery infrastructure supports online retail. Leading cloud position helps to reduce costs and attract customers.
Facebook	Network effects, brand and unique user data.	Consumers want be on the same network. Detailed user data attracts advertisers.

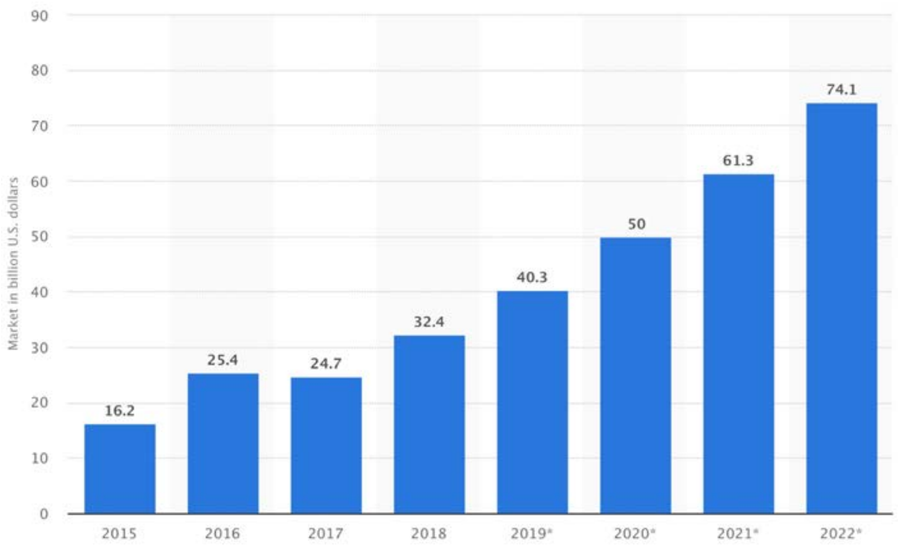
"ALL FOUR COMPANIES HAVE THE DEVELOPMENT 'FIREPOWER' TO LAUNCH NEW PRODUCTS AND THE CUSTOMER RELATIONSHIPS TO MAKE THEM WORK."

Online advertising: search and social dominate



Source: www.statista.com/outlook/216/100/digital-advertising/worldwide#market-revenue

Public cloud infrastructure as a service market (worldwide)



Source: www.statista.com/statistics/505251/worldwide-infrastructure-as-a-service-revenue

Revenue growth

	2019	2020	2021	2022
Apple*	-2%*	+5.8%	+7.3%	4.3%
Amazon	19.8%	18.5%	16.8%	-
Google (Alphabet)	18.9%	17.7%	16.1%	-
Facebook	26.2%	21.8%	19.7%	-

*Source: SharePad, *Reported fiscal year to September 2019*

Facebook is the fastest growing of The Four with revenue forecast to increase 26.2% in 2019. Amazon, Facebook and Google are all expected to increase revenue by more than 16% a year in the three years from 2019 to 2021.

New areas of growth

The Four are targeting the payments space with Apple Pay currently in the lead. Gaming is a new area of growth with Google Stadia and Apple Arcade released in the second half of 2019.

Facebook is experimenting with online dating and also runs a jobs board and classified adverts board. Amazon and Apple are both pursuing video-entertainment services while Google is developing its premium YouTube service.

Amazon will try its hand at seemingly anything, with the US pharmacy market currently in its sights. The company is also experimenting with bricks-and-mortar stores with no checkouts and drone deliveries.

All four companies have the development 'firepower' to launch new products and the customer relationships to make them work. The Four are likely to be behind or benefit from the next hit product.

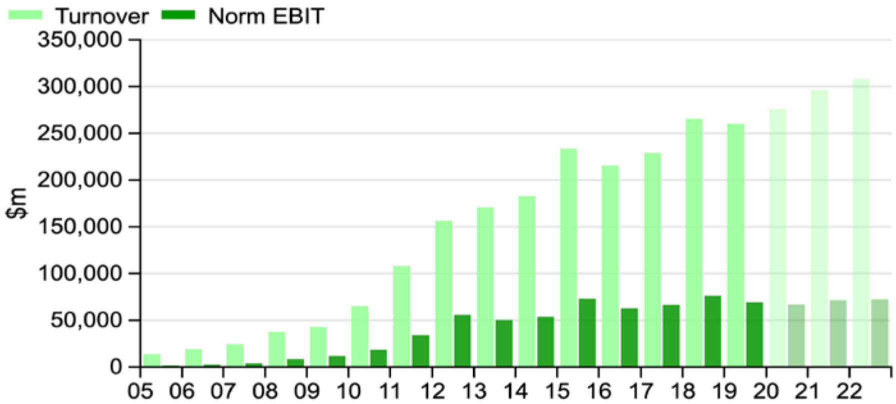
Apple

The iPhone has been the main growth driver for Apple since 2007, but the smartphone market is now mature. Apple's revenue fell 2% in fiscal year 2019 (year to September) due to a 14% decline in iPhone revenue.

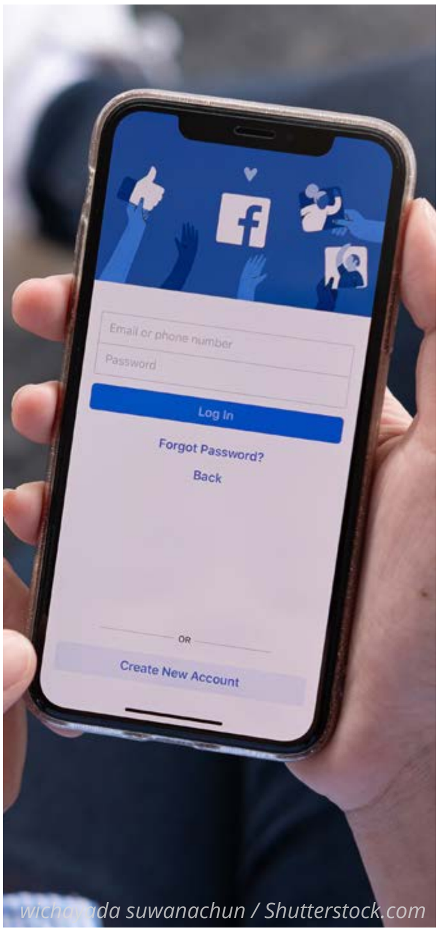
The iPhone accounted for 54.7% of revenue in the same period, but other divisions are growing rapidly. The services category saw 16% revenue growth and the wearables, home and accessories category grew revenue by 41%.

Services had a gross margin of 63.7% in 2019 while products had a gross margin of 32.2%. The key to Apple's investment case is the continued growth of the high-margin services segment.

Apple (AAPL) and the iPhone effect



Source: SharePad

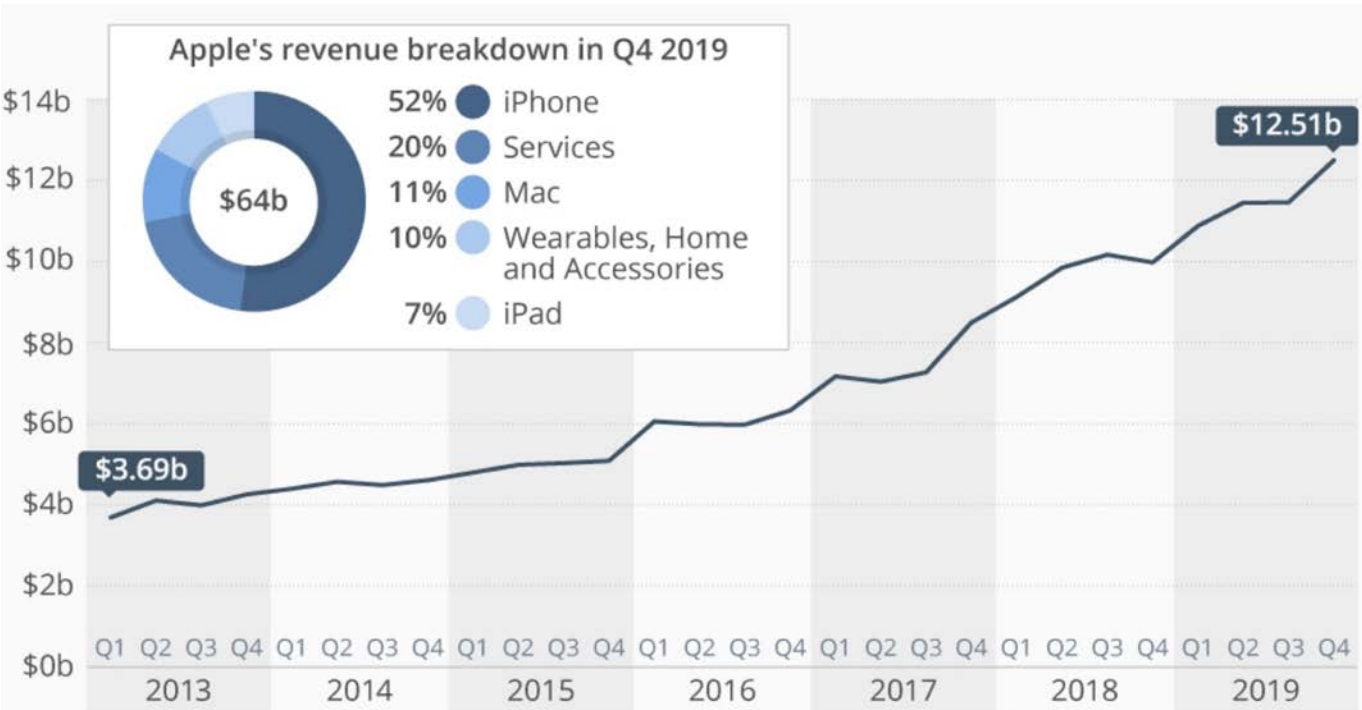


Apple revenue – year to September 2019

Division	% Revenue	Growth
iPhone	54.7%	-14%
Services	17.8%	16%
Mac	9.9%	2%
Wearables, home and accessories	9.4%	41%
iPad	8.2%	16%
	100%	-2%

Source: Apple

Apple's services revenue: a profitable and growing segment



Source: Statista

Facebook 2018 revenue

Division	% Revenue	Growth
Advertising	98.5%	38%
Payment and Fees	1.5%	16%
	100%	37%
Q3 2019 revenue	US and Canada 48%, Europe 23%, Asia-Pacific 19%, Other 10%	

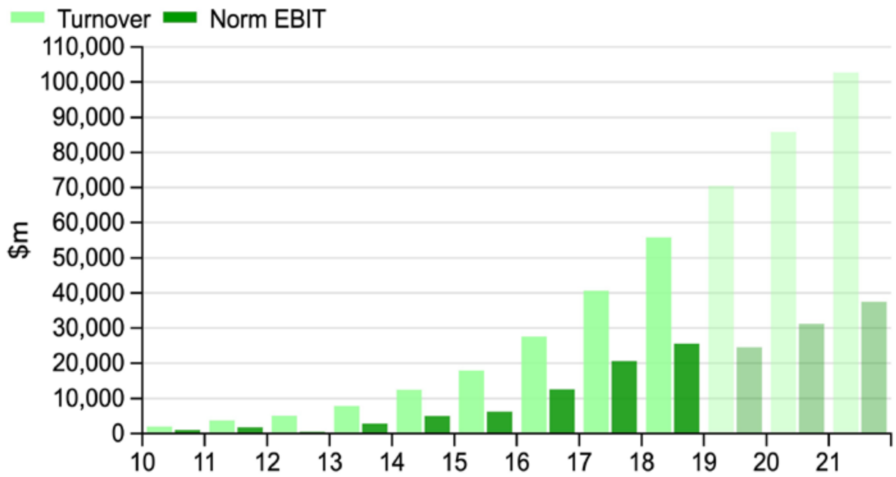
Source: Facebook

Google 2018 revenue

Division	% Revenue	Growth
Google advertising	85%	22%
- Google properties	70.4%	24%
- Google Network	14.6%	14%
Google other revenue	14.5%	32%
Other bets	0.5%	25%
	100%	23.4%

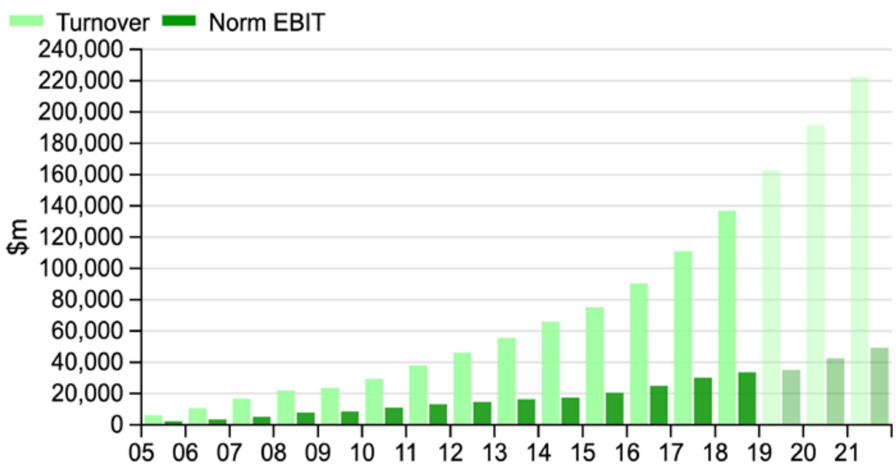
Source: Google

Facebook's high-margin growth



Source: SharePad

Google has delivered since its 2004 IPO



Source: SharePad

Facebook and Google

Google and Facebook are a duopoly with their share of the global online advertising market forecast to be 61% in 2019. Google is the de facto gateway to the internet and Facebook is the gateway to our online social lives.

Advertising generated 98.5% of Facebook's revenue in 2018 with its key properties Facebook, Instagram and Whatsapp. Facebook's 2018 revenue at $56 billion compares to rival Snap Inc at $1.2 billion.

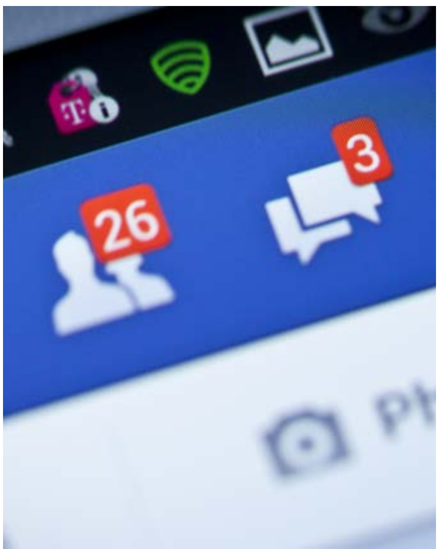
Facebook's monthly active users hit 2.449 billion in Q3 2019, up from 2.072 billion in Q3 of 2017. Monthly active users in the US and Canada were 10% of the total in Q3 2019 but generated 48% of revenue.

Average revenue per user (ARPU) was $34.55 in US and Canada in Q3 2019 versus $7.26 for the group as a whole. Facebook has the potential for strong profit growth if it can increase ARPU outside the US and Canada.

Advertising generated 85% of Google's revenue in 2018. This is broken down into Google Properties at 70.4% of revenue and Google Networks at 14.6% of revenue.

Google properties include Google search, Google Maps, Google Play and YouTube. Google Network Member's properties include revenue generated from AdMob, AdSense and Google Ad Manager.

Other revenue was the fastest-growing segment in 2018 and includes Google Cloud, Google Play and hardware sales. Google Cloud has been given the objective of overtaking Microsoft or Amazon's market share by 2023.



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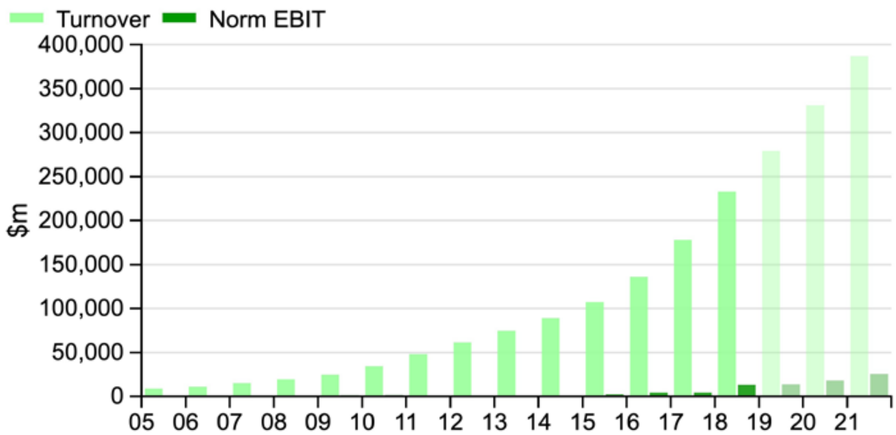
Evan Lorne / Shutterstock.com

Amazon in 2018

Divisions	% Revenue	Growth	Profit
North America	61%	33%	$7.3bn
International	28%	21%	($2.1bn)
AWS	11%	47%	$7.3bn
	100%	31%	

Source: Amazon

Amazon's profits are coming through



Source: SharePad

Trong Nguyen / Shutterstock.com

Amazon

AWS was launched in 2006. It delivered 47% revenue growth in 2018 and had a 28.4% profit margin. The pace of growth for AWS should improve Amazon's overall margin in the coming years.

Other margin drivers include advertising on Amazon and marketplace revenue from third-party sellers. Third-party sellers contributed 3% of physical gross merchandise sales on Amazon in 1999 and 58% in 2018.

Looking at the breakdown in 2018, AWS generated more profit than Amazon North America. The international side of Amazon's non-AWS business generated a $2.1 billion loss last year.

Voting rights

Google founders Larry Page and Sergey Brin own 51% of the voting rights through special share classes. Facebook founder, Mark Zuckerberg, owns 53% of the voting rights, again through special share classes.

External shareholders have little effective influence over both companies. It is impossible to remove Mark Zuckerberg despite missteps in recent years. It is also impossible to overturn decisions made by Google's founders.

Amazon and Apple do not have special share classes. Jeff Bezos of Amazon owns 12% of the company and votes on his ex-wife's 4% stake. Berkshire Hathaway is the third-largest shareholder in Apple with a 5.5% stake.

Capital allocation

Voting rights and governance have an impact on capital-allocation decisions. Apple came under pressure from activist investor Carl Icahn in 2014 to return capital. The iPhone maker's share count has fallen by 29% over the last seven years.

Google, Amazon and Facebook have seen their share counts increase over the same period. Google's other bets segment invests in 'moon-shot' projects, like self-driving cars, that may not become commercial successes.

Amazon remains focused on growth investment with spending on video content to make its Prime service more appealing. Facebook has issued shares to buy companies and incentivise employees.

Revenue growth

	2019	2020	2021	2022
Apple*	-2%*	+5.8%	+7.3%	4.3%
Amazon	19.8%	18.5%	16.8%	-
Google (Alphabet)	18.9%	17.7%	16.1%	-
Facebook	26.2%	21.8%	19.7%	-

*Source: SharePad, *Reported fiscal year to September 2019*

Year-end share count over seven years

	2011	2018	% Change
Apple*	6,574m	4,443m	-29%
Amazon	455m	491m	+8%
Facebook	2,142m	2,854m	+33%
Google	649.2m	695.6m	7%

*Source: Sharepad, *Apple is from September 2012 to September 2019.*

Acquisitions

Facebook has been a master of acquisitions with the Instagram takeover viewed as a masterstroke by many. Google's acquisition of YouTube in 2006 and DoubleClick in 2008 were equally inspired.

Apple bought Beats in 2014 to improve its position in music streaming but has shied away from large deals. Amazon's notable acquisitions include Wholefoods, online shoe retailer Zapatos and smart-doorbell company Ring.

Questionable deals include Google's purchase of Motorola and the recent takeover of Fitbit. Facebook's acquisition of virtual-reality company Oculus may prove to be a good move, with the Horizon virtual world set to launch in 2020.

Risks

Companies with a relatively short history may face unexpected risks. But The Four have held off rivals to date. Regulatory risk is a threat, with calls to break up the tech companies by some US presidential candidates.

The most vulnerable business franchise may be AWS, with Google and Microsoft vying to take market share. Facebook is at risk of becoming unfashionable, with some teenagers moving to alternative platforms.

Valuations (13 December prices)

GAFA valuations appear modest in light of their performance and growth prospects. Apple, Google and Facebook are on modest forecast P/E multiples in 2021 at 18.5x, 22x and 17.7x respectively.

Amazon's forecast free cash-flow yield is 3.7% in 2020 and 4.9% in 2021. The forecast P/E multiple of 45.6x in 2021 looks expensive on face value. This appears to be the price of investment-driven growth.

Apple trades on a free cash-flow yield of 5.1% in the current fiscal year to September 2020 and 5.6% in 2021. Google and Facebook trade on forecast free cash-flow yields of 4.4% and 4.8% in 2021 respectively.

Summary

The trajectory of Google, Apple, Facebook and Amazon has been extraordinary over the last 15 years. Most of us use their products every day. The Four now are in the sights of regulators in the US and the EU.

What the next 15 years hold is of course unknown. But the GAFA stocks will continue to drive change. Their prospects are underpinned by the growth of online advertising, cloud storage, mobile devices and subscription services.

"FACEBOOK HAS BEEN A MASTER OF ACQUISITIONS WITH THE INSTAGRAM TAKEOVER VIEWED AS A MASTERSTROKE BY MANY. GOOGLE'S ACQUISITION OF YOUTUBE IN 2006 AND DOUBLECLICK IN 2008 WERE EQUALLY INSPIRED."

Koshiro K / Shutterstock.com

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 modsel 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

ASTRAZENECA

A STOCK FOR ALL SEASONS

Robert Stephens, CFA, discusses why pharmaceuticals giant AstraZeneca could produce capital growth in 2020 and beyond.

Shares that offer a mix of defensive characteristics and growth potential could outperform their peers in 2020. Risks to the global economy may remain at elevated levels, thereby making defensive stocks more attractive to investors. However, as 2019 has shown, an uncertain economic and political outlook will not necessarily inhibit global GDP growth.

AstraZeneca has defensive credentials as a result of its profitability being less closely correlated to the global economy's performance than that of many of its FTSE 100 index peers. At the same time, its recent updates have shown that investment in its pipeline is delivering double-digit sales and profit growth that is set to continue into 2020 and beyond.

The increasing prevalence of non-communicable diseases (NCDs), such as cancer, could offer the company a favourable growth outlook in the long run. So too could its increasing exposure to emerging markets, where demand for its medicines is forecast to increase as factors such as an ageing population and urbanisation continue.

The company's recent restructuring and its financial strength may further improve its growth prospects. Its valuation may not be cheap, while regulatory and pricing-related risks are set to remain in place. But its growth potential within an uncertain wider global economy could make it a 'stock for all seasons', with it offering further share-price growth prospects following its rise of more than 20% in 2019.

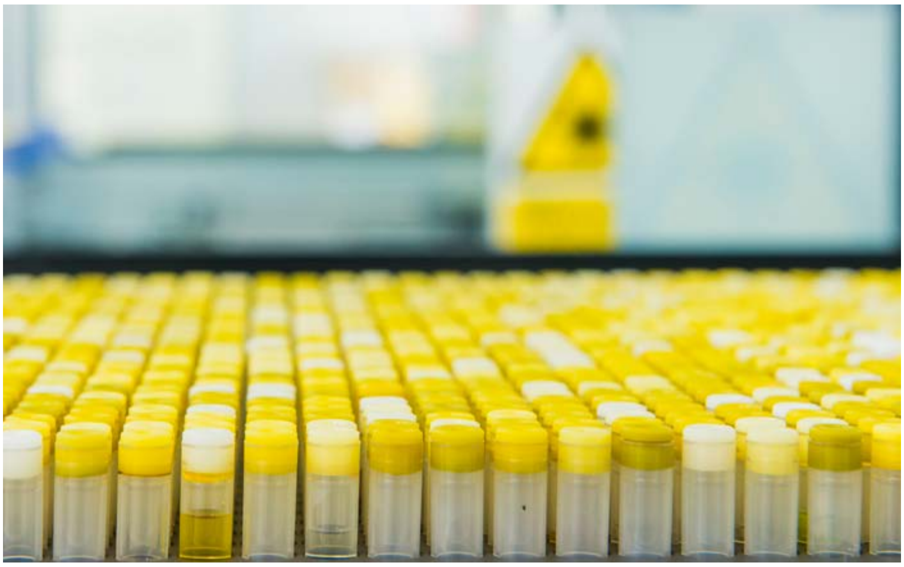
Improving performance

AstraZeneca's third-quarter update displayed the progress it is making in its financial performance. For example, it generated sales growth of 22% at constant currency compared to the same quarter of the previous financial year. This led to a rise in its core earnings per share (EPS) of 36% on a constant currency basis. The company expects to produce further growth in 2020 after what has been a highly successful 2019 financial year.

This level of growth represents a significant change from the seemingly constant decline in sales and profitability over recent years. A key part of the company's improving

"A KEY PART OF THE COMPANY'S IMPROVING FINANCIAL PERFORMANCE HAS BEEN THE INVESTMENT MADE IN ITS PRODUCT PIPELINE."

"IT NOW GENERATES OVER A THIRD OF ITS TOTAL SALES FROM EMERGING MARKETS, WHERE IT REPORTED SALES GROWTH OF 29% IN ITS MOST RECENT QUARTER."



financial performance has been the investment made in its product pipeline. It currently has 164 projects in its pipeline, and has the financial strength to invest a significant amount of capital in this area in future. This is allowing the business to overcome the loss of patents on 'blockbuster' drugs that had threatened to characterise its performance in the 2010s. However, it ends the decade with an improving pipeline of new medicines that are delivering double-digit sales and earnings growth.

Emerging-market potential

Alongside the investment made in its pipeline, AstraZeneca has shifted its focus towards three main therapy areas: oncology; cardiovascular; renal and metabolism; and respiratory. These three therapy areas are experiencing high demand across emerging markets, and have contributed to a 50% rise in the company's quarterly sales in emerging economies. It now generates over a third of its total sales from emerging markets, where it reported sales growth of 29% in its most recent quarter.

Emerging markets could provide a major growth catalyst for the business in the long run as wage levels are forecast to increase. In 2018, for example, emerging markets recorded a 6.4% rise in pharmaceutical sales. This compared to a 3.9% increase in pharmaceutical sales in established markets. By 2030, seven of the world's 10 largest economies at purchasing power parity are expected to be emerging economies, with China's economy forecast to be twice as large as that of the US. India's economy is also expected to overtake the US economy in the next decade; it is forecast to be around 50% larger by 2030. Increasing wealth could offer a tailwind to companies operating in such economies, and may vindicate AstraZeneca's decision to ramp up its investment in emerging markets.

Growth areas

A number of catalysts could cause demand for medicines to rise in 2020 and in future decades. Among them is a world population that is growing in size and age. The UN estimates that the world's population will increase from 7.6 billion today to around 9.8 billion by 2050. In addition, one in six people are expected to be aged 65 or over by 2050. This represents a substantial rise from the current figure of one in 11. A larger population that is older is highly likely to demand greater healthcare resources – particularly in the three therapy areas on which AstraZeneca is now focused.

Another factor that could create growth in demand for the company's medicines is urbanisation. The proportion of people who live in cities is expected to increase from 55% today to 68% by 2050. Urbanisation has been shown to increase the incidence of non-communicable diseases, which are conditions that cannot be passed directly from one person to another. This may be due to unhealthy lifestyles within an urban environment, as well as the poorer air quality that is often prevalent in major urban areas. The end result could be rising demand for many of AstraZeneca's medicines – particularly in emerging economies where a large proportion of urbanisation is expected to take place.

Defensive characteristics

The pharmaceutical sector has often been viewed as a relatively defensive industry in which to invest. Its correlation with the wider global economy is arguably lower than for many other industries. The potential for a slowdown in global GDP growth in 2020, although not currently anticipated by forecasters such as the IMF, may mean that the healthcare industry becomes an increasingly popular place to invest. Risks such as a global trade war, slow growth in Europe and political challenges in the world's two major economies may produce a volatile market performance in 2020.

Despite their defensive credentials, pharmaceutical companies such as AstraZeneca face ongoing risks. For example, the industry is experiencing higher costs in developing new medicines due to regulators demanding increasingly extensive evidence of their comparative effectiveness. There are also continued efforts by policymakers in the US to lower drug prices. This includes efforts to increase generic drug use to enhance competition. In addition, the difficulties experienced by AstraZeneca in recent years in terms of a loss of patents is an ongoing risk facing the wider pharmaceutical sector. Patents are finite, and investment in new medicines must continually yield results that can sustain sales and profit growth in the long run.

Investment potential

The company's share-price rise of more than 20% in 2019 means that it now trades on a forward P/E ratio of around 26. This is higher than the ratings of some of its fellow global pharmaceutical peers, but they may fail to deliver earnings growth of a similar level to AstraZeneca in the long run. For instance, in 2020 the company is forecast to produce a rise in its EPS of almost 20%. This may not prove to be a one-off rise, since its performance in recent quarters has been robust.

The company's dividend prospects have been hurt by its lack of growth in shareholder payments in the last decade, owing to a declining bottom line. When its share-price rise is factored in, the stock now has a yield of only 3%. There may be scope for a fast-paced rise in dividend payments over the long run as the company's profitability looks set to improve. However, this potential must be weighed against the demands on the business from drug development and the expenses associated with maintaining a strong pipeline of new medicines.

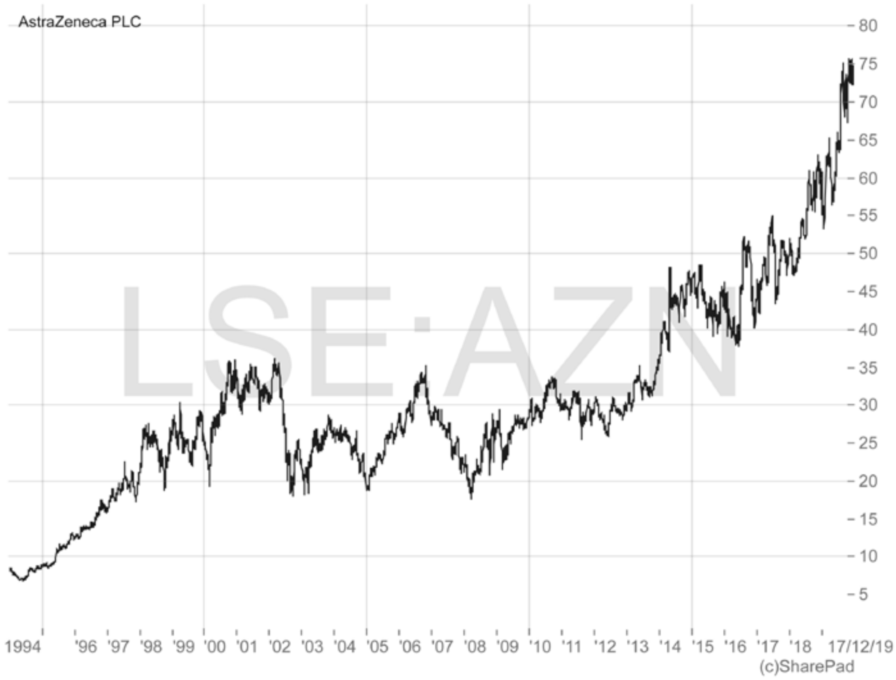
Outlook

The long-term prospects for pharmaceutical companies appear to be bright. An increasing world population that is ageing could catalyse demand for medicines. Furthermore, continued urbanisation may mean that the incidence of NCDs rises and produces a tailwind across the industry. Additionally, continued GDP growth in emerging markets may mean that companies which have exposure to economies such as China and India are able to outperform businesses that are focused on established markets.

This could enable AstraZeneca to maintain its recent improvement in sales and profit growth. It has invested heavily in its pipeline, which has transformed its financial performance after what has been a tough decade for the business. Although it faces regulatory and pricing risks, a solid financial position means that it may be able to maximise the growth opportunities available within the therapeutic areas in which it operates.

As well as offering growth potential, the defensive attributes of the company and sector may mean that investors naturally gravitate towards it during 2020. The UK and world economies face geopolitical and economic risks that may cause increasing risk aversion among investors. Therefore, AstraZeneca's relative lack of reliance on the performance of the world economy, in the short term at least, may increase the appeal of its shares.

It may not be a cheap stock, but its future prospects could make it an appealing investment opportunity. Its current share price may be worth paying, given its likely status as a 'stock for all seasons'.



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

THE DEALS OF WARREN BUFFETT

VOL 2: THE MAKING OF A BILLIONAIRE

BY GLEN ARNOLD

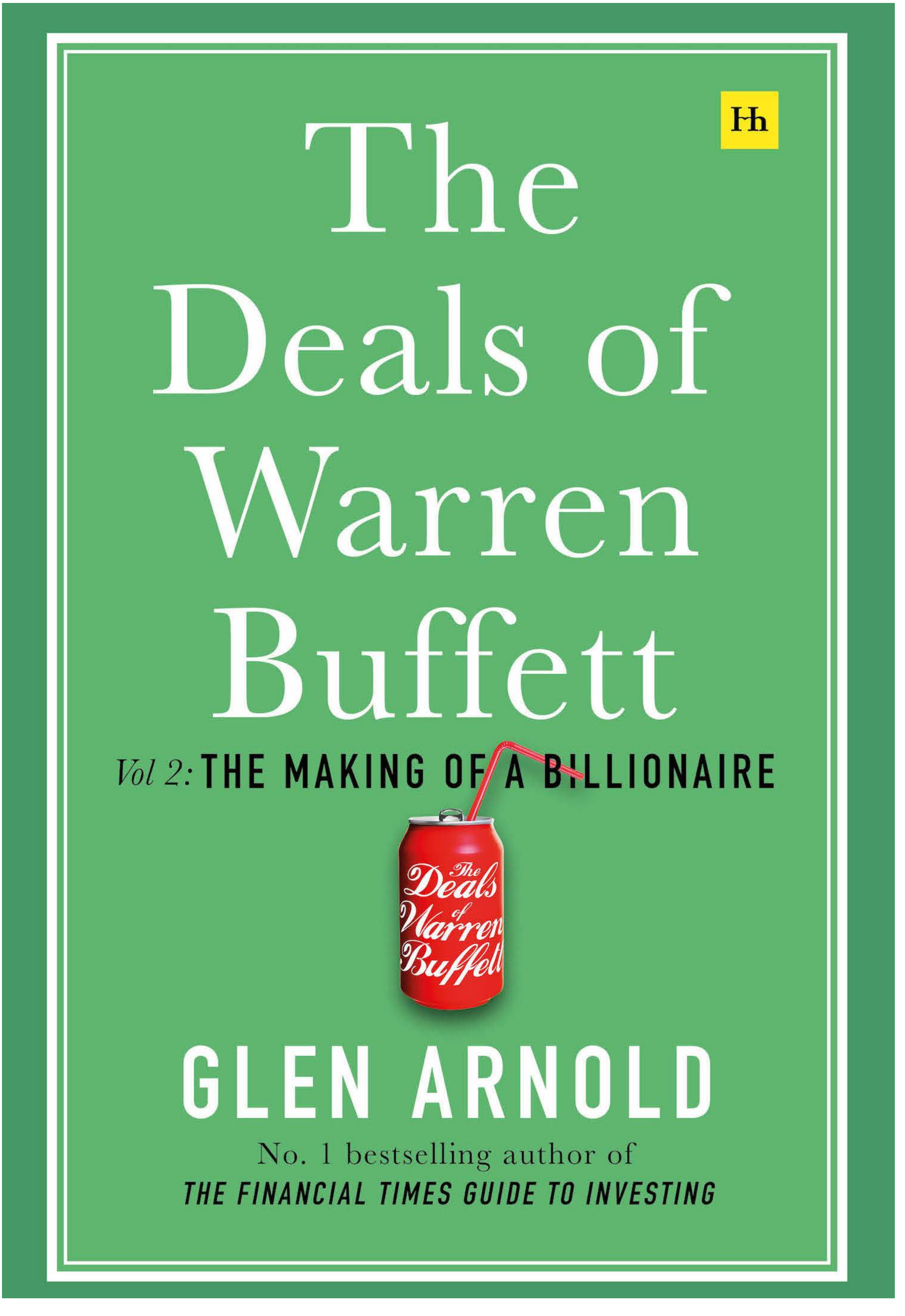
Over the past few decades, scores of books have been written about investment doyen and philanthropist Warren Buffett. A simple search in Amazon's books section reveals no less than 71 pages of titles dedicated to discussing the 'Sage of Omaha' and his career. As we enter the third decade of the new century, another highly anticipated title has been published.

In *The Deals of Warren Buffett: Volume 1*, the author examined the deals that earned Buffett his first $100 million, explaining the rationale behind each of his major early investments and showing how he accumulated wealth in the first few decades of his career. The book concluded in 1978, when Buffett's wealth had reached a nine-figure sum, at the age of just 48.

Buffett first got into investing at just 11 years old, using cash earned from his paper round and other ventures to buy farmland in his home state. Boosted by the proceeds of a pinball-machine business and other shrewd dealings, by the time he was 15 he already had a net worth of around $6,000 – around $83,000 in today's money, adjusted for inflation. But he made the bulk of his wealth in the period following the first book, and his net worth has accelerated exponentially in recent years.

The chart on page 74, which is slightly out of date, shows how Buffett's net worth is estimated to have increased over time. Fast forward to 2019 and according to the Forbes 400 (the list of the 400 richest people in the US), the now 89-year old is the third-richest person in the US, behind Microsoft's Bill Gates and Amazon's Jeff Bezos, with a fortune of $89.3 billion. Yet, he still lives a modest life, enjoying a cherry Coke in the same three-bedroom house in Omaha he bought for $31,500 in 1958.

"GLEN ARNOLD HAS ONCE AGAIN MANAGED TO ADD MORE COLOUR AND DEPTH TO A SUBJECT WHICH IS ALREADY WIDELY COVERED."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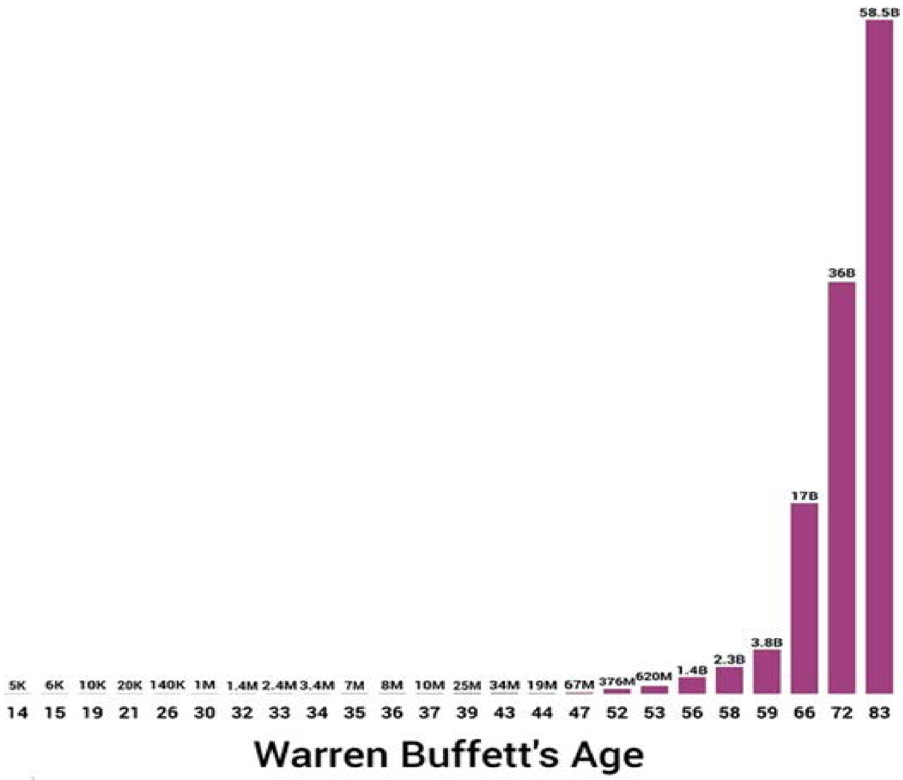
The Deals of Warren Buffett
Vol 2: THE MAKING OF A BILLIONAIRE
The Deals of Warren Buffett
GLEN ARNOLD
No. 1 bestselling author of
THE FINANCIAL TIMES GUIDE TO INVESTING



Source: www.marketwatch.com/story/from-6000-to-67-billion-warren-buffetts-wealth-through-the-ages-2015-08-17

Who wants to be a billionaire?

The author of this two-book series, Professor Glen Arnold, is a Buffett historian and prolific writer who wrote the top-selling book *The Financial Times Guide to Investing*, the beginners' guide *Get Started in Shares* and a number of university textbooks. As an academic, he has held positions such as Professor of Investment and Professor of Corporate Finance but now prefers to concentrate on making money in the markets.

Volume 2 goes on to look at the deals which took Buffett from $100 million to his first billion dollars. This was arguably the most exciting time of Buffett's career, spanning 13 glorious years from 1976 to 1989. In the first 10 years of that period, the S&P 500 index doubled in value. Buffett's investment vehicle, Berkshire Hathaway, meanwhile saw its shares soar in value from $89 to over $2,600. From 1986 to 1989 the S&P saw another 39% gain, but Berkshire Hathaway was once again ahead of the markets by rising threefold.

Great investments

After a brief reminder of how Buffett got to his first $100 million, 10 specific investments are covered in the main text of the book in a case-study format. Arnold summarises each deal on the first page of the study, going on to look at each trade (and the reasons behind it) in depth, before finishing with some key learning points.

We kick off with car-insurance company GEICO, an investment first made by Berkshire Hathaway in 1976, but by Buffett himself many years earlier in a personal capacity. Buffett was attracted to the company's low-cost operating model and targeting of less risky consumers, which meant that margins remained healthy in the face of tough competition. Arnold estimates that the initial $45.7 million investment (for a 51% stake) has delivered returns of at least 100-fold, with the company being bought outright by Berkshire Hathaway in 1996. So, it's no surprise that GEICO has been described by Buffett as "probably the single best investment" he made. A key lesson learned here was not to sell winning investments, especially if they still have high rates of return on capital and good management.

Buffett is well known for his love of Coca-Cola, and even sold individual bottles of the brown fizz for a small profit as a six-year old. However, it took him more than 50 years to buy a share in the company, despite its well-favoured characteristic of strong brand value, due to issues with a high share price. But a point did come when the share price offered an opportunity to invest in the solid intrinsic value being created by management. Buffett describes Coca-Cola as an "inevitable" − ie a company which is expected to dominate its industry for an investment lifetime due to its large competitive advantages. The Coke investment has paid itself off many times over since the initial purchase in 1988, with Arnold estimating a twentyfold return – more than enough to cover the inevitable dental bills.

Big-hearted billionaire

With *The Deals of Warren Buffett: Volume 2* Glen Arnold has once again managed to add more colour and depth to a subject which is already widely covered. The 10 deals which took Buffett from $100 million to a billion are discussed in detail, with Arnold bringing to life exactly why Buffett chose to invest in them and how he made money. Of course, Buffett became a billionaire in the late 1980s, so there is plenty of scope for at least one more volume in this collection, which the author hints at in the final chapter.

As an idea for a theme, perhaps a further volume could discuss Buffett's philanthropic work, looking at how he gives away money to good causes rather than how he acquires it. Buffet is estimated to have given away almost $40 billion of his fortune and insists that he will give away more than 99% of his own wealth to charitable causes during his lifetime or upon his death. Who was it who said that all billionaires are bad?

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 EVIL IS GONE'

The lifting of storm clouds over the UK economy is welcome, but the best growth - and value - prospects for investors still lie elsewhere, writes fund manager Tim Price.

"A pro nation state, pro free market party wins a massive majority against a socialist party ashamed of our nationhood. My faith in the good sense of ordinary British folk is renewed."

— Tweet by Douglas Carswell (founder of the Centre for Economic Education, co-founder of Vote Leave and previous Conservative MP), 13 December 2019.

"Eurosceptic MP Mark Francois compared the collapse of Labour's "red wall" of northern seats to the collapse of the Berlin Wall. The BBC's Andrew Neil asked if he was hallucinating.

"Meanwhile, in the seat of the shadow chancellor John McDonnell, there was a fist-fight — presumably training for the coming Labour leadership election. Emily Thornberry, re-elected MP for South Islington and Finsbury, gave a speech that sounded like a pitch for the top job. Maybe a third consecutive leader from north London is just what the party needs."

— Henry Mance, "Collapse comes suddenly as Corbynistas' credit runs dry", *The Financial Times*, 14 December 2019.

"He's gone! He's gone from here! The evil is gone!"

— Loomis (Donald Pleasence) in John Carpenter's 1978 horror film *Halloween*.

Ms Jane Campbell / Shutterstock.com

So, in the end, it was less *Friday the Thirteenth* and altogether more *Independence Day*. The scale of Boris Johnson's general-election victory can hardly be overstated, though it is certainly more than welcome. The only lingering concern is just how so many of my fellow Britons could conceivably have chosen to vote for a political party led by someone who is, in my opinion, a terrorist-supporting, Marxist anti-Semite. Strange days, indeed.

But this is hardly a time for cavilling. The bottom line is that three years of steadily accumulating 'dark clouds' (a mixture of what we might call 'Brexit stasis' and 'Corbyn terror') have finally lifted from the UK market. The immediate post-election bounce by sterling and the FTSE – especially the more domestically focused FTSE 250 index – was, therefore, hardly a surprise.

Now, finally, we can all try to move on.

As UK-based investors, our firm is often asked why we don't have greater exposure to the UK stock market within our portfolios. Our answer has been – for the last four years at least – that while the FTSE 100 and FTSE 250 indices trade at no great premium versus other international markets (and notably the US), we have simply been able to find far more attractive valuations – not to say stronger revenue growth – in markets like Japan and Vietnam, especially on a bottom-up, company-specific basis. While many asset managers are continually guilty of home-country bias, we have seen no compelling reasons to join them.

For the first time in four years or so, however, UK companies are starting to appear on our value screens, which take account both of valuation metrics and underlying corporate operations. In other words, we endeavour never to overpay for anything we buy, relative to its inherent value, but we also seek companies with solid and ideally improving trends in cash-flow generation. Even before the election, we had started to nibble at the UK market and over the last two months had raised our allocation to UK-listed firms by around 5% or so. Now we can really let rip.

The focus for international investors can also switch to the real 'elephant in the room', namely the rapidly deteriorating health of the eurozone financial system. As the financial analyst and market historian Russell Napier says:

> "At some stage the markets will have to deal with the inconvenient truth that the destruction of value for investors in Europe, particularly for the owners of financial institutions, is due to the creation of the euro. Investors who are prepared to accept that analysis, seen by many as plain impoliteness, realise that not only is the current collapse in European bank shares, down almost 30% from their late 2018 peak, not reflective of a cyclical slowdown but is the final structural crushing of a financial sector by a monetary system which has failed a generation of savers – but more importantly a generation of citizens. If this is structural, and perhaps 30 years of zero capital returns suggest it is something more than cyclical, then the structurally enforced pain will continue unless there is some sudden reform to that failing monetary system.
>
> "The crushing of a financial system in an economy as big as Europe has implications far beyond a decline in the price of bank equity. It augurs an economic collapse in Europe, a major decline in global growth

Michael Tubi / Shutterstock.com

"THE SCALE OF BORIS JOHNSON'S GENERAL ELECTION VICTORY CAN HARDLY BE OVERSTATED, THOUGH IT IS CERTAINLY MORE THAN WELCOME."

and a socio-political earthquake in Europe. Most investors are not even prepared to discuss the possibility that European equity prices are being crushed by the failed monetary experiment to create a single currency. Treating the current decline as merely a cyclical phenomenon avoids difficult conversations with one's fellow Europeans about the failure of a grand European experiment for integration and the dire socio-political implications of its failure."

Why have these problems been entirely unaddressed during the last three wasted years of Brexit stasis? You'll have to ask those members of a biased, europhile media in the UK who also saw all their delusional, metropolitan elitist ideals collapse, in flames, on the night of 12 December 2019. But not all the financial world's challenges originate in a failing eurozone.

Just before Christmas, the *Financial Times* reported that the Fed was considering the introducing of a rule that would let inflation run above its 2% target, which would be one of the most significant changes to the Fed's inflation-fighting mandate in its history.

This correspondent has long believed that the global debt predicament (too much debt in the system, and not enough economic growth to keep that debt serviced, by anything except continually devalued money) would ultimately result in a potentially messy outbreak of inflation. We concede that a period of deflation could plausibly precede it, if not accelerate its arrival. Nevertheless, as we have stated before, we try not to let subjective 'macro' prognostications drive our investment process. Every equity purchase we make is predicated on company valuations that are already attractive, and where our sole forecast is that next year's earnings will at least match those of the current year, if not actually surpass them. This presumed inflationary backdrop notwithstanding, we are starting to find new opportunities in the commodities space – for example, the Swedish mining and smelting company, **Boliden AB (STO:BOL)**. Whatever your concerns about the volatility of commodities prices, Boliden has shown an ability to grow its book value even during the most challenging of operational environments. It managed to compound its book value by an annualised 11.4% during the five-year commodity bear market that we believe ended at the start of 2016.

If the Fed is going to "temporarily" abandon its strict inflation mandate (and the likes of Christine Lagarde at the European Central Bank are going to insist on imposing her 'mission creep' of economically unproductive, pointless greenwash, to be paid for by purposely devaluing the currency), then the outlook for commodities prices in general, and precious metals prices in particular, may be even more constructive than we have been led to conclude. The monetary metals, gold and silver, have featured in our client portfolios for as long as I can remember. Why? Because the behaviour of central bankers across the world gives us every reason to conclude that they simply will not stop with monetary stimulus until the inflationary genie is out of the bottle. And once out of the bottle, he may prove stubbornly resistant to going back inside. To cite George Bernard Shaw:

"You have to choose between trusting to the natural stability of gold and the natural stability of the honesty and intelligence of the members of the government. And, with due respect to these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold."

So, my investment recommendations for 2020 are not vastly changed from those of previous years. On the grounds of both valuation and growth, my favourite markets are Japan and Vietnam (the latter of which can be accessed through the London-listed investment trusts the **Vietnam Opportunities Fund (LON:VOF)** and **Vietnam Enterprise Investments Limited (LON:VEIL)**). Vietnam is a standout opportunity because its economy is rapidly industrialising; its people are well educated, hard-working and eager to advance themselves; its companies are growing profits quickly but are very reasonably priced; the economy is a magnet for foreign direct investment across south-east Asia; and Vietnam itself is not even a permissible asset for most asset managers, given its designation as a frontier economy as opposed to an emerging or developed one. That will change over time, as Vietnam gets 'promoted' into more mature indices of economic development. Meanwhile, private investors who aren't constrained by benchmark or indexation limits should strike while the iron is hot.

"ON THE GROUNDS OF BOTH VALUATION AND GROWTH, MY FAVOURITE MARKETS ARE JAPAN AND VIETNAM."

Also, the slow advance in the popularity of modern monetary theory towards the corridors of the central banks makes the likes of gold and silver must-own assets, in my opinion – if only for portfolio-protection purposes.

Finally, my best wishes to all readers for a happy, peaceful and prosperous New Year!

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'.

JANUARY 2020

INVESTOR EVENTS DIARY

EVERY WEDNESDAY | 12:30

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

AVAILABLE NOW

Event:	netwealth webinar series
Organiser:	netwealth
Place:	Webinar
Tickets:	www.netwealth.com/webinars

EVERY THURSDAY

Event:	FinecoBank open house
Organiser:	FinecoBank
Place:	FINECO HUB, 19 Great Winchester Street, London EC2N 2JA
Tickets:	Not needed, drop in

WEDNESDAY 8 JANUARY | 16:00-17:30

Event:	Fineco Investment Platform: risk management, diversification strategies, along with the flexibility of a Multicurrency account
Organiser:	FinecoBank
Place:	FINECO HUB, 19 Great Winchester Street, London EC2N 2JA
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

WEDNESDAY 15 JANUARY | 16:00-17:30

Event:	How to set FinecoBank Multicurrency account and trading platforms at your need
Organiser:	FinecoBank
Place:	FINECO HUB, 19 Great Winchester Street, London EC2N 2JA
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

WEDNESDAY 22 JANUARY | 13:00-18:00

Event:	Long and short term strategy for successful wealth creation
Organiser:	FinecoBank
Place:	FINECO HUB, 19 Great Winchester Street, London EC2N 2JA
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

THURSDAY 23 JANUARY | 16:00-18:00

Event:	Fineco and Columbia Threadneedle. Asset Allocation and European Equity focus.
Organiser:	FinecoBank
Place:	FINECO HUB, 19 Great Winchester Street, London EC2N 2JA
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

SATURDAY 25 JANUARY | 09:00-17:00

Event:	A Crash Course in AI: Everything You Want to Know About AI but Are Afraid to ask
Organiser:	R42 and Dr. Ronjon Nag
Place:	Savoy Place, Institution of Engineering and Technology, 2 Savoy Pl, London WC2R 0BL
Tickets:	20% discount using code: 20R42 www.eventbrite.com/e/a-crash-course-in-ai-everything-you-wanted-to-know-about-ai-but-was-afraid-tickets-85782270079

WEDNESDAY, 29 JANUARY | 16:00-17:30

Event:	How to use Fineco investing platform: sectors overview, assets breakdown and fund descriptions
Organiser:	FinecoBank
Place:	FINECO HUB, 19 Great Winchester Street, London EC2N 2JA
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

THURSDAY, 20 FEBRUARY | 10:00-17:00

Event:	The Business Funding Show
Organiser:	Business Funding Show
Place:	East Wintergarden, 43 Bank St, London E14 5NX
Tickets:	www.businessfundingshow.com/events/the-business-funding-show-2020

FRIDAY, 28 FEBRUARY | 09:30-17:00

Event:	The London Trader Show
Organiser:	Investor Conferences (UK) Ltd
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	www.eventbrite.co.uk/e/london-trader-show-2020-tickets-59881575404

SATURDAY, 28 MARCH | 09:30-17:00

Event:	Master Investor Show
Organiser:	Master Investor
Place:	Business Design Centre, 52 Upper St, London N1 0QH
Tickets:	50% discount using code: MAG12 https://masterinvestorshow.eventbrite.co.uk

THURSDAY, 2 APRIL | 09:00-17:00

Event:	UK SPINE Annual Conference 2020
Organiser:	UK SPINE consortium (led by University of Oxford)
Place:	Jurys Inn Birmingham, 245 Broad Street, Birmingham B1 2HQ
Tickets:	www.kespine.org.uk/events/conference-2020-free-flow-knowledge-accelerate-innovation-healthy-ageing

MARKETS IN FOCUS

DECEMBER 2019

GLOBAL EQUITIES

Index	Last Month %	YTD%	52-Week Strength
Russian TSI	7.7	44.9	
CSI 300	7.0	36.1	
Hang Seng	7.0	9.1	
Bovespa	6.9	31.6	
NASDAQ 100	3.9	38.0	
FTSE All-World	3.4	24.0	
S&P 500	2.9	28.9	
FTSE 100	2.7	12.1	
Dow Jones	1.7	22.3	
Nikkei 225	1.6	18.2	
Euronext 100	1.3	24.8	
CAC 40	1.2	26.4	
Swiss Market	1.2	26.0	
DAX Xetra	0.1	25.5	
S&P/ASX 200	-2.4	18.4	

COMMODITIES

Commodity	Last Month %	YTD%	52-Week Strength
Palm Oil (Crude)	18.1	44.9	
Crude oil (Light Sweet)	11.8	34.6	
Coffee	11.0	29.7	
Crude oil (Brent)	10.2	22.5	
Platinum	7.2	20.5	
Copper	6.5	7.7	
Cotton	6.4	-3.7	
Silver	5.2	15.7	
Iron Ore	5.2	26.9	
Sugar (No. 11)	4.6	12.5	
Palladium	3.9	57.0	
Gold	3.1	18.2	
Cocoa	-4.1	2.0	
Natural Gas	-4.2	-26.1	
Bitcoin	-6.6	99.6	

FOREX

Pair/Cross	Last Month %	YTD%	52-Week Strength
AUD/USD	3.8	-0.6	
GBP/USD	2.6	4.0	
EUR/USD	1.9	-2.2	
EUR/JPY	1.1	-3.0	
EUR/GBP	-0.7	-5.9	
USD/JPY	-0.7	-0.9	
GBP/AUD	-0.9	4.7	
EUR/CHF	-1.3	-3.4	
USD/CAD	-2.1	-4.4	
USD/CHF	-3.3	-1.7	

CENTRAL BANKS – RATES & MEETINGS

Central Bank	Key Rate	Next	After
Bank of England (BoE)	0.75%	Jan 30	Mar 26
European Central Bank (ECB)	0.00%	Jan 23	Mar 12
Federal Reserve System (FED)	1.75%	Jan 29	Mar 18
Bank of Japan (BoJ)	-0.10%	Jan 21	Mar 19
Bank of Canada (BoC)	1.75%	Jan 22	Mar 04
Reserve Bank of Australia (RBA)	0.75%	Feb 04	Mar 03
Swiss National Bank (SNB)	-0.75%	Mar 19	Jun 18
Banco Central do Brasil (BCB)	4.50%	Feb 05	Mar 18
Central Bank of Russia (CBR)	6.25%	Feb 07	Mar 20
Reserve Bank of India (RBI)	5.15%	Feb 06	

FTSE 350 TOP RISERS

Company	Last Month %	YTD%	52-Week Strength
Frasers Group PLC	36.0	92.9	
Dunelm Group PLC	35.6	114.0	
Helios Towers PLC	26.4	36.7	
Kainos Group Ltd	25.3	85.5	
Ascential PLC	19.5	3.9	

FTSE 350 FALLERS

Company	Last Month %	YTD%	52-Week Strength
Tullow Oil PLC	-51.1	-64.3	
NMC Health PLC	-29.6	-35.4	
Finablr PLC	-18.1	0.9	
TUI AG	-10.3	-15.3	
Britvic PLC	-6.7	13.1	

FTSE 350 SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Technology Hardware & Equip	19.2	112.0	
Electricity	10.6	27.6	
Industrial Metals	9.4	-16.0	
Oil Equipment, Serv & Dist	9.0	-19.9	
Real Estate Investment & Serv	8.8	29.1	

FTSE 350 SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Mobile Telecommunications	-3.8	-1.4	
Personal Goods	-3.4	8.5	
Aerospace & Defense	-0.4	14.1	
Oil & Gas Producers	0.2	-4.4	
Software & Computer Services	0.5	26.7	

IA SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
UK Smaller Comp	7.1	25.4	
Global Emerging Markets	5.4	17.0	
UK Equity Income	4.6	20.9	
UK All Comp	4.5	23.2	
China/Greater China	4.0	23.5	

IA SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
UK Gilts	-1.6	7.5	
UK Index Linked Gilts	-1.4	6.3	
North American Smaller Comp	-0.1	27.2	
Short Term Money Market	0.0	0.6	
£ Corporate Bond	0.1	9.6