ISSUE 61 – APRIL 2020

WWW.MASTERINVESTOR.CO.UK

MAGAZINE

masterinvestor

RESEARCH • ANALYSE • INVEST

THE UK'S NO.1 FREE INVESTMENT PUBLICATION

THE FUTURE OF POWER

PLUS...

CORONAVIRUS CRASH
DEFENSIVE FUNDS TO PROTECT YOUR PORTFOLIO

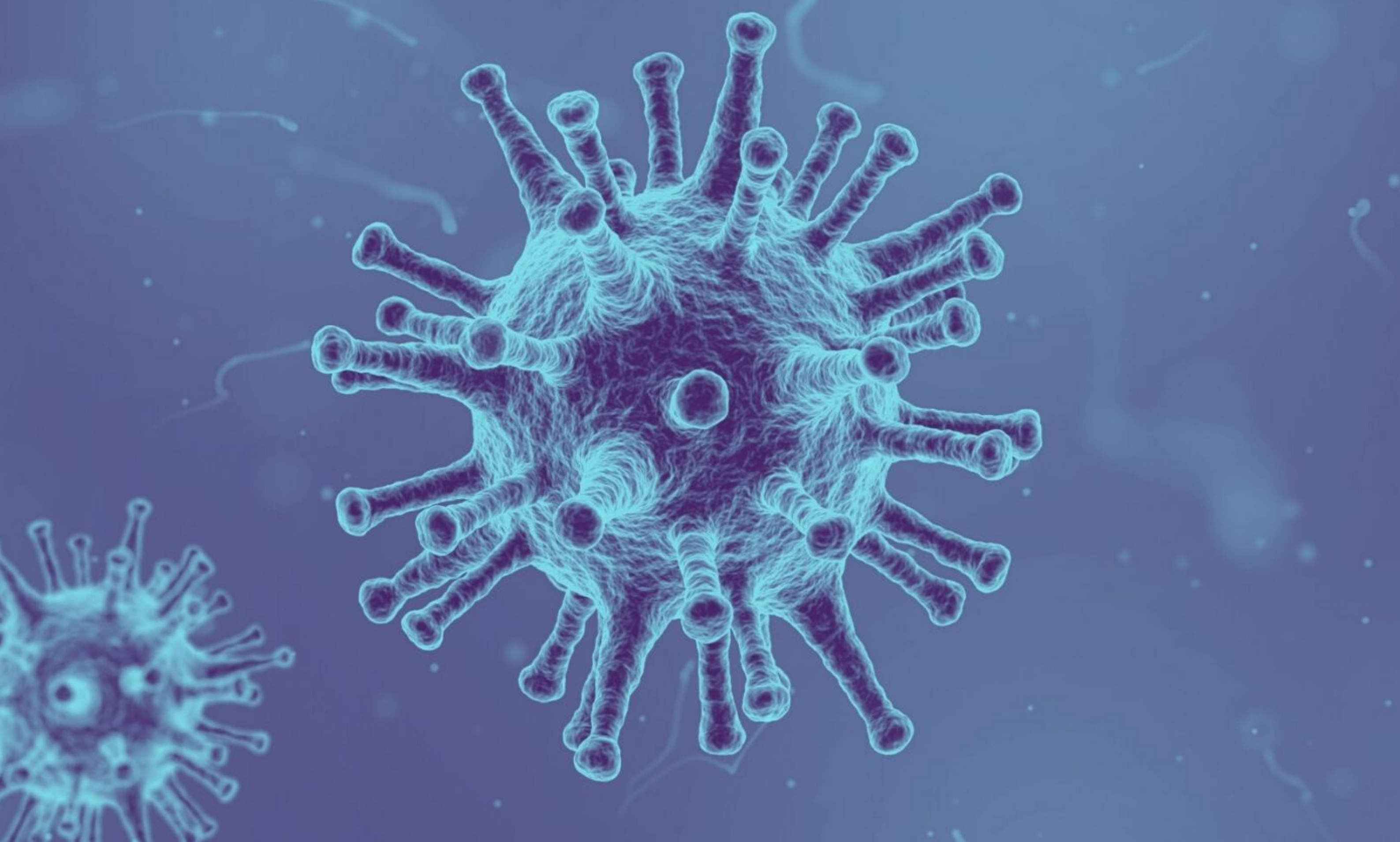
APPLE'S IPHONE
IS ITS BIGGEST FRANCHISE A BLESSING OR A CURSE?

BOUNCING BACK
THREE SMALL CAPS TO RIDE THE RECOVERY

CHARTING A PATH TO SUCCESS
THREE CHARTS TO WATCH IN THE MONTH AHEAD

masterinvestor
RESEARCH • ANALYSE • INVEST

CATACLYSM IS OPPORTUNITY



A SPECIAL REPORT ON HOW TO SURVIVE AND PROSPER IN THE ECONOMIC FALLOUT FROM THE CORONAVIRUS PANDEMIC.

JAMES FAULKNER & VICTOR HILL

WELCOME

Dear Reader,

These are uncertain times. But crises bring opportunities.

The month of March was shocking to behold, in more ways than one. As the coronavirus wreaked havoc across the globe, and the death toll began to mount, stock markets slipped into disarray. In what was certainly the most vicious sell-off I've personally ever witnessed, the S&P 500 lost a quarter of its value in a matter of weeks. With markets seemingly in freefall, as the prospect of the wholesale shutdown of whole swathes of the economy began to sink in, investors who resisted the urge to sell would have required nerves of steel.

But unless you took risk off the table at the earliest sign of trouble (and maybe there are some readers out there who read this right from day one), the best course of action is often to simply do nothing when markets are whipped into a frenzy like we saw in March. Of course, this is all relative, as it depends on individual circumstances and investment horizons, but a crisis is never a great time to sell shares. It's always easy to think you can buy back in when the market trends lower, but this is a fool's game – and it requires the nerve to go all in at a time when everyone else around you is at that point of maximum pessimism.

So once you've composed yourself and recovered from the mental trauma of the crash, now is as good a time as ever to whip out that wish list full of those stocks that you'd love to own but always looked too expensive to buy. But remember, bear markets usually tend to last for around 18 months, so there's no guarantee that we've reached the bottom yet. On the flipside, that means there will probably be plenty of opportunities to buy at what will probably in several years' time look like very good prices. For now, the markets will be fixated on the trajectory of this virus and the fight to contain it; for that will determine the severity and duration of the recession that we now face.

As ever, best of luck for the month ahead.

Regards,

J Faulkner
Editor

CONTACTS

ADVERTISING
amanda@masterinvestor.co.uk

EDITORIAL ENQUIRIES
james.faulkner@masterinvestor.co.uk

FOLLOW US

EXCLUSIVE BOOK OFFER

Master Investor Ltd.
Unit 2, The IO Centre
Salbrook Industrial Estate
Salbrook Road
Salfords
Redhill RH1 5GJ
United Kingdom

EDITORIAL
Editorial Director James Faulkner
Sub Editor Fiona Nicolson
Creative Director Alexandra Mueller

EDITORIAL CONTRIBUTORS
John Cornford
Filipe R. Costa
Richard Gill, CFA
Victor Hill
David Jones
John Kingham
Andrew Latto, CFA
Derren Nathan
Tim Price
Nick Sudbury
Michael Taylor, CFA

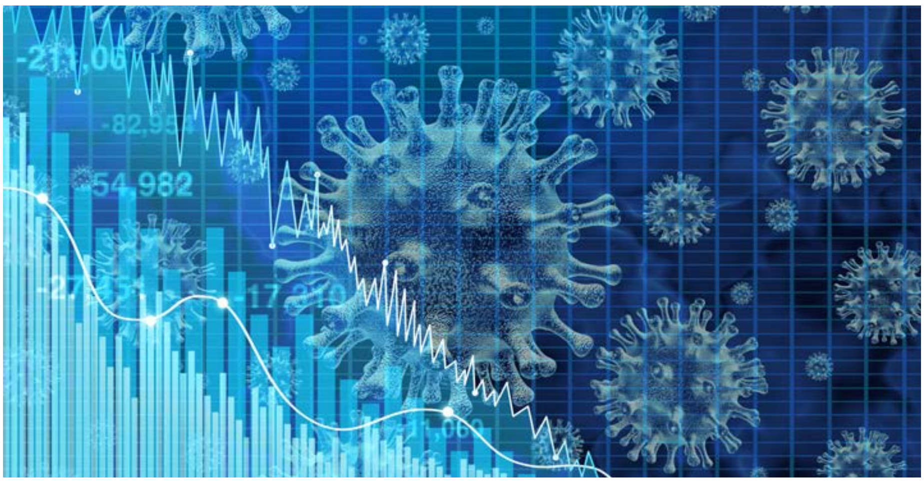
CONTENTS

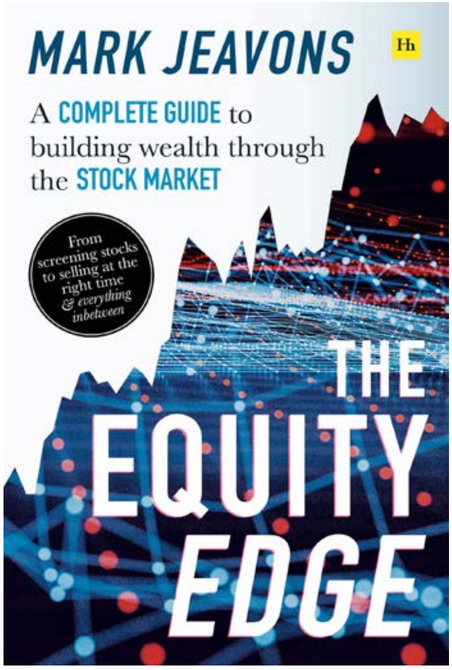
ISSUE 61 – APRIL 2020

ON THE COVER

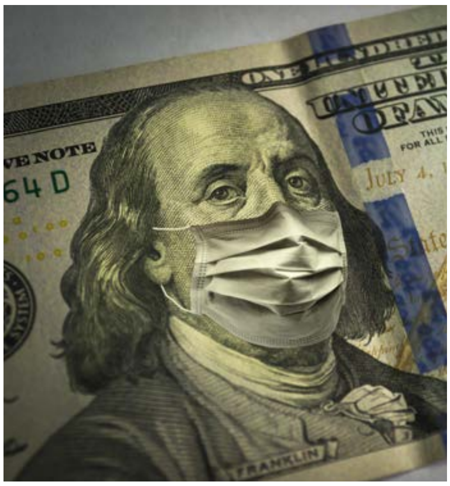
FEATURE

ALL OTHER TOPICS





MARK JEAVONS
Hh
A COMPLETE GUIDE to building wealth through the STOCK MARKET
From screening stocks to selling at the right time & everything inbetween
THE EQUITY EDGE

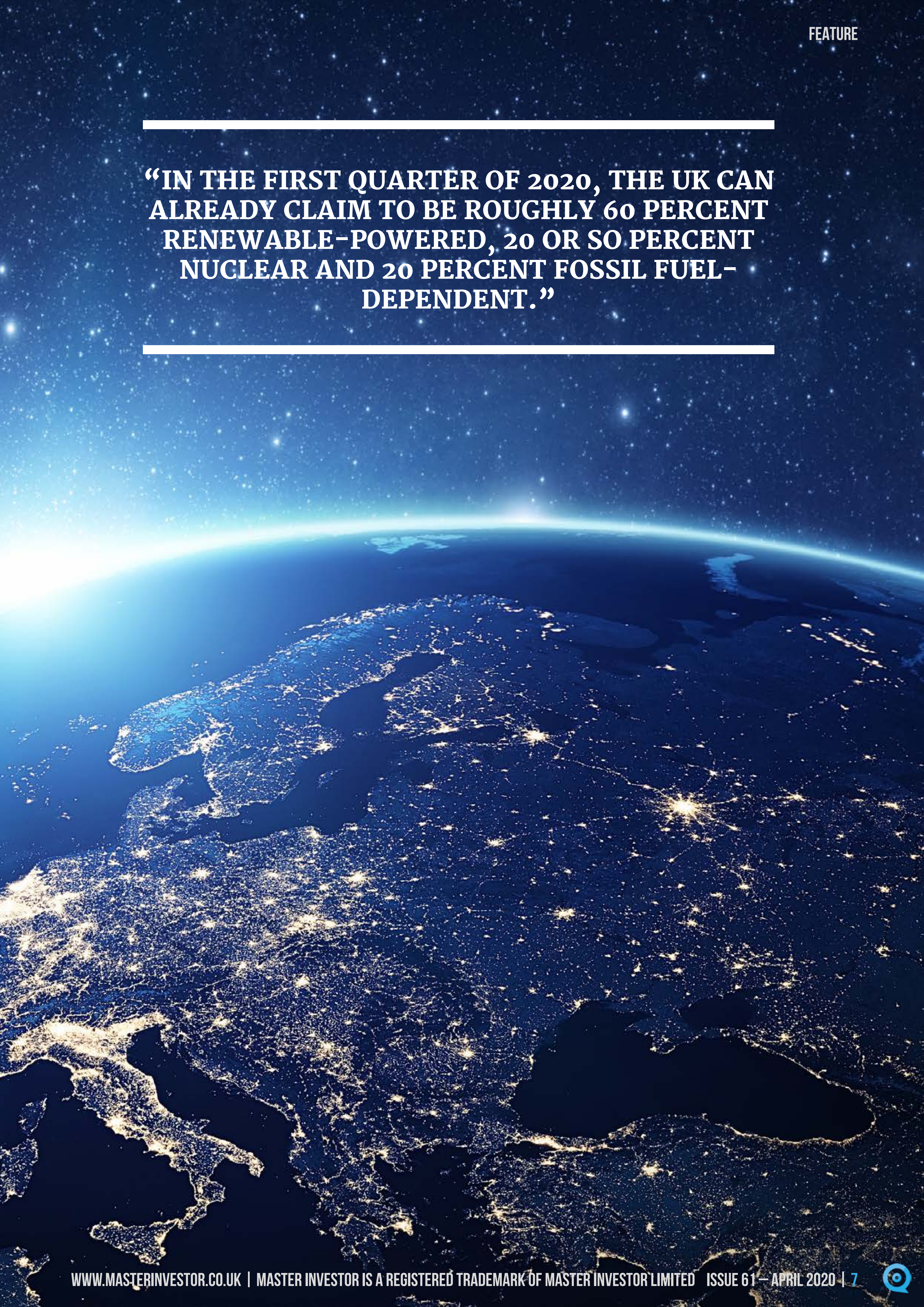


BY VICTOR HILL

FEATURE

THE FUTURE OF POWER

Victor Hill considers how the power industry will evolve in order to facilitate the 30 or so percent increase in output that will be required to facilitate automotive electrification.



"IN THE FIRST QUARTER OF 2020, THE UK CAN ALREADY CLAIM TO BE ROUGHLY 60 PERCENT RENEWABLE-POWERED, 20 OR SO PERCENT NUCLEAR AND 20 PERCENT FOSSIL FUEL-DEPENDENT."

In a greener world of renewable energy and electric cars − and even electric aeroplanes − how can we be sure the lights will stay on? How are we going to heat our homes in a world where gas boilers are on their way out? How are we going to increase electric-power production and reduce our carbon emissions at the same time? And which electricity generators will be the winners in this 'brave new world'?

Challenging times

I am writing this just after the Prime Minister Johnson instructed us all to stay at home (though at least I am still allowed to go jogging once per day). All of our European neighbours are in strict lockdown. In the US, President Trump has declared a state of emergency and some states, including California, have imposed European-style lockdowns. The Covid-19 global pandemic dominates the news – even Greta Thunberg has been banished from our screens for now.

But – if it is possible – I want readers to look to the future, to a time when the current emergency will be a distant memory. And when the competing targets of reducing our carbon emissions to net zero by 2050 collides with our target to phase out the sale of diesel and petrol-powered cars by 2035 − or was that 2032? Last month I speculated on the disruption in prospect as a result of the 'Great Automotive Transition'. This month, I want to consider how the power industry will evolve in order to facilitate the 30 or so percent increase in output that will be required to facilitate it.

The energy mix

If you haven't yet discovered the GB National Grid Status website, do check it out. It is an amazing window into how our homes, offices, shops and places of recreation are powered in the UK.

I am writing this in the last full week of March. It is the late afternoon of a splendidly sunny though quite chilly spring day. The UK electricity mix right now is as follows: coal 1.8 percent; nuclear 12.54 percent; combined gas cycle turbines 28.17 percent; wind 26.16 percent; hydro and pumped electricity 2.53 percent; biomass 8.79 percent; and solar 8.64 percent. The remaining balance of demand comes from interconnectors between the UK and Europe (specifically France, Belgium and the Netherlands), between Wales and the Republic of Ireland, and between Scotland and Northern Ireland. The French nuclear-power network operated by **EDF (EPA:EDF)** usually contributes significantly to the UK grid. At this moment its contribution is 5.82 percent.

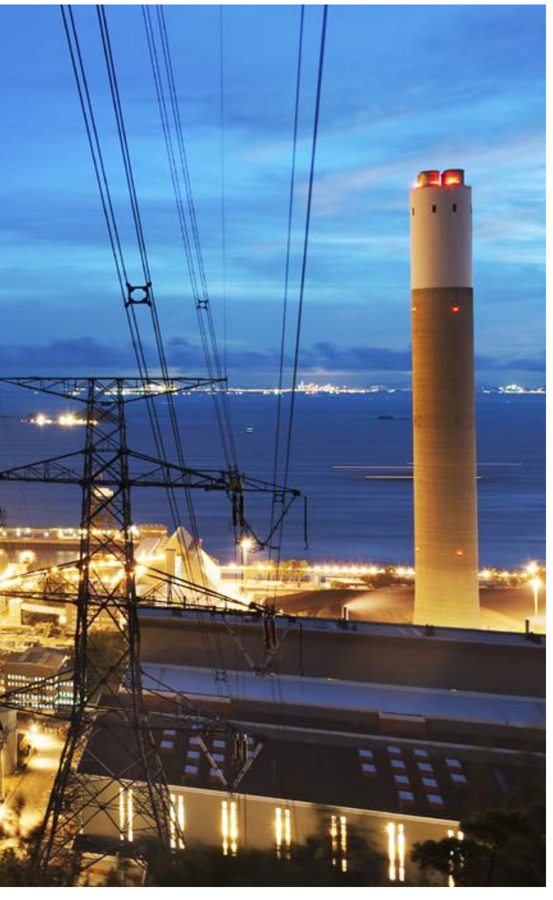
I encourage readers who are so inclined to track this website over the course of a day. Obviously solar power declines to nothing at dusk and snaps back into action at dawn. Wind power now accounts for at least 25 percent of supply to the UK grid and often well over 30 percent − but it can occasionally fall away on balmy summer days. Overall, in the first quarter of 2020, the UK can already claim to be roughly 60 percent renewable-powered, 20 or so percent nuclear and 20 percent fossil fuel-dependent. I wonder how many Extinction Rebellion protesters know that.

The real villain for environmentalists is coal-to-power. Not only does burning coal release a lot of carbon dioxide and other greenhouse gases such as methane, it is also very dirty, as a huge amount of soot and particulates are released into the atmosphere. But here in the UK we can justifiably claim to have made great progress. Last year just three percent of the UK's total power production came from burning coal.

Carbon capture and storage (CCS) – new developments

To the extent that there is still some fossil-fuel electric-power generation in 2050, there will still be some CO2 emissions. It is doubtful that the clean combined gas turbine cycle (CGTC) technology will have been entirely phased out by then. Accordingly, more attention will have to be given to new CCS technology.

In the Budget, the UK government allocated £800m towards the creation of the new CCS Infrastructure Fund[i]. This will funnel seed money into at least two so-called CCS hubs. One will be operational by the mid-2020s and the other by 2030. The first is likely to be located in the North of England.



"UK GIANT ROLLS-ROYCE PLC (LON:RR) PLANS TO INSTALL AND OPERATE FACTORY-BUILT NUCLEAR POWER STATIONS BY 2029."

In most European countries, as in the UK, the amount of electricity produced from coal is in rapid decline in both absolute and relative terms. In contrast, coal-to-power in China grew last year. Indeed, that country accounts for about half of all global coal generation – much of the coal being imported from Australia and New Zealand. And actually, the UK government has sanctioned a new deep coal mine in Cumbria, the output of which will most probably be exported. It seems there is one rule at home and another abroad.

The cost of renewable energy continues to fall

Documents released further to Mr Sunak's 11 March Budget show that the cost of renewable energy – principally wind and solar – has fallen so quickly that these are likely to provide half of total electricity demand soon.

Hinkley Point C, the giant new nuclear-power station which is under construction down in Somerset at a cost of £22bn will produce electricity at a cost of £92.50 per megawatt hour. Hinkley Point C is being developed by a consortium of EDF and China General Nuclear. By comparison, most wind farms in Scotland are generating electricity at less than £45 per megawatt hour.

However, wind and solar power are obviously dependent on the weather and are seasonal – in the UK there is generally more wind in winter and undoubtedly more sunshine in summer. Because the wind doesn't always blow and the sun doesn't always shine, backup generation capacity is required. The cost of maintaining and running that backup capacity is not included in the calculation of the cost of renewable energy – so there is a debate about whether renewables are quite as inexpensive as they appear to be. That consideration aside, much of the backup capacity in place currently is fossil-fuel powered such as open cycle gas turbine plants. The UK government wants to invest such that, in future, the backup capacity will be provided by nuclear and hydrogen-powered plants.

In order to push generators towards renewables, the UK Chancellor in his Budget announced increases in the Climate Change Levy on gas consumed by businesses. He also offered tax breaks to the largest energy firms if they can reduce their emissions. The Chancellor indicated that further announcements regarding the UK's green infrastructure would be included in the National Infrastructure Strategy which will be unveiled at this autumn's spending review. We are also keenly awaiting the *Net Zero Review* which was imminent until the CV-19 pandemic kicked off and which, at time of writing, has been delayed.

One issue which was not directly tackled in the Budget was that of domestic heating, which notoriously produces a lot of CO_2. Gas boilers in people's homes generate about as much carbon dioxide as our cars do. In fact, central heating and home hot water accounts for about 40 percent of total UK carbon emissions. There are only two possible solutions: to replace the existing multiplicity of gas and oil-powered boilers with either electric or hydrogen-powered ones; or to move to biomass boilers and heat pumps (which are electric powered). The Budget did include some grants for the installation of carbon-neutral boilers.

Coal fires and wet wood to be outlawed in the UK

In late February, the UK government announced that it would ban domestic coal fires and the use of 'wet wood' for wood stoves by 2023. These are very popular across rural Britain and engender a cosy, bucolic atmosphere in thousands of British country pubs. The reaction from country folk was stark. In a letter to the *Daily Telegraph*, a reader from Cumbria described it as "...a policy concocted by metropolitan flat-dwelling elitists". Anyone who uses a wood-burning stove will tell you that only seasoned (ie dried-out) wood is appropriate, as wet wood doesn't burn well. And who will decide whether wood sold at garden centres and garages is seasoned or wet? A company called Oxbow Coal has developed a product called Red – a coal briquette with the volatile elements removed and thus an improvement on smokeless coal.

"OFFSHORE WIND ARRAYS NOW ACCOUNT FOR ABOUT ONE TENTH OF ALL NEW PROJECTS. THE US AND CHINA ARE THE WORLD'S BIGGEST MARKETS FOR ONSHORE WIND."

Wind power: still growing

The total power output from wind turbine arrays grew by 60.4 gigawatts or 19 percent last year, according to the Global Wind Energy Council. Offshore wind arrays now account for about one tenth of all new projects. The US and China are the world's biggest markets for onshore wind.

Earlier this year, the UK government announced that it was ending an effective ban on onshore wind projects by allowing new onshore wind projects to compete for subsidies with solar and offshore wind projects. The Cameron government ended subsidies for "unsightly" wind farms in 2016 in response to a powerful backbench lobby of the Tory 'not-in-my-back-yard' brigade. After the subsidies were withdrawn, just 23 onshore wind farms started generating electricity last year compared with 405 in 2014. Offshore wind arrays have opponents too, who argue that they can be deadly for seabirds which perish in the blades while flying to feeding spots.

Denmark's **Orsted AS (CPH: ORSTED)** has built the largest wind farm in the world to date, in the North Sea. It is a 174-strong turbine array located 100 kilometres (62 miles) off Humberside. One noteworthy player is Germany's **RWE (Rheinisch-Westfälisches Elektrizitätswerk AG) (ETR:RWE),** the shares of which were powering high until the coronavirus pandemic kicked in.

Small-scale nuclear reactors

The Russians have had floating nuclear power stations for years, which they use to keep the lights on in remote parts of Siberia. For the layman the idea of a floating power station is an accident waiting to happen. But the concept of smaller-scale and even mobile nuclear plants is worthy of attention.

UK giant **Rolls-Royce PLC (LON:RR)** plans to install and operate factory-built nuclear power stations by 2029. Mini nuclear stations can be mass manufactured and delivered in modular form on the back of a lorry, which makes costs more predictable. The company believes that mini nuclear reactors can compete on price with low-cost renewables such as offshore wind. They will have prefabricated parts and use advanced digital welding techniques and robotic assembly. Post-production parts will be shipped to site and bolted together. This approach could dramatically reduce the cost of building nuclear-power sites.

Rolls-Royce is leading a consortium to build small modular reactors (SMRs) and install them in former nuclear sites in Cumbria or in Wales. Ultimately, the company thinks it will build between 10 and 15 of the stations in the UK. They are about 1.5 acres in size, sitting in a 10-acre space. That is about one sixteenth of the size of a major power station such as Hinkley Point.

If SMRs prove cost-effective, then every town could have its own reactor − but using existing sites avoids the problem of how to secure them against risks such as terrorist attacks. In the past few years, major nuclear projects have been abandoned, as

Wrightbus shows the way with hydrogen

Wrightbus, based in Ballymena, Northern Ireland, manufactures the famous 'Boris buses' which are known and loved by Londoners. It has been owned since last year by Jo Bamford who also happens to be the heir to JC Bamford, one of Britain's largest privately-owned manufacturing companies. He bought it from the founding Wright family. Wrightbus employs 700 people in Northern Ireland and has established a second plant in Malaysia with 150 staff. Wrightbus makes a number of different models including diesel and electric-battery versions, but its competitive advantage is in hydrogen-powered buses. Prime Minister Johnson recently announced a £5bn programme to invest in the UK's bus network.

Hydrogen can be created by electrolysing water – a process often undertaken in plants next to wind turbines. Hydrogen, according to Mr Bamford, can be used to power not just buses but trains and ships. If hydrogen takes off as a key fuel source in transport, then the increased demand for electricity after 2040 may not be as great as some have forecast.

The climate emergency: still top of the agenda (except in time of pandemic)

2019 was the second-hottest year on record for the world, with a global average temperature of 1.1 Celsius above pre-industrial levels, according to the UN's World Meteorological Organisation in a report released in early March. Antonio Guterres, the UN Secretary-General, declared that if the rate of global warming continues at the present rate, the strictures of the 2015 Paris Agreement, which sought to limit the global temperature rise to a maximum of 1.5 Celsius, will not be met. 2010-19 was the hottest decade since records began in the 19th century. Even more worrying is the extent of ice-melt in Antarctica, with the fracturing of several major glaciers which could contribute to a major rise in sea levels. In this climate (excuse the pun) of concern, the pressure on politicians to decarbonise the economy will only intensify in the decade ahead.

In the EU the Green Deal includes a €100bn package to help fossil-fuel-dependent regions to move to cleaner electricity generation. This went down badly in coal-dependent Poland, which refused to sign up to the EU carbon-reduction targets at the EU summit last December. Even oil giants such as **BP (LON:BP)** have committed to become carbon neutral by 2050, and to cut the carbon intensity of their products by 50 percent by then.

Japanese manufacturers of nuclear reactors **Toshiba (TYO: 6502)** and **Hitachi (TYO: 6501)** pulled out of the market after the Fukushima disaster.

Some environmentalists oppose nuclear power, arguing that it is dangerous and expensive. Others, not least scientist and environmentalist, Sir James Lovelock, argue that we shall not be able to achieve net zero emissions by 2050 without it.

Biomass energy

The Drax power station in Selby, North Yorkshire consumes 2,300 tonnes per hour of wood chips from trees grown in Louisiana and Mississippi, to generate electric power for millions of homes. These wood chips are shipped to the nearby port of Immingham, Lincolnshire and then delivered by truck. As much as 7.8m tonnes of wood pellets were imported in 2018.

At a time when the UK government is talking about the need to plant more trees and has moved to outlaw the burning of wet wood for wood stoves, burning wood to generate power might seem counterintuitive. But proponents of biomass energy argue that generating power this way is actually net carbon negative. As such, it can claim to help offset some of the sectors which will struggle hard to reduce their carbon footprint to anything like zero, such as aviation and agriculture.

The principle is that as trees grow, they absorb CO2 from the atmosphere, and when they are burnt they release that CO2, so they are therefore carbon neutral. But if you can use CCS technology to sequester much of the CO2 in the smokestack, as Drax does, you now have a cycle that is net carbon negative. Drax is working with **National Grid (LON:NG)** and Norwegian energy company **Equinor (NYSE:EQNR)** on a CCS network in the Humber district which aims to pipe CO2 to depleted oil wells in the North Sea.

Some commentators question the carbon accounting behind this. Under guidelines established by the Intergovernmental Panel on Climate Change (IPCC), carbon released from biomass is reported upon harvesting rather than at burning. And the Office for National Statistics, which measures the UK's total carbon emissions, takes the line that if the carbon emissions have been counted in the country where the biomass originates (ie the US) then it cannot be counted as part of carbon emissions when it is burnt here. Investors need to be aware that there are no international accounting standards in carbon accounting and most of the figures are questionable.

The other issue surrounding biomass-to-energy is that growing woodland or other biocrops takes up land which might otherwise be used to grow food.

Northern Ireland: has the subsidy lesson been learnt?

The Renewable Heat Incentive in Northern Ireland paid people to install boilers fuelled by wood pellets without any ceiling imposed on the amount of energy used. A province of two million people managed to burn their way through more than £500m of public subsidy in just over a year. In the wake of this scandal, the power-sharing arrangements in Northern Ireland collapsed. Happily, the Stormont government has now been restored but the lessons of carefree government subsidy of environmental causes may not yet have been learnt.

"IT IS TEMPTING TO SAY THAT FUSION ENERGY HAS BEEN ON THE BRINK OF REALISATION FOR SO LONG THAT IF IT WAS GOING TO HAPPEN IT WOULD ALREADY HAVE HAPPENED. BUT THE PHYSICS IS WELL UNDERSTOOD, EVEN IF THE ENGINEERING IS STILL CHALLENGING."

Nuclear fusion: the dream persists

First Light Fusion in Oxfordshire is attempting to replicate the physical reaction which occurs within the inner core of the sun. Inside the sun, temperatures of 15m Celsius cause hydrogen atoms to collide so fast that they become helium, releasing an inordinate amount of energy in the process. The challenge has been to create a machine that can safely create huge amounts of energy here on Earth.

The dream of nuclear fusion has been around since the 1950s. The cliché in the trade is that it has always been just 20 years away. But First Light Fusion recently raised £25m from investors, including Oxford Sciences Innovation, Invesco Perpetual and IP Group.

Just down the road in Abingdon, Tokamak Energy is working on a quite different approach to fusion energy. Tokamak is a Russian word meaning a toroidal reactor. Their 45-tonne reactor called ST40 uses plasma (a state of matter distinct from solid, liquid or gas) to generate temperatures equivalent to those inside the sun. The reactor uses magnetic fields to generate temperatures of theoretically up to 100m Celsius. The super-heated plasma is contained away from the reactor casing – which would obviously disintegrate otherwise – by powerful electromagnets. As the plasma is heated to unimaginable temperatures, atomic nuclei within the plasma fuse and release entirely clean energy. Or that's what the scientists hope.

Since it was spun out of Oxford's Culham fusion-research laboratory, Tokamak Energy has raised over £118m to finance its research. Investors include Winton Capital Management. There will be further funding rounds. Tokamak Energy's chief executive is Jonathan Carling, a former chief executive at Rolls-Royce PLC.

It is tempting to say that fusion energy has been on the brink of realisation for so long that if it was going to happen it would already have happened. But the physics is well understood, even if the engineering is still challenging. The main fuel envisaged – deuterium – can be found in water and is in limitless supply.

'Rubbish energy' on the rise

Wheelabrator (previously owned by **Waste Management Inc. (NYSE:WM)**) operates waste-to-energy power plants in West Yorkshire, Kent and Wales. Its UK arm was the object of a bidding war last month. The firm recently abandoned plans to build a giant incinerator in Andover, Hampshire. Wheelabrator was bought by Macquarie from Energy Capital Partners in 2018 for an undisclosed amount. The owner of South West Water, **Pennon Group (LON:PNN)**, is also poised to sell off its incinerator division which might fetch up to £4bn. The US buyout fund KKR, **Suez SA (EPA:SEV), Veolia (EPA:VIA)**, Dalmore Capital and Equitix were said to be interested.

Gas-powered electricity

There are two kinds of gas generator, with one much more preponderant than the other. CGCTs are gas turbines, the exhausts of which are used to heat water and thus drive a steam turbine. This is a so-called two-stage process which is reckoned to be highly efficient. They are also very fast to activate – generally they can be put into service within one hour. As a result, they are used to meet peak demand and to compensate when winds are slack (not often in the UK – but occasionally it happens, particularly in summer). Open cycle gas turbines (OCGTs) do not heat steam in order to generate electricity. They are cheap to build but expensive to run. They are seldom put on stream except in winter power shortfalls and lie idle much of the year.

Prime Minister Johnson has pledged £200m of public money to build the world's first functioning fusion plant in the UK by 2040. The Spherical Tokamak for Energy Production (STEP) is under construction in Culham, Oxfordshire in collaboration with the UK Atomic Energy Authority (UKAEA). The French have the $22bn Iter prototype fusion reactor in Provence which has reportedly been beset by delays and rising costs.

A possible limiting factor: the oil price

If the oil price remains depressed as it is right now during the coronavirus pandemic, then the incentive for drivers to switch to electric vehicles (EVs) will be attenuated and the Great Automotive Transition will slow. As a result, the uplift in demand for electricity might not happen as rapidly as foreseen.

I am writing this at a moment when about one third of humanity is living in a state of partial or complete lockdown. Demand for oil is in freefall. Even if the coronavirus pandemic can be quickly defeated and the lockdowns relaxed, the breakdown of OPEC's alliance with Russia may entail that the price of oil remains depressed for some time to come. US oil production is likely to continue to shape world markets since the US now produces more crude oil than Saudi Arabia.

Action

Investors should understand that power generators operate on wafer-thin margins, even if they have a guaranteed market for their product. The economic fallout from the coronavirus pandemic will hurt their bottom line just like everyone else's. There are already reports that domestic customers are unable to pay their electricity bills. Industrial demand is falling as car plants and so forth shut down. That said this is an industry that will continue to innovate and expand over the next two-three decades. Major generators such as EDF should be included in any diversified equity portfolio. Leaders in wind energy such as RWE also merit close examination.

Companies cited in this article

Company	Status/ ticker
Electricité de France (EDF)	(EPA:EDF)
China General Nuclear Power Corporation	(HK:1816)
Orsted A/S	(CPH: ORSTED)
Rheinisch-Westfälisches Elektrizitätswerk AG	(ETR:RWE)
Rolls-Royce PLC	(LON:RR)
Toshiba	(TYO: 6502)
Hitachi	(TYO: 6501)
BP	(LON:BP)
National Grid	(LON:NG)
Equinor	(NYSE:EQNR)
Waste Management Inc.	(NYSE:WM)
Pennon Group	(LON:PNN)
Suez SA	(EPA:SEV)
Veolia	(EPA:VIA)
First Light Fusion	private
Tokamak energy	private

About Victor

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

i **See: www.globalccsinstitute.com/news-media/press-room/media-releases/global-ccs-institute-welcomes-new-ccs-funding-announced-in-uk-governments-2020-budget**

BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

BOUNCE BACK WITH THESE 'BOMBED-OUT' SMALL CAPS

Richard Gill, CFA, looks at three companies which have strong balance sheets to get them through the current economic doom, and which should bounce back once the world returns to normality.

A colleague who has spent several decades in the financial markets recently said to me that the past month has been the worst for small caps he has ever seen, with prices plunging and liquidity drying up. As I write, the AIM All-Share Index currently trades at 664 points, down 40% since last September's recent peak and down 32% alone in the past four weeks since coronavirus fears began to hit the UK markets. Small-cap investors haven't seen such low share prices for 10 years, just after the aftermath of the last financial crisis.

Companies across a range of sectors have seen their share prices hit, which is unsurprising given that vast areas of the economy have either been shut down completely or subject to severe restrictions on activity. Notable fallers over the past month include beer seller **City Pub Group (LON:CPC)**, down 71% after all pubs were forced to shut, and escape-room operator **Escape Hunt (LON:ESC)**, also down 71% as people were forced to stay in their rooms rather than try to leave them.

There have been some big winners however, especially in the pharmaceuticals sector, as drug companies look for a vaccine to the virus and to develop more rapid-testing equipment. Small-cap 'minnow' **Genedrive (LON:GDR)** has surged 189% over the past four weeks after refocusing towards development of two SARS-COV-2 tests which will determine if a patient has an active infection. Meanwhile, respiratory-drug business **Synairgen (LON:SNG)** has soared by 177% after receiving approvals to start trials of its lung-function improvement drug SNG001 in Covid-19 patients.

As stated in my book review this month, market corrections like this can provide great opportunities for investors with a long-term focus – and lots of patience. But in times like these, small-cap investors need to be particularly careful to establish that firms have sufficient cash resources to get them beyond current circumstances. Below are three companies which have strong balance sheets to get them through the economic doom, and which I believe should see their share prices bounce back once the world returns to normality.

NICHOLS

For this first company we return to an AIM stalwart − one whose strong brand value and resilient products should continue to do well in present times. The company began in 1908, when founder John Noel Nichols created flagship brand Vimto. Nowadays, **Nichols (LON:NICL)** is a leading seller and exporter of a range of still and fizzy soft drinks. Vimto, whose name is a portmanteau of "vim" (meaning vitality) and "tonic", is a purple, still or carbonated, fruit-based drink which remains the company's leading brand.

Other brands in the Nichols portfolio include Feel Good Drinks, a range of adult premium and health soft drinks; Starslush, a range of frozen drinks sold in the UK; Sunkist, a licensed brand of citrus-based drinks; and Levi Roots, a selection of carbonated soft drinks featuring the face of the said popular entrepreneur and reggae musician.

While the UK remains Nichols' key market, the firm has a long history of successfully exporting to international markets. Following its first overseas sale to Guyana in 1919, the company now sells its wares in over 85 countries worldwide, and is particularly popular in some Middle East and African markets.

Thirsty work

As yet, Nichols has not warned the market over any specific Covid-19 concerns, with its last update being the full-year results which were announced on 26 February. This was a solid set of figures, with revenues for the year to December 2019 up by 3.5% to £147m, with pre-tax profits rising by a more modest 2.1% to £32.4m as margins edged down slightly. Pleased with the numbers, management implemented a 6% rise in the total dividend for the year to 40.4p per share.

Both the UK and international businesses contributed to the positive performance, with UK sales rising by a steady 2.5%. This was against the backdrop of a tough UK soft drinks market (still worth £8.7bn) where volumes declined by 2.4% and sales were up by just 0.8%. Elsewhere, Nichols' overseas sales grew by 7.5%, with a notable 21% rise in the Middle East.

On the balance sheet, net cash stood at £40.9m at the period end, boosted by a £28.2m net inflow from operations. This is a strongly cash-generative business, with operating profit cash conversion of 105%. On the outlook, Nichols commented that it believes its diversified and profitable business model will support the continued growth trend into 2020 and beyond.

Berry nice price

Nichols shares are down by 24% this year. Nevertheless, the company still demands a relatively high rating from investors, trading on a multiple of 16 times historic earnings. Given the company's track record, however, that looks like a price worth paying, with revenues showing a compound annual growth rate (CAGR) of 7.3% over the past 10 years. Pre-tax profits, meanwhile, have shown a CAGR of 10.3% over the same period, with the dividend up more than threefold.

Even given the recent drop, since listing on AIM in May 2004, Nichols shares have risen by 804%. And that return doesn't include the substantial dividends paid along the way. While the company may see some falls in demand during the current pandemic (eg it can no longer sell its iced drinks to cinemas) the business remains fundamentally sound, with a strong portfolio of brands and a healthy balance sheet. Therefore, at current levels, I believe investors are getting a quality stock on the cheap, which also comes with the bonus of a 3.5% dividend yield. **This is a buy for recovery and income.**

CONYGAR INVESTMENT COMPANY

Property investment and development companies can get hit hard during economic downturns for obvious reasons. Fears about tenants defaulting on obligations, a lack of buyers and the drying up of funding for new projects often leads to investors fleeing the sector. But this next company looks relatively resilient to the current economic situation and retains a large cash balance to get it through the worst of times.

Listing on AIM in 2003, **Conygar Investment Company (LON:CIC)** is an AIM-quoted property investment and development group dealing primarily in UK property. It was founded by current chief executive Robert Ware, the former deputy chief executive of property investment firm MEPC, as a vehicle to acquire property assets and interests with development and investment potential. Its aim is to invest in property assets and companies where it can add value using property management, development and transaction-structuring skills. Funds raised from property disposals are then recycled into new opportunities.

The business has three major strands: property investment, property development and investment in companies which trade or invest in property or hold substantial property assets. As well as making modest amounts of rental income, there are seven major development properties in the current portfolio. These include a 37-acre site in Nottingham City Centre, where a planning application was granted in April last year for the development of over two million square feet, including offices, apartments and student housing. Another major investment has been made at a site in Haverfordwest, Pembrokeshire, where an application for the first phase of 115 houses was approved in September 2019, with construction expected to begin at the start of 2020.

Welsh woes

The financial year to 30 September 2019 was a tough one for Conygar, with profits on a number of disposals offset by a writedown of £18.6m on its Haverfordwest development as a result of lower demand from major housebuilders and homeowners, along with increasing costs of construction. As a result, a £13.9m loss was posted for the year, with NAV per share falling from 201.3p to 178.2p.

As well as the Nottingham planning-permission receipt, other operational highlights included the completion of a 23,000 square foot Lidl store at the Cross Hands retail park, now rented on a 25-year lease, with the park now almost fully let. Elsewhere, the company completed a development for B&M Retail which was forward sold, with £4.2m received after the year end. Conygar also completed the sale of an 80-bedroom hotel that had been let to Premier Inn at Parc Cybi, Anglesey, for £6.9m.

Despite the mixed year, the company retains a very strong balance sheet, an aspect which underpins the investment case. Uniquely for a property-investment company, Conygar has no borrowings whatsoever, with cash at the end

> **"UNIQUELY FOR A PROPERTY-INVESTMENT COMPANY, CONYGAR HAS NO BORROWINGS."**

Nottingham site – artist's impression. Source: company of the period standing at £39.9m. Conygar has stated that it is content to hold cash and adopt a patient strategy unless there is a compelling reason to invest.

Rebuilding value

As a result of the market troubles, shares in Conygar have fallen by around 32% so far in 2020. At the current price of 108.5p, they trade at seven lows and at a discount to net assets as at 30 September 2019, of 39%. Of course, property-development companies are cyclical stocks, with portfolios subject to downward revisions in value as the economy declines. But that looks more than priced into the current valuation in my view, especially considering that net cash last known covers 69% of the market cap. With development properties amounting to around 61% of net assets, any downward revisions will be protected by the steady cash buffer.

In terms of income, Conygar has paid a dividend in the past but no payment was made for the last financial year, with the priority on growth in NAV per share. Nevertheless, the company did use surplus cash to buy back 5.4% of its shares, at a cost of £5.6m. As the shares were bought at a discount, this enhanced NAV per share by around 1%. At the last AGM, shareholders approved the buyback of 14.99% of the share capital, so given the current wide discount to NAV this represents a potential value-enhancing way of using the cash balances.

Conygar is another company which is quiet on the newsflow front, typically only announcing financial results to the markets along with any key planning-permission decisions. However, this isn't necessarily a bad thing; investors are aware that management is highly focused on creating value. While the next set of accounts may show writedowns on asset value, I believe that Conygar looks ripe for a recovery in the long term. For patient investors, Conygar is a **speculative buy**.

TREMOR INTERNATIONAL

Advertising is another market exposed to economic cycles. But this next company has been growing strongly for years and operates in a rapidly advancing segment of the huge global industry. Previously known as Tapica, **Tremor International (LON:TRMR)** has since grown to become one of the largest independent players in video-advertising technologies.

Core division Tremor Video helps advertisers deliver video-advertising campaigns across a range of media. Combined with its core technology, this enables clients to target the right audience with digital adverts for their products or services. Tremor's technology is based on artificial intelligence and machine learning, which can be used to better identify and assess individual targets for ads. The company works with more than 450 advertisers, including Amazon, Disney and Twitter, along with 50,000 supply and publishing partners, to help clients get the best 'bang' for their advertising 'bucks'. Revenues are typically earned based on a set payment from clients, based on user acquired.

Tremor has been taking advantage of trends in an advertising-technology market which has seen consumers shift away from viewing content on desktop screens and more towards mobile devices, with rapid growth of consumption on connected TV (CTV) platforms and over-the-top media (OTT). Video is the fastest-growing segment in online advertising, with advertisers and brands increasingly growing their budgets for digital video. According to *eMarketer and the IAB Video Advertising Spend Report 2019*, US ad spend is set to grow from $27.8bn in 2018 to over $42bn by 2020, with 54% of advertisers expected to increase spend on digital video advertising.

2020 vision

The business was significantly expanded in April last year following the all-share merger with RhythmOne. Powered by its programmatic platform, RhythmMax, RhythmOne is an adtech business which helps advertisers to reach audiences wherever and however they consume content, across desktop, mobile and CTV. RhythmOne brought with it an extensive portfolio of video-advertising solutions, with the deal expected to provide a significant increase in the scale and profile of the video-advertising business, in particular within the US, as well as significant infrastructure cost synergies. Since then, the two firms have been integrated and reorganised to concentrate on brand advertising and higher-margin activities, driving synergies in a relatively short period of time.

Despite a busy 2019, Tremor entered the current year with a flurry of activity. In early January, it announced the all-share acquisition of Unruly, News Corp's programmatic video marketplace. Unruly is a global video platform that uses technology and data to deliver emotionally engaging content to consumers. Alongside the deal, Tremor entered into a global partnership with News Corp for the exclusive right to sell outstream video on more than 50 News Corp titles in the UK, US and Australia. The deal adds an additional 1.2bn unique monthly users through premium publisher partnerships and is set to positively contribute to adjusted EBITDA in the 2021 financial year.

Further, the markets took well to a trading update at the end of January which revealed that Tremor expects to report adjusted EBITDA for 2019 in line with expectations of around \$60m, with revenues of around \$325m. Key for the investment case, net cash at the period end was said to be over \$75m, delivered despite making \$25m of share buybacks and \$5m of data pre-payments for 2020.

More growth and cash than you shake a stick at

Driven by the trends mentioned above, along with contributions from several acquisitions, Tremor grew revenues from \$43m to \$277m between 2013 to 2018, with adjusted EBITDA up from \$8.6m to \$44.1m. Despite that track record, investors have marked the shares down by 33% in 2020. That performance is understandable, however, given concerns about global economic activity and its link to advertising spend. But at the current price of 114p, Tremor shares trade on a multiple of just 2.7 times historic earnings. That may go some way to explaining broker FinnCap's target price of 500p per share – over four times the current price.

What's more, the net cash as at 31 December last year covers almost 40% of the market cap. While the company didn't pay an interim dividend, as it focused on long-term value generation, it has said that it will continue to evaluate how best to deploy the cash reserves. That could well come in the form of further share buybacks, or indeed a cash distribution to investors. For value and growth, Tremor is a **buy**.

"US AD SPEND IS SET TO GROW FROM \$27.8BN IN 2018 TO OVER \$42BN BY 2020."

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

PASSIVE STRATEGIES FOR MARKET CHAOS

Filipe R. Costa looks at four ETFs that are neither too dependent on a market recovery nor exposed to a continued downtrend.

"You can never defeat an enemy you underestimate."

— Mehmet Murat ildan

What a month it has been! We're living in really tough times. Life has been turned upside down and all of a sudden, our routines have changed. It's so quiet outside that it feels like I'm living in the middle of nowhere. But that contrasts with the hubbub at home, where I'm writing this article while listening to excerpts of "Baby Shark... doo doo, doo doo doo doo".

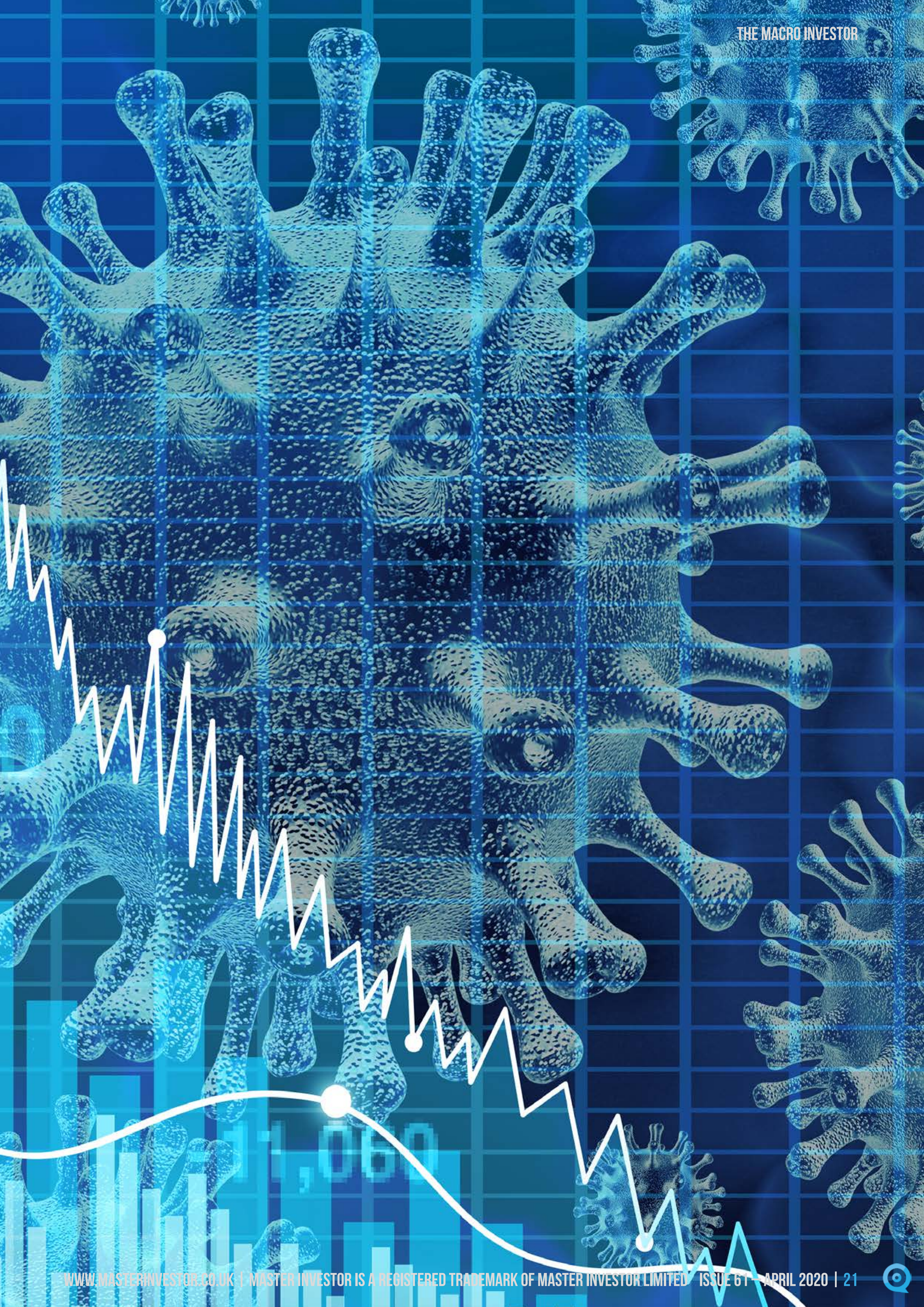
Times are tough in financial markets too. There have been heavy losses as the coronavirus (Covid-19), made its way through the world while disrupting the global economy. And we don't know whether its negative effects will be temporary or otherwise.

After declines of over 30% experienced by some stock indexes, there are some stocks that look attractive but most of them are still not exactly undervalued. This means that the best approach is to adopt a few side strategies to protect the core of the portfolio while retaining some upside potential. This month I'm looking at four ETFs that are neither too dependent on a market recovery nor exposed to a continued downtrend.

A fast-paced erosion

When I wrote my article last month, there were 75,000 cases of Covid-19, spread around 25 countries, and which took 1,750 lives. One month later, at the time of writing, there are 335,000 cases, hitting 190 countries and which have thus far resulted in the death of 14,500 people. The contagion has moved very fast and what initially seemed like a regional health problem quickly turned into a pandemic, threatening lives all over the globe while devastating the world economy. One month ago, when the virus was spreading from China to South Korea, investors around the world still kept their nerve and continued to pile money into stocks, fuelling an extended upside momentum that led the Dow and the S&P 500 indexes to record highs. But as soon as the virus hit Europe and the number of infections started closing entire countries for business, sentiment reverted from extremely bullish to extremely bearish.

I have witnessed several recessions and bear markets but I can't remember a bear market moving as fast as the current one. The financial crisis of 2007-2009


11,060

was devastating for financial markets and forced a coordinated action from central banks around the world to rebuild trust in the financial system and to help the economic recovery. The financial crisis had profound reverberations around the globe, in particular in Europe. Still, the decline in financial markets was slower than we have witnessed this year. During the financial crisis of 2007-2009, the S&P 500 took 34 sessions to close more than 10% off its highs and 189 sessions to enter a bear market. During the Covid-19 crisis, the S&P 500 took just 10 sessions to be off more than 10% from its highs and 17 sessions to enter a bear market.

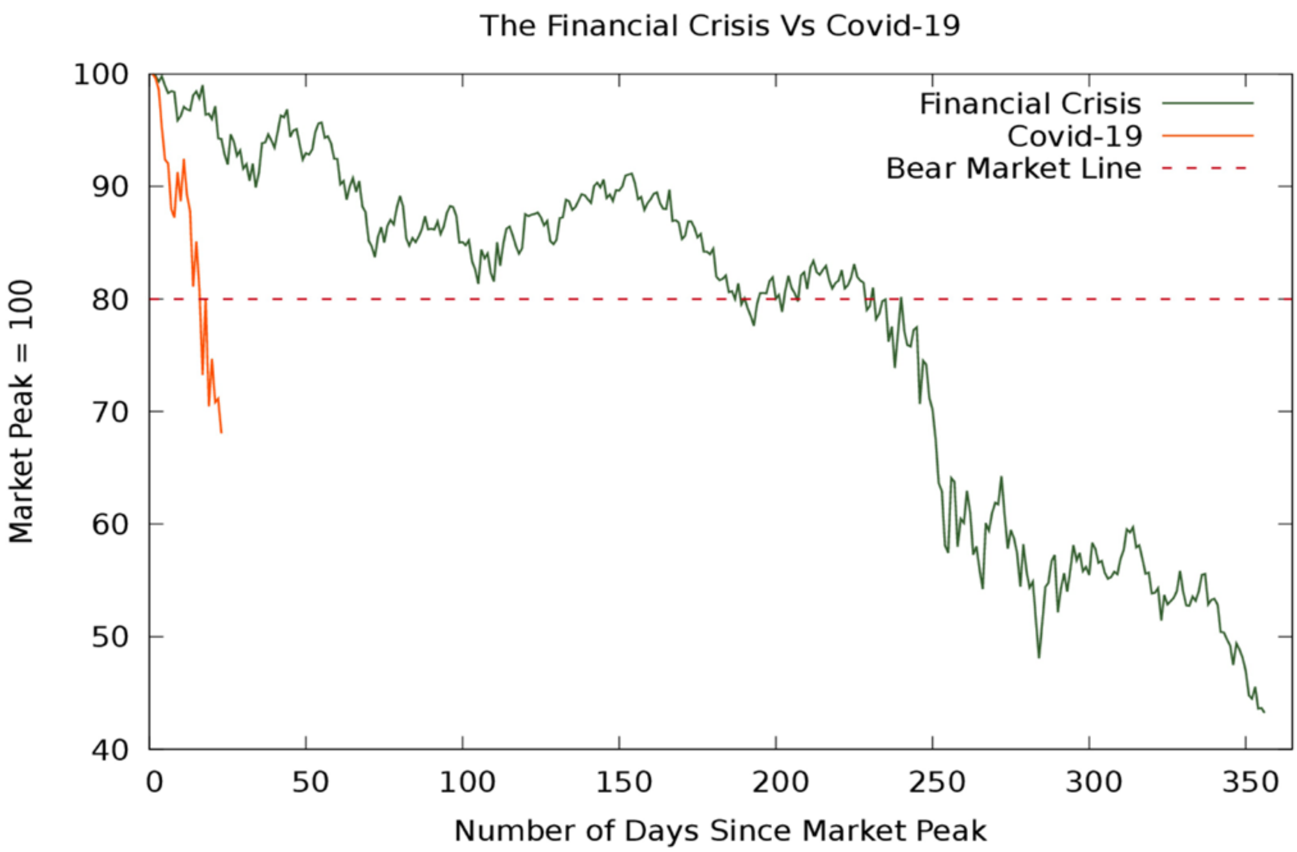
Even though the financial crisis of 2007-2009 was severe, investors still had more time to sell equities than they have had during the current crisis.

Financial markets turned negative very fast around the world, with most equity indexes now under bear-market conditions. Most of them are currently down by more than 30% year-to-date, with a significant part of that loss having occurred in less than a month. This time, not even President Trump's tweets could save the Dow Jones from being severely damaged.

"EVEN THOUGH THE FINANCIAL CRISIS OF 2007-2009 WAS SEVERE, INVESTORS STILL HAD MORE TIME TO SELL EQUITIES THAN THEY HAVE HAD DURING THE CURRENT CRISIS."

GLOBAL EQUITIES - PERFORMANCE (%)

Ticker	Name	YTD	1-Month	6-Month	Since Trump Election (9/11/16)	10-Year
IBOV	Bovespa Stock Index (Brazil)	-42.0	-41.0	-35.4	6.0	-2.7
CAC	CAC 40 (Paris)	-34.4	-32.4	-27.1	-9.8	3.8
300	CSI 300 Index (Shanghai)	-13.8	-14.6	-9.5	5.3	7.7
DAX	DAX Xetra (Germany)	-29.7	-28.6	-24.3	-12.5	54.2
DJI	Dow Jones Industrial Average	-34.9	-33.5	-30.6	0.0	71.6
N100	Euronext 100	-29.8	-28.3	-26.3	-9.0	15.6
UKX	FTSE 100	-30.0	-26.6	-28.5	-24.5	-8.1
AW01	FTSE All-World	-30.6	-29.3	-24.7	-4.5	29.1
HSI	Hang Seng (Hong Kong)	-19.6	-15.5	-13.8	1.1	7.9
IXND	NASDAQ 100	-19.8	-22.8	-9.1	45.2	259.0
NIK	Nikkei 225	-28.6	-27.8	-23.6	3.9	56.2
RTSI	Russian Trading System Index	-38.1	-37.1	-29.5	-3.5	-36.7
GSPC	S&P 500	-30.7	-30.6	-24.6	3.4	91.6
XJO	S&P/ASX 200 (Australia)	-32.0	-34.9	-32.6	-11.8	-7.1
SMI	Swiss Market Index	-18.2	-19.0	-14.1	8.7	24.7



Central banks and governments pledge to intervene

Central banks around the world had been delaying action to the point where they were forced to support financial markets, to avoid major disruption in credit markets that would certainly lead to a full-blown recession. Both the Federal Reserve (Fed) and the Bank of England (BoE) cut their key rates. The Fed started with a 50bps cut and then slashed it another 100bps to the current 0.25% rate, while the BoE cut its rate from 0.75% to 0.25% and later to 0.10%. The European Central Bank (ECB) kept its key rates unchanged as the margin to cut is almost non-existent, at a time when deposit rates are already negative.

Additionally, central banks also moved to provide extra liquidity to the market on fears that a liquidity crunch could set in otherwise:

"The Federal Reserve is committed to using its full range of tools to support households, businesses, and the US economy overall in this challenging time", said the Fed in a recent statement.

The ECB announced: "This new Pandemic Emergency Purchase Programme (PEPP) will have an overall envelope of €750 billion. Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme (APP)."

In my view, cutting interest rates does little for businesses at this point. There's a lack of demand and supply, as one fifth of the world population is locked down at home. No matter how low interest rates are, the virus doesn't respond to such dynamics. Eventually, if this event-driven crisis extends into a full-blown cyclical recession, the lower interest rates may help, but not at this point, in particular within a scenario where they were already low.

The asset-purchase programme announced by the ECB is a very different proposition. Because of the rising yields experienced by some eurozone governments, this programme will be key for keeping their financing costs low while allowing for some much-needed fiscal-policy extravaganza.

Four targeted ETFs to explore prevailing trends

What I see is an uncertain future, with markets still unsure what action to take. Covid-19 may be temporary but it is hitting the world at different stages. It started in Asia, it's now hitting Europe hard and at the time of writing, it's still just getting going in the US. In a period of disruptions, instead of betting on a fast recovery, I'm proposing a different strategy, with the four ETFs presented below.

ProShares Long Online/Short Stores ETF (NYSEARCA:CLIX)

Consumer behaviour is in the midst of a major transformation. E-commerce sales are growing at a much faster pace than in-store retail sales, as most of us now prefer to order from online retailers like Amazon instead of going out to shop. Companies like Amazon and Alibaba have been able to retain higher margins than bricks-and-mortar retailers, while enjoying a global presence without the need to invest in physical stores. I believe the current pandemic will accelerate retail disruption, eventually leading to the bankruptcy of many of the remaining physical retailers, which were already going through difficult times.

CLIX has some good features for the current volatile times. Being a long/short fund, it's more or less market-neutral. However, it's not entirely market-neutral because it has a 100% long exposure to online retail and a 50% short exposure to bricks-and-mortar retail, which reduces the exposure to market movements but doesn't eliminate it entirely. Year-to-date, this fund is up 9% while the S&P 500 is down 30%. Even when the current pandemic subsides, the trend played by this ETF will still be in place. The top long picks of this ETF are

Amazon.com, Alibaba Group, Chewy, Shutterstock and Stamps.com. In total, it is composed of 24 long positions and 48 short positions. The expense ratio is 0.65%, meaning you pay $65 per each $10,000 invested, annually.

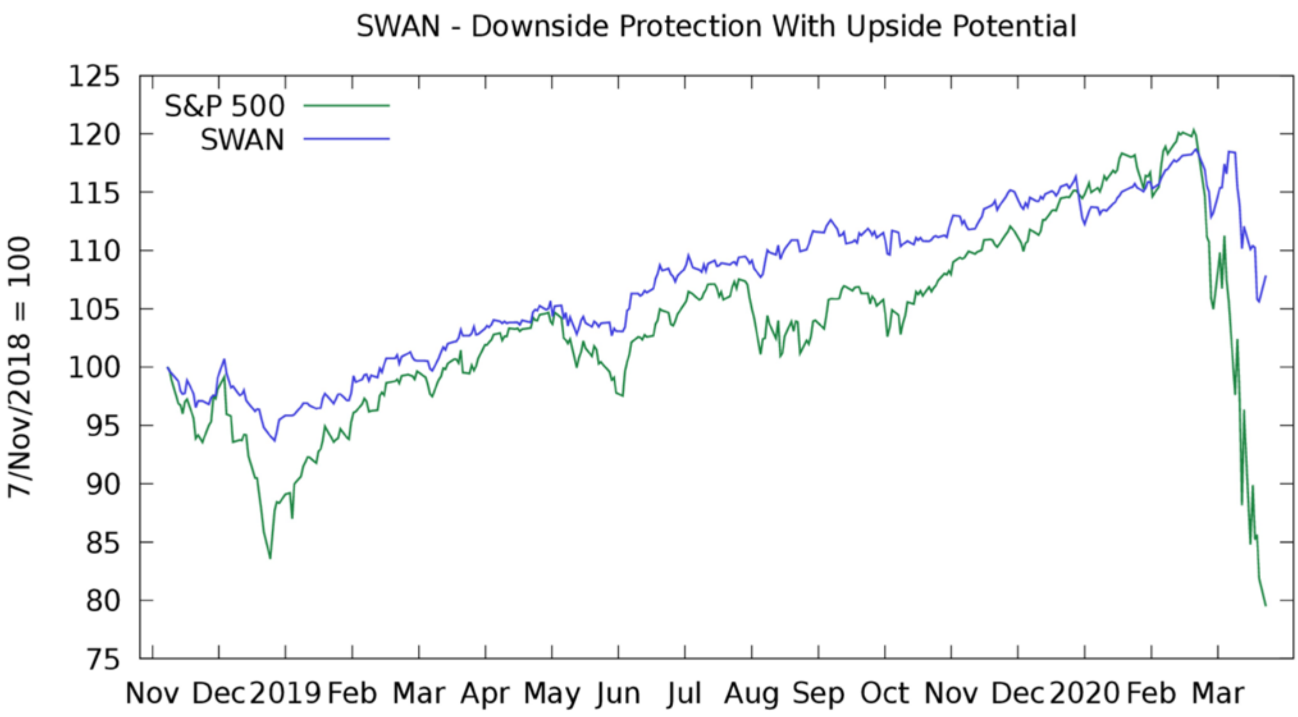
Direxion S&P 500 High Minus Low Quality ETF (NYSEARCA:QMJ)
In my last few articles I have pointed to the fact that, even though a recession was not likely in the short term, stretched valuations were calling for some care when picking equities. Many of the smaller growth stocks would eventually see their profit growth revised down, as we approach a peak in economic conditions. Choosing quality stocks is the best way to go in these times.

QMJ is a kind of long/short portfolio like CLIX but one that retains a 100% exposure to the market because it has 150% long exposure to the S&P 500 Quality Index (its long component) and 50% short exposure to the S&P 500 Quality – Lowest Quintile Index (its short component). The key idea is to get a market exposure to a quality factor, which has often been cited in scientific literature as providing above market returns in the long run. In volatile times when there are economic disruptions, the quality of a business becomes a key attribute. The quality factor is based on three key metrics: return on equity, accruals and financial leverage. The top long holdings are Apple, Visa and Mastercard while the top short positions are Home Depot, JPMorgan Chase and Boeing. This ETF was created in February and it's still too new for us to have a clear idea about its performance, so investors should be more careful with the amounts allocated to it. The expense ratio is 0.37%.

IQ Real Return ETF (NYSEARCA:CPI)
There's a chance inflation gathers strength in the near future, in particular due to massive central-bank intervention in the form of very low interest rates and asset-purchase programmes. CPI is a good inflation hedge and an alternative to TIPS. The fund seeks to provide investors with a positive real return – that is to help investors maintain their purchasing power over time. The fund is down 7% this year due to a change in inflation expectations, but that may represent a good opportunity for an entry. Still, investors shouldn't expect any high returns from this ETF over the long term. Its aim is to just provide a hedge over inflation. The expense ratio is 0.48%.

Amplify BlackSwan Growth & Treasury Core ETF (NYSEARCA:SWAN)
What about protecting against the downside by investing in bonds while retaining some upside potential? That's exactly the aim of SWAN. The Amplify BlackSwan ETF seeks uncapped exposure to the S&P 500, while protecting the portfolio against significant losses. To achieve its goal, the ETF invests approximately 90% of its funds in US Treasuries and 10% in S&P 500 LEAP options in the form of in-the-money calls. The fund has suffered from the Covid-19 crisis but still proved a good buffer against the massive market declines. Since its inception on 6 November 2018, it has outperformed the S&P 500 both in absolute and in risk-adjusted terms.

The defensive part of the ETF, composed of Treasuries, drives around 65% of the fund's returns, while the long-term call options drive 35% of the return. The downside protection mixed with uncapped upside potential make this a very interesting product for volatile periods. Its expense ratio is 0.49%.



"THIS IS JUST THE BEGINNING. IF MARKETS DON'T RECOVER FAST ENOUGH AND THE GLOBAL ECONOMY ENTERS A DEEP RECESSION, CENTRAL BANKS WILL EXTEND ASSET-PURCHASE PROGRAMMES AND GOVERNMENTS WILL COME TO THE RESCUE WITH FISCAL PACKAGES."

Gold still shines

Central banks continue to manage downside risks as much as they can. No matter how hard-nosed a central banker seems at first, he or she always ends up succumbing to the market trap. As soon as Christine Lagarde experienced a market in freefall, she turned even more dovish than her predecessor Mario Draghi. The ECB is engaging in an asset-purchase programme that may be closer to a direct financing of government deficits than ever. In the US, Jerome Powell was holding tight against Trump's pressure but ended up cutting interest rates down to almost zero as long pledged by the President. This is just the beginning. If markets don't recover fast enough and the global economy enters a deep recession, central banks will extend asset-purchase programmes and governments will come to the rescue with fiscal packages.

With a large spectrum of the bond market already showing negative yields, the opportunity cost of holding gold is near zero. At the same time, with massive money printing on the cards, the prospects for future inflation are rising, which makes gold an attractive commodity to hold. When the Covid-19 crisis started, gold prices were brought down at first. The main reason was an increase in selling orders, as investors needed to raise liquidity at a time when stocks went into freefall. Still, gold is up in the year and has been performing much better than the overall equities market. Gold isn't a safe asset, but during extreme times like this, it's a great complement to a portfolio, providing liquidity and diversification.

The **SPDR Gold Trust (NYSEARCA:GLD)** is by far the largest ETF and for that reason an obvious choice for investors avoiding the hassle of investing in the physical asset. However, it charges 0.40% in annual fees and sells at near $150 per unit. Smaller investors may opt instead for the **SPDR Gold MiniShares Trust (NYSEARCA:GLDM)**, which has an expense ratio of just 0.18% and trades at a tenth of the price of GLD, making it easier for fractioning. For an extended take on gold (and other precious metals), please take a look at last month's article *Protect and Enhance Your Portfolio With Precious Metals* (Master Investor Magazine March 2020 Issue 60 p.36-43).

Final words

Are we living in an event-driven downturn or are we at the start of a cyclical recession? We don't know yet. Covid-19 may affect the world only temporarily but its effects could be long-lasting, in particular if the lockdown period extends for a long time and demand remains low. But with 2020 being a year of elections in the US, I expect President Trump to do whatever it takes to avoid recession, as there is no record of a US President being re-elected under recessionary conditions. In addition, central bankers have signalled that they offer investors a put option on the stock market, providing protection against the downside. The likelihood for recovery is high but this time I'm staying on the safe side and giving investors some alternative strategies. Stay at home and stay safe!

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 MICHAEL TAYLOR, CFA

CHART NAVIGATOR

THREE CHARTS TO WATCH IN THE MONTH AHEAD

In his debut piece for Master Investor, full-time trader Michael Taylor identifies three charts to watch in the month ahead.

To introduce this column, I thought why not hammer home the importance of charts?

Technical analysis is often frowned upon. Many investors believe that charts are 'noise', and that noise is not worth bothering with. But how many investors are sitting comfortably in their seats now? It's easy to focus on the business and not the stock price when everything is going well. However, when prices have collapsed in the fastest fall in the history of the stock market, then it's a different matter.

But we have been here before. Those of you who remember 1987, 2000 and 2008 have become battle-hardened. Is this current crisis not just noise? Maybe – but charts would've been a guide to get out of the market (as they were for me), and to start trading the trend short. I'm not smart enough to time the market, and luckily I don't need to be. My advice is: follow the chart and follow the money flow.

In the last few weeks many investors have sold all of their holdings. They have reached the emotional stop-loss point that is built into everyone's psyche. It's all about how much pain you are willing to take, and once that threshold is broken, you are a forced seller, emotionally.

Sadly, many of these stocks will rebound in time, and quality stocks will continue to build value as they always have done.

As a full-time trader of my own capital, I rely on charts in order to find trades that over time deliver an edge if repeated often enough. My job is to identify opportunities in the market that allow me to outperform. While fundamentals are nice, my bills aren't paid by owning quality shares but by the number on my P&L every month.

At the time of writing, there are currently 1,507 stocks under the market cap of £500m, out of 1,973 listed on the entire London Stock Exchange. I would argue that 76.4% of the current market are small-cap stocks. The beauty of small-cap stocks is that they move quickly, and being on the right side of the move can be very profitable.

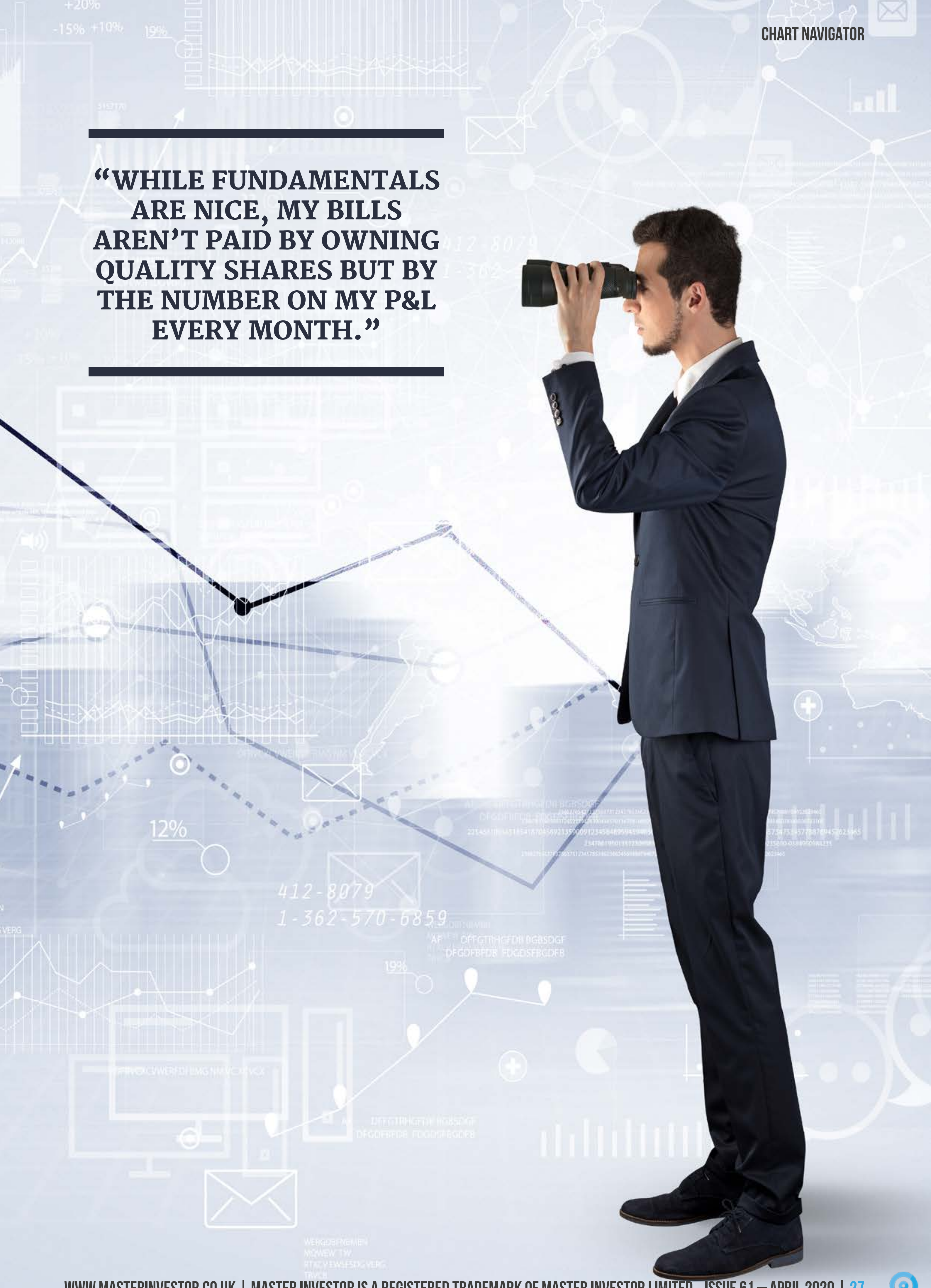
I hope to be able to identify some trading opportunities for the month ahead in this column.

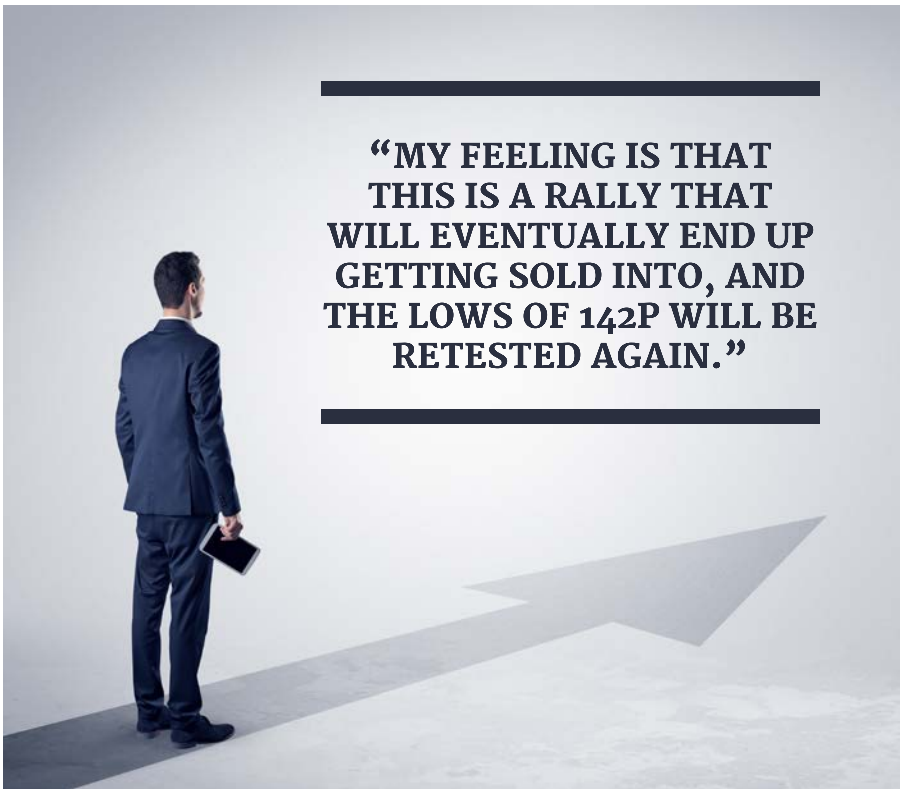
SCS Group (SCS)

Anyone who hasn't ever heard of SCS must've been living under a rock for the past 10 years, as the SCS sale has been inescapable.

The stock hasn't sold off hugely, and it is my opinion that the downside is not priced in fully here. The company swung back to a profit in 2016, and has grown its earnings

"WHILE FUNDAMENTALS ARE NICE, MY BILLS AREN'T PAID BY OWNING QUALITY SHARES BUT BY THE NUMBER ON MY P&L EVERY MONTH."





consecutively ever since, but I don't think it's unrealistic to assume that revenue will take a sharp downturn.

When everyone is busy focusing on buying toilet rolls and making sure their cupboards are well-stocked, buying a new sofa becomes a much lower priority. Couple that with the fact that the we are now on full lockdown for three weeks (perhaps longer), and I think earnings will definitely take a hit.

SCS is also operationally geared. This is great when footfall is high, as once the costs are paid, extra revenue trickles down the P&L, but those costs remain in place whether customers are coming through the doors or not.

Looking at the chart, the stock has sold off, only to bounce back. My feeling is that this is a rally that will eventually end up getting sold into, and the lows of 142p will be retested again. If the price falls through this level, then I would expect to see more downside to test the 130p support level that was set back in 2016.

Petropavlovsk (POG)

Petropavlovsk is a Russian gold producer – which may understandably give some cause for concern – but it is Main Market listed. It will be a big beneficiary of a rising gold price. The

"CALLING ANY SWING TRADE NOW IS DIFFICULT, BECAUSE THE PRICE MOVES ARE SO FEROCIOUS AND UNPREDICTABLE. BUT THAT'S WHAT MAKES THIS MARKET SO INTERESTING."

company hedged badly in 2019, but since the start of 2020 it is now fully exposed to spot gold prices which are much higher. Couple that with the expected production increases to 620koz-720koz from 514koz in 2019 and Petropavlovsk is clearly a geared play on a rising gold price.

The chart shows clear resistance at 23.5p. If the price can take out this level, I'd want to be long the stock – but be careful. If Covid-19 has an effect on production then this is likely going to result in a profit warning for the stock. The coronavirus crisis is unique in that it has hit every sector of the economy, and it'll continue to do so. Calling any swing trade now is difficult, because the price moves are so ferocious and unpredictable. But that's what makes this market so interesting.

Burberry (BRBY)

Burberry is a luxury-clothing brand and a FTSE 100 company. At the start of February, the shares traded at 2300p and currently trade around half of that value. Is the sell-off justified? On 19 March, the company released an update on the impact of Covid-19. Since 24 January 2020, the company reported that trading had deteriorated significantly with comparable retail-store sales tracking between -40% and -50% over the last six weeks. With more than 60% of stores in EMEIA and around 85% of stores In the Americas closed, the company notes that those that are still open have reduced opening hours with very weak footfall.

With the pandemic continuing, trading is likely to continue to deteriorate.

My belief is that the shares, which trade on 14 times earnings, have further to fall. This is a serious crisis, and we have moved from "this is just a dip" to "is this going to be a recession?" to "this is a recession – just how bad can it get?" Well, the answer is likely to be: very bad.

We're seeing an unprecedented level of businesses and sectors being hit. Dart Group, a stock-market 'darling', has gone from a highly profitable business to not being able to quantify how badly profits wil be affected, and grounding planes. Anyone calling bottoms here is a gambler, and those gamblers should log onto an online casino instead.

In the first chart on page 14, we can see Burberry from October 2015 and October 2016. We can see the stock put in a double bottom, and has since soared to highs over 2000p.

These levels are important, because psychologically these are the next support points that both traders and investors are looking at – 1050p will be support because that's what the market thinks, and support is often a self-fulfilling prophecy. There's a reason why support is often on big round numbers, rather than random numbers (which would happen if the market truly was random or efficient).

Below is a recent chart of Burberry stock.

We have seen some short-term relief in the share price but it is still tracking below off of the moving averages. My belief is that if the stock takes out the recent support zone then the price will head much lower. This crisis isn't going to be resolved overnight.

OnTheMarket is in trouble

Unless OnTheMarket takes some drastic action, the stock price will go to 0p.

I have been a fan of this stock ever since it listed, and while for over a year the stock price told me I was wrong, the price now appears to be very much in agreement with my views.

The business model allows estate agents to take equity in the business, which dilutes the outstanding shares in issue. As the share price falls, this becomes exponentially more dilutive.

The company raised £3m in capital last December. With net cash of over £5.5m used in operational activities as per the last interim results, and a further £1.25m used in investing activities, this suggests that the cash won't last long.

If you couple this with an aggressive price war starting as Zoopla goes after Rightmove, a race to the bottom will see the weaker players fold.

> **"RIGHT NOW, I THINK THE SHARE PRICE IS NOTHING MORE THAN A CALL OPTION ON THE EQUITY BEING WORTH ANYTHING ABOVE 0P."**

To read Michael's free book "How to Make Six Figures in Stocks" go to his website: www.shiftingshares.com

Twitter: @shiftingshares

For a free month of data with SharePad use code: Michael

Right now, I think the share price is nothing more than a call option on the equity being worth anything above 0p. While it's never nice to see shareholders lose money, unfortunately speculative and unprofitable business models rely on continuous injections of funding (usually through dilutive equity placings). Retail funding is quickly drying up, and institutional money will also be in shorter supply.

I don't have any intention of shorting OnTheMarket at these levels, but my view is that the share price will continue to slide. However, I'm always open to changing my opinion if the business is able to adapt successfully.

About Michael

Michael Taylor made the move to trading the stock market with his own capital on a full-time basis in December 2016. As well as Master Investor, Michael has a weekly column at Investors Chronicle and other online publications. He has also written a free book on getting started in the UK stock market, along with a stock trading handbook – both of which are available to download from his website at www.shiftingshares.com

BY NICK SUDBURY

FUNDS AND TRUSTS IN FOCUS

DEFENSIVE FUNDS TO HELP PROTECT YOUR PORTFOLIO

Experienced investors will have survived many bear markets, but for those who are new to investing the coronavirus-induced sell-off could be their first serious test. How you plan for and react to extreme events like this will go a long way towards determining the sort of long-term returns you are going to make.

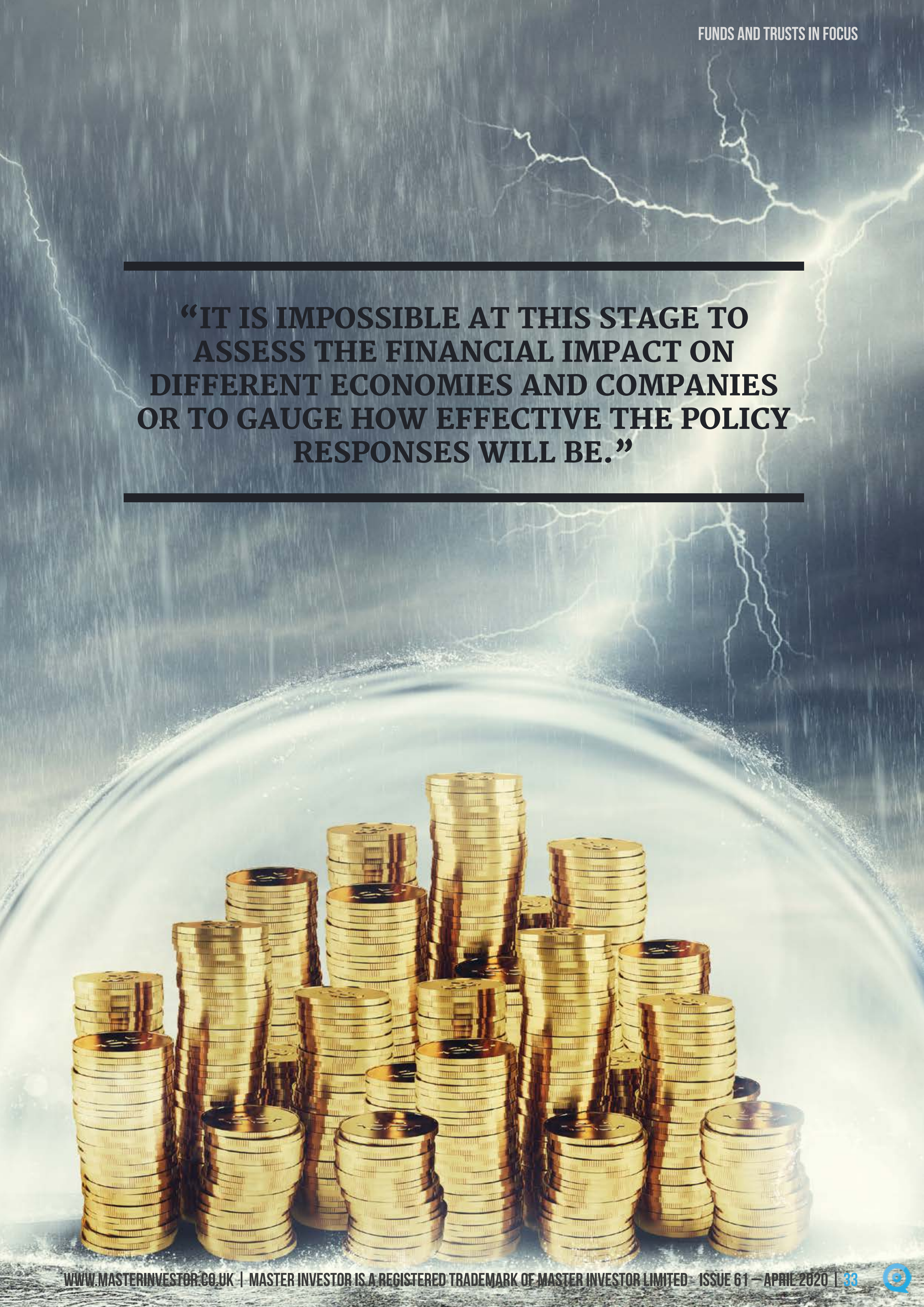
Covid-19 first emerged at the end of last year in the Hubei province of China. As it is a highly contagious, flu-like viral infection, with a long gestation period of up to six weeks, it is almost impossible to contain.

Those most at risk are the elderly and people with certain pre-existing conditions, for whom the virus can be deadly. In order to limit the number of fatalities and keep health services functioning, governments around the world are having to resort to draconian measures that would have been unimaginable a few months ago.

With the number of new cases outside China rising rapidly, the only way to slow the spread of the virus is to limit all unnecessary social contact. The steps taken to put this into practice have resulted in an unprecedented collapse in economic activity as normal day-to-day life is suspended.

It is impossible at this stage to assess the financial impact on different economies and companies or to gauge how effective the policy responses will be. This means that the main factor determining market prices is fear, with volatility hitting unprecedented levels and the correlation across asset classes increasing dramatically.

"IT IS IMPOSSIBLE AT THIS STAGE TO ASSESS THE FINANCIAL IMPACT ON DIFFERENT ECONOMIES AND COMPANIES OR TO GAUGE HOW EFFECTIVE THE POLICY RESPONSES WILL BE."



Try not to panic

The question is whether the market has enough further downside that it makes sense to sell, and whether you would be able to buy back in when it recovers. Adrian Lowcock, head of personal investing at Willis Owen says:

"The answer to these questions for most people is don't know and no. Predicting short-term swings in markets is notoriously tricky and trying to do so often leads to bad decisions, with investors selling after big falls and only returning once markets have recovered, so effectively you lock in the loss, not the gain."

In his view, the best course of action is to accept that you missed the chance to protect your wealth this time around and look beyond the 'noise' to focus on your long-term goals and invest accordingly. You should also take the opportunity to learn from the sell-off to see whether your investments offered enough protection or whether you need to improve diversification.

Patrick Connolly, a chartered financial planner at Chase de Vere Independent Financial Advisers, says that it's a common mistake to make investment decisions based on short-term sentiment:

"IT'S VITAL TO HAVE A FINANCIAL PLAN AND STICK WITH IT, WHILE HAVING A CLEAR UNDERSTANDING OF YOUR ATTITUDE TO RISK AND TIME HORIZON."

"More people tend to invest when markets are riding high. In contrast, when markets are in the doldrums and investment losses have already been made, many investors are reluctant to take risks for fear of losing more money. The result is that too many people take too much risk and buy at the top of the market and take too little risk and sell at the bottom."

Make sure that you have the right asset allocation

The best way to avoid this situation is by maintaining an appropriate asset allocation. This means holding the right blend of investments to meet your circumstances, objectives and risk profile:

"The more of your money that you invest in high risk assets, such as shares, the more growth potential you have, but also the more chance of a capital loss. Those who want to take less risk, such as by having more money in cash and fixed interest, should have a greater level of capital protection, but will have very limited growth potential and will be more susceptible to the effects of inflation," explains Connolly.

It's vital to have a financial plan and stick with it, while having a clear understanding of your attitude to risk and time horizon. Only when you understand these things are you in a position to determine what might be an appropriate asset allocation for you.

In some portfolios there is clear evidence of 'false diversification' where a portfolio is diversified across a number of different funds, but those funds are highly correlated and therefore perform in a very similar manner. Ryan Hughes, head of active portfolios at AJ Bell comments:

"As a result, this diversification in name only serves as little benefit to investors when things get difficult. True diversification means holding assets that behave differently and can sometimes mean investing in assets that you may not particularly like, but do so in the knowledge they will hopefully perform well when your core holdings are not."

Gold

According to Emma Wall, head of investment analysis at Hargreaves Lansdown, a well-balanced portfolio should have exposure to safe-haven assets like gold and lower-risk assets such as bonds: "Funds focused on capital preservation, strategic bond funds and multi-asset funds with a cautious approach are good additions if you are looking to add diversification to an equity portfolio," she says.

Gold tends to divide opinion more than any other asset class. It should protect investors' money during volatile and falling markets, but doesn't generate an income and doesn't produce anything, so the growth in the price is often linked to general inflation over the longer term.

Lowcock says that the best way to look at it is to treat it as an insurance policy: "Typically I would suggest holding around five percent of gold in your portfolio to offer a cushion in volatile markets."

He recommends **Blackrock Gold & General**, which is managed by Evy Hambro and gives investors exposure to gold and other precious metals by investing in listed mining companies. It has a bias towards larger producers, as they often give the best exposure to commodity prices for the risks, and have the ability to grow production in a cost-effective way.

Ben Yearsley, a director at Shore Financial Planning, prefers **Merian Gold and Silver**. He says this is one of the few funds to mix bullion with shares: "Gold does well when real interest rates are falling [as this reduces the opportunity cost of holding it], but it does less well in a rising rate environment. Personally I wouldn't hold it in most portfolios."

Gold rose strongly during the early stages of the pandemic, but has since sold off heavily as investors cashed in their positions to raise money to meet margin calls on their loss-making equities. The associated mining stocks have been hit hard by the fall and also presumably because of fears about interruptions to production with both of the recommended funds losing approximately 20% of their value.

Bonds

The main way to diversify equity-based holdings is to use bonds and Connolly says that they should still have a place in the majority of investment portfolios:

"They are particularly suited to more cautious investors including those who want to provide some protection against stock market falls. However, the conventional wisdom of bonds being low risk doesn't necessarily work today and so investors have to be careful about where they are investing."

The problem is that the manipulation of financial markets by central banks in the last decade has pushed the yields on bonds to very low levels, while at the same time, the diversifying nature of bonds from equities has seemingly broken down. As a result, many fixed-interest securities now look expensive and could be subject to significant falls in the future.

Hughes says that the solid performance of bonds during the current market volatility indicates that they still have a role to play, although it is important to invest in a fund that behaves like a bond fund rather than a quasi-equity fund:

"I like the **Allianz Strategic Bond** fund that is managed by Mike Riddell and Kacper Brzezniak. It has a clear focus on government bonds from the likes of the US, Japan and Sweden and is managed to deliberately operate like a bond fund, which should mean it behaves differently to equities, making it a good diversifier."

The best way to limit the risk is to go for a shorter duration exposure as this is less sensitive to interest-rate movements, hence Connolly's recommendation of the **Royal London Short Duration Credit** fund:

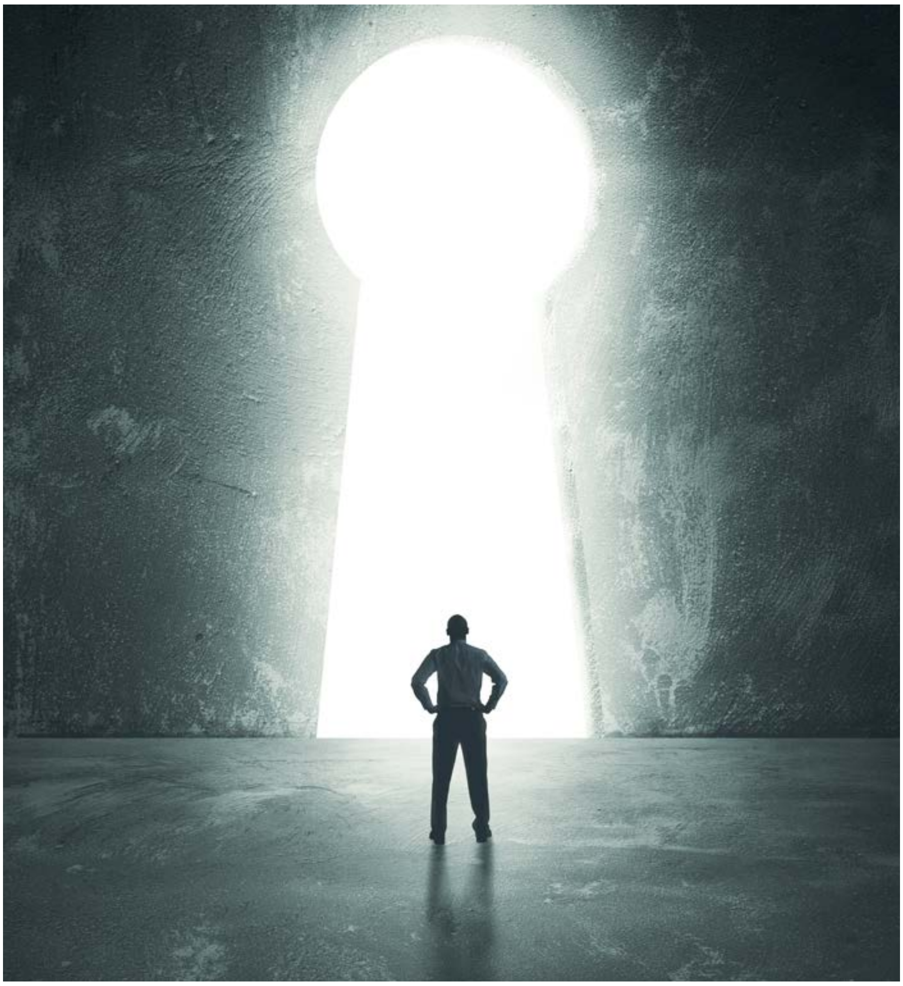
"It invests at least 70% in company bonds which mature in five years or less and has provided consistent positive returns, which aren't affected very much by short-term market noise or interest-rate movements. The fund has a current yield of three percent."

Government bonds have been the standout performer during the market crash with the wave of interest-rate cuts and the flight to safety pushing prices ever higher. It is hard to believe that this is not the top of the market.

Defensive funds

Lowcock and Connolly both recommend **BNY Mellon Real Return**, which is an unconstrained multi-asset fund. It invests in a combination of return-seeking assets such as equities, infrastructure, corporate debt and convertibles. These are then offset by stabilising,

"THERE ARE A HANDFUL OF DEFENSIVELY-ORIENTED INVESTMENT TRUSTS THAT AIM TO BOTH PRESERVE AND GROW YOUR CAPITAL. THESE HAVE BUILT UP STRONG LONG-TERM TRACK RECORDS AND MAKE GOOD CORE PORTFOLIO HOLDINGS THAT HELP TO LIMIT THE DOWNSIDE DURING MARKET SELL-OFFS."



lower-risk investments to dampen the volatility and provide downside protection:

"Manager Suzanne Hutchins' priority is to protect investors' money and then over the long term look to grow it at around four percent above cash. The fund has a core element which invests in bonds and shares with a long-term view and low turnover. This is complemented by more tactical, short-term, investments in cash, government bonds and derivatives in order to reduce the risk," explains Lowcock.

He also likes **Trojan Income**, which invests mainly in UK shares in the FTSE 350 index. Manager Frances Brooke looks to preserve investors' capital by selecting companies that produce steady, long-term income and capital growth. He has a bias towards larger companies and tends to favour more defensive sectors such as health care.

Hughes says that in theory, absolute return funds make great diversifiers as they should be able to deliver uncorrelated returns to traditional equity and bond funds, but unfortunately most fail to deliver:

"One I rate highly is **Janus Henderson UK Absolute Return**, which is a long/short equity fund that looks to deliver positive returns over rolling 12 month periods. Historically, the managers have proven to be adept at mitigating big falls in the market with the only drawback being the higher than average costs and a performance fee."

Another option recommended by Connolly is the **L&G Global Infrastructure Index** fund.

Infrastructure is very 'bond-like' in that its assets tend to be long-duration and provide a stable income, usually inflation-linked. This is a passive fund and has an annual charge of just 0.3%.

Janus Henderson UK Absolute Return has held up remarkably well during the current sell-off, while BNY Mellon Real Return and L&G Global Infrastructure Index have lost around 15% to 20% year-to-date.

Investment trusts that protect your wealth

There are a handful of defensively-oriented investment trusts that aim to both preserve and grow your capital. These have built up strong long-term track records and make good core portfolio holdings that help to limit the downside during market sell-offs.

The **Capital Gearing Trust (LON:CGT)** aims to preserve the real wealth of shareholders and to achieve absolute total returns over the medium to longer term. It currently has around a third of the portfolio in UK and US index-linked bonds, with a similar amount in conventional government bonds and corporate debt. The rest is invested in funds and equities.

It is similar to the **Ruffer Investment Company (LON:RICA)** that also has capital protection at the heart of its mandate. The fund has about a third of its assets in index-linked government bonds, with cash and short-dated bonds making up a further 12% and gold/gold equities eight percent. It has a slightly higher allocation to equities at around 42%, but what really differentiates it is its exposure to illiquid strategies and options.

The latter are specifically designed to pay out in a market crisis and they have made an enormous difference. According to analysis from the broker Numis, RICA is the best performing equity investment trust with a year-to-date share price total return of 0.4% up to close on 17 March.

Another option is **RIT Capital Partners (LON:RCP)**. Over the years it has managed to capture a significant amount of the market upside, while protecting against the worst of the declines. It is defensively positioned, yet has suffered more than the others during the sell-off, with the shares moving from a premium to a discount.

Investors with well-diversified portfolios that include defensive funds like those above will find it a lot easier to withstand market sell-offs than those who go into them with too much risk. The key is to be comfortable in all market conditions so that you can stay invested rather than be panicked into crystallising large losses and then missing the rebound.

FUND OF THE MONTH

The **Personal Assets Trust (LON:PNL)** is managed by Troy's Sebastian Lyon who operates with an absolute return mindset. It is defensively positioned, with 30% invested in US index-linked bonds, 26% in cash and cash equivalents, nine percent in gold and the remaining third of the portfolio in high-quality equities such as Microsoft, Nestlé and Unilever:

"Avoiding loss of capital is a primary consideration and therefore this trust makes a good diversifier for investors with a broad spread of assets. The approach will typically mean that it delivers steady returns in strongly rising markets, but performs better when markets fall sharply," explains Hughes.

Yearsley is also a fan and says that it is the best of the defensive funds alongside its open-ended counterpart, **Troy Trojan**: "Its key aim is to maintain the real value of your investment so that your capital at least keeps pace with inflation. The manager will vary the asset allocation depending on his wider economic outlook and the value offered by each asset class."

Year-to-date (up to close on March 20) it has held up pretty well, with a loss of just over eight percent. The longer-term returns are also impressive. Over the last decade, the share price is up 64%, compared to the 41% increase in the FTSE All-Share benchmark, which is a remarkable achievement given the defensive nature of the mandate.

Fund Facts

Name:	Personal Assets Trust (LON:PNL)
Type:	Investment trust
Sector:	Global Growth
Total assets:	£1,084m
Launch date:	July 1983
Historic yield:	1.3%
Ongoing charges:	0.91%
Website:	www.patplc.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.

BY JOHN KINGHAM

DIVIDEND HUNTER

COPING WITH RECESSIONS, DEPRESSIONS AND PANDEMICS

How should dividend investors react to the current crisis? John Kingham of UK Value Investor shares his views.

The economic impact of the coronavirus pandemic should not be underestimated. It is, in my opinion, likely to produce a severe recession in the UK as well as a global recession, and has already led to a swathe of dividend cuts and suspensions across UK and international markets.

How then should dividend investors deal with this? You could run to the safety of cash, or remortgage your house and invest it all in 'bargain' shares, but I prefer to stick to the basics, by which I mean a set of principles that apply irrespective of space and time, and crisis or boom. For me, the most important principles are diversity, robustness and competitiveness.

Principle 1: diversity

I'm not going to sugarcoat this. Countries across the globe are having to lock down almost all public activity to slow the spread of the virus. This will inevitably have an enormous impact on almost all companies.

"THIS WILL INEVITABLY HAVE AN ENORMOUS IMPACT ON ALMOST ALL COMPANIES."

We are at the very early stages of this process, but it is clear that without a medical solution most of the world's economies will be in lockdown, to varying degrees, for most of 2020.

I'm writing this in late March and already M&S, Travis Perkins, Virgin Money, William Hill and others have suspended their dividends to preserve cash. I expect many more to follow and I think most high-yield investors should expect to see a significant reduction in their dividend income this year. How much? I think dividends across the UK market could easily fall by as much as 50%, so investors should prepare themselves for that sort of hit.

Some industries and some companies will fare better than others. Travel and leisure businesses are obviously likely to suffer most, while companies that manufacture or sell food, soap or toilet roll; enable home-working; or benefit from volatile financial markets, are likely to benefit most.

Hindsight is a wonderful thing, and like me you probably weren't smart enough to position your portfolio to benefit from a global pandemic. But you don't have to be superhumanly smart to be a half-decent investor. You just need to be sensible. So rather than position your portfolio to do really well in one scenario (ie a global pandemic), it's far better to position your portfolio to do reasonably well (and, importantly, not terribly badly) in a wide range of scenarios.

And the best way to do that is to be broadly diversified, with no single company, industry or geography taking up too much of your portfolio.

What constitutes too much is subjective, but for me it means allocating no more than 6% to any one company, holding no more than three companies from any one industry and having at least 50% of my portfolio's aggregate revenues coming from outside the UK.

I don't always stick rigidly to those limits (I currently have an overweight position in retailers, which is not exactly ideal in the current environment), but they do stop me from doing something daft, like investing everything in a handful of restaurants or airlines.

"I THINK DIVIDENDS ACROSS THE UK MARKET COULD EASILY FALL BY AS MUCH AS 50%, SO INVESTORS SHOULD PREPARE THEMSELVES FOR THAT SORT OF HIT."

Broad diversification also means you're likely to invest in at least some companies that benefit from a particular crisis. In fact, one of my holdings has reported a revenue increase of more than 100% as a direct consequence of what is otherwise an economic disaster. This doesn't mean I'm a genius, it just means that a broadly diversified portfolio should capture at least some good luck which can help to partially offset the tsunami of bad luck we're currently facing.

Principle 2: robustness

I remember hearing Bill Gates say that in Microsoft's early days, his goal was to have enough cash on hand to pay all staff wages for an entire year, even in the absence of any revenues. That may be somewhat extreme, but it is entirely sensible for companies to maintain strong balance sheets given that mistakes, hard times and crises are a virtual certainty in the long run.

Cash is a good way to measure robustness, but I like to start with debt. More specifically, I like to invest in companies with little or no debt. This is easier said than done, and sometimes one of your favourite low-debt holdings can suddenly take on a huge mountain of debt to fund an acquisition. That can be annoying, but as a general approach to lowering risk, focusing on low-debt companies is an excellent place to start.

As well as bank loans, overdrafts and other borrowings, most companies have lease liabilities. For some companies these are relatively minor, but for companies that depend on leased shops, restaurants or aircraft, leases can be one of their biggest expenses.

The problem with leases is that they are often indistinguishable from debt. The company has access to an asset which has been paid for with someone else's money (the bank's or the landlord's), and it has a contractual obligation to pay a fixed amount to that someone for a fixed period of time (often many years).

Like debt interest, most rental payments are fixed expenses which do not go up or down with revenues. So, if revenues fall by 50% (which is a very real possibility for many restaurants, airlines and retailers in 2020) they still have to find the money to make lease payments.

My rule for debt is that a company should have borrowings and lease liabilities totalling no more than four times average earnings. This is quite a strict rule, especially for lease-heavy businesses such as retailers, but that's OK. There are plenty of other sectors to choose from.

In the name of transparency, I must admit that my portfolio has a fair few stocks which break that debt rule. Most of these are retailers or companies that took on debt to fund acquisitions after I invested.

The retailers are there because I only recently started measuring lease liabilities. If I'd looked at lease liabilities a few years ago then only one or two of those retailers would have made the cut. As for companies using debt as acquisition rocket fuel, this is an occupational hazard. The companies were purchased with low debts and then management decided to load up with debt to fund big 'transformative' acquisitions. This sort of thing is hard to avoid, and since I don't want to sell these companies just because of their debts, I have to get on with it and hope they delever as soon as possible.

Principle 3: competitiveness

Imagine a boat full of sailors, lost in the middle of the sea for weeks on end. At first it may seem as if those with small muscles and large fat stores are best positioned to survive. Small muscles have lower caloric requirements and large fat stores provide the owner with a lot of calories which should last many weeks. In theory it's a winning combination. On the other hand, sailors with large muscles and small fat stores face a much harsher reality, with high caloric needs and few stored calories (muscle can be broken down for fuel, but fat is much more energy-dense).

The weak, fat sailors are like companies that focus on having a robust balance sheet above all else. When a crisis comes, they breathe a sigh of relief as they look at the size of their fat/cash store.

But what are those sailors with large muscles going to do? Are they going to lie down and starve, or are they going to overpower, kill and then eat their weaker, fatter peers? History suggests the latter is a real possibility, and in the world of capitalism, the strong eating the weak is the rule rather than the exception.

With economies around the world in what is likely to be a protracted lockdown, just having a strong balance sheet may not be enough. When demand does reappear, it may be so low that only a few players benefit in each market. Those will typically be the strongest competitors, and the weak will get either scraps or nothing at all. So even if a weak company can survive by eating through a huge store of cash, it may find itself in 2021 with almost no regular customers and a reputation bordering on irrelevance.

There are lots of ways to measure competitive strength, and my preferred option is to look at returns on capital employed. Specifically, I look at net (post-tax) earnings as a percentage of lease-adjusted capital, which means shareholder equity, plus total borrowings, plus lease liabilities.

If a company has produced average net returns on capital of at least 10% over the last decade, then that's a good sign that it has some sort of competitive advantage. That isn't always the case, but if a company can't consistently earn above-average returns on capital then it very likely doesn't have any meaningful competitive advantages.

So those are my basic principles for surviving a crisis: diversity, robustness and competitiveness.

Two diverse examples of robust, competitive companies

I think underlying principles are more important than individual stock picks, but examples can still be useful. So, with that in mind, here are two very different companies from my portfolio that fit the description of robust and highly competitive, as laid out above.

"IG'S EXPERIENCE, SCALE AND BUSINESS MODEL (WHERE IT SHUNS THE 'CASINO MODEL' OF PROFITING FROM CLIENT LOSSES AND INSTEAD PROFITS FROM TRANSPARENT SPREADS AND FEES) GIVE IT A SUSTAINABLE COMPETITIVE ADVANTAGE."

IG: a global leader in online trading

IG (LON:IGG) is the world's leading provider of CFDs (contracts for difference), which allow traders to make profits (or losses) when the price of an underlying asset (stocks, forex, commodities etc) goes up or down, without having to buy the asset.

IG is robust in that it has almost no debt or lease liabilities. This doesn't mean it's without risk though. IG faces significant regulatory risk as gambling (which is often quite similar to short-term trading) becomes less socially acceptable. However, IG's opinion is that tighter regulation benefits companies who focus on adding long-term value to clients rather than squeezing them for short-term profits, and having spent more than 45 years navigating choppy regulatory waters, IG seems to have done OK so far.

For IG, having done OK means its growth rate across revenues, capital employed and dividends has averaged 8% per year over the last decade, while return on capital has averaged 21% – more than double the average return of UK companies. This suggests that IG's experience, scale and business model (where it shuns the 'casino model' of profiting from client losses and instead profits from transparent spreads and fees) give it a sustainable competitive advantage, and I would tend to agree.

Despite these attractive characteristics, IG is currently out of favour. Share prices are incredibly volatile at the moment, but as I write IG has a share price of 560p giving it a dividend yield of almost 8%. Normally that would be exceptional, but in this current market it's only slightly above the FTSE 100's 6.6% yield (with the large-cap index at 4,950).

Perhaps IG's near-8% yield reflects the risk to its business from coronavirus, but so far its revenues are up by more than 100% since the start

"AS LONG AS TELECOM PLUS CAN KEEP ADMINISTRATIVE AND HEAD-OFFICE OVERHEADS COMFORTABLY BELOW THOSE OF ITS EX-MONOPOLY COMPETITORS, IT CAN PROVIDE ENERGY AND TELECOMS SERVICES AT LOWER COST AND STILL MAKE A HEALTHY PROFIT."

of March, suggesting that extreme market fear leads to extreme levels of trading and extreme profits for those, like IG, who facilitate that trading.

Telecom Plus: the UK's leading, fully integrated multi-utility supplier

Telecom Plus (LON:TEP) trades as the Utility Warehouse and offers customers telecoms and energy services on one bill.

Like many modern energy and telecoms suppliers, it doesn't own the underlying infrastructure. Instead it pays a fee to ex-monopoly suppliers like BT or Centrica (British Gas) to supply customers using their infrastructure. As long as Telecom Plus can keep administrative and head-office overheads comfortably below those of its ex-monopoly competitors, it can provide energy and telecoms services at lower cost and still make a healthy profit.

This business model doesn't require debt-funded infrastructure investment, so capex and debts are low, which is good. Total debt and lease liabilities come to 2.5 times average earnings. That's well below my limit of four times earnings, so on that front I would describe Telecom Plus as having a robust balance sheet.

It should also be robust from a demand point of view, given the non-discretionary nature of its services (things would have to get really bad before people went without heat, light or the internet).

As for competitiveness, Telecom Plus has grown by more than 13% per year over the last decade, measured across revenues, capital employed and dividends. At the same time its net return on lease-adjusted capital has averaged more than 14%, which is well above average.

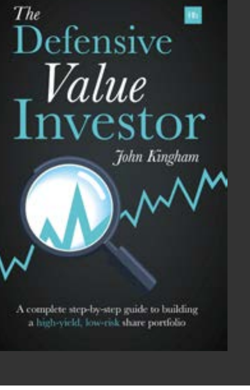
As I write, the share price is 1180p, giving it a dividend yield of 4.4%. Normally this would be quite a high yield, but with the FTSE 100 yielding 6.6%, even 4.4% is no longer high. Still, given its historic robustness and competitiveness, I think there's a good chance that Telecom Plus's dividend will be maintained through the current crisis. And after we come out the other side, I think a return to high single-digit or even double-digit growth is a real possibility.

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

THE TRADER

WHY YOU SHOULD CONSIDER SPREAD BETTING

In the first in a new series of articles, trading guru David Jones explains how spread betting can be a valuable weapon in any investor or trader's arsenal.

Financial spread betting has been around since the early 1970s but thanks to the internet has become more mainstream over the past 20 years. Amongst some investors it still has negative connotations. But put simply, they are wrong. In this article I will explain why investors or traders should at least be aware of how it works, because it could offer a better way of trying to take advantage of shorter-term trading opportunities.

What is spread betting?

Spread betting is a way to speculate on the direction of a financial market. If you are familiar with the buying and selling of shares it is not a quantum leap to understand how spread betting works – with a couple of important differences. I think examples are the best way of explaining.

Example – buying the FTSE100

“THERE HAVE ALWAYS BEEN PLENTY OF TOOLS TO MAKE YOUR TRADING LIFE EASIER WHEN SPREAD BETTING.”

You think the UK's blue-chip index is going to rise and want to try and profit from this. You log onto your spread-betting platform and see the price is 5197/5200. This is the spread. If you have ever bought shares then you will be aware that all markets have two prices – a price you buy at and a price you sell at. Not surprisingly, the price you buy at is higher than the price you sell at. This spread is the trading companies' profit margin for offering a market. Popular markets with heavy volume – for example stock-market indices and currencies – will have tight spreads, meaning the cost of doing business is relatively low. For those more familiar with shares, as a comparison the spread on a FTSE 100 share will be narrower than an AIM share.

You decide to buy '£1 per point', which demonstrates one difference between traditional investing and spread betting. Here, you trade in terms of pounds per point. If you buy £1 per point at 5200 then every point the market moves in your favour provides £1 profit – after the spread of course. So, if the market reaches 5400/5403 and you decide to sell, then you will exit the trade at 5400. That is a 200-point move in your favour – which at £1 per point is £200 profit.

"THE COST TO BE AWARE OF IS THE FINANCING CHARGE. THIS IS ALL TIED UP WITH LEVERAGE."

Leverage and spread betting

One fundamental point to note – when spread betting, you are trading on margin. Going back to the example of the FTSE trade, let's look at the total position size – £1 per point at 5,200 is a position value of £5,200 and £10 per point would be £52,000 etc. But – and this is an incredibly important point – you do not need to deposit £5,200 to open that trade. When spread betting you use leverage, and at the moment on stock-market indices the leverage is 20 times – or to put it another way, you will need to deposit 5% of your position value for the trade. I have already covered that £1 per point at 5,200 is a £5,200 position – so £260 will be tied up from your account to open this trade.

Of course, your potential loss is not just limited to that £260. If for example you are in the trade and the FTSE opens 500 points lower after the weekend, then your open loss is £500. You can reduce the risk of unexpected losses by using guaranteed stop losses.

What are the costs?

When it comes to costs there is no commission charged. The cost to be aware of is the financing charge. This is all tied up with leverage. In effect you are 'borrowing' money to make the trade. In the £1 per point FTSE example, £260 is being used to have a position worth £5,200. As we all know, there is no free money. So, for every day the trade is open, the charge will be applied. This typically uses the LIBOR (London Interbank Offered Rate) benchmark plus a percentage on top. For the purposes of the example, let's assume your spread-betting company charges LIBOR + 3%.

If LIBOR is currently 0.7% then the interest rate in this trade example will be 3.7% (0.7% LIBOR + 3% spread-betting company additional rate). This is an annual financing rate – the amount applied daily while the trade is open will be 1/365 of this, which is 0.01%. This means that on the £5,200 position, the daily cost will be around 52 pence per day. With interest rates so low the cost is negligible – but it is a cost. It is why spread betting and similar products are more suited for short-to-medium-term trading rather than longer-term buy and hold. If you decide to trade a futures contract using spread betting eg FTSE JUNE; DOW SEPTEMBER, there is no daily financing charge as this is already factored into the price.

Selling short

It seems that some investors feel that selling short − profiting from a market falling – is the 'work of the devil'. This is a very naïve view – markets go up, down and sideways. Surely it makes sense to be in a position to try and profit whether we are currently in a bull or bear market? With spread betting it is just as easy to go short as it is to go long. To go back to the FTSE example with the market at 5197/5203 − if you thought it was going to fall you could sell £1 per point at 5197. This time, every point the market moves lower represents £1 profit – every point it moves up represents a loss of £1.

Risk management

There have always been plenty of tools to make your trading life easier when spread betting. Stop losses are one obvious risk-management tool. If you do not want to watch the markets all day long, then orders can be placed to open new trades and close existing ones. Many markets, such as the FTSE 100, are 24-hour markets during the week. The spread-betting market is open even though the UK market is long closed. If for example at 7.30pm UK time the New York markets dived, the FTSE100 price will be changing to reflect this, which could be an opportunity to open a new trade or exit an existing one.

That's the explanation of spread betting. And I should declare an interest as I have worked in the industry for almost 20 years. It is not for everyone and the usual disclaimer is that most people lose when trading short term: the reasons for this will be discussed in a future column. But it is a cost-effective way of trying to take advantage of short-to-medium-term market movements, in both directions, across a variety of financial assets. Let's take a look at a possible medium-term trade.

Spread bet trade – buying oil

It's an odd time to be writing about financial markets. Given the enormous volatility caused by the spread of the coronavirus, markets are experiencing unprecedented moves. Oil is no exception – by mid-March the price had dropped a whopping 68% from its January high above $65 per barrel.

There are a few reasons for this. There is the concern over the global economic damage caused by the virus and what that means for demand. Also, a price war between Saudi Arabia and Russia has broken out, as the Russians refused to make production cuts to try and prop up the price of oil. All of this has seen oil plunge to its lowest level since 2002.

But perhaps the sell-off has been overdone and you expect the oil price to move back up to more reasonable levels – let's say the mid-$30s per barrel. One way of taking advantage of any rise is to use spread betting. I will use a spread-betting futures contract for this example as it may end up being a more medium-term trade.

Remember – with the futures, there are no additional overnight financing costs− they are already built into the price.

At the time of writing, the June US West Texas oil spread was $25.96/$26.00. If the price is going to rise then you would want to buy – and that would be done at $26, although of course these prices do change second by second – and sometimes more quickly. It is important to understand what a one-point move is in different markets. For oil it is a one-cent movement in the price. A move from $26 to $27 is a 100-point move.

Thinking about a stop loss, the lowest that June oil traded on the way down was, so far, $21.60. A stop loss the other side of this level looks logical; for this example I will choose $21.

To recap, oil will be bought at $26 with a stop at $21. That is 500 points away, which helps us calculate the financial risk. If the trader only wants to risk losing £100, then he should buy at 20 pence per point. That way, if the trade ends up being stopped out at $21 a barrel then the loss is 500 points x £0.2, which is £100.

Of course, the trade can be closed at any time. If oil was to rise to $35 half an hour after opening the position, the profits can be taken – you don't need to wait until the contract expires. We will explore spread betting and other potential trades in future articles.

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 IPHONE FRANCHISE

Apple's future depends to a large extent on the future of the iPhone. Is this a blessing or a curse? Andrew Latto investigates.

The largest US-listed company, Apple Inc, is dependent on the iPhone. Whether the iPhone will endure has been debated for a decade – but so far so good. Worldwide unit market share increased to 17.1% in the final quarter of 2019.

Professor Scott Galloway of New York University's Stern School of Business has described the iPhone as "the most profitable device in the history of business" and "the most transformative device" ever launched.

But Galloway also cautions that "if the iPhone sneezes, Apple's going to catch a cold." In the 2019 fiscal year, the iPhone generated 54.7% of Apple's revenue in the 2019 fiscal year and an even larger share of profit.

Some view the iPhone as just a hardware-style device akin to Nokia's mobile phones. Nokia and Blackberry were both riding high before the iPhone launched and have come crashing down since then.

Others take the view that the iPhone builds a strong and enduring relationship with its users.

Either way, Apple's future depends on the nature of the iPhone.

iPhone key facts

Launch date	June 29, 2007
Operating system	iOS
Steve Jobs resigns as CEO	24 August 2011
Current device	iPhone 11
iPhone 11 launched	20 September 2019
2019 Q4* iPhone revenue	$56 billion
2019 Q4* units / market share	69.6 million / 17.1%

*Source: Gartner, *December quarter*

The iPhone 11

The iPhone 11 was launched on 20 September 2019 and has helped to reinvigorate the product. The launch price for the 64GB model was US$699 (£729 in the UK), a more affordable price than that of its predecessor.

iPhone X had a price tag of US$999 (£999 in the UK) for the 64GB base model, making it the most expensive iPhone ever launched. The iPhone X was launched in September 2017 and the iPhone XS launched in September 2018.

"IF THE IPHONE SNEEZES, APPLE'S GOING TO CATCH A COLD."

Halfpoint / Shutterstock.com

Steve Jobs launched the iPhone in June 2007

Source: https://unsplash.com/photos/Lyfy7j9fy0U

> **"QUALITY-FOCUSED INVESTORS LIKE TERRY SMITH OF FUNDSMITH HAVE GIVEN APPLE THE COLD SHOULDER."**

Quality investors

Apple divides consumers and investors alike. Warren Buffett first invested in Apple in 2016 and it is now the single largest stock position held by Berkshire Hathaway. Buffett told CNBC in August 2018 that:

> *"...millions of people with loads of buying power...spend hours a day [using it]...[the iPhone] is an indispensable part of their lives. It is an extraordinary product."*

According to time-tracking software, RescueTime, the average smartphone user spends over three hours a day on their 'device. But quality-focused investors like Terry Smith of Fundsmith have given Apple the cold shoulder.

At the 2020 Fundsmith annual shareholders' meeting, Smith compared Apple to Nokia and noted that it had performed best under Steve Jobs. He questioned why people would upgrade their iPhone but acknowledged that an improved camera could be a factor.

iPhone market share

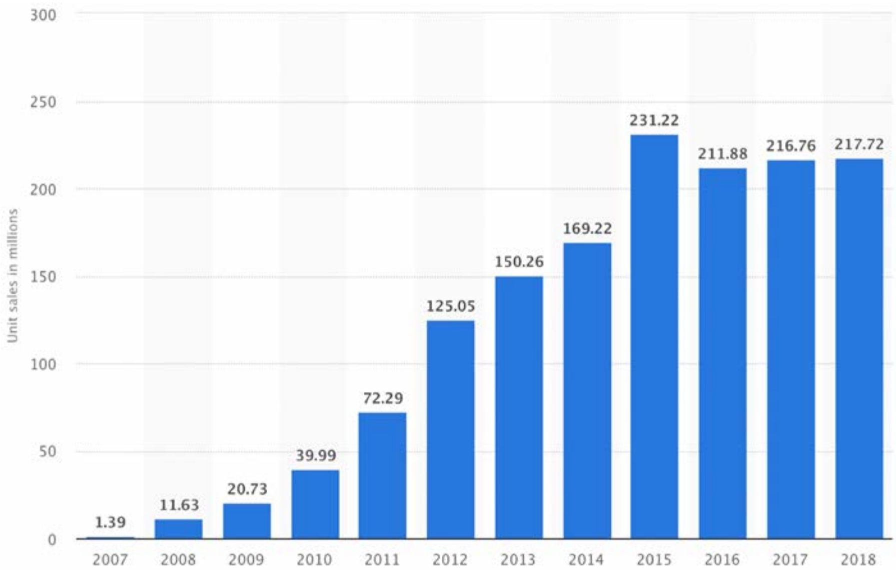
iPhone's worldwide unit market share was 17.1% in Q4 2019, compared with 15.8% a year ago (Gartner). Samsung's market share in Q4 2019 was unchanged from the previous year, at 17.3%.

Huawei was in third place at 14.3%, Xiaomi was in fourth place at 8% and OPPO was in fifth place at 7.5%. The combined market share of all other brands fell to 35.8% in Q4 2019, compared with 37.5% the year before.

Worldwide smartphone sales fell 0.5% in Q4 2019 year-on-year to 406.6m units. But Apple saw 7.8% growth to 69.6m units. Xiaomi was the only other top-five brand to deliver growth, with a 16.5% increase to 32.4m units.

US government restrictions have cut Huawei off from Google services, but the company can still deploy Android. Samsung is a South Korean business while Huawei, Xiamoi and OPPO are all Chinese companies.

iPhone unit sales 2007 to 2018 (million)



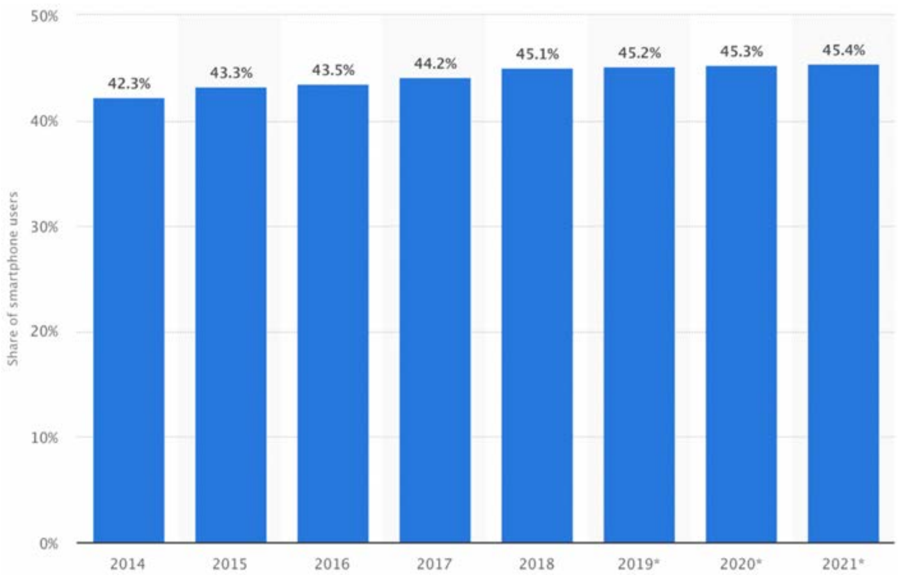
Source: www.statista.com/statistics/276306/global-apple-iphone-sales-since-fiscal-year-2007

Worldwide smartphone unit market share

	4Q 2019	4Q 2018	Unit change
Samsung	17.3%	17.3%	-0.5%
Apple	17.1%	15.8%	7.8%
Huawei	14.3%	14.8%	-3.5%
Xiamoi	8%	6.8%	16.5%
OPPO	7.5%	7.7%	-3.6%
Others	35.8%	37.5%	-5.1%
Total Units	406.6 million	408.5 million	-0.5%

Source: Gartner
https://appleinsider.com/articles/20/03/03/apple-iphone-marketshare-growing-amidst-contracting-global-market

iPhone % share of US smartphone users (*forecast)



Source: www.statista.com/statistics/236550/percentage-of-us-population-that-own-a-iphone-smartphone

Framesira / Shutterstock.com

iPhone in the US

Apple appears to be a small player in the smartphone industry, with less than a fifth of the market. This reflects a strong showing from local brands in emerging markets and in particular China.

iPhone's unit share in the US increased from 42.3% in 2014 to 45.1% in 2019. Apple is also winning in the US youth market and when it comes to growth investing, demographics are key.

An October 2019 survey from investment advisers, Piper Jaffray found that 83% of US teens have an iPhone – up from 82% the year before. The survey also found that 86% of US teens said they wanted the iPhone to be their next device.

iPhone in China and India

iPhone is a premium smartphone and may gain traction in emerging markets as income levels increase. iPhone 11 was the best-selling 4G device in China in the fourth quarter of 2019.

iPhone's market share in China hit 11.8% in Q4 2019 − the highest for eight quarters. iPhone's market share in China had hit a five-year low in Q3 2019 at 5% but the iPhone 11 arrested this trend.

Greater China accounted for 14.8% of Apple's revenue in the final quarter of 2019. While China is a competitive market, Apple saw its revenue increase by 3.1% year-on-year in the final quarter of 2019.

India's premium smartphone market (over US$500/Rs35,000) is only 2.7% of the total smartphone market. Apple's share of the premium segment was 75.6% in Q4 2019, helped by local manufacturing and price cuts for the iPhone XR.

iPhone's share of industry revenue and profit

iPhone famously eats up a disproportionate share of smartphone industry revenue and profit. The iPhone accounted for 32% of handset revenue and 66% of industry profit in the third quarter of 2019.

In the third quarter of 2016, the iPhone generated a record 91% of industry profit. It is generally best to invest in products that are price makers and market leaders. Apple's iPhone fits this description well.

iPhone franchise drivers

There is a range of services and products that help make the iPhone attractive. Apple's iCloud user accounts offer continuity across devices with no new login required for services like FaceTime.

Apple has almost half of the smartwatch market and its wireless earphones are estimated to have over half of the market. Apple is also the market leader in tablets and offers a range of popular laptops and desktop computers.

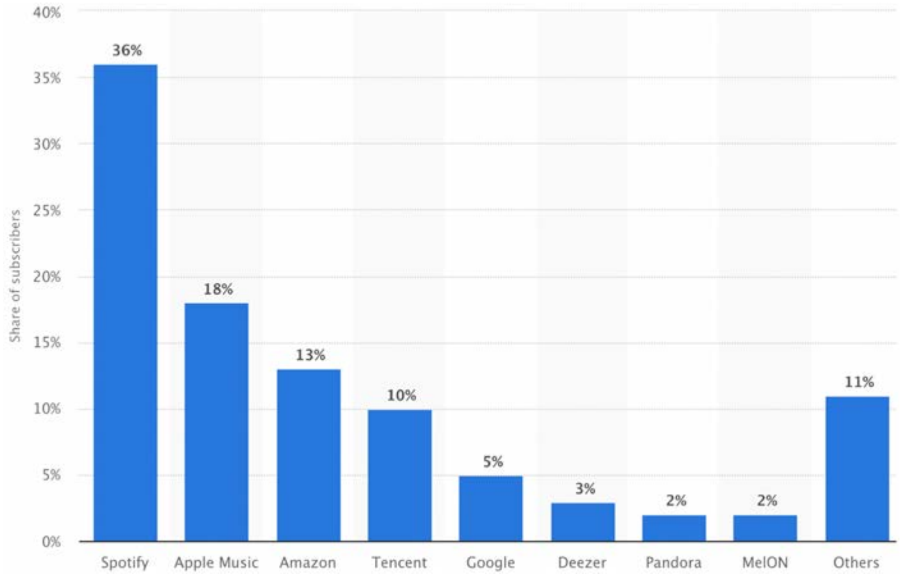
iOS, FaceTime and iMessage

iPhone uses Apple's iOS mobile operating system, which is only available on the iPhone and the iPad. Google's Android is the rival operating system and the two platforms form a duopoly on mobile devices.

Software and services build a deep relationship with consumers. FaceTime video calling and iMessage are only available on iPhone. They don't require a third-party application with a new password.

There are similar services available on WhatsApp and Skype, but they tend to be clunkier to operate. If your friends and family already have Apple products, it makes sense to stay with iPhone, giving rise to powerful network effects.

Share of music streaming subscribers H1 2019



Source: www.statista.com/statistics/653926/music-streaming-service-subscriber-share

Software, Services and the App Store

Apple software that comes free with iPhone includes iPhotos, iMovie, GarageBand, Find My, Apple Pay and iWork. iMovie is used to create movie clips while GarageBand is used for music composition.

Apple Music's streaming service was launched on 30 June 2015 and had an 18% subscriber market share in H1 2019. Spotify is the leader at 36%, Amazon is in third place at 13%, Tencent is on 10% and Google is on 5%.

Apple Pay currently accounts for 5% of global card-payment transactions and is on track to hit 10% in 2025 (Bernstein). The service was launched in October 2015 and is supported by the Apple Card, which was launched in 2019.

Apple TV+ is a TV content service that was launched on 1 November 2019 and is free for a year when you purchase an Apple product. The monthly cost is US$4.99 or UK£4.99 or around US$60/£60 a year.

The App Store launched in July 2008; Google Play, Android's version, was launched in October 2008. The content on both platforms is a reason why a new smartphone platform would find it hard to gain traction.

Apple Watch is a hit

Source: https://unsplash.com/photos/QhF3YGsDrYk

Apple Watch

The Apple Watch was launched in April 2015 and it dominates the global smartwatch market. Its market share was 47.9% in Q3 2019. Samsung's was 13.4% and Fitbit's 11.3%.

Apple Watch's market share should continue to improve on the back of

"IN THE THIRD QUARTER OF 2016, THE IPHONE GENERATED A RECORD 91% OF INDUSTRY PROFIT. IT IS GENERALLY BEST TO INVEST IN PRODUCTS THAT ARE PRICE MAKERS AND MARKET LEADERS. APPLE'S IPHONE FITS THIS DESCRIPTION WELL."

Global smartwatch market share units

	Q3 2019	Q3 2018
Apple	47.9%	45%
Samsung	13.4%	11%
Fitbit	11.3%	15%
Other	27.5%	29%

Source: Strategy Analytics
www.statista.com/statistics/524830/global-smartwatch-vendors-market-share

AirPods are ubiquitous

Source: www.pexels.com/photo/close-up-photography-of-a-woman-3755913

the Series 5, which was launched on 20 September 2019. Only Samsung and Apple increased their market share in Q3 2019 on a year ago.

Apple Watch was developed and launched under Apple chief executive Tim Cook and is designed to work with the iPhone. The device monitors people's health and exercise regimes – for many it is the key reason to stay with iPhone.

Health functions include fall detection, emergency calling, heart-rate notifications, an ECG app and medical ID – it has saved lives. In January 2019, Tim Cook told CNBC that:

"If you zoom out into the future, and you look back, and you ask the question, 'What was Apple's greatest contribution to mankind?' It will be about health."

AirPods

AirPods are the second hit product launched by Tim Cook. They were released in December 2016, while the AirPod Pro was launched in October 2019. Unit sales are estimated at 60m in 2019 and may hit 90m in 2020.

AirPods work with Android devices but they work best with the iPhone. There is some speculation that they may eventually be used as a health and fitness monitoring device. Apple also owns the Beats brand of headphones.

iPad and computers

In Q4 2019 the iPad had a 36.5% share of the global tablet market, with Samsung in second place at 16.5%. The iPad also runs on Apple's iOS platform and therefore works well with the iPhone.

Apple's share of the PC market is modest at 7.6% in Q3 2019. But in the US, Apple's PC market share was 13.6% in Q4 2019. Apple's computers offer continuity with the iPhone and iPad.

Apple's products work well together

Source: www.pexels.com/photo/apple-iphone-smartphone-desk-4158

Global tablet market Q4 2019

	Q4 2019	Q4 2017
Apple	36.5%	26.6%
Samsung	16.1%	14.1%
Huawei	9.1%	7.1%
Amazon	7.6%	15.6%
Lenovo	5.8%	6.2%
Others	24.9%	30.4%

Source: www.statista.com/statistics/276635/market-share-held-by-tablet-vendors

Customer service

Apple is the only consumer electronics company that has an extensive network of stores. It offers free courses on iPhone applications, covering photography, music production and video editing.

A 2018 survey by market-research company Creative Strategies found that customer satisfaction with iPhone X was 97% while 85% of respondents were very satisfied. Android and Samsung do not offer the same level of customer support.

Privacy and security

Smartphones are used for payments and banking, and they maintain nearly all of our personal information. iPhone operates as a 'walled garden' with third-party applications requiring approval.

Apple can punish any developer that fails to abide by its privacy and security principles. With iPhone users a lucrative market, most developers are keen to play by the rules. Android is more open and less secure than iOS.

iPhone edge: in-house processor design

Apple released its first internally developed smartphone processor with the iPhone 4S in September 2011. This may help the iPhone to gain an edge over rival devices from Samsung.

Combining raw processing power with low power consumption is a challenge for mobile devices. Data and power-hungry applications include video calling, live language translation, gaming, augmented reality and artificial intelligence.

iPhone edge: hardware and software

Designing both the hardware and software together may give Apple an edge. Mobile devices are not like desktop computers. They require clever design and trade-offs to support power efficiency and the user experience.

We are aware of Samsung Note 7's exploding batteries and the iPhone 4's antenna issues. Developing more of the functions in-house may allow for a better end product. Mobile devices are hard to get right.

Brand appeal

Apple is an aspirational brand. Galloway has compared it to luxury brands like Louis Vuitton.

On this basis, the iPhone's premium pricing may attract consumers to what is effectively a lifestyle brand. Apple Stores are 'temples to the brand' and splashy product-launch events are 'fashion shows'.

Apple stores: temples to the brand

Apple and the iPhone

The iPhone generated less than 40% of Apple's revenue in 2009 and as much as 70% in a number of quarters from 2015 to 2017. In the final quarter of 2019, it generated 60.9% of Apple's revenue.

This understates the importance of the iPhone. It is a key driver of Apple's highly profitable services segment. Services had a gross margin of 63.7% in fiscal 2019, while products had a gross margin of 32.2%.

Steve Jobs once described Apple as a product company. The focus is on making devices easy to use. When it comes to computing products, consumers generally prefer simplicity over customisability.

Apple revenue: iPhone remains key

December Quarter	Net sales	($bn)		
	2019	2018	% total rev	Change
iPhone	56.0	52.0	60.9%	7.6%
Services	12.7	10.9	13.8%	16.9%
Wearables	10.0	7.3	10.9%	37.0%
Mac	7.2	7.4	7.8%	-3.5%
iPad	6.0	6.7	6.5%	-11.2%
Total	91.8	84.3	100.0%	8.9%

Source: Apple Inc

Summary

Tim Cook took over as Apple chief executive in August 2011 and has strengthened the iPhone franchise since then. The Apple Watch and AirPods are market-leading devices that reinforce Apple's 'ecosystem'.

New services launched under Tim Cook include Apple Pay, Apple Card, Apple TV+ and Apple Music. Health is a key area of focus for Apple and may make the iPhone even harder to move away from.

"THE APPLE WATCH AND AIRPODS ARE MARKET-LEADING DEVICES THAT REINFORCE APPLE'S 'ECOSYSTEM'."

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 DERREN NATHAN

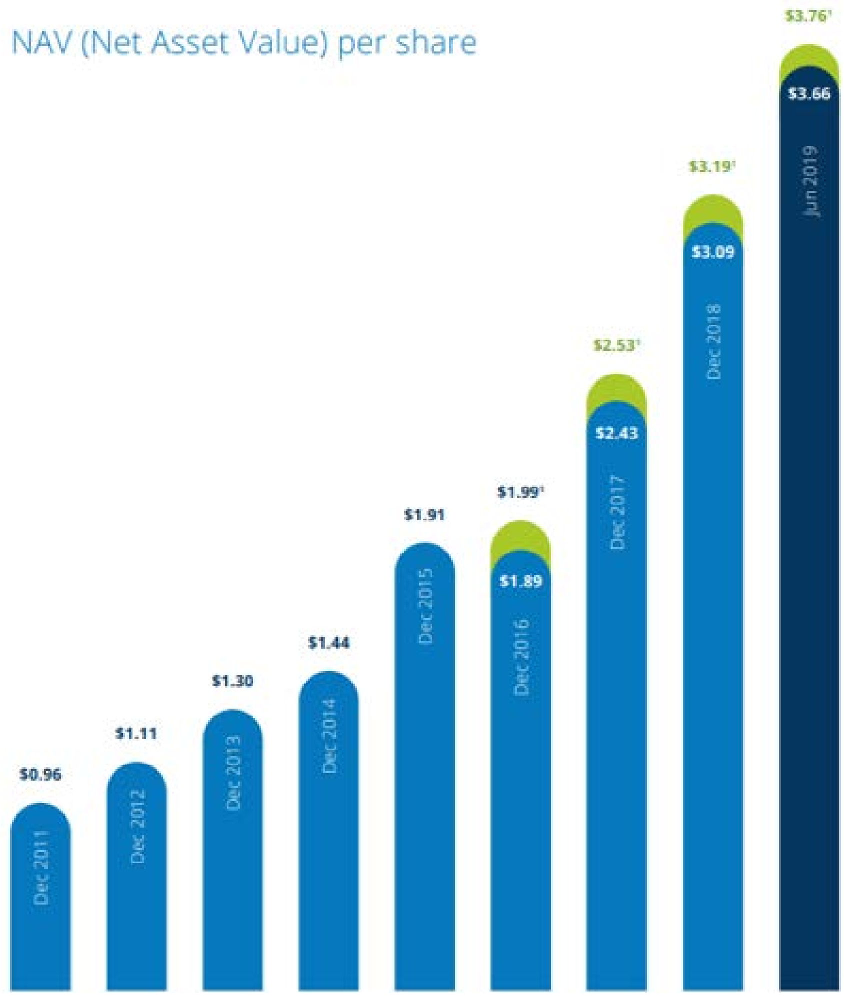
STOCKS IN FOCUS

TMT INVESTMENTS

Has the recent sell-off been overdone for this trailblazing venture capital fund? Derren Nathan of Hybridan investigates.

TMT Investments (LON:TMT) has established itself as an astute investor in high-growth companies, often paving the way for better known VC and industry players to come in at a later stage, at significantly higher valuations. The management's Russian-speaking roots have given the company an edge in gaining early access to high-growth tech companies, with Russian speakers forming a significant proportion of participants in the major tech hubs, from the likes of Tallinn in Estonia through to Silicon Valley and Tel Aviv.

The recent fall in the TMT share price has seen the stock give up some three years of gains which saw the shares peak at $6.10 per share last summer. At time of writing, the shares are trading at a 45% discount to the pro forma NAV of $3.46 per TMT share (last reported value net of the subsequently paid $0.2 special dividend). TMT's rigorous investment approach has seen it generate excellent and consistent returns since it was founded in 2010, both in terms of share price and NAV appreciation, as can be seen from the below chart.



Source: www.tmtinvestments.com

"TMT'S RIGOROUS INVESTMENT APPROACH HAS SEEN IT GENERATE EXCELLENT AND CONSISTENT RETURNS SINCE IT WAS FOUNDED IN 2010."

"TMT CONTINUES TO DEPLOY ITS CAPITAL IN EXCITING OPPORTUNITIES THAT UK-BASED INVESTORS TYPICALLY WOULD STRUGGLE TO GET EXPOSURE TO."

Based upon reported NAV per share on an adjusted basis, TMT returned 89% over the two and a half years to June 2019. There have been some stunning winners within the portfolio, including Bolt, the ride-sharing company giving Uber a good run for its money, which is up some 69 times over TMT's original investment, and Pipedrive, the fast-growing cloud-based CRM (customer relationship management) system which is up some 17 times.

TMT's solid NAV performance, however, is more than just paper-based, having realised a total of $26.9m in full profitable cash exits since inception (as at 30 June 2019) and $10.7m in partial cash exits and other cash proceeds at the same date. The most notable exit to date has been Wrike, a collaborative work platform, which generated proceeds of $23.4m in 2019, following a majority investment by Vista Equity Partners. Other major VCs who have invested in TMT's portfolio companies following earlier investment by TMT include Bessemer Ventures and Andreessen Horowitz.

TMT has largely grown from reinvesting the proceeds of its investments with little in the way of new equity issued, having last raised money in 2018 attracting $3.5m by a placing with certain institutional and other investors attracted by their balance of financial discipline and eye for the star companies of tomorrow. The balance sheet remains strong with $15.3m cash reported as at 16 September 2019.

TMT continues to deploy its capital in exciting opportunities that UK-based investors typically would struggle to get exposure to. In January this year, TMT announced an update on the portfolio covering the period from the publication of the company's interim results on 17 September 2019, in which time TMT made three new investments:

- US$1.0m in **Affise Technologies Ltd**, a performance marketing SaaS solution for the affiliate industry (https://affise.com/en);
- US$0.65m in **Ad Intelligence Inc.**, trading as **RetargetApp**, an online solution aimed at monitoring ad campaigns and automatically managing daily budgets, audience and bids to improve the quality of retargeting (https://retargetapp.com); and
- US$0.22m in **Timbeter OÜ**, a cloud-based mobile software solution for round wood measurement, timber inventory management and reporting (https://timbeter.com).

The recent fall in the TMT share price is in line with the limited UK peer group of listed VC funds such as Draper Esprit and Augmentum Fintech. TMT benefits from a conservative valuation policy largely valuing its holdings at the lower of cost or most recent funding round or share sale.

It would be reckless to argue that there will be no fallout from the coronavirus pandemic on TMT's holdings, especially as many of them are relatively young businesses that are still evolving, and there will be an element of downward pressure on every element of discretionary spend. However, some 80% of NAV is concentrated in the top five holdings. Most of these are well-established businesses valued at hundreds of millions of dollars each.

However, the nature of the companies within the portfolio means that the majority of investee companies have limited reliance on physical premises, benefiting from the likes of cloud-based infrastructure and e-commerce. Furthermore, the SaaS and subscription models championed by some of the underlying companies provides a core baseline of revenue that can help companies to conserve cash in difficult conditions if they temporarily hold back on expenditure to acquire new customers.

There are some holdings that will have specific challenges in the current climate. One such company is Attendify, a relatively small holding in the portfolio, the subject of a $600k convertible loan in 2013, against a last reported total NAV of $106.7m. Attendify bridges the gap between digital marketing and event marketing. With live events on hold the world over, this is a sector that will need to rebuild itself in due course.

Bolt, a much more significant holding, is another that outsiders may be concerned about as human mobility slows down in the face of the pandemic threat. However, people may be more comfortable with private transport than crowded buses and train carriages and Bolt is reacting to the times with additional services. In Slovakia, for example, in response to the changing environment, Bolt has recently launched grocery delivery in Bratislava, a service that was implemented quickly and smoothly, enabling packages of basic groceries to be delivered within a few minutes.

"TMT IS WELL-PLACED TO WEATHER THE STORM AND WAS ALREADY BENEFITING FROM A SIGNIFICANT ELEMENT OF REMOTE WORKING AND A RELATIVELY LEAN COST BASE PRIOR TO THE ONSET OF COVID-19."

Bolt has also recently announced the launch of within-the-hour business deliveries offering businesses benefits including:

- Same-day or even same-hour B2C delivery
- Delivery of any item that can fit inside a medium-sized car
- Access to one of the largest fleet networks in Europe and Africa
- Transparent pricing based entirely on the distance of delivery
- Real-time delivery tracking and support

Backblaze, another of TMT's core holdings, is a backup and cloud-storage company, and in 2019 its B2 cloud-storage revenue grew at 128% year-on-year. We understand that its services are considerably cheaper than those offered by market leaders such as Amazon, and in times of economic pressure we would expect value plays to prosper. Furthermore, according to an article on www.inc.com Backblaze has reached profitability.

Pipedrive, the cloud-based CRM system, has expanded to a base of 85,000 client companies who pay monthly subscriptions, in just 10 years. This is a mission-critical application for many of these businesses and plugs into the home-based working environment with no adaptation required. Pipedrive raised $50m in June 2018. We understand that the company is now trading at or close to profitability and retains a significant cash pile.

Amongst TMT's newest investments are several holdings that could be specific beneficiaries from the current environment.

Another potential winner is UK-based MEL Science, in which TMT invested $2m in February 2019. MEL Science has developed a platform for next-generation science lessons combining VR/AR interactive visual lessons with hands-on experiments. MEL Science's first product, MEL Chemistry, is a B2C subscription service, which combines physical kits for science experiments with a VR mode-equipped iOS and Android app and is available in more than 30 countries. In a time where more and more schools are closing their doors worldwide and home schooling is at least for now becoming the norm, we would expect demand for their high-quality products to intensify.

Another 2019 investment was the deployment of $1.2m into Rocket Games Entertainment LLC, the owner of Legionfarm, an online game-coaching service that helps gamers master complex games by hiring professional players. Towards the end of 2019, this was enjoying revenue growth of around 30% to 50% per month. In a time where home entertainment is the only entertainment, we would expect further growth opportunities for Legionfarm.

TMT is well-placed to weather the storm and was already benefiting from a significant element of remote working and a relatively lean cost base prior to the onset of Covid-19. It has the balance sheet to continue to back forward-thinking, fast-growing companies with established products and customer bases. While TMT's own shares offer such a disconnect to NAV, it may elect to take advantage of the value opportunity in its own share price. We would expect 2019 results in the current quarter and will watch with interest for any impairments or write-offs, which TMT has been prompt to execute in the past. However, we believe that in the short term, the portfolio benefits from some downside protection and that many of the holdings remain well-placed for medium-to-long-term growth, with clear paths to profitability. This is not by accident but by design, with the company focused on high-growth investments, with existing revenues and customers and visible trajectories to cash generation, largely avoiding early-stage start-ups and companies pursuing a growth-at-any-cost strategy.

About Derren

Derren is Head of Research at Hybridan. Derren has over a decade's experience of broking and researching smaller quoted companies. He has had exposure to nearly every sector at some stage, and also had an 18-month spell as an analyst on a prominent Leisure sector desk. He continues to be amazed at the energy and innovation found in entrepreneurial businesses but realises this must be coupled with prudence and operational excellence to satisfy investors. Prior to working in equities Derren spent several years in the Investment Funds Group at PwC having started his career at a leading insolvency practice, a helpful introduction to how not to run a business.

Disclaimer: TMT is a corporate client of Hybridan.

BY RICHARD GILL, CFA

BOOK REVIEW

THE EQUITY EDGE

A COMPLETE GUIDE TO BUILDING WEALTH THROUGH THE STOCK MARKET

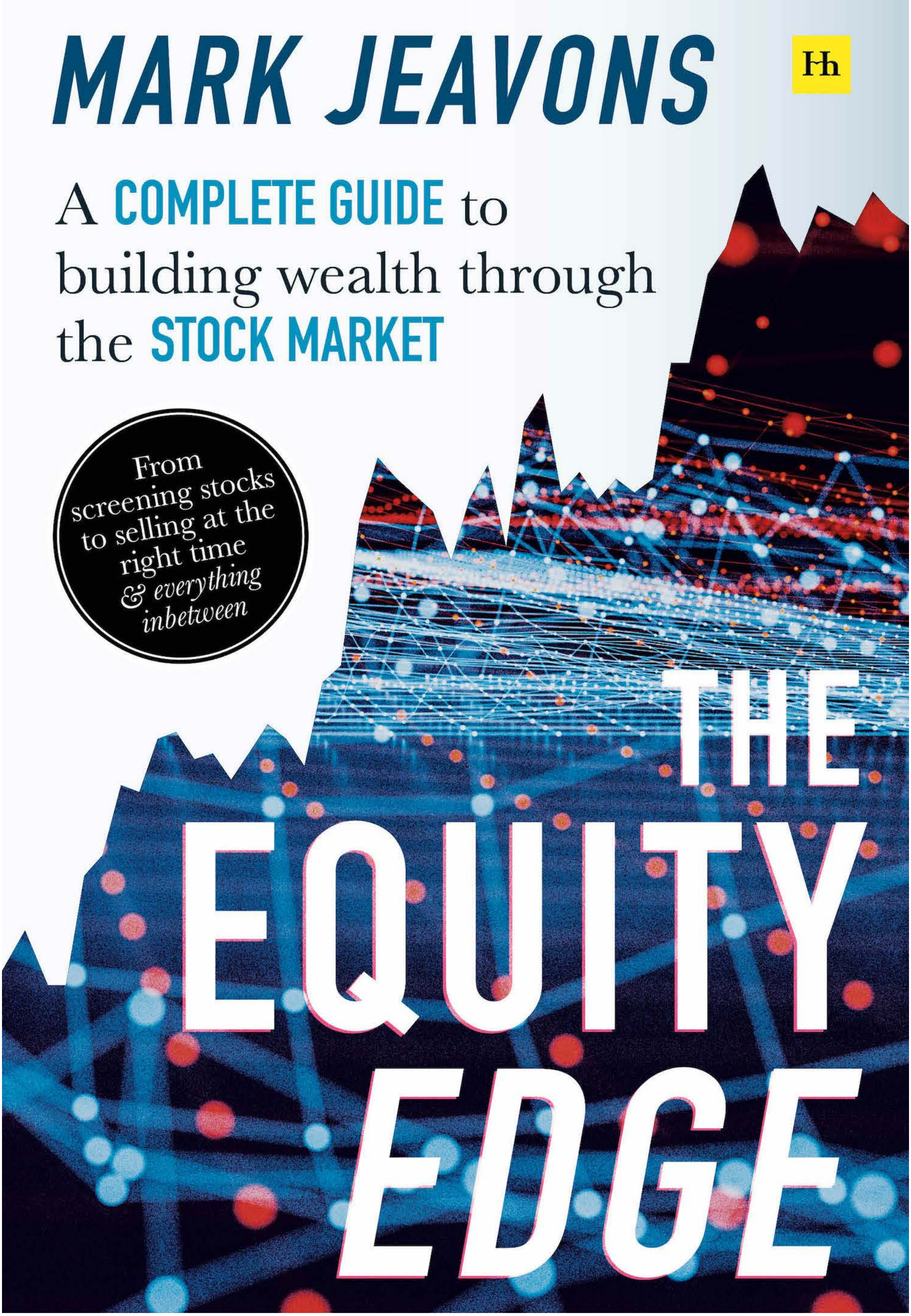
BY MARK JEAVONS

***The Equity Edge* provides readers with a detailed system for building and managing a portfolio of shares that grows both wealth and income over time, writes Richard Gill.**

In a recent podcast, the highly respected American investment advisor and commentator Phil Ferguson made two points regarding the current market crash which stood out to me. While his answer to a question regarding how investors should react to the crisis was somewhat boring, it was also sensible. Aside from some possible rebalancing, he said that a portfolio should always be structured to perform in line with any kind of market conditions, whether bullish or bearish. The idea is that in the long term a well-constructed portfolio will rise in line with the rest of the market.

This leads on to the second point that, in the long term, stock markets have always risen. Take the 50-year chart on the right for example which shows the performance of the S&P 500 index. While there have been sharp declines, often for many years, the index has shown a strong long-term uptrend. Five decades ago, the S&P was trading at around 87 points while today it stands at 2,248 – that's a compound annual return of 6.72%, without accounting for dividends and even after the recent plunge from an all-time high of 3,387. Ferguson points out that for someone in their 20s or 30s, a market crash can be one of the best things to happen to them in terms of generating long-term wealth.

This may be a volatile time for anyone to get involved in investing. But for those new to the game, or those looking for further guidance, author Mark Jeavons has put together


MARK JEAVONS
Hh
A COMPLETE GUIDE to building wealth through the STOCK MARKET
From screening stocks to selling at the right time & everything inbetween
THE EQUITY EDGE

> **"IN THE LONG TERM A WELL-CONSTRUCTED PORTFOLIO WILL RISE IN LINE WITH THE REST OF THE MARKET."**

an excellent primer on how to generate long-term wealth in the stock market. *The Equity Edge* provides readers with a detailed system for building and managing a portfolio of shares that grows both wealth and income over time. It makes the bold claim that the methods provided will give a consistent equity edge, minimise poor investment decisions and generate superior returns to the overall market over the long term.

Mark Jeavons is a professional investor and a fan of quantitative modelling. He uses this for bottom-up analysis of shares, using the system outlined in the book. Jeavons is currently associate partner and principal investment consultant at professional services firm Aon and in previous roles has helped to manage large family funds across a broad range of assets. His degrees in economics and statistics have no doubt helped him to achieve returns of just over 15% a year.

Asset advantage

The book consists of 16 chapters which have the overall aim of helping investors beat the market average reliably and safely, and also of protecting wealth from the risk of substantial loss. This is the equity edge referred to in the title of the book – outperformance of the market with similar or less risk.

Unsurprisingly, given his background, Jeavons applies an analytical approach to building a portfolio, using company numbers along with qualitative aspects as indicators of future performance. The book is structured into five key stages which cover selecting companies to invest in, how to value them, when to buy shares, when to sell shares and how to diversify your holdings.

Chapter two kicks off the selection section, discussing how to apply screening criteria to stocks in order to find good investment opportunities. Screening saves a lot of time, with poor companies filtered out so investors can spent time doing further research on those which exhibit quality characteristics. The classic investment styles of income, value and growth are all covered, with an additional 'economic-moat' screen discussed to help identify shares with a durable competitive advantage.

After covering a range of range of other qualities to check for, including sales, cash flow, debt and more qualitative measures, chapters 11 and 12 move on to how to value company shares. Here the author explains how you can use broker forecasts to produce a consensus price forecast for the next two years, along with how to produce a long-term valuation of shares, using a variety of methods. Technical-analysis fans have a treat coming up, with chapters 13 and 14 covering how share-price charts can give information on understanding market trends and identify opportune moments to both buy and sell shares.

With the returns side of the investment equation thoroughly covered, chapter 15 then introduces risk management, explaining how to manage the allocation of investments within a portfolio to help limit losses and maximise long-term returns. The final chapter then brings everything together, discussing how the techniques provided are used in the day-to-day management of a successful portfolio. Jeavons provides a weekly routine (including the weekends) that investors should adhere to, as well as quarterly and annual activities they should undertake, in order to maximise investment success.

Put the odds in your favour

The Equity Edge is a concise but detailed, well-written guide for any private investor looking to build up their wealth by investing in shares over the long term – the long term being the key point here. It is worth noting that Phil Ferguson refuses to take on any client who want to 'play the markets' for just a year or two.

The book is written with individual investors and entrepreneurs in mind, providing valuable guidance, especially relating to banking gains and cutting losses in order to minimise risk. Nevertheless, professional investors will also benefit from the guidance given, perhaps most of all the focus on building wealth over the long term in contrast to short-term profit seeking. Both fundamental and technically driven investors will be happy, with the author using a combination of both approaches when developing his overall strategies. Overall, *The Equity Edge* is a valuable addition to any investor's library.

About Richard

Richard Gill is an investment analyst with over a decade's experience of analysing small/mid cap equities. He is the Head of Research at Align Research. Richard qualified with the Chartered Financial Analyst (CFA) designation in 2012 and was awarded PLUS Markets Financial Writer of the Year at the 2008 PLUS Awards. He has been a judge at the Small Cap Awards from 2013 to 2018.

BY TIM PRICE

THE FINAL WORD

THE END OF HISTORY

Due to the deflationary impact of coronavirus, the coordinated roll-out of an even more aggressively inflationist policy is practically a done deal, writes fund manager Tim Price.

" Everything that can be invented has been invented."

— attributed, probably falsely, to Charles Holland Duell, Commissioner of the US Patent Office from 1898 to 1901.

In his 1992 book *The End of History and the Last Man*, Francis Fukuyama suggested that, with the Berlin Wall having just fallen and Western liberal democracy having seemingly conclusively vanquished all competitors, not least the Soviet Union, humanity had reached "not just... the passing of a particular period of post-war history, but the end of history as such: That is, the end-point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."

This is an interesting and provocative thesis, certainly – but one that barely survived the rise of China, let alone the global financial crisis, which revealed that what we think of as free-market capitalism had, in the Anglosphere at least, by 2008 morphed into something better understood as 'crapitalism', replete with bailouts for the super-rich, and austerity for the taxpayer – and everybody else.

Now that the world is wrestling with the implications of the coronavirus pandemic and contemplating the chilling impact of the disease on global trade, globalisation seems to have gone suddenly into reverse.

The world has experienced dramatic economic reversals before, but previously they've tended to occur in wartime. In his book *The Economic Consequences of the Peace* (1920), the economist John Maynard Keynes writes of the extraordinary living standards of the affluent in Britain just before the eruption of war in 1914. While the majority of the population worked hard for a type of existence barely above subsistence:

> "... escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various


ONE HUNDRED
FOR
JULY
FRANKLIN

products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice."

Here's another aspect of what would soon become known at the time as 'the Great War': nobody saw it coming. Fund manager, Harris Kupperman, highlights the complacency in securities markets even as armies mobilised across Europe:

"A few years back, I read an incredible white paper regarding investor complacency in the final weeks leading up to the First World War. Archduke Ferdinand was assassinated, global powers were trading demands, with the threat of war and investors didn't care. As the crisis heated up and the armies began to mobilize, investors still were in a fantasy world. Back then, bonds were the primary liquid investor product and a potential war would weaken a government's ability to redeem the bonds in gold—hence bond prices would collapse if there was a war. Four days before the war started, with armies mobilizing, outside of a few basis-points move in Austria, no one feared a crisis. Why were investors so complacent? There are plenty of reasons; there hadn't been a European war in their lifetimes, economic conditions were reasonably robust and everyone trusted the politicians to sort things out."

I bring this all up as I sense a similar complacency surrounding the coronavirus. Let me start by saying that I'm not a medical professional – I didn't even get good grades in high-school biology. I have read my fair share of information by so-called 'experts' but am well-aware that at this stage, most of what's out there is just a bunch of theories using faulty Chinese data to arrive at a best guess for what will happen. Given the range of possible outcomes I have read, it is clear that there is absolutely zero consensus as to what will happen.

"MONETARY SYSTEMS UNDOUBTEDLY HAVE A SHELF LIFE. PRESIDENT NIXON TOOK THE US DOLLAR OFF GOLD IN 1971. THE CURRENT UNBACKED FIAT MONEY SYSTEM HAS ALREADY LASTED LONGER THAN MANY ALTERNATIVE SYSTEMS THAT PRECEDED IT."

"THE DEFLATIONARY IMPACT OF CORONAVIRUS WILL MAKE THE COORDINATED ROLL-OUT OF AN EVEN MORE AGGRESSIVELY INFLATIONIST POLICY – PERHAPS BOTH FISCAL AND MONETARY – PRACTICALLY A DONE DEAL ON THE PART OF OUR MAJOR CENTRAL BANKS."

If diverging opinions on what will happen amongst experts sounds a lot like analysing the stock market where the experts are also mostly wrong, then you're paying attention to the potential for outlier events. With this virus, you need to gather your own information, understand it as best as possible and then try to reach an actionable hypothesis based on fast-moving information.

One of the most impressive pieces of entertainment – if you can quite call it that – that I have seen over recent years is the 2019 HBO/Sky co-production, *Chernobyl*, a practically forensic examination of what precisely went wrong in what remains the worst civilian nuclear disaster in our history to date. The atomic plant at Chernobyl blew up in April 1986. The Berlin Wall itself fell in November 1989. The intervening years saw any credibility associated with the Soviet economic model drain away like sand in an hourglass. So, my question is: could coronavirus end up being China's Chernobyl? A follow-up question: could the world monetary and governmental authorities' response to coronavirus – the likely acceleration of policy towards full-blown Modern Monetary Theory and all the 'helicopter money' likely to come with it – be their Chernobyl, too?

These are not entirely idle questions. Monetary systems undoubtedly have a shelf life. President Nixon took the US dollar off gold in 1971. The current unbacked fiat money system has already lasted longer than many alternative systems that preceded it. And, just like the Soviet system, it has outlived years of sensible commentators pointing out that it was utterly unsustainable. The world policy response to the coronavirus may turn out to be an economic turning point in more ways than one.

I have long argued that the global debt system is also utterly unsustainable. The only real question is how our current debt predicament gets resolved.

One way would be for the governments of the world to engineer enough economic growth to keep the debt serviced. The rapid spread of coronavirus looks like a nail in that particular coffin. Not least in the eurozone, which was flirting with recession even before the outbreak emerged.

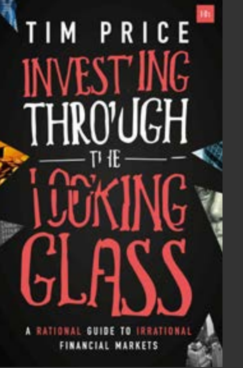
Another way would be for the governments of the world to default explicitly on their debts. Since we live in a credit-based monetary system, the implications of widespread sovereign default do not really bear thinking about.

Which leaves us with the third and final option, and also the option to which all heavily indebted governments throughout history have always ultimately resorted: they try and inflate the value of their debt away. We have already suffered 10 years of the most extreme monetary experimentation through the likes of quantitative easing and more recently negative interest-rate policy, but one suspects that the deflationary impact of coronavirus will make the coordinated roll-out of an even more aggressively inflationist policy – perhaps both fiscal and monetary – practically a done deal on the part of our major central banks.

If it were as easy as printing money, Zimbabwe would be one of the richest countries on the planet. It plainly is not that easy. Investors are, in my view, right to be concerned about the looming impact of 'the macro' on the major asset classes of (listed) equity and debt. The spread of coronavirus appears to have answered the question conclusively about what we get first – namely a deflationary shock, and then an inflationary response. To which only two words then become relevant. Got gold?

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'.



APRIL 2020

INVESTOR EVENTS DIARY

EVERY WEDNESDAY | 12:30

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

WEDNESDAY 8 APRIL | 14:30-15:30

Event:	Share CDFs: no commissions, no additional spread
Organiser:	FinecoBank
Place:	Webinar
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

WEDNESDAY 15 APRIL | 19:00-20:00

Event:	The trader's journey – how to achieve consistency in technical trading
Organiser:	FinecoBank
Place:	Webinar
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

WEDNESDAY 22 APRIL | 14:00-15:30

Event:	The essentials of all trading success
Organiser:	FinecoBank
Place:	Webinar
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

WEDNESDAY 29 APRIL | 19:00-20:00

Event:	Day trading vs. swing trading
Organiser:	FinecoBank
Place:	Webinar
Tickets:	https://finecobank.com/uk/public/corsi-e-education/corsi

THURSDAY 30 APRIL | 08:30-10:30

Event:	EISA Spring Seminar 2020
Organiser:	EISA / hosted by PWC
Place:	More London, 7 More London Riverside, London SE1 2RT
Tickets:	https://eisa.org.uk/events

SUNDAY 7 JUNE | 08:00-18:00

Event:	AI for Healthcare and Longevity
Organiser:	R42 Group
Place:	Savoy Place, Institution of Engineering and Technology, 2 Savoy Place, London WC2R 0BL
Tickets:	2 complimentary tickets: MASTERINVESTORR42 www.eventbrite.com/e/ai-for-longevity-and-healthcare-everything-you-need-to-know-tickets-92818423403

THURSDAY 11 JUNE | 19:00-21:30

Event:	Chairman's Reception / EISA Awards
Organiser:	EISA
Place:	TBC
Tickets:	https://eisa.org.uk/events

THURSDAY 25 JUNE | 18:30-00:00

Event:	Small Cap Awards 2020
Organiser:	Small Cap Network
Place:	The Montcalm Hotel London, 2 Wallenberg Place, Marylebone, London W1H 7TN
Tickets:	www.eventbrite.co.uk/e/small-cap-awards-2020-tickets-79392449955?aff=ebapi Or https://smallcapnetwork.co.uk/events

WEDNESDAY 18 NOVEMBER | 09:00-18:00

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

SATURDAY, 5 DECEMBER | 09:15-17:00

Event:	Master Investor Show
Organiser:	Master Investor
Place:	Business Design Centre, 52 Upper St, London N1 0QH
Tickets:	100% discount using code: MIM04 www.masterinvestor.co.uk/show/tickets

MARKETS IN FOCUS

MARCH 2020

GLOBAL EQUITIES

Index	Last Month %	YTD%	52-Week Strength
Swiss Market	-5.3	-14.3	
CSI 300	-6.4	-10.0	
NASDAQ 100	-7.7	-10.5	
Hang Seng	-9.7	-18.1	
Nikkei 225	-10.5	-20.0	
S&P 500	-12.5	-20.0	
Dow Jones	-13.7	-23.2	
FTSE All-World	-13.8	-22.7	
FTSE 100	-13.8	-27.9	
Euronext 100	-16.0	-27.6	
DAX Xetra	-16.4	-27.6	
CAC 40	-17.2	-29.3	
S&P/ASX 200	-21.2	-24.0	
Russian TSI	-21.9	-36.2	
Bovespa	-28.3	-35.5	

COMMODITIES

Commodity	Last Month %	YTD%	52-Week Strength
Coffee	7.1	-8.0	
Gold	4.9	7.9	
Natural Gas	0.4	-22.8	
Iron Ore	-0.6	-11.2	
Palm Oil (Crude)	-3.6	-27.2	
Palladium	-11.8	15.1	
Silver	-14.1	-21.1	
Copper	-15.1	-22.9	
Cocoa	-15.2	-10.8	
Platinum	-16.3	-26.0	
Cotton	-17.5	-26.6	
Sugar (No. 11)	-24.1	-20.0	
Bitcoin	-26.7	-11.5	
Crude oil (Brent)	-45.7	-59.1	
Crude oil (Light Sweet)	-55.1	-67.1	

FOREX

Pair/Cross	Last Month %	YTD%	52-Week Strength
USD/CAD	4.9	9.1	
EUR/GBP	3.3	4.6	
GBP/AUD	2.5	7.4	
EUR/USD	0.0	-2.4	
USD/CHF	-0.3	-0.3	
EUR/CHF	-0.4	-2.8	
EUR/JPY	-0.5	-3.5	
USD/JPY	-0.6	-1.1	
GBP/USD	-3.2	-6.7	
AUD/USD	-5.9	-13.3	

CENTRAL BANKS – RATES & MEETINGS

Central Bank	Key Rate	Next	After
Bank of England (BoE)	0.10%	May 07	Jun 18
European Central Bank (ECB)	0.00%	Apr 30	Jun 04
Federal Reserve System (FED)	0.25%	Apr 29	Jun 10
Bank of Japan (BoJ)	-0.10%	Apr 28	Jun 16
Bank of Canada (BoC)	0.25%	Apr 15	Jun 03
Reserve Bank of Australia (RBA)	0.25%	Apr 07	May 05
Swiss National Bank (SNB)	-0.75%	Jun 18	Sep 24
Banco Central do Brasil (BCB)	3.75%	May 06	Jun 17
Central Bank of Russia (CBR)	6.00%	Apr 24	Jun 19
Reserve Bank of India (RBI)	4.40%	Apr 03	

FTSE 350 TOP RISERS

Company	Last Month %	YTD%	52-Week Strength
Polymetal International PLC	15.5	15.5	
Ocado Group PLC	14.7	-6.1	
Hikma Pharmaceuticals PLC	13.8	1.9	
Plus500 Ltd	13.7	21.8	
Assura PLC	13.3	4.1	

FTSE 350 FALLERS

Company	Last Month %	YTD%	52-Week Strength
Premier Oil PLC	-77.8	-83.8	
Capita PLC	-74.7	-81.4	
Tullow Oil PLC	-68.2	-84.0	
Cineworld Group PLC	-68.0	-80.0	
SIG PLC	-63.1	-82.8	

FTSE 350 SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Pharmaceuticals & Biotech	1.9	-11.9	
Food & Drug Retailers	1.8	-12.7	
Technology Hardware & Equip	-1.0	-18.5	
Personal Goods	-4.7	-14.9	
Electronic & Electrical Equip	-5.9	-17.4	

FTSE 350 SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Oil Equipment, Services & Dist	-51.5	-59.5	
Travel & Leisure	-33.0	-46.8	
Automobiles & Parts	-31.4	-38.0	
Leisure Goods	-31.3	-32.1	
Industrial Transportation	-30.4	-42.9	

IA SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
UK Gilts	2.7	8.5	
Short Term Money Market	0.0	0.1	
Standard Money Market	0.0	0.1	
UK Direct Property	-0.7	-0.4	
UK Index Linked Gilts	-0.8	7.6	

IA SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
UK Smaller Companies	-25.5	-32.6	
UK All Companies	-21.0	-30.1	
UK Equity Income	-20.6	-30.2	
European Smaller Comp	-19.3	-25.8	
North American Smaller Comp	-18.3	-23.4	