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SHARES

WE MAKE INVESTING EASIER

MARKET SELL-OFF

ASSESSING THE DAMAGE

LOOKING FOR BARGAINS

From optimism to fear: how investors' mindset has changed

A lot can happen in a week on the market

An 11% decline in the FTSE 100 over a single week, and similar losses in many other markets around the world, has led to a change in investor mindset.

There are now widespread concerns about where markets go next and large numbers of investors want to now what everyone else is thinking to help shape their own views.

While global stock markets began to rebound at the start of this week (2 March), this rally didn't feel like investors regaining confidence. Instead, it was a small pick-up in stock prices as markets reacted to central banks indicating they will do everything they can to support the economy – which is essentially interest rate cuts, and that is generally good for stocks.

The shift in how people currently feel about investing is perfectly natural when you consider the scale of the markets sell-off. It has been a terrifying time and really put a dent in portfolios.

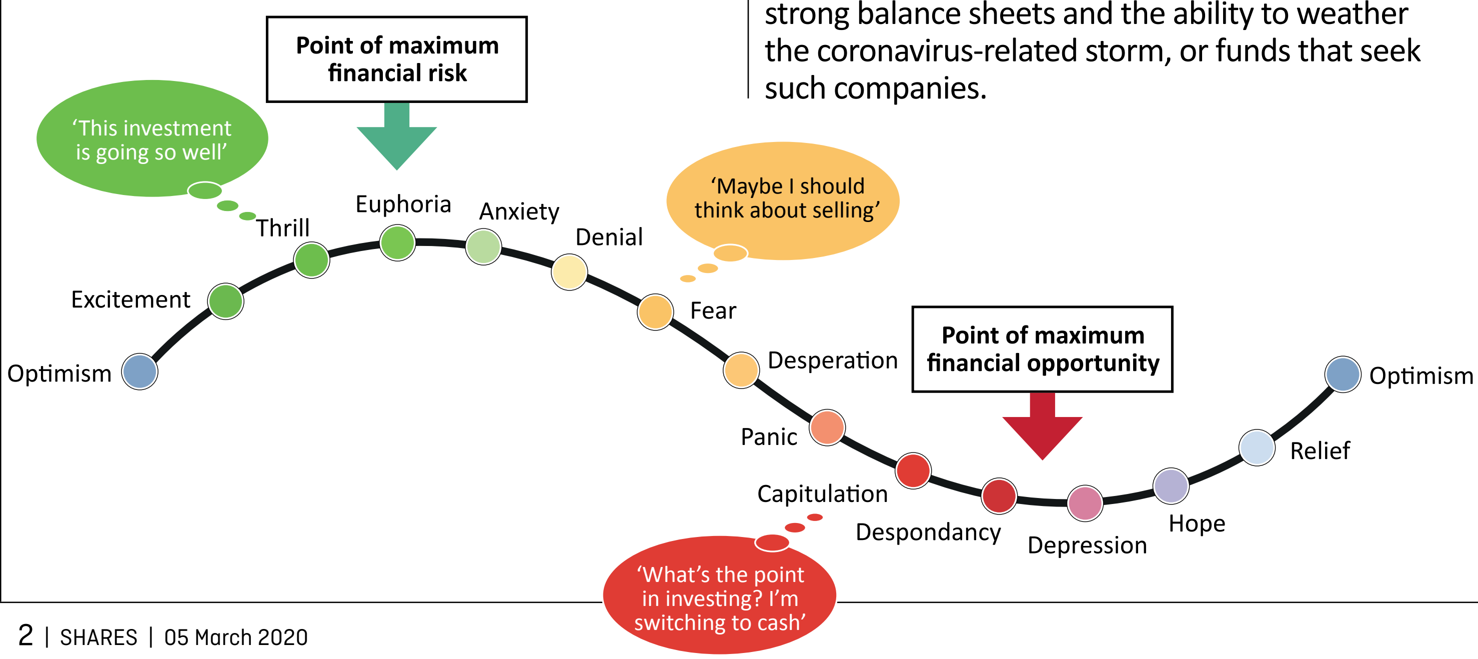
The accompanying graphic shows how people behave during different stages of the stock market cycle and it feels like we're now around the 'desperation' stage.

Interestingly, social media was awash last week with many experienced investors saying they weren't buying on the dip because we hadn't reached the 'capitulation' stage. 'People aren't running around like headless chickens selling everything they can' was the gist of their comments.

There is a big risk to corporate earnings if world trade is affected by borders being closed and the supply chain being interrupted. On one hand the market is correct to be factoring this risk into company valuations. On the other, when companies say they no longer have visibility over earnings it makes them very tricky to value.

Markets are likely to remain volatile in the coming weeks and there may well be another lurch down in share prices. That's scary but now isn't the time to turn your back on risk assets.

Rather than trying to time the markets, the lesson from previous sell-offs is anyone with a long-term view should stick to their current investment plan and keep investing money on a regular basis. Look for quality companies that have strong balance sheets and the ability to weather the coronavirus-related storm, or funds that seek such companies.



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MARKET SELL-OFF

ASSESSING THE DAMAGE AND LOOKING FOR BARGAINS

By **the *Shares* team**

The speed at which stocks fell in late February took many people by surprise, yet there is no reason to lose faith in investing. It is important to remain optimistic and focus on the long-term potential for your money to grow by owning shares.

Arguably investors were too complacent about how far the coronavirus could spread and its potential to damage economies far beyond China, hence the significant scale of the market correction which started on 24 February. Fear gripped the markets and investors panicked.

This has been an uncomfortable experience yet it is important to understand that share prices should move up and down. Going up in a straight line is not normal. Time and time again the stock market will go through a wobbly patch and you'll get days of big share price movements. By staying invested you are ready to play the market recoveries which often happen faster than you might think.

WHAT'S IN THIS ARTICLE?

We'll run through the reasons why stocks have fallen, compare this sell-off to previous market corrections and consider why certain companies have been affected more than others.

We will also look at the stocks that have risen in value during the market turmoil and finally we choose three shares to consider buying as long as you understand that their prices could easily fall in the near-term. We're focused on the longer-term value potential.

TIME TO BUY?

Last week's punishing market correction will have put a dent in people's portfolios. No-one knows when exactly the markets will recover, however it is clear that the latest sell-off is pricing in a very significant reduction in earnings for companies in many different industries.

Many investors are asking if now is the time to pile in and take advantage of weak share prices. In effect the stock market has just presented a bargain sale and there are plenty of stocks with 10% or more slashed from their price.

However, there is a very real chance that markets have further to fall as we don't know the full impact on corporate earnings. Therefore we suggest you take a very cautious approach and be very selective when looking for opportunities in the present climate. Think very carefully about any risks to each stock or fund and perhaps drip feed money rather than putting everything in at once.

'The outbreak is far from contained and continues to spread internationally, meaning the corresponding double whammy supply and demand shock that hits economic activity is significantly larger than most analysts have forecast and continues to mount,' says Eleanor Creagh, market strategist at Saxo Bank.

'If the virus continues to spread the market would have to discount these disruptions as a longer term reality and the subsequent uncertainties surrounding the hit to activity and longer term impacts like accelerated de-globalisation would see another wave of selling.'

BUYING MORE SHARES FOR YOUR MONEY

If you have a regular investment set up then keep putting money into the markets.

You'll buy at a lower price compared to recent history and possibly even lower the month after if markets are still falling.

This is called pound cost averaging – you buy more shares for your money when markets are low and less when markets are high. You are not trying to time the market and you're maintaining a healthy investing habit.

BIGGEST FTSE 350 FALLERS

STOCK	% FALL
Finablr	-30.8%
SSP	-27.2%
SIG	-26.8%
EasyJet	-26.8%
Playtech	-26.5%
TUI	-26.3%
International Consolidated Airlines	-25.1%
William Hill	-23.2%

Data: 21 Feb 2020 market close to 3 March 2020 11am

THREE REASONS WHY STOCKS HAVE FALLEN

The decline in share prices fall into one of three categories:

1. **Companies said earnings will be hit**
2. **The market thinks earnings will be hit but there has been no confirmation from the company**
3. **Shares de-rated even though there is no reason to fear a cut to earnings**

Investor panic has dragged down nearly all stocks, some for good reason and others simply caught up in the market chaos.

Engineering firms with bases in China seem to have been particularly sensitive to the outbreak, with factory shutdowns and supply chain issues smarting for the likes of **Porvair (PRV)**, **Avingtrans (AVG:AIM)** and **Ricardo (RCDO)**, which is also struggling against a weakening auto market trend.

But shares prices have sold off heavily for companies like **IMI (IMI)** and **Luceco (LUCE)** even in the face of reassuring commentary or saying nothing at all.

With markets trading on fear, investors are taking a 'sell first, ask later' position. For example, miner **Rio Tinto (RIO)** may have admitted that projects across the entire industry 'could' be affected but it stopped short of any sort of confirmation. Its shares have lost 9% since 21 February as the market automatically assumes Chinese commodities demand will drop off a cliff.

But underlying the nervousness there is real economic damage being done such as **Diageo (DGE)** which won't get back lost alcohol sales as a large number of Chinese people remain stuck at home.

HOW DOES THIS SELL-OFF COMPARE TO OTHERS IN THE PAST?

WORST WEEKLY FALLS IN THE FTSE 100

Week ending	Weekly change
23-Oct-87	-22.0%
10-Oct-08	-21.0%
28-Feb-20	-11.1%
21-Nov-08	-10.7%
05-Aug-11	-9.8%

Source: AJ Bell

The current sell-off is severe but worth keeping in perspective for now. Since markets closed on Friday 21 February and the intervening spike in coronavirus cases outside China which sparked real market panic, the FTSE 100 is down 8.5% as of 3 March.

The biggie in terms of market corrections is the one that accompanied the global financial crisis. Between October 2007 and March 2009, when equities bottomed out, the FTSE fell more than 45% and the US S&P 500 more than halved.

More recently in October 2018 a cocktail of overstretched valuations, US-China trade tensions and rising bond yields saw the FTSE 100 fall more than 10% by the end of that year.

The table showing the biggest one-day falls for the index also provides some context for the current daily fluctuations in the market.

WHAT'S THE POTENTIAL ECONOMIC IMPACT GLOBALLY?

At present it is hard to know exactly the extent of the economic damage which the coronavirus will wreak but there will certainly be damage and it could be material.

Bank of America forecasts the world economy will grow at its weakest pace since the financial crisis at 2.8% in 2020.

The closer economic ties between China and the rest of the world, and its status as the world's second largest economy, mean comparisons with the SARS outbreak of the early noughties are no longer relevant. If the coronavirus spreads extensively in Europe and North America, fears of a global recession will increase.

WHICH SECTORS HAVE BEEN HIT HARD?

WORST PERFORMING FTSE 350 SECTORS IN THE MARKET SELL-OFF

SECTOR	% FALL
Automobiles & Parts	-18.1%
Travel & Leisure	-15.4%
Life Insurance	-13.6%
Industrial Metals	-13.5%
Mobile Telecoms	-12.9%
Technology Hardwarre	-11.6%
Oil Equipment & Services	-11.5%
General Retailers	-11.5%

Data: 21 Feb 2020 market close to 3 March 2020 11am

The airline sector has been hit hard as the market worries about a big drop-off in air travel.

It now looks like many airline operators including Jet2 owner **Dart (DTG:AIM)** and **TUI (TUI)** might have added capacity at what could be the wrong time.

Both companies expanded seat capacity to fit a hole created by the collapse of Thomas Cook last year, adding 10% and 13% on short-haul European routes respectively.

In Dart's case its share price subsequently jumped over 100% as the market priced in the potential for a big boost in earnings.

Airline bookings are expected to fall markedly, with British Airways owner **International Consolidated Airlines (IAG)** and **EasyJet (EZJ)** warning on 28 February about 'softening demand'.

WHAT CAN WE LEARN FROM OTHER SECTORS?

The energy sector has suffered with the 10 stocks in the FTSE 350 losing an average of 18% since the start of the year and 7% last week, compared with respective losses of 6.5% and 5% for the benchmark.

The main reason is concerns over economic growth in China which is one of the world's biggest users of oil as well as commodities like iron ore and copper.

Within the energy sector, the largest firms with the best balance sheets, namely **BP (BP.)** and **Royal Dutch Shell (RDSB)**, have outperformed their smaller peers as their cash flows and by extension their dividends are more resilient to a lower oil price and lower revenues.

WHAT ARE THE UNDERAPPRECIATED RISKS?

A slowdown in Chinese output, and the continuing spread of the disease outside of China, is likely to have a significant negative effect on global economic growth this year.

Dozens of large multi-national firms have already warned that their earnings will be impacted by the coronavirus.

The risks for investors lie in the small and mid-cap companies which have yet to quantify the potential damage to their earnings and balance sheets.

A further risk for investors is that companies which are seen as 'at risk' from the virus see their financing squeezed as creditors and suppliers demand their money or stop providing their goods or services.

HOW HAS THE HEALTHCARE SECTOR FARED?

The FTSE 350 healthcare stocks have not shown the same level of weakness as the market, which makes sense given the industry is on the front line in the battle against the coronavirus.

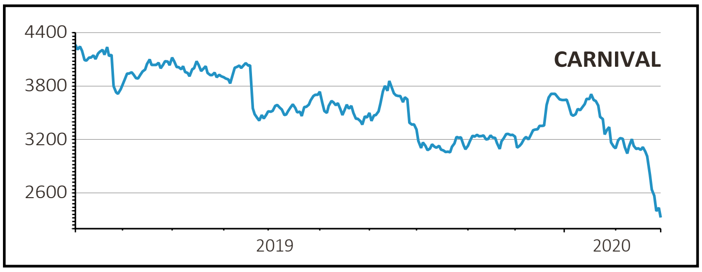
GlaxoSmithKline (GSK), one of the largest vaccine makers in the world, announced on 4 February a research tie-up with China's Clover Biopharmaceuticals to co-develop the Chinese company's protein-based coronavirus vaccine candidate Covid-19 s-Trimer.

It is also working to accelerate the creation of a vaccine in collaboration with the Coalition for Epidemic Preparedness Innovation (CEPI). Glaxo's shares have outperformed the market by around 8% since 21 February market close.

Firms like medical devices company **Smith & Nephew (SN.)** and animal genetics firm **Genus (GNS)** have only seen a small share price decline. Both produced consensus-beating numbers and positive outlooks, and investors will have naturally been drawn to the industry as a supposed defensive sector.

THREE STOCKS: WHY THEY'VE FALLEN

CARNIVAL

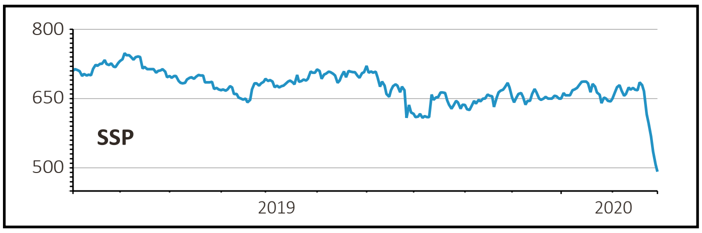


The world's biggest cruise operator **Carnival (CCL)** has faced choppy waters in 2020 with the shares down 35% to £24 year-to-date. Investors took fright when its Diamond Princess ship carrying 3,700 passengers was effectively quarantined off Japan's Yokohama for two weeks.

On 12 February the company said the potential suspension of its Asian operations through to the end of April would impact 2020 earnings by $0.55 to $0.65 per share, shaving around 14% off expected full-year earnings.

Analysts at Morningstar cautioned investors not to turn their back on the sector. They said: 'We remind investors not to hit the panic button, as in the year following SARS, H1N1 and Zika, Carnival and Royal Caribbean both posted positive yield growth, conveying resilience of demand across the industry.'

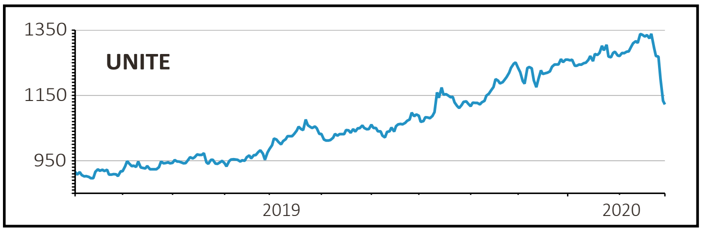
SSP



Food seller **SSP (SSPG)**, which operates units in transport hubs, recently warned the virus will reduce revenue by £10m to £12m and operating profit by £4m to £5m.

Given its reliance on airports and train stations for business, SSP's earnings look almost certain to be impacted further if the virus continues to spread, but its long-term fundamentals remain unchanged. The company serves a captive audience and its margins have been growing steadily.

UNITE



Shares in student accommodation investor **Unite (UTG)** have fallen as the market is worried about the travel restrictions in a number of countries, thereby potentially making it hard for overseas undergraduates to get to the UK.

China is the biggest source of international students in the UK, with more than 100,000 according to the latest figures from the Higher Education Statistics Agency.

The sector was already facing a challenge associated with a Brexit-inspired drop in the number of EU students.

Alongside full year results (26 Feb) the company said it was confident that any potential downside would be outweighed by domestic growth built on demographic trends and overseas students attracted by supportive Government policies.

THE STOCKS THAT HAVE HELD UP WHEN EVERYTHING ELSE IS DOWN

Only 10 stocks in the FTSE 350 are trading higher since the market sell-off began

STOCK	% RISE	REASON
Plus500	11.7%	Seen increased customer trading activity amid market volatility
Rentokil Initial	9.7%	In demand for hand washing and hand sanitising services
Hunting	3.4%	Market liked share buyback news
Pollen Street Secured Lending	3.4%	Received takeover approach
Genus	1.3%	Half-year results well received
Foresight Solar Fund	1.1%	Investors flocked to assets uncorrelated to the market
IG Group	0.8%	Market expects IG to report increase in customer trading activity
The Renewables Infrastructure Group	0.7%	Another beneficiary of interest in infrastructure assets
Ocado	0.4%	Benefited from customers stockpiling food and drink
Bunzl	0.3%	Masks and gloves in high demand from its customers

Data: 21 Feb 2020 market close to 3 March 2020 11am. Excludes NMC Health whose shares are currently suspended

PLUS 500

Shares in online trading platform **Plus 500 (PLUS)** gained 7% during the global markets sell-off last week as investors thought it would benefit from wild swings in share prices, creating an environment favoured by people trading the markets. The more trades, the more commission and financing fees earned by Plus 500.

The company mentioned it was seeing better trading activity at its half-year results on 12 February and on 28 February confirmed a significant increase in customer trading activity.

Also helping to support the shares has been the company's additional $30m buyback programme, following the completion of the $50m buyback programme announced on 13 August 2019.

BUNZL

Business supplies distributor **Bunzl (BNZL)** has been a rare bright spot in the sell-off, outperforming the market thanks to forecast-beating earnings and an upbeat outlook for this year.

Bunzl has been making acquisitions in growth markets like Brazil to offset slowing organic growth among its retail and grocery customers in the US.

Among the products it supplies are hygiene and medical items including masks and gloves which have been in high demand since the virus outbreak.

HUNTING

Oil services firm **Hunting (HTG)**, which makes a range of tools and solutions used by the oil and gas industry, had previously endured share price weakness as investors factored in slowing demand in the US shale market which has accounted for much of its recent growth.

In this context the latest results (27 Feb) were seen as reasonable with solid cash flow performance and earnings, modestly ahead of expectations.

What really got investors excited was a share buyback as Hunting said the current price 'highly undervalued' the group and it pledged to buy 2m shares at a cost of £6.2m.

BUY THREE STOCKS TO BUY NOW BUY

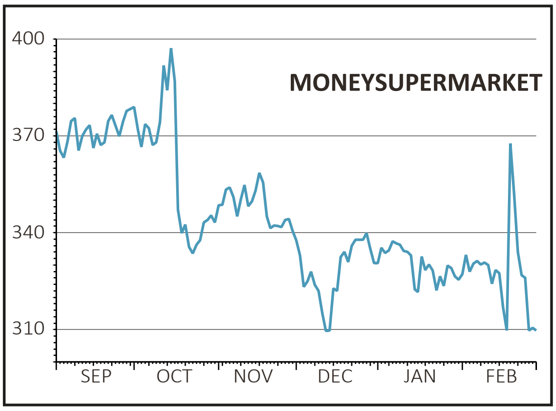
KAINOS 786p

If you believe the pre-Budget rhetoric, the 'end of austerity' will open the floodgates on public investment and IT projects. That's great for **Kainos (KNOS)** which is one of the Government's key private sector digital transformation partners.

It has designed and implemented projects for the Cabinet and Home Office, NHS and many more, but it is also Europe's Workday software testing and implementation partner, which gives additional growth scope in the UK and overseas.

A tight market for technology talent remains a challenge, although it has good links into universities (including 11% shareholder Queen's in Belfast) and business schools.

MONEYSUPERMARKET 312.8p



The indiscriminate sell-off across the UK market has seen comparison site **Moneysupermarket (MONY)** give back all the gains it made (and more) in the wake of an encouraging full year trading update which last month triggered a huge spike in the shares.

The market sell-off has effectively rewound the share price so you can buy at roughly the same level at which investors suddenly got very excited, even though nothing has changed to the business.

It is signing up increasing numbers to bill management and credit monitoring services, boosting engagement and the value it can generate from these users.

The company arguably has no direct exposure to the coronavirus and it seems people will still be shopping around for financial products, energy providers and insurance even in the event of wider disruption. However, a global recession could alter this view as widespread job cuts could make it harder for people to qualify for certain loans and credit cards.

VISTRY £13.10

The housebuilders, along with all consumer-facing stocks, have been battered as the coronavirus-driven selling has ramped up. Yet **Vistry (VTY)** (formerly Bovis Homes) looks interesting at a beaten down price.

Post Vistry's acquisition of the regeneration and housebuilding divisions of **Galliford Try (GFRD)**, Numis is forecasting 35% pre-tax profit growth between 2019 and 2021 as the company increasingly develops higher margin mixed use sites.

A lasting hit to consumer sentiment and the economy is a risk to weigh given the likely knock-on impact on the property market. But a forward price-to-earnings ratio of 9.7 and yield of 5.5% are attractive.

Economic powerhouses must act fast to avoid meltdown

Interest cuts expected but factories and supply chains may still struggle

Stock markets around the world started to recover at the start of this week on expectations that the world's central banks and governments would do whatever they could to prevent an economic meltdown.

According to Bloomberg data, markets have already priced in a significant policy response from the US Federal Reserve, with two interest rate cuts expected during March and two further cuts by the year end, which would take US rates to 0.5%. The first 50 basis point cut was confirmed on Tuesday (3 March).

The first hard evidence of the economic impact from the coronavirus epidemic was revealed on 29 February with the latest manufacturing Purchasing Managers' Index (PMI) data from China.

The index plunged to 40.3 from 51.1 in January, indicating the sharpest deterioration since the survey began almost 16 years ago.

Analysts had been expecting a reading of 45. A number below 50 indicates a contraction in activity and the further below 50, the greater the contraction.

New orders received by Chinese manufacturers fell sharply with the rate of decline the biggest in the survey's history. Export sales shrank amid constraints on production, shipping restrictions and order cancellations.

Staff shortages and production halts led to intense capacity pressures signalled by the fastest rate of backlog accumulation for almost 15 years. Chinese firms are anticipating the tough conditions to be temporary, as measured by the Future Output Index which rose to its highest level in five years.

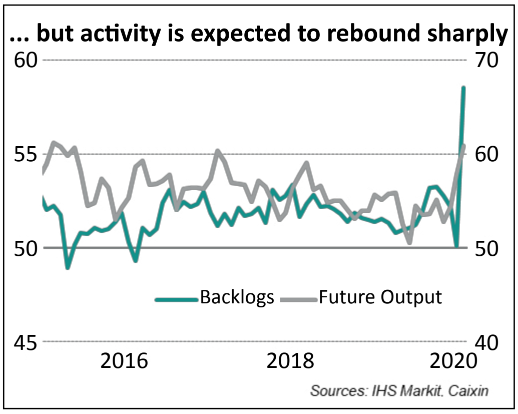
Oil and copper prices reacted to the growing crisis well before last week's dramatic fall in global shares, with the latter falling 12% between 20 December and 3 February before stabilising in response to factories and businesses slowly reopening. Copper is seen as a barometer of global growth due to its extensive use in many industries around the world.

Goldman Sachs believes that the world is facing the biggest commodity demand shock since the financial crisis with an estimated 4m barrels a day of lost oil demand compared with 5m barrels in 2008/9.

China's economy is around 13 times bigger than it was during the SARS epidemic in 2003 and its slowdown will have a much greater impact on world growth.

The OECD has lowered its global growth forecast for 2020 by 0.5% to 2.4% and said its worse-case scenario 'could push several economies into recession, including Japan and the euro area'.

US cargo ports are already feeling the effects of trade disruption with the Port of Long Beach, California reporting volumes down 6% in January and February compared to last year.



Strong Biden support brings relief for Wall Street

US shares could still face sell-off if left-leaning rival Bernie Sanders wins Democratic presidential candidacy

Center for American Progress Action Fund.CC

US stock markets may have avoided a major headwind as former vice president Joe Biden took the lead in the race to battle Donald Trump in November's presidential election.

Democrat-voting Americans in several states voted on 'Super Tuesday' for the candidate they want to take on Republican president Trump.

Veteran left-wing politician Bernie Sanders, who shares similar views to Labour's Jeremy Corbyn, had been considered the favourite going into the polls but a series of wins in key states, including Texas, has left the more moderate Biden as the frontrunner.

That will come as a relief to markets, which analysts had predicted would 'panic' if Sanders stormed into a strong lead, affecting major indices like the S&P 500, Dow Jones and Nasdaq.

The race between Sanders and Biden could stretch all the way to the Democratic National Convention in July.

A popular politician, particularly in Middle America, with a highly extroverted personality, Biden appeals to liberal voters in the States who want higher taxes on the rich but eschew the more radical socialist policies of Sanders.

For example, Sanders wants to make university tuition free and write off all $1.6tn of student debt, arguing that this is a key pillar of reducing income inequality, something modern scholars agree is one of the big issues of our time.

To fund this he plans to tax Wall Street 'gambling' by placing a levy, similar to stamp duty in the UK when buying shares, on all financial transactions – 0.5% on stock trades, 0.1% on bond trades and 0.005% on derivatives.

Biden is a lot more moderate on such policies, calling for lower interest rates on federal loans and an extension of the student debt forgiveness program currently in place.

He too likes the idea of a financial transaction tax, though his tax plan would mainly involve higher rates of capital gains tax.

Another radical Sanders policy not shared by other Democrat candidates is to give 20% of a company's shares to employees and put workers on the board of directors in public companies and those that have over $100m in annual revenue.

However, legendary investor Warren Buffett – who revealed he usually votes for the Democrats – thinks such a plan is a 'particularly bad idea'.

He told CNBC: 'I'm very much in sympathy with the fact senator Sanders believes that a lot of people are getting left behind through no fault of their own. There's all kinds of capitalism that need in some ways to be regulated, but I don't believe in giving up the capitalist system.'

Greggs rolls out five-year growth plan

The food-on-the-go retailer has its fingers in several pies as it aims for a bigger slice of the market

In many ways 2019 was a landmark year for food-on-the-go retailer **Greggs (GRG)**. Not only did it record its highest ever level of like-for-like growth at 9.2%, it opened its 2,000th store and pre-tax profit topped £100m for the first time.

Far from resting on its laurels, the firm has plans in place to expand both in terms of number of stores and their type and location in order to grab an even bigger piece of the £24bn convenience food market.

While conditions in the retail and casual dining sectors remain tricky, the food-on-the-go market continues to grow. Thanks to its reputation for quality and service, Greggs has managed to capture a rising share of this growing market but it has plenty of room to continue expanding.

Nine out of 10 consumers are aware of the brand, yet only a third would consider visiting a Greggs store, according to research by the company. While this is an improvement on five years ago, it shows the scale of the opportunity to convert more consumers into customers.

One way to achieve this goal is by opening more stores, and chief executive Roger Whiteside is convinced there is scope to go beyond the 2,500 stores envisaged under the current plan, for which the supply chain is already primed.

While around 60% of stores are on the high street, new stores will be concentrated in retail parks, service stations and, potentially, supermarkets.

Greggs is testing five new outlets inside Asda superstores on the basis that customers want 'food for now' alongside 'food for later'. If successful, there is scope to roll out many more stores with Asda and possibly with rival supermarkets.

At the same time, coffee-on-the-go has become an important part of Greggs' repertoire and a number of stores have been expanded to become food-led coffee shops with considerable success.

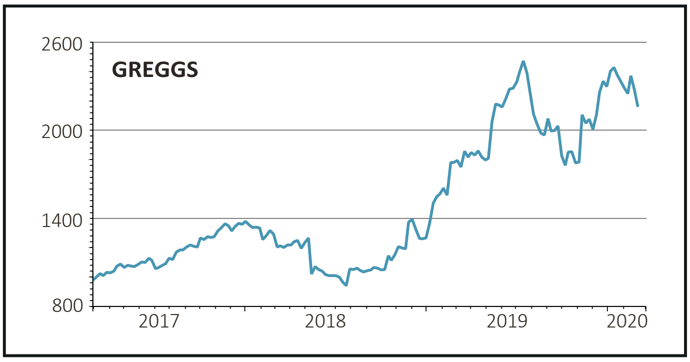
As well as capturing more walk-in customers, the firm has been piloting food deliveries with Just Eat

and is preparing to roll out a nationwide service.

Food delivery is the fastest-growing segment of the food-on-the-go market and the trial has experienced surprisingly strong demand for breakfast and lunch deliveries, periods which are typically quiet for Just Eat.

For Greggs this is also an opportunity to get into the market and hone its evening offering, when its stores are typically less busy and have the capacity to continue operating.

The combination of a multi-channel offering and an expanded store network should see Greggs become an even more compelling option not just for consumers but for investors too.



Sirius Minerals to leave the stock market after £405m takeover

The troubled miner has been saved by Anglo American although many investors will lose money on the deal

Potash miner **Sirius Minerals (SXX)** will be taken over by **Anglo American (AAL)** after more than 80% of shareholders by value voted in favour of the deal.

Shareholders should receive 5.5p per share in cash by early April and Sirius will delist from the stock market.

The £405m takeover also required a majority from individual voting investors, and despite a fractious meeting in which the Anglo offer was called an 'insult' by one shareholder, the deal was approved by 62% of shareholders by number.

While many shareholders might have incurred big losses on their investments, given that the Sirius share price had gone as high as 45p at one point, the company's board of directors insisted if the deal wasn't accepted the company would've gone into administration with shareholders losing all of their investment.

Russell Scrimshaw, chairman of Sirius, says: 'The positive outcome secures a return for shareholders, and provides greater certainty in terms of safeguarding the project, protecting the jobs of our employees, and allowing the community, region and the UK to continue to benefit from the project.'

Asset managers including Nick Train snap up Fevertree shares following share price slump

Funds run by Lindsell Train, Fundsmith and Majedie increase their stakes in the posh tonics seller

NICK TRAIN OF asset manager Lindsell Train has joined other big name investors Fundsmith and Majedie Asset Management to buy shares in **Fevertree (FEVR:AIM)** following recent share price weakness.

The fund manager has taken a maiden stake in the posh tonics business for his £1.7bn **Finsbury Growth and Income Trust (FGT)**, calling it a 'classic Lindsell Train idea' thanks to strong brand power and global reach.

Train told investors at the annual Finsbury shareholder meeting that he had been waiting a long time for an opportunity to buy, 'having kicked ourselves for not buying it seven years ago'.

Fevertree has seen its share price collapse by nearly two thirds over the past nine months after seeing growth slow, leading to profit warnings in November 2019 and January 2020. The stock currently trades at £12.85.

Fundsmith's **Smithson Investment Trust (SSON)** added to its Fevertree stake in January this year having first invested last summer, flagging the firm's strong market position, growth potential and 'impressive' returns on capital.

Majedie Asset Management, which runs investment trust Majedie Investments (MAJE), took its Fevertree stake to more than 5% of the company on 24 February.

DISCLAIMER: Editor Daniel Coatsworth owns shares in Smithson

Mid Wynd is a good diverse way of playing a market recovery

The resilient global trust offers growth with a capital preservation bent

The market sell-off has pulled down share prices in attractive investments so many investors are understandably looking for opportunities in the hope of a market recovery.

Putting money into an investment trust or a fund is arguably a lower risk way of playing a recovery in the markets as you would be spread your risks across multiple stocks rather than betting it all on one company.

If this suits your risk appetite, we suggest looking at **Mid Wynd International Investment Trust (MWY)** which had enjoyed a great run before February's sell-off. It has achieved 86.2% total return over the past five years versus 64.3% from its MSCI AC World benchmark. Charges are fairly low at 0.66%.

Managed by Artemis' Simon Edelsten, Alex Illingworth and Rosanna Burcheri, Mid Wynd aims to achieve both capital and income growth by investing on a worldwide basis. Having celebrated its 70th birthday last year, the trust is able to move freely between different markets, sectors, industries and market capitalisation brackets as investment opportunities dictate.

The focus is on investments in high-quality companies which can generate long term growth, with the managers also keeping an eye on protecting investors' capital when markets fall.

MID WYND INTERNATIONAL INVESTMENT TRUST
BUY
(MWY) 578.94p
Stop loss: 463p

Market value: £271m

Mid Wynd puts money to work with companies that have fortress balance sheets, good secular growth prospects, high barriers to entry and little competition, giving them the ability to maintain pricing power over time. Investments are spread across many geographic regions and industries, providing welcome diversity.

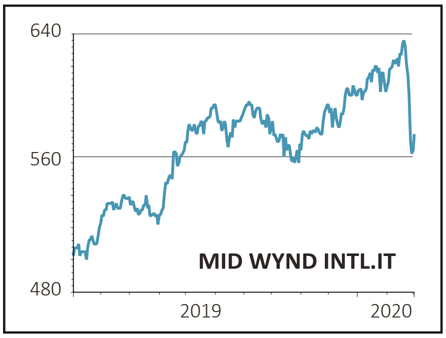
It looks to profit from long-term trends such as online services, automation and the emerging market consumer. Technology and health care stocks account for 43% of the portfolio.

The managers consider how much a stock could fall as well as rise and will hold up to 20% of assets in cash if they feel equities are over-priced with the aim of reducing risk compared to other global equity funds.

According to the February factsheet, Mid Wynd had just one Chinese stock in the portfolio as of 31 January, although some of its other holdings do business in the Asian country and so could see short-term coronavirus disruption.

Among the top 30 holdings are the likes of instruments maker Thermo Fisher Scientific, retailer Amazon, tech titan Microsoft and utility **National Grid (NG.)**.

You're also getting exposure to the likes of Japan's Hoya, which supplies high-tech and healthcare products, French luxury goods leviathan LVMH and Japan-based Daifuku, widely acknowledged as the world leader in warehouse automation.



This bond fund could comfort in troubled markets

TwentyFour Dynamic Bond Fund has benefited from a move away from riskier parts of the bond market

If you haven't got the stomach for equities following the recent market sell-off, it might be worth considering bonds. We've spotted an attractive bond fund from TwentyFour which is a well-respected asset manager and a proven expert at finding the best opportunities in the fixed income market.

The spread of coronavirus is causing disruption to global trade and leading to economists revising down growth expectations. A reliable beneficiary of falling growth or even recession are government bonds, whose prices tend to rise (as yields fall) during periods of subdued or negative growth.

One corollary of the emerging crisis is that investors are betting it will prompt a quick policy response from the Federal Reserve by cutting interest rates and that's already in motion.

According to Bloomberg data, the market has already discounted three or four interest rate cuts by December 2020, which means that investors owning government bonds may have already reaped the lion's share of the price gains from any financial stimulus.

Chris Bowie, fund manager at TwentyFour Asset Management tells *Shares* that historically the economy has bounced back strongly in a so-called v-shaped recovery from previous epidemics such as SARS. If this were to happen again, owning the safest assets wouldn't be the best strategy.

MI TWENTYFOUR DYNAMIC BOND FUND ↗ BUY

Net assets: £2.2bn

For these reasons we believe a better approach is to focus on strategic bond funds which have flexibility to take advantage of market conditions as they change over time.

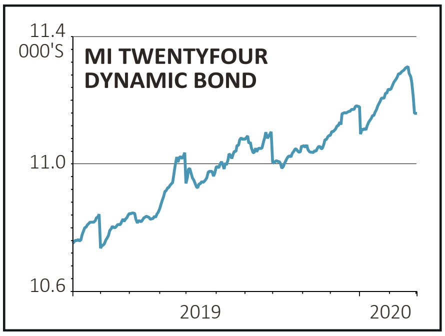
MI TwentyFour Dynamic Bond Fund (B57GX40) is one such fund with an excellent track record, delivering a better return than its benchmark and peers over the last three and five years with average annual returns of 4.5% and 3.8% respectively.

The fund, which is team managed, has been reducing exposure to riskier assets over the last year and reinvesting the proceeds into government bonds, specifically US Treasuries, which represent 30% of its £2.2bn portfolio.

Having benefited from exposure to US Treasuries and given that lower interest rates have already been discounted, the team is now looking to selectively increase exposure to corporate credit. That means buying debt issued by large investment-grade companies.

Because they are riskier, corporate bonds pay a higher rate of interest than government bonds, and this is referred to as the 'spread'. Over the last month, spreads have widened out by around 20%, making them more attractive.

However, the team believes that more economic data is needed to gauge the true impact from the coronavirus and accordingly will aim to keep the volatility of the portfolio low by restricting the fund's corporate debt exposure to shorter dated bonds.



LAW DEBENTURE
(LWDB) 610p

Gain to date: 5.5%

Original entry point:
Buy at 578p, 21 March 2019

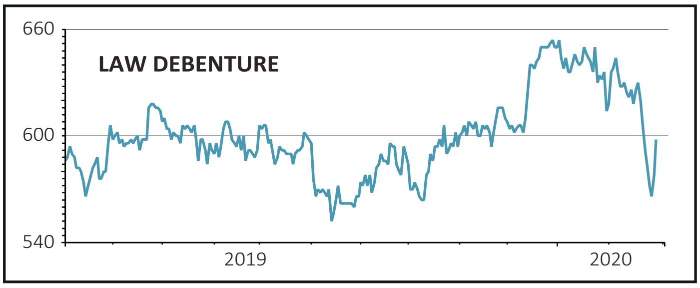
OUR 'BUY' CALL on **Law Debenture (LWDB)** is in the money even after this unusual trust got caught up in the recent sell-off.

We're staying positive following full year results (27 Feb) which revealed an impressive net asset value (NAV) total return of 17.9% for 2019, with the share price total return of 24.5% handily outpacing the wider UK stock market.

A trust with a twist – in addition to a portfolio of stocks the company also provides services to corporate trust and pension trustees – Law Debenture provides an added element of diversification as performance isn't solely reliant on the direction of the stock market.

Besides a 25% increase in portfolio income, Law Debenture's Independent Professional Services (IPS) business enjoyed another year of good growth, supporting a step change in the final dividend which was lifted 50% to 19.4p. The trust will also increase the frequency of dividends to quarterly payments.

Portfolio managers James Henderson and Laura Foll continue to find attractive opportunities among unloved UK domestic stocks, while chief executive Denis Jackson sees growth potential across the IPS businesses as a result of increased market focus on ESG issues.



SHARES SAYS: ↗
We remain bullish about Law Debenture for its dividend growth, defensive attractions, low ongoing charges and long-term record.

MORGAN ADVANCED MATERIALS
(MGAM) 285.4p

Gain to date: 15.9%

Original entry point:
Buy at 246.2p, 29 August 2019

WITH THE CORONAVIRUS causing ructions across China and elsewhere **Morgan Advanced Materials' (MGAM)** shares have held up well. The FTSE 250's stock is down less than 5% since the panic selling started, despite the company earning 10% of revenue from China, where it is dealing with an extended shutdown of its manufacturing facilities.

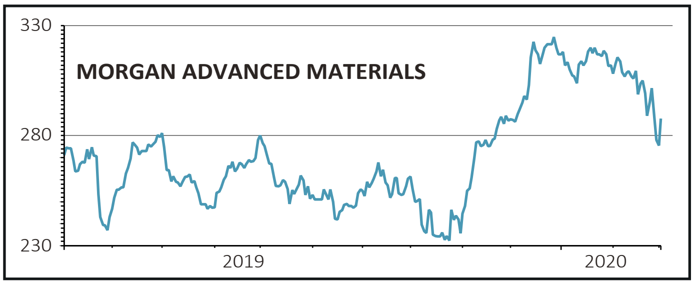
Morgan, which designs smart materials to create more advanced and energy efficient products, is predicting that faster-growth markets such as semiconductors will offset likely weak industrial and automotive segments in 2020.

That's partly due to the company's technological breadth and expertise, but important self-help is also paying off, such as stripping out costs, streamlining products and improving organic growth through better sales processes.

Morgan reported £109.7m pre-tax profit for 2019, up from £94.9m in the previous year.

Risks to consider include unfavourable foreign exchange rates and prolonged disruption in China. However, new products should emerge from its development labs which should command higher prices.

Analysts forecast adjusted pre-tax profit of £115.5m and earnings per share of 25p in 2020, rising to £120.1m and 26.1p respectively in 2021.



SHARES SAYS: ↗
Short-term risks cannot be discounted but the stock continues to look good value on 11 times forecast earnings for 2020.

PERSIMMON
(PSN) £29.84

Loss to date: 7.2%
Original entry point:
Buy at £32.15, 20 February 2020

WE REMAIN POSITIVE on housebuilder **Persimmon (PSN)** despite the surprise resignation of chief executive David Jenkinson who had only been in the job for just over a year.

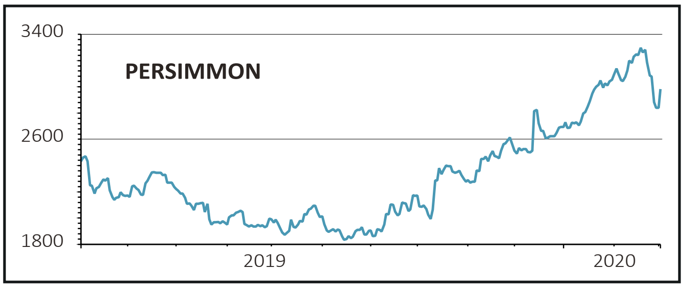
His predecessor Jeff Fairburn was forced out following a shareholder revolt over his pay. Jenkinson is now leaving following several customer complaints and a scathing independent review which criticised the corporate culture inside the company.

In Persimmon's full year results to 31 December, it reported a 2.4% drop in revenue to £3.65bn as well as slight falls in pre-tax profit and earnings per share.

However chairman Roger Devlin, who commissioned the independent review, hailed Jenkinson's 'critical' role in developing the 'new Persimmon'.

Devlin said: 'As chief executive he quickly set about designing and implementing a programme of change and started the process of resetting the culture of the business.

'Under his leadership Persimmon has invested in a range of customer care and quality initiatives, prioritised customers over volume, became the first UK housebuilder to implement a retention policy and will achieve an HBF 4-star rating.'



SHARES SAYS:
We remain buyers of Persimmon as it repairs its reputation and improves its building practices. High margins and a exceptionally strong balance sheet put it in a better position than its rivals to capitalise on momentum in the housebuilding sector.

TRAVIS PERKINS
(TPK) £14.95

Loss to date: 6.3%
Original entry point:
Buy at £15.96, 16 January 2020

CONSIDERING THAT WE recommended **Travis Perkins (TPK)** just days before the coronavirus outbreak hit the headlines in January, we aren't deterred by the small loss in the shares to date.

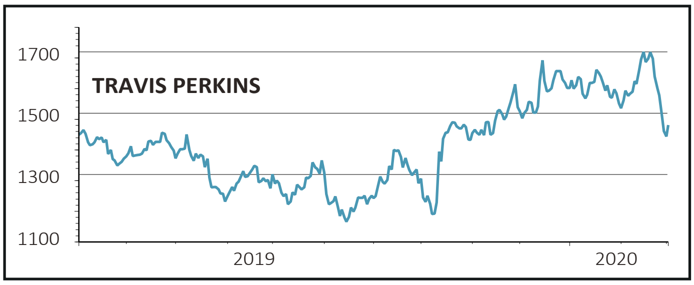
As the latest results showed, the core merchanting business is outperforming the market with 3.3% like-for-like sales growth last year, split evenly between price and volume increases.

The Toolstation business delivered an outstanding performance last year, with like-for-like revenue growth of 16.3% and overall sales growth of more than 25% due to new store openings, consolidating its market-leading position.

The TradePro and Kitchen & Bathroom units also performed well with an increased share of revenues from higher-margin installation services.

Even the Wickes retail business, which is being demerged from the group next quarter, turned in close to 10% revenue growth thanks to new ranges in decorating and landscaping.

With the housing market still chronically short of supply, and demand rekindled following the election, the repair, maintenance and installation market should see a tangible improvement this year.



SHARES SAYS:
As the leading player in its respective markets, and with a clearer focus on trade customers post the Wickes demerger, we believe Travis is set for further growth and a re-rating of the shares.

WISDOMTREE®

ARTIFICIAL INTELLIGENCE:

A TRANSFORMATIVE AND EXCITING MEGATREND TO CONSIDER FOR YOUR ISA

People today are creating more data than ever before. Emails, instant messages, credit card purchases — even locations visited are collected and stored. For anyone to make sense of things at this scale, with individual datapoints in the billions of records, a new toolkit is required. That toolkit is **Artificial Intelligence (AI)**.

Now, humans have been inventing ground-breaking technologies for hundreds, if not thousands of years. Harnessing the power of fire is likely one of the earliest examples. In more modern history, it's technologies such as steam engines, railways, Internal Combustion Engines, electricity, computers and the Internet.

Will AI have an impact that is on par or perhaps greater than any of these? With the passage of time, it is becoming clearer that AI will be important, but the nature of disruptive innovation is that breakthroughs and unexpected use cases can be developed that can create exponential increases in economic value.

AI has been discussed since the fifties, so why hasn't it become a "megatrend" sooner? For AI to be used in more mainstream applications, three distinct capabilities needed to evolve:

+ **COMPUTER STORAGE OR MEMORY**: In the late 1950's, the price for one megabyte of storage was nearly $10,000. Today, the price of that same amount is one one-thousandth of one cent;
+ **AVERAGE TRANSISTOR PRICES**: Let's assume that a transistor cost roughly $100 around 1970. In today's terms, a transistor would cost roughly one ten-thousandth of one cent;
+ **INTERNET CONNECTION SPEEDS**: Transferring data over the internet used to be quite taxing, with one megabit taking substantial time to make its way to its destination in the 1980's and 1990's. Now people don't think twice about downloading files multiple gigabytes in size, all within minutes.

The fact that we can now store, process and transfer very large amounts of data lead to AI's potential to influence society on the scale of a megatrend.

IMPORTANCE OF THE AI VALUE CHAIN

Unfortunately, even if one is excited about AI's potential, it isn't easy to turn around and make an investment directly in AI. We think that understanding the value chain of AI is helpful. Put simply:

+ There are companies that write software that can "learn", meaning that it ultimately can perform functions that the initial programmers didn't directly encode. Image recognition and natural language processing are two big examples of this. We call this group of companies "**Engagers**".
+ There are companies that design computer chips in ways that allow them to train AI algorithms more efficiently - AI without processing power is like a car without fuel. We call this group of companies "**Enablers**".
+ There are giant, widely recognised firms making massive investments in AI's future capabilities. Importantly, these are usually widely diversified business doing more than AI-related work. We call this group of companies "**Enhancers**".

None of these is "right" or "wrong"—we simply think it useful to know the details ahead of time and a strategy that is able to systematically identify and capture pure AI companies across the value chain, can be an efficient way to access this megatrend.

- **To learn more about the growth drivers of this industry and the structure of the AI value chain, please visit:** [WisdomTree.eu/AI]
- **To access a list of relevant thematic products within the AJ Bell Youinvest platform, please visit:** [AJ Bell Youinvest - Thematics]

SSE offers much more than decent dividends

Company has sold of consumer energy business and is investing heavily in renewables

In recent years utility **SSE (SSE)** has reduced its reliance on fossil fuels and become a developer, operator and owner of low-carbon, renewable energy assets and businesses.

As a result, SSE has become an increasingly popular stock among those looking for 'green' or environmental investments, especially with the UK having committed to bringing its greenhouse gas emissions to 'net zero' by 2050.

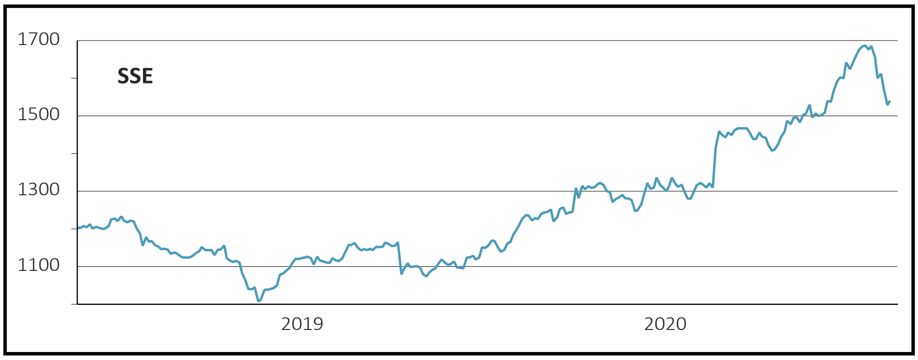
SSE, or Scottish and Southern Electricity, is one of Britain's biggest electricity generators and distributors with operations across the UK and Ireland.

The firm is involved in the generation, transmission, distribution and supply of electricity, the production, storage, distribution and supply of gas, and the provision of energy-related services.

MARKET BACKGROUND

The UK electricity market is divided into two parts, wholesale and retail. Wholesale customers buy their electricity from generators and traders either directly or through exchanges, and contracts can range from a single day to several years.

In the retail market, domestic customers choose a supplier who then buys energy directly from a generator or from the wholesale market and arranges for it to be delivered to the consumer.



Total electricity demand in 2018, the last year for which the Government has published the data, was 352 terawatt-hours (TWh). Around 30% of demand came from domestic users, 26% came from industrial users like manufacturers, and 21% came from commercial users.

Public bodies made up 5% of demand, fuel industries accounted for another 7% and shockingly 8% went in transmission losses.

SSE INVESTMENT PROGRAMME

£6bn capex over the five years to 2023

70% in networks and renewables

Plan to be updated by May 2020

A LOW-CARBON GENERATOR

With the energy industry going through a period of rapid transformation, SSE has moved to make both its generating and its distribution assets as 'clean' as possible from an environmental perspective.

It is already the UK's leading renewable generator with nearly 7,000 gigawatt-hours (GWh) of production, having invested heavily in recent years in onshore and offshore wind, as well as operating conventional hydro-electric and pumped-storage generation.

In the nine months to 31 December, renewable power accounted for 34% of the company's electricity output.

Most of the rest came from gas and oil-fired generation, which while it isn't as clean as renewables produces fewer emissions than the limited remaining coal-fired generating capacity.

SSE has committed to trebling its renewables output by the end of this decade, including more than doubling its UK wind capacity by 2025.

Analysts at Jefferies believe that the pipeline of wind projects alone will translate into an increase in shareholder value of 200p per share given current tariffs and recent deal multiples.

At the same time its transmission network has a key role to play in the 'decarbonising' of transport and the shift to electric vehicles. Despite pressure from the regulator to keep prices low, analysts see operating profits remaining flat in electricity transmission and gas distribution.

MORE STREAMLINED BUSINESS

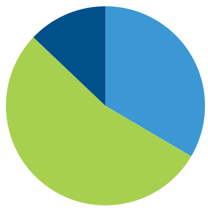
In order to focus more on its core generation and distribution businesses, SSE sold its UK household energy and services business to OVO Energy for £500m in January, with most of the £400m cash component going towards paying down group debt.

This month, the last of its coal-fired plants – which generates less than 5% of the group's energy output – will cease production, to be replaced by the cleanest and most efficient gas-fired power station in Europe, and later this year the firm aims to sell off its gas production assets as well.

£9bn NETWORKS RAV*

4GW RENEWABLE CAPACITY

COMBINED £1.5BN FY19 EBIT split**



* RAV=regulated asset value
**Excluding energy portfolio management

This will leave the group focused on gas and oil-fired generation, hydro-electric power and onshore and offshore wind, which is where the future value of the business lies.

At the same time SSE is also exploring opportunities to cut emissions further through hydrogen technology, which will allow flexible power stations to provide large-scale generation in a 'net zero world'.

NOT WITHOUT RISK

Buying a regulated business does come with risks. It's possible that subsidies for renewable energy may change, for example, or that energy prices could be capped further.

Also renewable energy is weather-dependant, although SSE's gas-fired plants are flexible and always there as a back-up if needed.

Renewable energy prices could fall. For example, we note there is a glut of supply coming on stream with solar energy in mainland Europe which is pushing down prices, yet this is not SSE's focus.

Finally the dividend – typically a reason for investors choosing a utility stock for their portfolio – could be at risk if earnings fall short of estimates, as cover is marginal at best even on Jefferies' upbeat forecasts. Though this is not unusual in the utilities sector thanks to the relatively predictable revenue streams.

Not everyone thinks a dividend cut would be cause for concern. Ed Legget, manager of the **Artemis UK Select Fund (B2PLJG0)**, believes that if SSE can make a convincing enough case around future growth through investing in renewable energy then investors might actually approve of a cut to the dividend.

In the last 12 months SSE shares have gained more than 50%, from a low of just over £10 to £15.32, and have outperformed the market during the coronavirus melt-down. If investors can appreciate the longer-term transformation story at play here, there is scope for the shares to keep outperforming.

HYDRO

- Capacity **1,459MW**
- FY19 Adj. EBIT **£179m**
- Efficiency investment opportunity

ONSHORE WIND

- Capacity **1,955MW**
- FY19 Adj. EBIT **£188m**
- **1GW+** pipeline

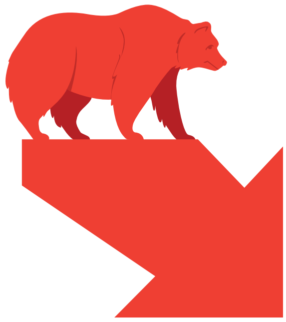
OFFSHORE WIND

- Capacity **579MW**
- FY19 Adj. EBIT **£89m**
- **7GW+** pipeline

By **Ian Conway**
Senior Reporter

RUSS MOULD
AJ Bell Investment Director

Are stocks heading for a bear market?



There are two ways to look at the latest market sell-off

The period of 24 to 28 February saw the FTSE 100 suffer its steepest weekly fall since October 2008, just after Lehman Brothers went down, the global financial system was on its knees and a global bear market was in full swing.

The trigger for such a plunge has been the longer-than-expected duration and greater-than-expected geographic reach of the coronavirus.

TWO POSSIBLE VIEWPOINTS TO CONSIDER

The first view is that markets are losing their marbles and behaving irrationally, giving way to indiscriminate selling in a panicked manner.

This assessment rests upon the limited number of people who have caught the virus and the smaller number still who have died. While the numbers are still distressing to consider, especially if you know anyone involved, World Health Organisation data suggests that influenza and other respiratory illnesses lead to between 290,000 and 650,000 deaths worldwide in any given year.

We are nowhere near those levels yet, or even the 13,000 killed by a particular severe year for flu in the UK in 2013.

The second view is that markets are behaving logically, not least because they had behaved irrationally beforehand.

It has been possible, looking at issues such as global merger and acquisition activity, the lack of volatility and especially equity valuations in the US, to argue that markets had become frothy and complacent.

The rampant run witnessed in January alone in names such as Tesla, Beyond Meat and Virgin Galactic was enough to frighten anyone but it is possible to argue that markets have been buying narratives and ignoring the disciplines of numbers for some time.

How else can you explain how Apple's market cap grew by $550bn (or 74%) in 2019, a year when its sales fell by $566m (0.3%) and its net profit fell by $1.9bn (or 3%)?

Looking at the sharp falls through this latter lens, markets are taking a more realistic view of the prospects for corporate profits and cash flows, at least in the near term.

And this is a legitimate problem. The S&P 500 index in the US rose by nearly 30% in 2019, even though corporate profits barely rose at all.

This means that pretty much all of last year's gains were based on multiple expansion – the 'p' in the price-to-earnings ratio went up – rather than increases in earnings (the 'e' in the same calculation).

Valuations cannot be stretched higher for ever, even if no-one knows what will cause them to snap back.

On this occasion, the possible impact upon supply chains, freight costs and end demand (not just in China but worldwide) across many countries and industries has forced at least a temporary reappraisal as the future earnings growth upon which share prices were relying now looks less likely to materialise in 2020.

DOWNS AND UPS

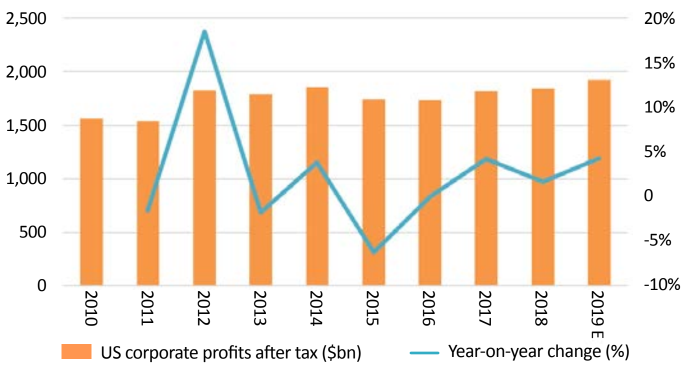
The pull-back looks quite rational from this perspective. The more companies that withdraw earnings guidance or actively warn on profits, the choppier stock markets could get.

We have not had a recession in the US for over a decade and this market is pretty confident in saying that one is not priced in yet.

That does not mean a recession is certain, although that must be a possibility with China,

RUSS MOULD
AJ Bell Investment Director

HOPES FOR A SHARP ACCELERATION IN CORPORATE EARNINGS IN 2020 ARE NOW AT RISK



Source: Sharecast, company accounts, FRED- St. Louis Federal Reserve database, Standard & Poor's, consensus analysts' forecasts, AJ Bell

the world's second biggest economy, unless the viral outbreak is contained and eradicated remarkably quickly.

NOW VERSUS HISTORY

So how bad was the February fall in the grand scheme of things? Since the inception of the FTSE All-Share in 1962, there have been 10 bear markets. Their average duration has been just over a year and the average drop has been 36%.

By contrast, nine bull markets (excluding the current one) offered an average capital gain of 143% over an average of 1,200 days.

At the close on Friday 28 February, the FTSE All-Share was down by 14% from its January peak and 15% from its May 2018 all-time high.

TRIO OF TACTICS

This can be viewed positively as markets are still holding up well despite the uncertainty, or negatively as markets are still too relaxed about the impact of the virus.

Investors will have to make their choice to as which scenario they believe but whatever their viewpoint there are three long-term tactics which can help to manage the downside when times do get tough.

Keep a diversified portfolio across asset classes, industries and countries, to ensure your returns are not too reliant on one or two areas.

Ensure your portfolio offers some downside protection and contains some ballast as well as picks for capital gains and income. An allocation to cash can help and it also leaves scope to step in and pick up bargains in the event of a real panic.

No-one knows what's going to happen so don't guess and don't overtrade. It would be expensive to switch a big percentage of a portfolio around and if the outbreak is contained quickly you could miss a rally – and a better exit point – or even a fully-fledged market turnaround.

THE UK HAS SEEN 10 BEAR MARKETS SINCE 1962

	Start	Finish	Duration (days)	Start	Finish	Decline
1	31 January 69	27 May 70	481	181	114	-37.0%
2	15 August 72	06 January 75	874	226	62	-72.6%
3	06 June 75	08 August 75	63	154	122	-20.8%
4	03 May 76	20 October 76	170	172	116	-32.6%
5	07 May 79	15 November 79	192	284	220	-22.5%
6	17 August 81	28 September 81	42	339	266	-21.5%
7	16 July 87	10 November 87	117	1,239	785	-36.6%
8	08 June 98	08 October 98	122	2,868	2,178	-24.1%
9	31 December 99	12 March 03	1,167	3,242	1,593	-50.9%
10	25 June 07	03 March 09	617	3,479	1,789	-48.6%
Average			**385**			**-36.7%**

Source: Refinitiv, AJ Bell. Refers to the FTSE All-Share

Dividend Hero investment trusts with the best and worst dividend growth

Trusts only need miniscule dividend growth to stay part of this elite club

Investment trust 'Dividend Heroes' are those which have increased their dividends every year for at least 20 years in a row.

Published by the Association of Investment Companies (AIC), this list reveals those closed-ended funds with the most formidable dividend growth records, although it doesn't tell you the level of growth and what it would be in real terms when adjusted for inflation.

This is important, because UK inflation jumped to 1.8% in January, up from 1.3% a month earlier, and if a trust's dividend growth fails to keep pace with the cost of living then the 'real' value of these dividends will be eroded.

Given the appetite for income from yield-starved investors, classification as a 'Dividend Hero' is a valuable marketing tool for investment trusts and is among the reason they pull out all the stops to stay in the index.

However, all they need to do is raise the dividend by a very small amount to keep 'Dividend Hero' status. So which trusts are pushing through miniscule dividend increases and which ones are more generous?

WHO IS COMING UP SHORT?

Data compiled for *Shares* by the AIC shows the average annualised dividend growth 'heroes' have delivered over the past five years.

The least generous payers, according to this data, include **Murray Income (MUT)** which has chalked up a dividend increase in every one of the past 46 years. But average dividend growth over the past five years amounts to a meagre 1.7%.

The data also shows subdued 1.5% growth on average over five years from retail investor favourite **Scottish Mortgage (SMT)**, which delivered a 2% total dividend increase to 3.13p for the year to March 2019. Yet the important point here is few investors own Scottish Mortgage for yield; this is first and foremost a long-term capital appreciation vehicle.

Merchants (MRCH) has amassed 37 consecutive years of dividend increases, although the AIC data reveals average five year dividend growth amounting to less than 2%.

The positive news going forward is that, helped by a refinancing of high-cost, long-term debt, the annual dividend for the year to January 2020 is set to be at least 4.2% higher year-on-year and extend Merchants' dividend growth record to 38 years.

As its manager Simon Gergel argues, Merchants has a long history of rising dividends. He says: 'This is supported by the investment trust structure which allows money to be placed in reserves in good years to support dividends in tougher years. At the end of last year, Merchants had a whole year's dividend in reserves.'

Gergel's investment approach emphasises buying well-positioned businesses that can continue to generate cash and pay dividends into the future, 'not simply buying lowly priced, high yielding shares'.

He insists the underlying portfolio is generally performing well, with many companies posting healthy dividend increases and only one or two dividend cuts.

DEBT REFINANCING BOOSTS DIVIDEND GROWTH

Gergel also explains that strong performance over recent months is also allowing him to recycle money from shares that have performed well and offer lower dividend yields, towards cheaper shares with higher yields, 'thus improving the portfolio's income generation'.

He points out that recent debt refinancings have reduced the interest cost significantly and enhanced earnings per share, which is supporting dividend growth in the near term.

WHO ELSE HAS LOW DIVIDEND GROWTH?

Others with relatively modest five year growth rates include **Scottish American (SAIN)**, and **British & American (BAF)** which looks set to drop off the list of 'Dividend Heroes' following the collapse in value of a major investment.

Scottish American's 2019 dividend of 11.875p was 3.3% higher than the 2018 payout, and represented an increase more than twice the rate of UK CPI inflation over the same period. Yet the five year growth record is pegged back by skinny increases of 2.5% for 2017, 1.9% in 2015 and 1.2% for 2016.

These 2016 and 2017 increases were actually slightly below the annual rate of CPI inflation and followed a shift in allocation away from dependable fixed income investments and towards 'real assets', from which income was expected to grow in the future, as well as a deliberate decision to top up the trust's revenue reserves.

INFLATION BUSTERS

By contrast inflation-busting payout progression has been delivered by the likes of global fund trio **Bankers (BNKR)**, **Alliance Trust (ATST)** and **Witan (WTAN)**, the latter having lavished five-year average dividend growth of 10.3% on shareholders.

Also meriting mention are

DIVIDEND HEROES: RANKING BEST TO WORST DIVIDEND GROWTH

	Average five-year dividend growth	Historic yield
BMO Global Smaller Companies	15.6%	1.1%
Scottish Investment Trust	13.7%	3.8%
Witan	10.3%	2.3%
JPMorgan Claverhouse	7.7%	3.8%
Alliance Trust	7.3%	1.6%
Bankers	7.1%	2.0%
Value and Income	6.8%	4.3%
Brunner	5.9%	2.2%
Temple Bar	5.7%	3.7%
City of London	4.7%	4.4%
Perpetual Income & Growth	4.2%	4.6%
Schroder Income Growth	4.2%	4.1%
F&C Investment Trust	4.1%	1.5%
Caledonia	3.8%	1.9%
Invesco Income Growth	3.1%	3.9%
BMO Capital & Income	3.0%	3.3%
Scottish American	2.5%	2.7%
Merchants	2.0%	5.0%
Murray Income	1.7%	3.7%
Scottish Mortgage	1.5%	0.5%

Source: AIC/Morningstar, data as at 20/02/20 (excludes British & American which looks set to drop out of the list)

BMO Global Smaller Companies (BGSC) with an average dividend growth of 15.6% and **JPMorgan Claverhouse (JCH)**, which has racked up a 46-year record of rising payouts and impressive five year average dividend growth of 7.7%.

The well-regarded fund continues to benefit from a relatively high level of revenue reserves. This cash cushion gives its managers confidence future dividend increases will continue to beat the rate of inflation.

Elsewhere, **Scottish Investment Trust's (SCIN)** five year average dividend growth of 13.7% reflects a step change increase in the regular dividend in recent years. Following a contrarian approach, 'The Scottish' raised its regular dividend for the year to October 2019 by 7.5% to 22.8p, marking its 36th year of regular dividend increase on the spin, topping this up with a 7.45p special dividend.

HOW BANKERS' DIVIDEND GROWTH IS ACHIEVED

Global equities fund Bankers has the stated objective of achieving long-term capital growth in excess of the FTSE World index and annual dividend growth greater than RPI inflation. According to manager Alex Crooke, being a global investment trust and having revenue reserves are 'great advantages' to maintain and continue the legacy of The Bankers Investment Trust's 53 years of consecutive dividend growth.

'Our global reach means access to more areas of growth when certain sectors or countries stumble and the revenue reserve enables the trust to hold back some income in the strong years of corporate dividend growth to pay out in leaner ones.'

Crooke recognises the importance of delivering a reliable and growing income to shareholders and over recent years has built the revenue reserves to cope with the fluctuations of currencies or the need to prioritise asset allocation decisions towards lower yielding markets.

By **James Crux**
Funds and Investment Trusts Editor

How fund managers look for reliable income

There are many different types of assets that provide a resilient yield despite low interest rates

The quest for income is a challenging one in an environment of low interest rates but there are still plenty of assets which offer an attractive and reliable yield.

In this article we take a look at where some of the experts are finding income opportunities.

A DIVERSIFIED APPROACH TO FIXED INCOME

The £170m **Henderson Diversified Income (HDIV)** has a flexible mandate to generate a high level of income with long-term capital growth, primarily by investing in bonds.

The profile of its typical shareholder is a retiree in their 60s relying on the fund for income, which pays a quarterly dividend.

In the 12 months to 31 December 2019 the fund's share price was up 23% while the underlying net asset value (NAV) advanced 16%. The fund has a 4.6% dividend yield.

Rather counter-intuitively the Janus Henderson trust looks at companies in the same way that an equity fund manager might if they invested with a 'quality' style. It calls the approach 'sensible income', that is to say a focus on non-cyclical businesses producing strong free cash flow.

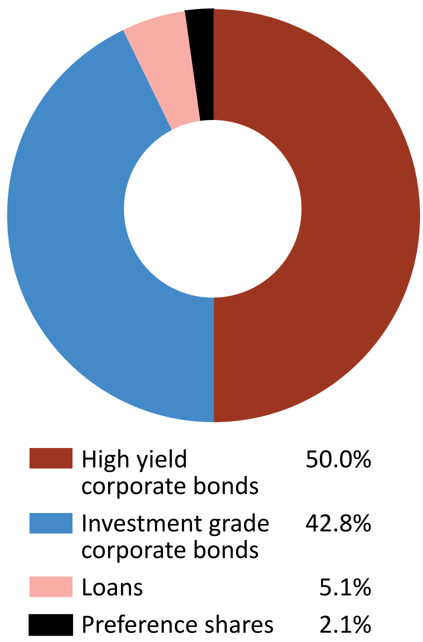
For example the managers like recession-proof industries such as animal health where according to the American Pet Products association 'millennials plan to spend more on dogs over the course of their pet's lifetime than they do on their own health care'.

LONG-TERM INCOME FROM INFRASTRUCTURE

The £579m **John Laing Environmental Assets Trust (JLEN)** offers a yield of 5.7%, derived from owning and operating infrastructure projects that have an environmental focus.

The shares have delivered a total return of 10.6% over the last 12 months. The NAV total return came in at 5.6% and the trust trades at a 13.9% premium to NAV. The dividend has grown by 2.7% a year since 2016.

Henderson Diversified Income sector allocation



Source: Janus Henderson

The trust's manager Foresight targets annual returns of 7% to 9% which includes dividend yields of 5% to 6%. The portfolio is diversified across five different technologies encompassing wind, solar, anaerobic digestion (animal and food waste broken down to produce heat), waste and waste water, and hydro.

For those investors interested in the trust's green credentials each of the portfolio's 31 assets are independently assessed by Aardvark Certification, a specialist audit and certification body for carbon, energy and waste.

Last year the fund's holdings recycled 63,853 tonnes of waste and diverted 233,082 tonnes from landfill sites.

QUALITY AND INCOME

The £87.6m investment trust **Shires Income (SHRS)** has a dividend yield of 5% and describes its investment objective as providing resilient income with potential for growth.

The manager attempts to provide a differentiated strategy which includes investing in higher yielding preference shares, holding some overseas shares and investing in the **Aberdeen Smaller Companies Income Trust (ASCI)** for access to high growth companies.

Preference shareholders are entitled to a fixed dividend which takes priority to that paid to ordinary share dividends and therefore tend to be more stable.

Fund manager Iain Pyle is backed by a well-resourced UK equity team giving full coverage of the FTSE 350 and extensive company contact.

Rather than just focusing on higher yielding shares the manager focuses on high quality stocks with above-market yield or with the potential for dividend growth.

SOCIAL HOUSING

The £630m **Civitas Social Housing (CSH)** REIT is a relatively new kid on the block dedicated to investing in social care housing.

It is the UK's largest provider of accommodation to tenants with learning disabilities and mental health disorders. The shares trade at a 9.9% discount to NAV and offer a dividend yield of 5.4%.

The discount has narrowed appreciably from almost 21% last summer when there were concerns some housing associations had run into financial difficulties, but these issues have since been addressed.

The company owns 608 properties across the UK rented out to local authorities on 20-year leases.

Recent first half results (2 Dec) showed earnings up 42% to £14.3m and the firm has identified a pipeline of more than £200m properties to add to its diversified portfolio.

FINANCIALS FOCUS

Famed investor Warren Buffett, said in a recent interview that banking shares were very attractive compared most other securities he was looking at.

One way of getting exposure to a diversified global financials portfolio which also offers a decent 3.3% dividend yield is the £300m **Polar Capital Global Financials (PCFT)** investment trust. Since launch in 2013 the trust has achieved an average return of 10.3% a year which includes dividend growth of 7.5% a year.

By **Martin Gamble**
Senior Reporter

Will ETFs reinvest dividends for you?

An increasing number of ETFs now offer 'acc' and 'inc' versions of their products

Just as when you invest in a regular mutual fund, if you're looking to put money in an exchange-traded fund (ETF) it's also important to choose the right share class.

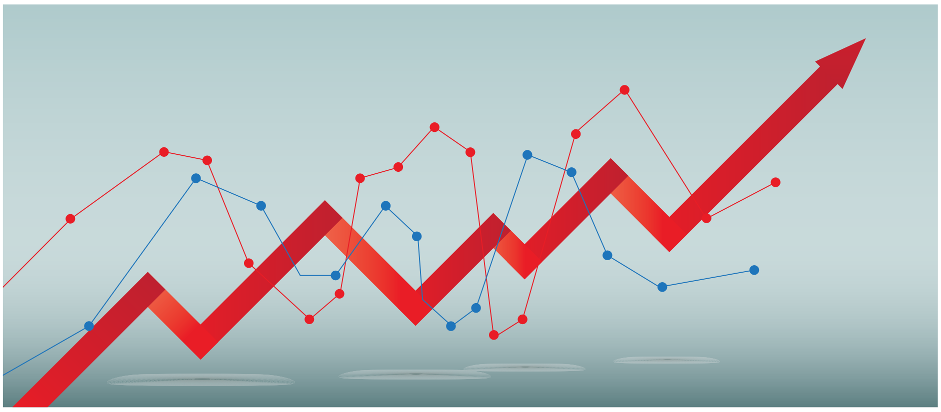
An increasing number of ETFs, certainly those from big providers like iShares and Vanguard, will have either accumulating (acc) or income (inc) share classes, and the right one to pick depends on your investment objective.

PICK THE RIGHT ONE

ETFs with accumulating share classes will reinvest dividends back into the fund, usually at no extra expense, while income share classes will fund a dividend from the payouts the ETF has garnered from its underlying holdings (e.g. a FTSE 100 ETF paying out the money it received in dividends from the likes of **Royal Dutch Shell (RDSB)** or **GlaxoSmithKline (GSK)**).

Different classes of ETF will have different tickers or EPIC codes. For example **iShares Core S&P 500 (CSPX)** accumulates income while the **iShares Core S&P 500 (GSPX)** distributes.

Remember to check the share class when looking at the performance of an ETF, as the acc share class will appear like it's performing better than the inc one, because the dividends being reinvested will



compound returns.

If you're looking for growth from your investments and don't need an income, the acc share class is best while the inc share class is better for those seeking an income.

The income share class could also be called a distributing (dist) share class, which is effectively the same thing.

YOU WON'T ALWAYS HAVE A CHOICE

For some ETFs you may only be able to get one or the other.

For example, the popular **SPDR S&P UK Dividend Aristocrats (UKDV)**, used by many ETF investors looking for an income, doesn't have an acc share class.

In addition a majority of bond ETFs, by design, tend not to have acc share classes as ETFs in general tend to behave like their underlying holdings.

So when the coupon, i.e. the annual interest payment, is paid on a bond the ETF will distribute the payment to its investors.

On the flip side there are areas of stock market investing where dividends will be low or non-existent so you'll only be able to find an accumulating share class.

For example a lot of technology ETFs will only have an accumulating share class because the underlying holdings will either pay a tiny dividend or none at all.

Most companies in the tech sector are in growth mode so they'll tend to funnel earnings back into the business to fund more growth, safe in the knowledge that shareholders accept it as part of the investment story.

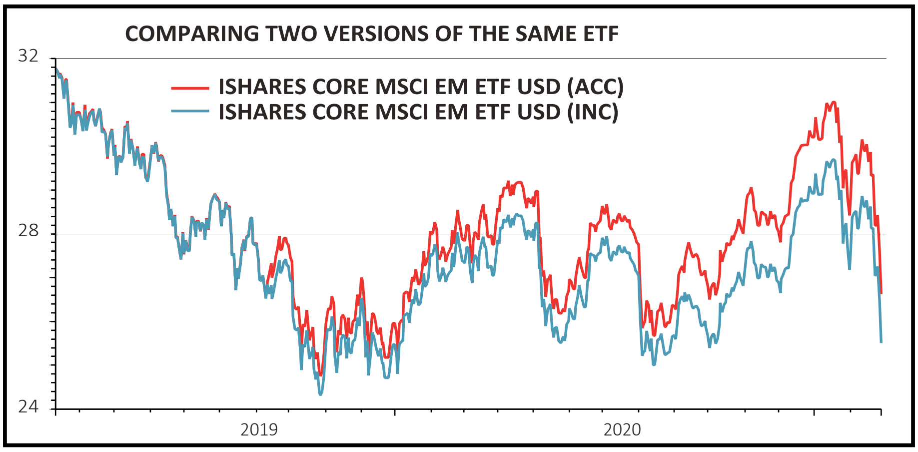
NEW PHENOMENON

ETF providers offering both share classes is a relatively new phenomenon in the UK, with Vanguard last year rolling out acc share classes on most of its range.

The year before, iShares

even listed acc share classes to its European and Asian property ETFs.

Real estate is particularly popular with income-seeking investors, given that real estate investment trusts (REITs) – which feature heavily in the indices most property ETFs track – are required to distribute 90% of their taxable income to investors in the form of dividends.



GIVING INVESTORS WHAT THEY WANT

AJ Bell head of passive portfolios, Matt Brennan, says the main reason ETF providers now offer both share classes is because that's what investors want.

He explains: 'Historically if you received cash from the ETF you had to pay dealing charges every time you reinvested.

'If you invested in a FTSE 100 ETF for example and got a 4% to 5% yield, over two years you could end up with 10% cash and that may not have been what you're trying to achieve.'

While investor demand led to more acc share classes being available, it's also something ETF providers see opportunity in, says Brennan.

He adds: 'There's a decent commercial angle for providers. With the acc share class, the provider reinvests dividends for investors and so they capture the opportunity by keeping people invested in the ETF for longer.'

While most big providers offer both share classes in their ETFs, Brennan adds that some of the smaller or more niche providers may still only offer either accumulating or income share classes.


By **Yoosof Farah**
Reporter

How do I take full advantage of pension tax relief?

Our resident pensions expert explains how the system works

Under a 'relief at source' arrangement how much money do I need to pay into my SIPP (from taxed income) to take advantage of the full annual pension allowance of £40,000? Is it £40,000 or some lesser amount?
Neil

Tom Selby
AJ Bell
Senior Analyst says:

If you save in a pension you are entitled to tax relief on your pension contributions at the rate you pay income tax. So if the contribution is from earnings taxed at 20%, you should receive 20% tax relief, while if the contribution is from earnings taxed at 40%, you are entitled to 40% tax relief, and so on.

Most people can contribute up to £40,000 a year into their pension, although you cannot personally pay in more than 100% of your UK earnings. This means if you earn £30,000 a year, for example, the annual pension contributions you personally pay are capped at £30,000. Employer contributions aren't capped by your earnings, but do count towards the £40,000 annual allowance.

You can read more on the annual allowance and the circumstances where it might be lower than £40,000 here.

Non-earners are also allowed to pay up to £3,600 a year into a UK pension.

'RELIEF AT SOURCE' VS 'NET PAY'

There are two different ways you can be paid tax relief: via 'relief at source' or 'net pay'.

In a relief at source scheme, such as a SIPP, your contributions will automatically be topped up by 20% tax relief. That means if you pay in £80, your contribution will be increased to £100.

If you are a higher or additional-rate taxpayer, you can claim extra tax relief via self-assessment, which will be paid through an adjustment to your tax code.

To take advantage of the full £40,000 annual allowance available in the current tax year in a relief at source scheme, you need to pay in £32,000, with the extra £8,000 (i.e. 20% tax relief) added by your scheme.

It's worth noting that you can also 'carry forward' unused allowances from any of the three previous tax years to the current tax year, meaning you could potentially make a total contribution inclusive of tax relief of £160,000 – although contributions will still be capped at 100% of your UK earnings.

Net pay schemes, on the other hand, take contributions straight from your pre-tax salary, meaning your tax relief is effectively added automatically. The exception to this is people who pay 0% tax – i.e. those earning below the £12,500 personal allowance – as they've paid no tax, they receive no tax relief through this method and so are not guaranteed to receive an equivalent tax relief entitlement.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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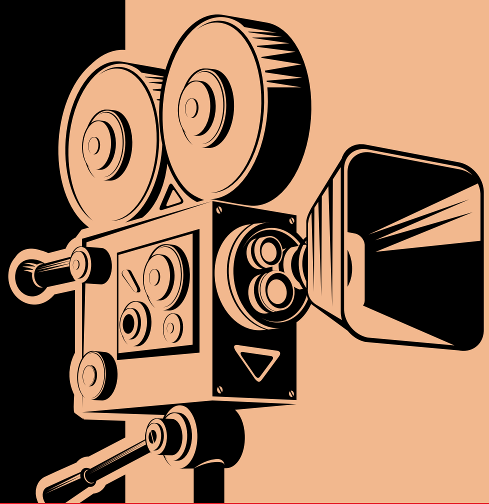

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How much do charges affect your returns?

They can have a big impact over the long term

When you invest you'll face lots of different charges, some tiny amounts and some slightly bigger. The main ones are the annual charge from the broker or platform through which you buy your investments. This is usually based on a percentage of the money you invest but is sometimes a flat rate.

The other main fees are the cost of buying and selling investments, and the stamp duty due when buying certain investments.

If you buy a fund, investment trust, ETF or tracker fund you'll also pay any charges the fund manager levies, which vary dramatically depending on the type of investment and type of fund. All these charges can seem small, but they can all add up and then have a big impact on your returns over the long term.

How charges affect a £100,000 investment

Charges	Pot after 10 years	Pot after 20 years	Pot after 30 years
0.25%	£159,052	£252,977	£402,366
0.35%	£157,541	£248,190	£391,000
0.45%	£156,042	£243,490	£379,945

Based on a £100,000 initial investment, with no further contributions, with 5% growth a year before charges

PLATFORM CHARGES

Let's look at platform charges first. If we assume a £100,000 investment and strip out all other fees we can see the impact a difference in charges makes. If you take that pot and assume annual charges of 0.25%, 0.35% and 0.45%, and also that the pot grows by 5% a year before those charges, you can see almost a £9,500 difference over 20 years of investing.

The same can be seen in fund charges. If you invest in a cheaper tracker fund you could pay 0.07% or less, but if you want to pay for a fund manager to actively run your fund you will pay around 0.75% to 1.25%, or even more.

Clearly this isn't comparing apples to apples, as you get a very different investment with each, but the impact of these costs should factor into your decision of what investment you choose.

What you should definitely look out for is the cost of the fund you pick relative to its peer group – and make sure that if you're paying more you're actually getting something for it.

For example, if you look at the popular UK Equity Income sector, which is a group of funds that invest in a similar way, the charges on this group range from 0.2% to 1.7% a year.

Let's look at the impact on returns, if we assume you have a lower £20,000 investment but that the money still grows at 5% a year. Over 30 years the difference between the more expensive fund and the cheaper option is a whopping £28,662.

You might assume (or hope) that the more expensive fund will deliver better performance to more than counteract the charges, but that's definitely not guaranteed.

How fund charges affect a £20,000 investment

Charges	Pot after 10 years	Pot after 20 years	Pot after 30 years
0.2%	£31,963	£51,081	£81,634
1.7%	£27,672	£38,286	£52,971

Based on a £20,000 initial investment, with no further contributions, with 5% growth a year before charges

THINK ABOUT THE COST OF BUYING AND SELLING

Trading costs, namely the charges associated with buying and selling an investment, also have to be considered.

They are usually a flat rate rather than a percentage of the amount you invest, so can add up quickly if you're trading a lot, particularly if you're investing small amounts. The last thing you want is to rack up so many trading costs that you wipe out any returns you've made. On AJ Bell Youinvest it costs £1.50 to buy a fund but £9.95 to buy a share, investment trust or ETF – the same costs apply when you come to sell.

For example, if you have a £5,000 pot and you only bought shares or investment trusts (costing £9.95 each time) consider the impact of different amounts of buying and selling over a year, assuming the same 5% annual return.

Even after just five years the difference between five buys and sells a year and 20 buys and sells means you've got £866 less in your pot for the latter. This jumps to £3,381 over 15 years, as the gains you make each year struggle to cover your costs.

How trading costs affect a £5,000 investment

Number of trades a year	Pot after 5 years	Pot after 10 years	Pot after 15 years
5	£6,093	£7,487	£9,267
10	£5,804	£6,830	£8,140
20	£5,227	£5,516	£5,886

Based on a £5,000 initial investment, with no further contributions, with 5% growth a year before charges

By **Laura Suter**
AJ Bell Personal Finance Analyst

Coming up in our first-time investor series

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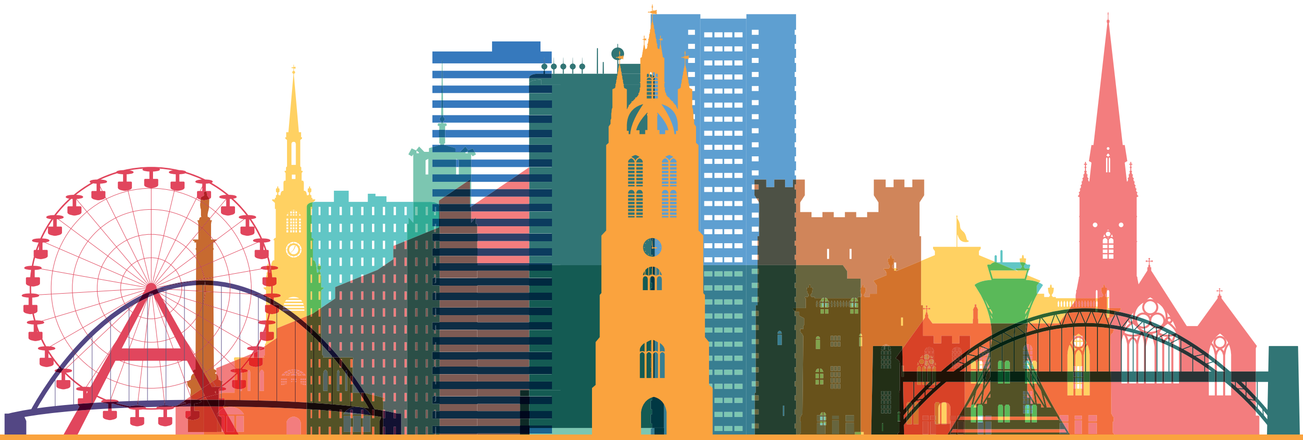
HOW I INVEST: Trading the markets for short-term gains

Michael has developed a system based on chart patterns and news flow



The majority of individuals featured in *Shares*' case study series to date have been long-term investors, happy to buy and hold stocks with the occasional bit of trading on the side. This time we tell the story of Michael, a 29-year-old from Newcastle whose interest in the markets is entirely focused on short-term trading.

Many years ago he developed a fascination with reading share price chart patterns and timing buys and sells in order to try and make money from market movements. He is now making a living from trading, backed up by some earnings from writing.

ATTRACTED BY LARGE SHARE PRICE SWINGS

Hailing from near Newcastle, Michael began his career working for a recruitment company. He managed to save £6,000 which he put into a tracker fund.

'I became interested with how shares moved up and down. I saw Northern Rock jump up 20% in a one day and thought about how some people were making lots of money from it.'

Michael attended an investment seminar to sharpen his skills after a patchy experience buying individual stocks. 'I was selling them too early, so I started to look at the lower end of the market, namely penny shares. I invested £100 and lost everything. I needed to learn more about how to do it properly.'

RUN OF LUCK

By 2016 he was having a run of luck with stocks, helped by a strong market rally following the initial Brexit vote shock. 'I was drawn to "story" stocks, namely companies which were doing something that attracted a lot of attention from people. These stocks always overshoot; people think just because they are going up in price that they must be good, so they buy even more.

'On one occasion I made a 200% gain in a single day and I ended up owning 1% of a company. For these types of stocks, market makers were bidding up the price as well so it was easy to sell out when I wanted.'

HITTING A BAD PATCH

The following year Michael says he lost money, describing it as a 'big shock' and a scary moment 'probably for the good'. This watershed event prompted the individual to rethink his approach and instead follow a system.

'I now use a lot of technical analysis like reading chart patterns, looking for stocks with high dealing volumes and/or ones hitting new highs, and less of my opinion of a company. I also look for liquidity.'

As an example, he might find a company issuing good news but will now not trade the stock if the spread between the bid and offer price is too wide.

RACKING UP DEALING COSTS

Nothing in his portfolio is considered a long-term trade. Michael admits that frequent buying and selling incurs considerable dealing costs but sees that as the price to pay for his way of trying to make money from the markets.

His plan is to move to London and rent a property. His current home is owned by his father and that will be rented out once Michael and his wife relocate.

'I'm not living the flash life you might associate with trading the markets, and I would still be trading even if I had £10m in the bank,' he says. 'I don't have a pension; instead, I see my ISAs as effectively being my retirement savings.'

Michael says he has benefited from interacting with like-minded individuals on social media and now feels part of a community. 'There are a lot of people on Twitter pushing rubbish stocks. I block a lot of the garbage companies by putting a filter on their epic code so posts about the companies don't appear on my timeline. Yet there are also a lot of clever people on Twitter. A couple of us now meet up in person and chat about stocks.'

> 'I'm not living the flash life you might associate with trading the markets'

TRADING ON NEWS

A popular strategy deployed by Michael is to work out when certain oil and gas companies are expected to report drill results and he buys them ahead of the event. 'People tend to go mad for these stocks near to the drill date. While this sounds like a risky way of trading as no-one knows if the drill results will bring good or bad news, one trade will never break me.

'The only thing that worries me is a couple of months without making money. That would also be hard from a psychological point of view. Despite the way I try to profit from the markets, I'm not sure I would call myself a risk taker.'

By **Daniel Coatsworth**
Editor

DISCLAIMER: Please note, we do not provide financial advice in case study articles and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser.

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**
- **Exchange-Traded Fund**
- **Overseas Share**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

6 March: SIG. **9 March:** Clarkson, Foresight Solar, Network International, Phoenix. **10 March:** BioPharma Credit, Forterra, French Connection, Gresham Technologies, H&T, Informa, LSL Property Services, M&G, John Menzies, Standard Life Aberdeen, STV, Team17, SimplyBiz, Ultra Electronics. **11 March:** Advanced Medical Solutions, Aptitude Software, Balfour Beatty, Breedon, Dignity, FDM, Gem Diamonds, Lookers, Prudential. **12 March:** Arrow Global, Computacenter, G4S, Helios Towers, Keller, Marshalls, Oakley Capital, Savills, Secure Income REIT, Tullow Oil, Valeura Energy.

Half year results

10 March: Close Brothers, DFS. **12 March:** Brooks Macdonald, Galliford Try, Go Ahead.

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