STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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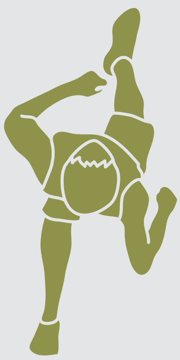
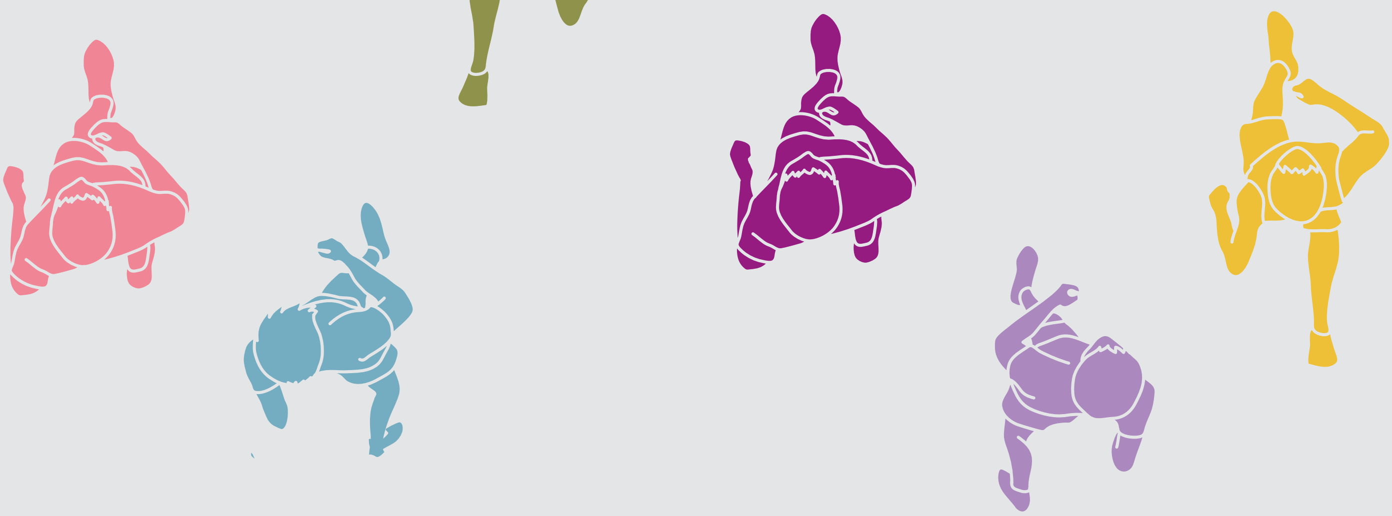
SHARES

WE MAKE INVESTING EASIER

THE RACE TO RECOVERY

THE STOCKS SURGING AHEAD AND THOSE WHICH HAVE BEEN LEFT BEHIND





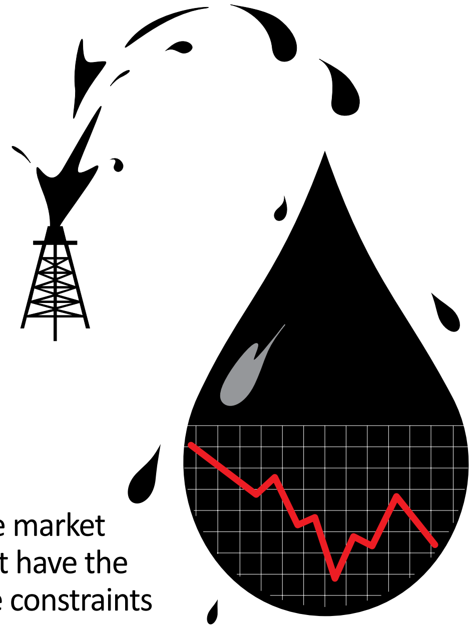
PLUS

WHAT DO **NEGATIVE OIL PRICES** MEAN FOR MARKETS?

THE **TRICKS COMPANIES CAN PLAY** WHEN REPORTING DURING THE CRISIS

THE INVESTMENT TRUSTS WHICH **CAN AFFORD TO PAY** DIVIDENDS

Oil price slump could happen again in May



But the commodity could surge in value once life gets back to normal

While the International Monetary Fund is busily warning of the worst economic slump since the Great Depression of the 1930s, the S&P 500 is, as we write, back above its levels at the beginning of 2019.

Against a backdrop of global stocks enjoying something of a recovery, the oil market is in a state of collapse with the US benchmark WTI falling to its lowest levels since 1999.

Interestingly oil prices were a canary in the coalmine for the big market sell-off which culminated in late March having fallen dramatically earlier in the year.

You may wonder if WTI's dive to its lowest levels on record at *minus* $40 per barrel is another example of oil sounding a warning signal for other asset classes.

There are different factors at work here – fundamental supply and demand issues are impacting oil prices across the board, not just WTI.

Saudi Arabia's aborted price war with Russia and ineffective attempt to row back by introducing production cuts has contributed to weakness in Brent crude – the main yardstick outside the US – too.

Demand has fallen off a cliff thanks to lockdown conditions which means people are not flying anywhere, they are driving much less, and fewer factories are running.

WHAT IS GOING ON?

What is different with WTI is the limited capacity to store the oil that nobody is currently using.

The US market has a significant degree of reliance on a key infrastructure hub in Cushing, Oklahoma. In a three-week period to 10 April, this went from 49% to 69% of capacity. In comparison, Brent is a waterborne market and it doesn't have the same storage constraints as WTI.

The extreme nature of the price action in WTI was in the May contract which expired on 21 April. Oil is traded in futures contracts where the purchase or sale of a barrel of oil is agreed at a fixed price for delivery on a specified date.

Many traders buy these contracts with no intention of taking actual delivery of the oil – the plan being to sell the contract with the aim of booking a profit or roll over by buying the next contract.

However, with the aforementioned constraints on capacity to store the oil and pretty much zero demand for physical delivery, holders of the May futures contracts were effectively forced to pay others to take the oil off their hands.

Unless we are in a very different place this time next month, then we could be looking at a similar situation with WTI prices taking a dive once again.

When economic activity picks up a lower oil price could drive good news as it flows through to lower costs for consumers and businesses. However, in this scenario oil might not remain depressed for long.

Hedge fund Westbeck Capital Management, which has been shorting US shale producers, reckons there could eventually be a potential surge back even to $100 per barrel when demand returns. Some production lost in the current maelstrom might not coming back quickly, if at all, thus driving up prices.

By **Tom Sieber** Deputy Editor

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Built to stand the test of time

FIDELITY EUROPEAN VALUES PLC

This investment trust is built on companies with well-formed, long-standing foundations.

Europe is home to the world's largest economy and some of the strongest, most stable and resilient companies. These global household names are famed for standing the test of time, even through periods of economic uncertainty.

PAST PERFORMANCE	Feb 15 – Feb 16	Feb 16 – Feb 17	Feb 17 – Feb 18	Feb 18 – Feb 19	Feb 19 – Feb 20
Net Asset Value	-2.2%	21.7%	16.2%	2.4%	10.8%
Share Price	-5.1%	18.5%	20.5%	2.8%	11.6%
FTSE World Europe ex-UK Total Return Index	-5.2%	27.3%	12.7%	-3.3%	6.5%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 29.02.2020, bid-bid, net income reinvested.
 The FTSE World Europe ex-UK Total Return Index is a comparative index of the investment trust.

Using Fidelity's extensive research team, portfolio manager Sam Morse aims to select well-established European companies with proven business models, attractive valuations and the ability to grow dividends both now and in the future. It's these classic giants with market-beating potential that have helped the investment trust outperform the index over the long term.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility.

To find out more, go to fidelity.co.uk/europe or speak to your adviser.

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The latest annual reports and factsheets can be obtained from our website at **www.fidelity.co.uk/its** or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. Fidelity Investment Trusts are managed by FIL Investments International. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0320/26933/SSO/0620

Investors might have to take dividends in new shares not cash

The move reduces pressure on a company's balance sheet but it isn't pain-free for shareholders

The pressure on dividends from UK stocks continues to build amid the coronavirus crisis – at our last count 274 London-listed companies have cut, deferred or cancelled payouts totalling some £20.5bn.

This includes 34 FTSE 100 firms. On the other side of the ledger, 82 firms have retained £4.4bn worth of dividends encompassing eight constituents of the FTSE 100.

Plumbing products firm **Ferguson (FERG)**, Primark-owner **Associated British Foods (ABF)**, events and media firm **Informa (INF)** and packaging business **Smurfit Kappa (SKG)** are some of the most recent FTSE 100 firms whose dividends have been casualties of the current economic stress.

A handful of firms have gone down a different route to conserve cash. Towards the end of April small cap freight management services firm **Xpediator (XPD:AIM)** and book publisher **Bloomsbury (BMY)** became the latest companies to announce plans to pay a scrip dividend to shareholders.

A scrip dividend effectively means issuing dividends in (typically) new shares rather than cash.

The largest firm to use the scrip option this year is bookmaker **Flutter Entertainment (FLTR)** which announced on 27 March that it would pay its 2019 full year dividend in shares.

Although paying dividends as new shares reduces pressure on the balance sheet, by increasing the number of shares in issue it is also dilutive to shareholders.

Both **Royal Dutch Shell (RDSB)** and **BP (BP.)** have offered the option of taking a scrip dividend in recent years after an oil price crash meant they couldn't fund their dividends from cash flow.

Shell's subsequent move of buying back shares (now abandoned) was an admission that the scrip programme wasn't pain-free for shareholders give the dilution involved.

Some platforms, including AJ Bell Youinvest, do not allow you to *elect* to take dividends in shares if there is a choice between cash and stock, but if the scrip is not optional you should be able to receive the relevant shares, which are liable for income tax in the same way as a dividend.

SCRIP DIVIDEND PAYERS

Company	Dividend affected (£m)
Flutter Entertainment	104.2
Capital & Regional	11.2
Bloomsbury	5.4
Xpediator	0.7
Franchise Brands	0.5

Source: AJ Bell, Shares, Company Reports

COMPANIES CONTINUE TO RAISE CASH

IN ADDITION TO holding on to cash by putting dividends on hold, many firms are going cap in hand to investors to raise money to bolster their balance sheet to see them through the current uncertainty.

More than 80 firms have raised a total of £3.9bn in new capital, although only two of these are FTSE 100 firms, being Informa and cruise operator **Carnival (CCL)**.

Leaked report on Gilead coronavirus trial lifts global stock markets

Investors excited by reports of positive drug trial for potential COVID-19 treatment

Shares in California-based biopharmaceutical firm **Gilead Sciences** jumped 15% in after-hours trading on 16 April after an industry healthcare magazine reported rapid recoveries in fever and respiratory systems in coronavirus patients given remdesivir in a study being conducted at the University of Chicago Medicine.

The news from the leaked report lifted stock markets around the world as investors became more hopeful about a solution to the pandemic.

There have been high hopes for remdesivir, originally developed to treat Ebola, but never approved. The excitement relates to a 2017 paper showing it was effective against other diseases and improved the respiratory function in mice.

Excitement may be running high, judging by the sharp move in Gilead's share price and markets rallying on the day, but there are a couple of good reasons why cooler heads should prevail.

Official data from the two trials being run by Gilead are not expected to be released until later this month or early May. In one trial 600 patients with mild symptoms are taking the drug while in the other 400 patients with severe symptoms are being tested. The drug is also being tested across larger patient groups in over 150 sites around the world.

The other reason to temper enthusiasm comes from the University of Chicago itself, which commented: 'Drawing any conclusions at this point is premature and scientifically unsound.'

This refers to the fact that the trial is not being

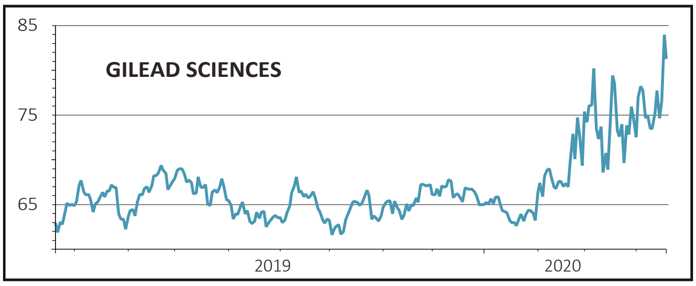
conducted as a so-called 'randomized, double blind study' which ensures results are free from bias. A double blind study means that neither the experimenters nor the patients know who has received the drug or the placebo and the results are considered more statistically reliable.

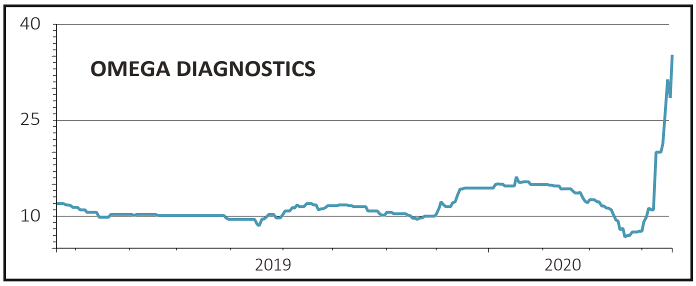
That said if the early anecdotal evidence is backed-up by more rigorous study data, there is a genuine case to make for the drug playing an important role in treating patients with coronavirus.

In related news, on 20 April shares in UK diagnostics firm **Omega Diagnostics (ODX:AIM)** jumped by 20% after it signed an agreement with its peer Mologic to manufacture its laboratory-based coronavirus test-kit.

Once validated, Omega and Mologic will enter into a longer-term supply agreement with Omega manufacturing up to 46,000 COVID-19 tests per day.

This is in addition to the announcement made by the Omega on 9 April 2020 relating to the creation of a consortium to jointly develop and manufacture a point-of-care COVID-19 lateral flow antibody test which could be used at home.





Deliveroo 'saved' by CMA and Amazon with implications for Just Eat Takeaway.com

Approval for Amazon's investment in Deliveroo is set to impact Just Eat as both firms vie for high growth markets

Takeaway app Deliveroo has had its investment from Amazon effectively greenlit by regulators in a move which will have implications for listed rival **Just Eat Takeaway.com (JET)**.

The Competition and Markets Authority (CMA) has provisionally cleared Amazon's investment in Deliveroo after the delivery firm warned it could otherwise go bust due to the coronavirus pandemic.

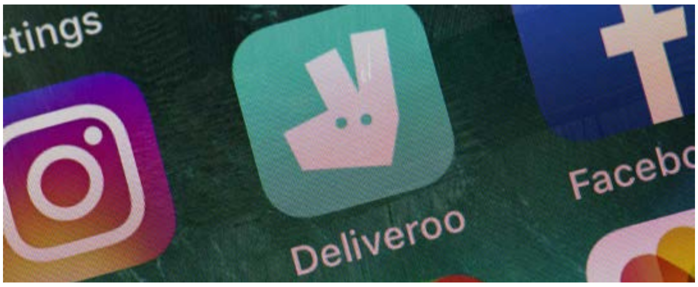
The CMA launched an investigation into Amazon's investment in Deliveroo, reportedly giving it a 16% stake, in December following concerns it would restrict competition in the takeaway delivery market with customers potentially facing higher prices and lower quality service.

But the CMA has now provisionally cleared the tie-up after Deliveroo said it would go bust otherwise, with the regulator concerned that some people may be cut off from online food delivery altogether if Deliveroo exited the market.

The decision has implications for Just Eat, particularly as it means Deliveroo can continue to target lucrative, high growth markets in cities like London and Paris, areas where Just Eat is also looking to gain market share.

The proliferation of higher-end restaurants offering delivery services in these cities means delivery firms can attract more affluent customers and higher order values, which should translate into better profit margins.

While the CMA wants to keep competition high in the takeaway space to prevent customers from losing out, firms are also looking to consolidate so



they have the scale to 'win' big cities, something which is particularly important in an industry with low barriers to entry and high fixed costs.

Consolidation in the takeaway industry, which was worth £8.5bn in the UK in 2019, has been ramping up in recent years, with larger scale businesses with greater volume also able to reduce marketing spend and potentially increase delivery fees, which is important particularly in the current uncertain market conditions.

Marketing expenses take up a big proportion of costs for food delivery firms. For example, the Takeaway.com part of Just Eat Takeaway spent €153.8m on marketing in 2019 on the back of €415.9m in revenue.

Despite the current coronavirus lockdown, the opportunity for growth remains intact for takeaway firms.

In an update on 21 April, the Just Eat part of Just Eat Takeaway.com said that after an initial reduction in orders mid-March, the business has 'recovered quickly to above before-coronavirus levels'.

The Takeaway.com part of the group said it had observed a pattern in its markets where a brief dip in orders immediately after lockdown has been followed by an uptick as people look to treat themselves while stuck at home.

Can the UK's banks weather the coronavirus storm?

The level of provisioning for bad loans will be the key to earnings this year

Since the start of the year, the banks have been one of the worst performing sectors in the FTSE 350 index, losing over 40% along with oil services and travel and leisure. It's been a similar story in Europe and the US, which suggests that investors across the globe are concerned about banks' profitability and maybe even their resilience during this crisis.

As a result of the sell-off, the market values of most UK banks are close to levels last seen during the financial crisis of 2008, yet the banks are much better-managed than they were and they have much higher levels of capital. Also, this is a 'second-order' crisis in as much as it originated outside the banking sector.

Even so, the latest forecast from the Office of Budget Responsibility (OBR) of the shock to the UK economy this year – a 13% contraction, the worst outcome in over 100 years – far exceeds the estimates used in the stress test scenarios for the banks carried out by the Bank of England just last year.

Moreover, many investors question the OBR's assumption that the UK will stage a Lazarus-like, V-shaped recovery in 2021, with suggestions that it might take years before the economy gets back to 'normal'.

The government was clearly worried enough about the banks' ability to keep lending that it had

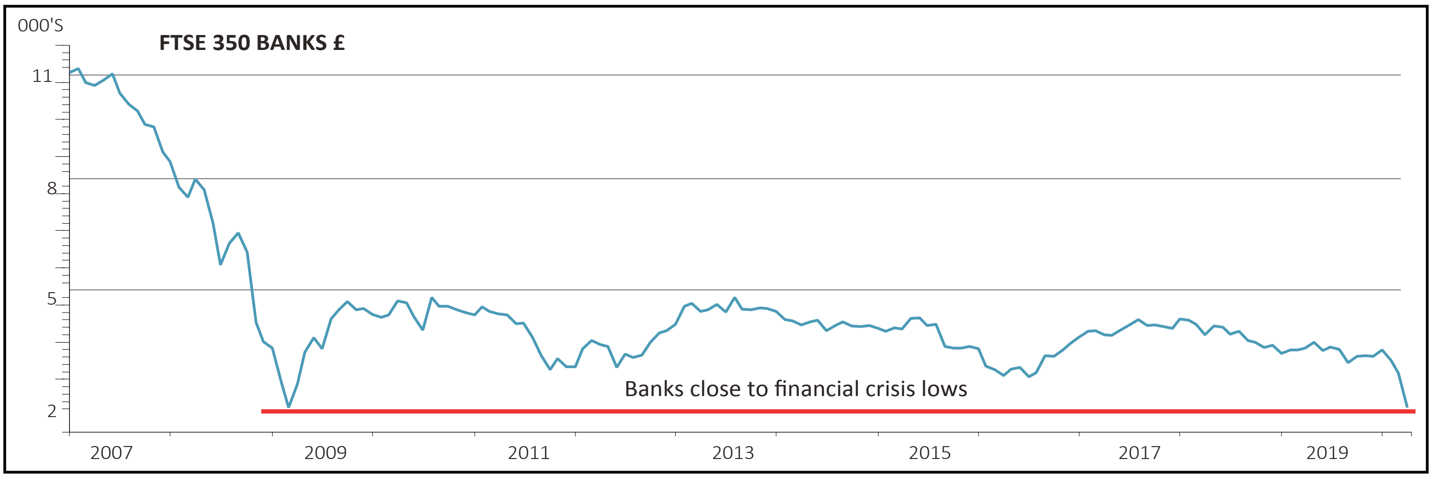
the Financial Conduct Authority tell them to stop all dividend payments and hold onto their cash.

CAN WE LEARN ANYTHING FROM THE US BANKS?

Fortunately, we have some idea of what lies in store as the biggest US banks have just reported their first quarter earnings.

On top of the usual squeeze on net interest margins due to lower base rates, which some banks offset by lending more money last quarter, there were two new areas of concern for US banks.

The first was credit card debt, which has ballooned in the last decade. As one observer put it, US shoppers gave their credit cards 'a real work-out' at the end of 2019 with spending in December topping $12.5bn, the highest figure in more than



two decades.

Total consumer borrowing excluding mortgages and home equity loans rose by $22bn in December, also the biggest monthly amount in more than two decades, and now stands at a record $1tn.

The problem lies in the fact that credit card borrowing is unsecured, so if consumers decide not to pay the banks have to chase them through the courts. Also, there is a direct link between unemployment and credit card non-payment, and with more than 22m Americans registering as unemployed in the last month delinquencies could soar.

The second problem area was lending to the energy industry, which includes US shale producers who are making losses with crude prices at $20 a barrel and have already been through several rounds of bankruptcies. The problem is, even with gasoline at just 12 cents a gallon in some states, the lockdown and a lack of consumer demand means oil producers aren't making any money.

Provisions for bad loans were sharply higher than in previous quarters, with Citigroup for example increasing its allowance for credit losses by 70% to $20.8bn or 2.9% of total loans from $12.3bn or 1.8% of loans a year earlier. Included in that figure was a $4.9bn charge for potential credit card losses.

Rival Bank of America increased its allowance for credit losses by 67% to $15.8bn after doubling its provisions for defaults in its consumer banking division.

Overall, however, provisions were less than some analysts had expected, and it looks as though the US banks aim to spread their impairment charges evenly through the year rather than front-load them.

TROUBLE AHEAD

According to Niklas Klammer, UK banking analyst at Morningstar, loan loss provisions will be 'the biggest driver of profit and loss for the sector this year.'

His main areas of concern are loans to small and medium businesses which might fail due to the government lockdown, homeowners defaulting on mortgages if they become unemployed, and credit card losses.

Royal Bank of Scotland (RBS), which reports first-quarter results on 1 May, has the largest exposure to UK corporate borrowers and is likely to be the most affected by the steep decline in economic activity.

Lloyds (LLOY), which reports on 30 April, is the UK's biggest mortgage lender and has a sizeable credit card business, MBNA, with £9bn of customer borrowing.

Barclays (BARC), which reports the day before Lloyds, also has a significant UK credit card business while half of the revenues from its international division come from the US where it has $27bn of exposure to credit card borrowing.

A NEW ERA FOR IMPAIRMENTS

Klammer also points out that the UK and European banks are in a 'new era' as regards provisioning for bad loans thanks to the introduction of a new reporting standard called IFRS 9.

Under the old standard, impairments were based on an 'incurred loss' model with the banks putting aside provisions once a loss event occurred. Under the new standard, from the time each new loan is made the banks have to provision for a *potential* increase in their credit risk.

In other words, provisions are based on expected credit losses with the banks having to make complex forward-looking economic forecasts and assess various scenarios to estimate their expected credit losses.

Given the complete lack of certainty over the economy, this could result in an enormous jump in provisions as the banks try to get ahead of a rise in bad loans.

'In my view the banks should 'kitchen-sink' their provisions in the first quarter', says Klammer. 'You have to bear in mind provisions are a non-cash item and they can be written back if the loans don't go bad.'

NOT ALL DOOM AND GLOOM

On the plus side, the government hopes that funding from its £330bn Covid Finance Facility will serve as a bridging loan to companies to see them through the shutdown without having to lay off workers or take on expensive bank debt.

The facility offers funds at zero cost to firms which may not meet the banks' loan criteria, which means the banks can focus on lending to more credit-worthy borrowers with a lower risk of default.

It's even feasible that, assuming impairments don't reach levels which might threaten their capital base, the banks could come out the other side of the current crisis in a strong position as demand for credit spikes and the economy sputters back to life.

Don't miss the chance to buy tech giant ASML at 2017 prices

The microchip specialist is a superb stock to own for the long-term

Dutch firm **ASML** may not be a familiar name to most investors, yet it probably should be. The monopoly microchip business is exposed to the most resilient parts of massive semiconductor industry capital investment.

It's the only company in the world capable of manufacturing the extreme ultraviolet (EUV) tools needed for printing bleeding edge, complex semiconductor chips, according to investment bank Berenberg.

What's more, even after a pandemic bounce, the stock is still trading on a 2021 price-to-earnings (PE) multiple of 23.2. The stock has not been this cheap since mid-2017, meaning now is a superb buying opportunity.

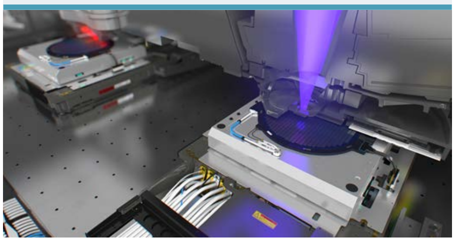
ASML doesn't design or manufacture semiconductors. Instead it makes clever lithography technology kit which uses light to print tiny patterns on silicon, a fundamental part of microchip mass production.

The biggest chip makers in the world, such as Intel, Samsung, Apple, Nvidia and AMD, use the tools to make chips cheaper, smaller and increase their complexity.

Against the current backcloth order delays cannot be ruled out but first quarter results last week offered huge encouragement

ASML ↗ BUY
€264.6

Market cap: €111.6bn



and no material impact from COVID-19.

Net bookings were strong at €3.1bn, up from €2.4bn year-on-year, resulting in €2.4bn net sales at 45.1% gross margins. Eleven EUV tool sales put the company in a great position to meet its 32 full year target.

UBS predicts €3.6bn to €3.7bn bookings in the second quarter, and there are good reasons why.

The semiconductor industry is dedicating more of its capex to a 'shrinkage roadmap', with an estimated 70% of future spending earmarked, says Berenberg.

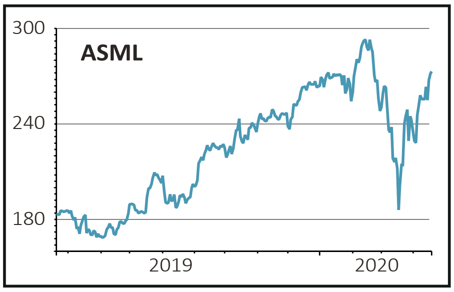
This should underpin ASML orders beyond any near-term volatility, and ASML says customers are asking for EUV shipments to be brought forward to avoid any impact from future logistical disruption.

Typical of tech businesses, ASML has net cash worth more than €4.7bn on its books, providing plenty of funding flexibility in the future.

UK investors should be able to buy shares in ASML via most investment platforms. The stock is listed on the Amsterdam Euronext and New York stock exchanges, and is a member of the Stoxx 600 and Stoxx Europe 50 indices.

For anyone not comfortable investing directly in overseas company shares, ASML is a key holding in **Baillie Gifford Positive Change Fund (BYVGKV5)** and **BlackRock Greater Europe Investment Trust (BRGE)**.

'Prior to the market sell-off, the shares traded in excess of 30-times, a deserved premium to peers given ASML's less volatile end-markets and monopolist status,' says Berenberg. A return to those PE multiples would imply a €340 share price, nearly 30% higher than now.



By **Steven Frazer**
News Editor

Why now is the time to snap up Premier Foods

Transformational pension deal and surging sales make the stock a lot sweeter

Despite the popularity and 'authenticity' of brands such as Bisto, Cadbury's – made under licence for US conglomerate Mondelez – and Mr Kipling, investors have given **Premier Foods (PFD)** a wide berth until now due to its widely-reported lack of free cash flow and pension 'black hole'.

However, a plan to sort out its various pension scheme deficits should significantly reduces the amount of cash needed on an ongoing basis and goes a long way to de-risking the business.

Together with the pension update, Premier revealed that trading for the year to 28 March was at the top end of market expectations and that it had generated £90m of operating cash flow, bringing the ratio of net debt-to-EBITDA (earnings before interest, tax, depreciation and amortisation) 'comfortably' lower than the previous target of three times.

The combination of the pension deal and better than expected results makes Premier considerably more investable than in the past.

The transformational pension deal involves merging three of its retirement schemes and then paying an insurer to take over the liabilities of the largest plan (called a 'buyout'). Any surplus from the buyout will help to fund deficits in the two remaining schemes.

PREMIER FOODS
BUY
(PFD) 41.45p
Market Cap: £356m

The firm ended the year to March with £90m, to which it added £85m from its credit facility to give it £175m of available firepower.

These funds will be used to push on with its successful 'branded growth model strategy', building on the success of its market-leading brands.

Having seen steady like-for-like growth in the nine months to December, demand for the group's products soared in the last quarter as shoppers cleared supermarket shelves.

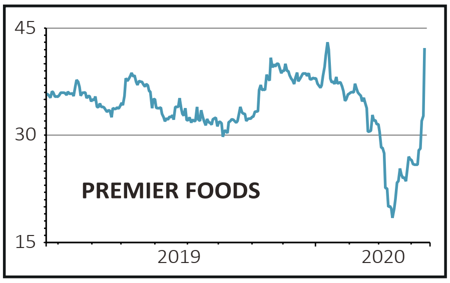
UK sales were up 7.3% over the final three months and up 15.1% in March alone, putting full year trading profits at the top end of expectations.

With demand continuing at above-average levels as the lockdown continues, Peel Hunt has raised its earnings forecast for the current year and raised its target price from 50p to 80p.

As the firm continues to roll-out self-help solutions, we believe there is potential for sales and earnings to further exceed market forecasts.

At their current price, the shares trade on less than five times expected 2021 earnings and a free cash flow yield of over 15%. That's far too cheap given that Premier Foods has a plan to resolve pension issues, trading is good, and it should soon have more cash to reinvest in its business.

Fundamentally this company is at a major turning point and there is plenty to suggest its shares deserve a massive re-rating.



By **Ian Conway**
Senior Reporter

BEGBIES TRAYNOR

(BEG:AIM) 91p

Gain to date: 3.4%

Original entry point:

Buy at 88p, 19 Dec 2019

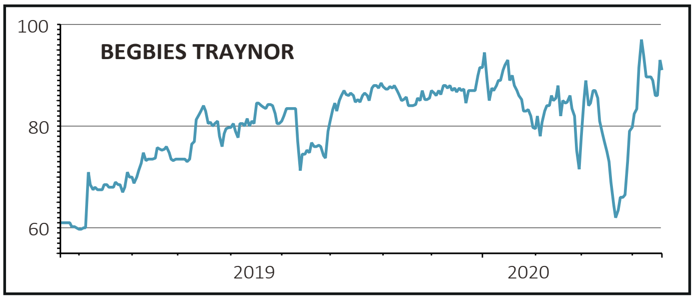
SHARES IN INSOLVENCY and advisory firm **Begbies Traynor (BEG:AIM)** surged late last week after the firm released its latest red flag alert report.

It revealed that a record 509,000 UK businesses were in 'significant financial distress' at the end of last quarter, although it also cautioned that the figure could be just 'the tip of the iceberg' as the impact of the coronavirus spreads.

Almost all of the firms in significant distress are small and medium businesses with less than 250 employees. The report says that despite Government support measures such as the Business Loan Interruption Scheme some firms have struggled to gain access to Government-backed loans.

In its third quarter to 31 January, Begbies reported strong growth in revenue and profit, which after a strong first half left it confident of delivering results at least in line with expectations for the year as a whole.

The recovery and financial advisory business performed well due to organic growth and a positive contribution from recent acquisitions, while the property business performed in line with expectations during the quarter.

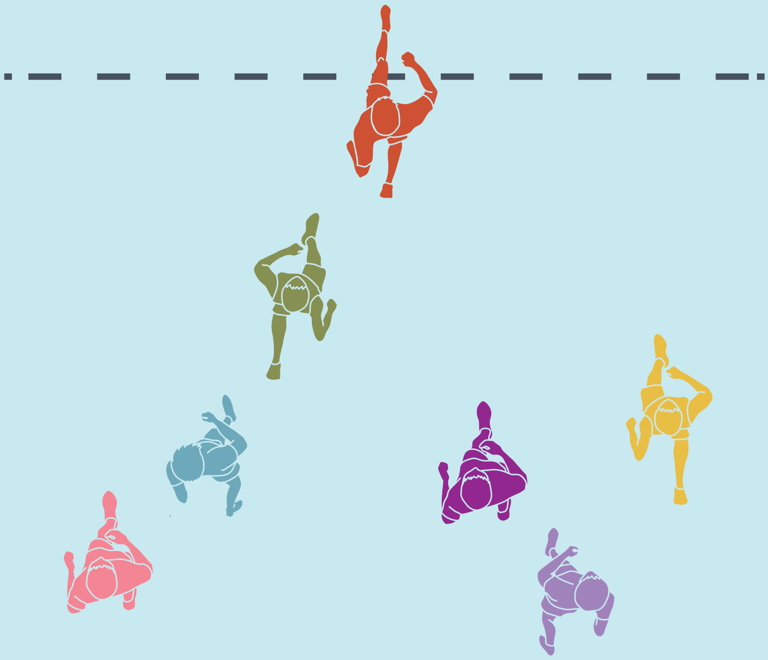


SHARES SAYS: ↗

Begbies is a rare beneficiary of the financial angst caused by coronavirus and is therefore a good portfolio hedge. Keep buying.

THE RACE TO RECOVERY

The stocks surging ahead and those which have been left behind



By **The Shares Team**

The market has come storming back since it bottomed out on 23 March from a coronavirus-inspired plunge. As we write the FTSE 100 is above the 5,700 mark and some 16% off its lows.

Suggestions that some countries are past the peak of infections, a cautious reopening of the Chinese economy and reports of progress on a coronavirus treatment have all helped sentiment.

In the FTSE 350, travel operators and gambling companies, two areas which sold off the most, appear to have rebounded the strongest, though they are still some way off their pre-coronavirus crisis levels.

While those continuing to flounder come from a more diverse set of sectors, including banks, building materials, general retail, industrials and utilities.

In this article we show you the FTSE 350 businesses which have performed best through this period, helping to power this rebound and those which have been left behind.

HOW MAJOR MARKETS BOUNCED BACK

Index	Performance since market bottom (%)
S&P 500 (US)	25.1
Nasdaq (US)	25.0
DAX (Germany)	22.3
Nikkei 225 (Japan)	17.8
FTSE 100 (UK)	16.4

Source: Sharepad. Data from close on 23 March 2020 to 17 April 2020

We identify two stocks which we think can maintain their current momentum and one which has the potential to play catch up in the months ahead.

Whether we're in for a so-called 'V-shaped' recovery, where share prices recover quickly, remains to be seen, with the recent bumps in the road for the market perhaps suggesting this may not be the case.

It's also worth considering that the recent market advance could turn out to be a 'bear trap', as seen most recently in 2007-09 during the global financial crisis.

In fact, history has shown bear markets are littered with sharp advances which cruelly turn out to be nothing more than traps for the unwary, with investors tempted into a 'buy-on-the-dip' strategy, only to quickly find themselves in trouble.

Despite this warning, we believe the best strategy is to stay invested, even if markets pull back again in the near-term.

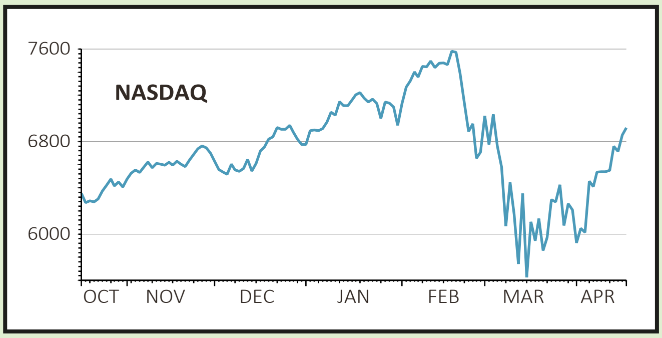
WHO HAS RACED AHEAD IN THE RALLY?

TOP PERFORMING FTSE 350 STOCKS IN THE MARKET RALLY

Company	Performance since market bottom (%)
William Hill	135.0
National Express	116.0
Energean	84.3
GVC	83.9
Go-Ahead	83.8
Trainline	71.3
FirstGroup	57.4
Marston's	56.9
Rank Group	55.7
IWG	53.2
BMO Commercial Property Trust	52.1
Avast	48.7
Hyve	47.6
Drax	47.2
Pollen Street Secured Lending	46.6
Henderson Smaller Companies	44.1
McCarthy & Stone	43.3
Grafton	42.4
4imprint	42.2
Legal & General	40.3

Source: Sharepad. Data from close on 23 March 2020 to 16 April 2020

HAS BIG TECH BOUNCED TOO MUCH TOO QUICKLY?



INVESTORS ARE NERVOUS about big tech. Many think that leading stocks have rallied faster and jumped higher than the wider market, calling into question valuations that 'do not reflect the risks that still lie ahead from coronavirus,' according to a *Financial Times* opinion piece last week.

Yes, there are examples of soaring optimism, just like there was before the outbreak. Advanced Micro Devices and Netflix, for example, have jumped 47% since 23 March, far outstripping the S&P 500's rough 25% rally. Video conferencing firm Zoom, an app used by millions to stay in touch with family and friends during lockdown, has more than doubled in 2020, surging from \$68.72 to \$150.26.

Shares in Apple, Microsoft and Amazon, all worth more than \$1trn, have rallied 28%, 30% and 26.5% respectively since 23 March but that is not so out of kilter with wider markets, and nor are valuations for most. Apple trades on a current year PE of 24, Microsoft at 37, while Google parent Alphabet, up 19.5%, trades on a 26 PE, versus a 20 PE for the S&P 500 and 24.5 for Nasdaq.

Yes, Amazon's PE of 114 remains eye-watering, but it has been so for years, reflecting the market's optimistic view of long-run growth.

The best FTSE 350 performers since the market's most recent bottom are in many cases those businesses which suffered the most in the early part of the coronavirus-inspired sell-off amid growing investor optimism that the number of infections could be reaching a peak and that a return to normal life (albeit gradually) could be on the horizon.

A good chunk of the top 20 best performing FTSE 350 stocks since 23 March come from the travel and leisure sector, comprising bus and rail companies, bookmakers and pub companies.

The bookies have done best during the period, with **William Hill's (WMH)** share price soaring 135%. This reflects reports of a rise in online gambling during the lockdown. The ongoing postponement of nearly all sporting events remains a big problem though, with around 53% of William Hill's revenue in 2019 coming from sport.

And while the airlines have still struggled, domestic travel companies like **Go-Ahead (GOG)** and **National Express (NEX)** have improved as talk of potentially easing lockdown restrictions gather pace.

When it comes to travel, if restrictions start to get lifted people are perhaps more likely in the near-term to travel to other towns and cities to see loved ones or for work than they are to take a plane and go abroad for a holiday.

Insurance firm **Legal & General (LGEN)** was a strong performer as it defied regulator pressure and confirmed it would pay its already declared final dividend.

Investors are becoming more optimistic about life returning to normal

WHAT HAPPENED IN PREVIOUS BIG SELL-OFFS?

Worst-Performing Sectors in Previous Sell-offs	Average Return %
Industrial Metals	-37
Oil Equipment, Services & Distribution	-34
Automobiles & Parts	-31
Industrial Transportation	-28
Mining	-27

Best-Performing Sectors in Previous 'Recovery Rallies'	Average Return %
Industrial Metals	69
Technology Hardware & Equipment	52
Industrial Engineering	39
Mining	37
Electronic & Electrical Equipment	34

Source: Sharepad, Shares magazine

Just under six months ago we studied three major stock market sell-offs of the last decade and the subsequent recoveries to see if there were any reliable patterns we could identify.

The three periods were mid-2011, mid-2015 and late 2018. All three sell-offs took the FTSE 350 index down more than 10%, and in each case the same sectors tended to come off worse.

On average the five worst sectors were Automobiles & Parts, Industrial Metals, Industrial Transportation, Mining and Oil Equipment & Services. Aside from Industrial Metals and Mining, these sectors also typically performed poorly in the six months following the market low.

In the six months following each sell-off, the best performing sectors also tended to be the same: Electronic Equipment, Industrial Engineering, Industrial Metals, Mining and Tech Hardware.

However, the latest sell-off has been very different as the nature of the crisis and the resulting lockdown has hammered Travel and Leisure and General Retail stocks far harder than previous sell-offs.

As a result these are the sectors rallying the most since the market low last month, which is atypical, but it's worth flagging that we are less than one month on from the market low – if it *was* the low – and a lot can change over six months.

TWO STOCKS WHOSE RECOVERY HAS LEGS

COMPUTACENTER (CCC) £14.52 *BUY*

As a digital enabler, one that is helping the staff of many businesses operate effectively from home during lockdown, it is perhaps unsurprising that **Computacenter (CCC)** has rallied so strongly in recent weeks.

Having nearly halved in the immediate aftermath of the pandemic outbreak, the stock has bounced more than 30% since the market hit 4,993.89 on 23 March, even if this performance isn't quite enough to make the list of top 20 FTSE 350 performers since that low point.

Computacenter is a pan-European IT enterprise operator whose 14,000-odd staff annually ship more than 25m PCs, laptops, smartphones and much else to 4.2m end users, and provide valuable advice support and services in 30 different languages. It has been part of the FTSE 250 index for most of the last 10 years.

Even before the coronavirus, we were firmly in an era of unprecedented technological change, where thousands of organisations needed help with adaption and adoption. That might be to stay competitive, engage better with customers, improve access to information and services, bolster efficiency or simply trim costs. There are many reasons to embrace digital tools and services and Computacenter is a key trusted partner for thousands of organisations.

Providing the tech hardware and gadgets, supplying consultancy, advice and key software tools for clients from proper blue-chip vendors (think Microsoft, Oracle, Adobe, Cisco, Symantec, Sophos), it is a model that has worked for years thanks to steady growth and superb cash flows.

Computacenter has an unbroken track record extending more than 10 years for annual earnings increases, which feeds into reliable dividends.

Most recent commentary from the company in March was upbeat on the long-run digital shift, saying that supply chains were still running smoothly and purchasing decisions were being made. But the pandemic obviously raises questions on the near-term impacts, with key risks being possible supply constraints if large IT equipment manufacturers start to run low on stock. There is also the danger that some larger IT projects could get canned while business uncertainty persists.

NATIONAL EXPRESS (NEX) 241P *BUY*

While being heavily sold off along with all the other stocks in the same sector, coach operator **National Express (NEX)** has been one of the best performing stocks since the market started bouncing back.

Its share price has jumped significantly since 23 March, and we think there's good reason for this increase.

A household name and one of the go-to companies when looking to book a coach journey, National Express had been growing strongly before the coronavirus crisis hit.

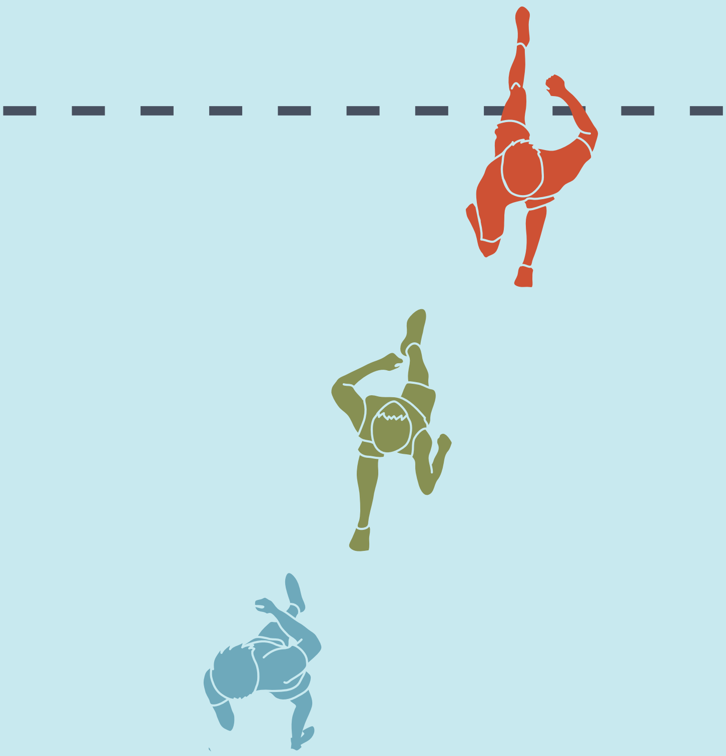
Its results for 2019 showed double-digit revenue and operating profit growth, while in an update released last week, the company said that in the first two months of 2020, it had grown revenue by 17% year-on-year.

According to Canaccord Genuity analyst Gert Zonneveld, National Express is 'well positioned to weather the storm' from the coronavirus outbreak.

He conceded the pandemic will have a 'significant impact' on near-term earnings, but added that the business remains a 'best-in-class operator in virtually all of its businesses, capable of delivering sustained profit growth'.

The company also has no major liquidity concerns, with cash and undrawn facilities of around £500m.

Zonneveld forecasts a small earnings per share loss in 2020 before bouncing back strongly in 2021 and returning to normal in 2022.



WHO HAS LAGGED BEHIND THE MARKET?

WORST PERFORMING FTSE 350 STOCKS IN THE MARKET RALLY

Company	Performance since market bottom (%)
Biffa	-19.2
Hiscox	-19.0
Senior	-18.9
Centrica	-18.0
HSBC	-17.2
Aston Martin Lagonda	-16.6
Hammerson	-16.1
Equiniti	-11.8
Royal Bank of Scotland	-8.3
Rolls-Royce	-8.0
Coats	-6.9
Hill & Smith	-6.7
Petrofac	-6.3
Melrose	-6.1
Standard Chartered	-5.7
Hays	-5.6
Dixons Carphone	-5.5
ContourGlobal	-5.3
Royal Mail	-4.9
Frasers	-4.3

Source: Sharepad. Data from close on 23 March 2020 to 16 April 2020

The stocks which have struggled to keep up with the market's rebound since late March include a collection of businesses with either strained balance sheets – like energy provider **Centrica (CNA)** – or exposure to industries and sectors where the impact of the coronavirus might not have been immediately obvious or there have been few grounds for any optimism in the interim.

Retailer **Dixons Carphone (DC.)** and shopping centre landlord **Hammerson (HMSO)** remain on the floor, while sporting goods specialist **Frasers (FRAS)** has also endured a difficult crisis so far as its attempts to stay open in the lockdown proved a PR disaster.

Fears over the impact of the current economic maelstrom on emerging markets and rock-bottom interest rates have kept banking outfits **HSBC (HSBA)** and **Standard Chartered (STAN)** on the back foot. UK-focused bank **Royal Bank of Scotland (RBS)** has also struggled.

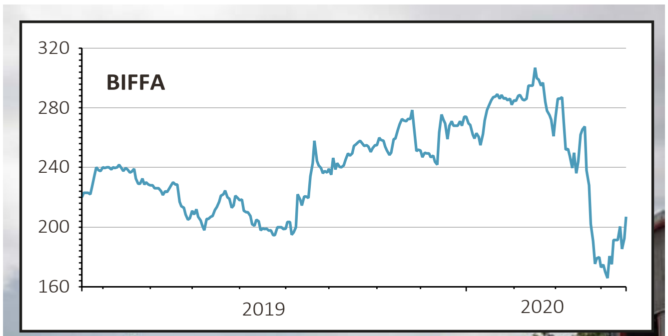
Elsewhere **Rolls-Royce (RR.)**, **Melrose Industries (MRO)** and **Senior (SNR)** suffered thanks to their position as suppliers of parts to the devastated aviation industry.

Insurer **Hiscox (HSX)** suffered amid the suspension of its dividend and news it could face a lawsuit after refusing to pay out on claims linked to the coronavirus lockdown.

It is perhaps surprising not to see more oil businesses among the list of laggards given prices remain firmly under pressure despite recently agreed OPEC+ production cuts. Oil services firm **Petrofac (PFC)** is the only relevant name on the list of the 20 worst performers.

A STOCK WITH RECOVERY POTENTIAL

BIFFA (BIFF) 200P *BUY*



An anticipated hit to its landfill services from paused construction activity, plus substantially reduced demand for industrial and commercial business has put waste management firm **Biffa (BIFF)** on the back foot.

A dispute with union Unite and its workers on the Wirral over safety concerns hasn't helped and neither did the cancellation of its dividend (25 Mar).

In addition, the company has significant borrowings for investors to consider. However, it looks to have a robust enough balance sheet to weather the current reduction in business and it should prove a survivor in the sector, putting it in a strong market position when we emerge from the ongoing coronavirus crisis.

Numis comments: 'Our base case cash burn scenario indicates that the group has around one year of liquidity given current headroom of c.£150m, consistent with what management outlined in its Covid-19 update.

'We believe this is likely to be materially more headroom than many other waste sector peers.'

While certain parts of the economy may be irrevocably changed by the pandemic, someone is still going to have to take care of our waste and this is something Biffa is good at. It is also adapting to increasing pressure to factor in environmental concerns by looking to improve its recycling and recovery capability.

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Why markets have rebounded and what could happen next

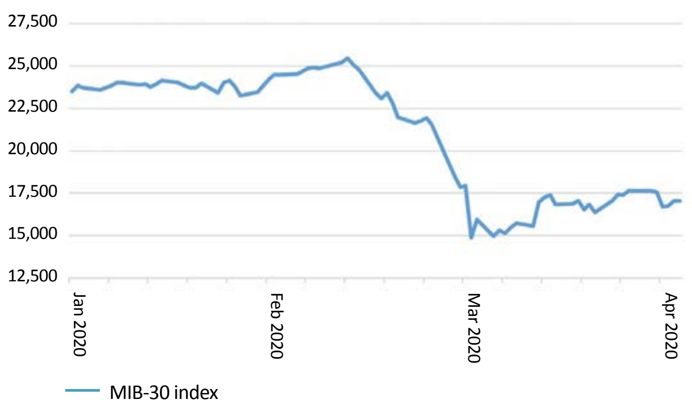
Short-term viral implications for investors to ponder

At the time of writing, Italy's MIB-30 index is up by 15% from its 12 March low, a trend from which this column, looking at it solely from the narrow perspective of investments, can draw some modicum of encouragement.

It is impossible to be dispassionate about, or comfortable with, such matters, but the Milan market benchmark's steady recovery reflects a peak in the number of new daily cases across Italy on 21 March at 6,155 and in the number of fatalities at 919 six days later.

At the time of writing the last reading for those numbers are 3,047 and 433 respectively and it is to be hoped that the trend remains down, for humanitarian reasons above all others.

ITALY'S MIB-30 CONTINUES TO MAKE STEADY PROGRESS



Source: Refinitiv

As suggested here three weeks ago, this shows that equity markets are responding to changes in the curve of the coronavirus outbreak.

A slowdown in the number of cases was always going to be seen as good news, given how investors would interpret this as a sign that things were getting less bad, and that as a result the outbreak would eventually stop getting worse and once it stopped getting worse it would eventually start getting better.

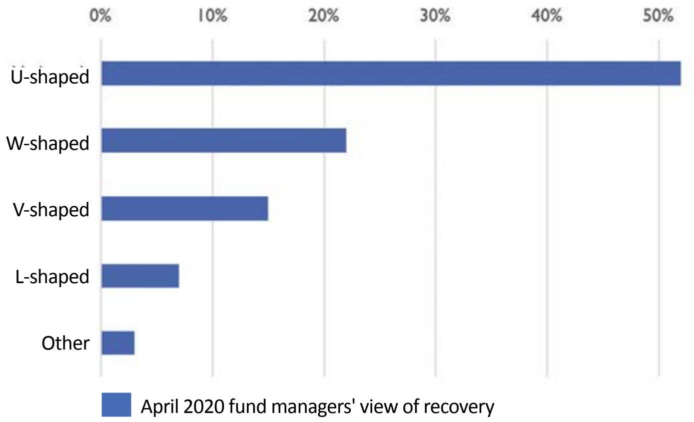
This is where markets are now. The number of new cases is growing much more slowly, even if the aggregate number of those unlucky enough to catch the dreadful virus is still growing overall. This has been enough for equity markets to start pricing in what might happen if, as and when the government-imposed lockdowns are brought to an end and economic activity resumes.

As a result, several benchmarks are looking even sprightlier than that of Italy. The UK's FTSE 100 is up 16% from its 23 March nadir of 4,994, while Germany's DAX and America's S&P 500 are back in bull-market territory, with gains of more than 20%.

The question now is whether these gains can be maintained or extended and in the short term a lot of that will depend upon the shape of the upturn. The latest Bank of America institutional investor sentiment survey suggests that U-shaped is the current favourite, over W, V, L, 'bathtub' or tick-shaped (or any other options that you could think of).

RUSS MOULD
AJ Bell Investment Director

U-SHAPED RECOVERY SEEMS TO BE MARKETS' CORE SCENARIO



Source: Source: Bank of America Global Fund Manager Survey, April 2020

ALPHABET SOUP

What is interesting to note is how a V-shaped recovery is only third choice, according to that Bank of America monthly survey. This suggests some degree of circumspection among the professional investment community and it is easy to see why, as Spain, New Zealand and the UK, to name but three, extend their lockdowns and other nations such as Italy ease them at a very steady pace.

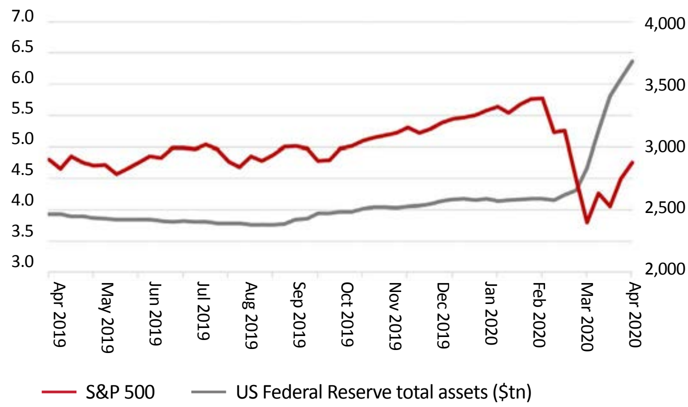
When it comes to judging what sort of recovery might ensue, investors can ask themselves the following questions:

1. When will I first want to use public transport?
2. When will I first want to eat in a restaurant or drink in a bar or pub?
3. When will I first want to board an aeroplane or cruise ship?
4. When will I first want to attend a public event at a cinema, theatre or sports stadium?

The answers could be informative. In addition, you can then imagine that you have been furloughed or even lost your job and see if the answers change at all. The assumption that all of those unlucky enough to find themselves in that position walk straight back into full-time employment could be an optimistic one as unfortunately some firms are going to fail, no matter how much support they receive from the government, management, staff and customers alike.

These questions are very difficult, if not impossible, to answer. As such, investing money on the back of them could prove a fraught exercise, even if markets do seem to have one very powerful ally in the form of central banks, notably the US Federal Reserve. The value of the assets held on the American central bank's balance sheet has swollen by $2.2tn, or 53%, since the end of February.

US EQUITIES ARE RIDING A TIDE OF FED LIQUIDITY (AGAIN)



Source: FRED- St. Louis Federal Reserve database, Refinitiv

That tidal wave of liquidity looks to be carrying US stocks higher. Students of history will however remember that the first round of quantitative easing that began in autumn 2008 had a similar initial effect, only for the S&P 500 to buckle in face of weak macroeconomic data and corporate earnings reports and only bottom five months later.

This column will revisit the issue of central bank intervention in an analysis of long-term potential implications of the coronavirus outbreak for financial markets next week. Before then there is one further short-term indicator of note: whether the FTSE 100 can reach (which it did very briefly on 20 April, only to fall back) and stay above 5,816, the high reached after the three-day rally that followed the low on 23 March.

If so, that could break the traditional 'bear' market pattern of a series of lower highs and lower lows and give investors real grounds for hope, at least from a portfolio point of view.

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Spotting how companies might move the goal posts during the crisis

Veteran of the fund management industry Tim Steer identifies five red flags for investors to watch

Accounting scandals have a tendency to crop-up late into a business cycle, perhaps aided and abetted by looser governance standards and a lack of attention to detail by investors who get lulled into a sense of false security after years of stock market gains.

With a long bull market at an end amid the coronavirus crisis it's arguably more important than ever to for investors to scrutinise their portfolio holdings.

This is something fund managers are very used to doing and looking to tap into some professional expertise, *Shares* spoke with Tim Steer, a qualified accountant and veteran manager at Artemis and New Star Asset management, as well as author of the book, *The Signs Were There*. Here are some pointers that he divulged in relation to the current virus pandemic.

It should be made clear that none of the following accounting practices are illegal. However, the accounting rules permit interpretation and how managements use this flexibility can sometimes be illuminating.

1 OVER-PROVISIONING

There is an old adage that says you should never let a good crisis go to waste and some finance directors will be tempted to exaggerate the impact of the lockdown on their businesses in order to make the future look better than it otherwise would.

One way of doing this is to 'kitchen sink' the numbers. This refers to the practice of including all possible bad news in a press release for the purpose of 'lowering the bar' and making it easier to beat future expectations.

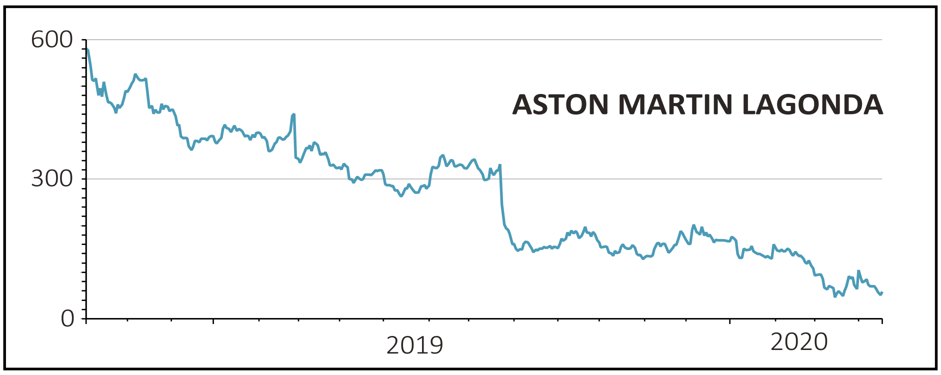
For the retailers, writing down the value of inventory in the current year will reduce profit or add to losses. But this doesn't prevent management changing their minds later.

A good example of this happened when Mike Ashley floated Sports Direct, now called **Frasers (FRAS)** in 2007.

Only eagle-eyed investors like Steer noticed that in the year before the initial public offering (IPO) the firm wrote down its inventory by around £30m only to 'mark it up' again a year later, boosting profits and potentially helping to achieve a higher price when it came to market.

There is a more general point here, and that is, IPOs tend to be overpriced, with most companies coming to market when it suits them and when the numbers flatter the underlying strength of the business. One only needs to look at **Aston Martin Lagonda (AML)** for a good example of a recently overpriced IPO.

For the banking sector, the same trick can be achieved by writing down a company's estimate of future bad debts, which in good times, can easily be 'written back' to give an extra boost to next year's profits, without any real change to cash flow.



2 CUSTOMER FINANCE

Steer likes to say that every number companies throw at investors is a 'matter of opinion', and the only true number is cash.

It's possible to book revenue without receiving the cash inflows that one might expect, in fact in some cases cash actually leaves the company's coffers.

How is this possible? Some companies provided finance to their customers. This shows up in the accounts via a mis-match between reported profits and cash generated from operations, as displayed in the cash flow statements.

For example, internet network equipment firm Cisco Systems recently launched a $2.5bn finance programme (April 14) that allows customers defer 96% of payments until 2021. It seems the company is willing to risk future bad debts in return for booking revenue today.

The advantage is that the results of this gambit won't materialise for a few years down the road, when investors have likely forgotten.

> THE MESSAGE IS CLEAR, BE WARY OF COMPANIES THAT ENGAGE IN OFF-BALANCE SHEET FINANCING AS THEY UNDERSTIMATE DEBT AND PUT INVESTORS' INTERESTS AT RISK

3 CONTRACT WINS

Some firms might be tempted to defer announcing contract wins so that they appear in the following financial year. This would work well for firms with year ends between March and June 2020.

Software companies often try to book new contacts before the year end in order to meet or beat market expectations for revenue. This might go into reverse during the crisis with companies delaying new contract announcements.

4 BRINGING EXPENSES FORWARD

One of the key principles behind accounting rules is to match income and expenses that relate to the same accounting period.

However it's up to senior management to elect which period the costs relate to and Steer believes there may be a temptation to bring forward as much of the cost burden as possible into the current period.

A related issue is the government furlough scheme where companies can apply to receive 80% of employee's pay up to a maximum £25,000. This scheme could potentially be used to flatter results as companies overestimate future payments.

5 OFF-BALANCE SHEET DEBTS AND SUPPLIER FINANCING

When short-seller Muddy Waters released its sell case against Gulf-based **NMC Health (NMC)** one of its many concerns was that the company engaged in off-balance sheet borrowing in order to understate its debts.

Off-balance sheet debt relates to financing which doesn't affect official calculations of indebtedness used by banks and credit rating agencies.

NMC, whose shares are now suspended, borrowed money against supplier payments which accountants don't classify as debt. The same technique was used by the doomed outsourcer Carillion.

The message is clear, be wary of companies that engage in off-balance sheet financing, as they underestimate debt and put investors' interests at risk.

By **Martin Gamble**
Senior Reporter

Which trusts can weather the dividend cuts storm?

Revenue reserves can come to the income-seeker's rescue amid the coronavirus crisis

With UK companies suspending dividends left, right and centre, times are tough for income investors.

One possible solution is to look to investment trusts. Many are sitting on significant revenue reserves which they can draw on during 'rainy days' to supplement their revenue and maintain dividends during 'Black Swan' events such as the coronavirus shutdown.

Most income trusts have accumulated close to or more than one year's dividend worth of reserves and those funds with bigger revenue reserves dividend coverage are best positioned to weather the storm.

PLENTY IN RESERVE

Supposing the global recession isn't prolonged, most high-yielding trusts with revenue reserves of one year or more should be able to at least maintain their dividends at the current level during 2020. That's according to Panmure Gordon which has pored over the investment trust sector's reserves data.

Despite pandemic-induced uncertainty, the majority of investment trusts are rich in reserves and positioned well to weather the storm, argues the broker, also expecting boards to pay dividends out of capital if they run out of revenue reserves.

HOW MUCH DO NEXT GENERATION DIVIDEND HEROES HAVE IN RESERVE?

Company	Consecutive years of increase	Revenue reserve cover (x)
Aberdeen New Dawn	14	2.7
Schroder Oriental Income	12	1.2
Henderson Far East Income	11	0.9
Aberdeen Asian Income Fund	10	0.9
Witan Pacific	13	3.0
Henderson EuroTrust	15	1.3
BlackRock Greater Europe	13	2.0
Henderson European Focus	12	1.7
TR European Growth	16	2.7
Establishment IT	15	0.4
Murray International	14	1.1
HICL Infrastructure	11	0
International Public Partnerships	11	0
Artemis Alpha Trust	14	1.0
Perpetual Income & Growth	19	0.9
Aberdeen Standard Equity Income	18	1.2
Edinburgh Investment	13	1.5
Athelney	16	2.2
BlackRock Smaller Co's	15	1.8
BlackRock Throgmorton	15	1.6
Henderson Smaller Companies	15	1.5
Standard Life UK Smaller Co's	11	1.9

Source: Panmure Gordon, AIC, Refinitiv

As Annabel Brodie-Smith, communications director of the Association of Investment Companies (AIC), explains: 'Investment companies can squirrel away up to 15% of the income they receive each year and tuck it into a revenue reserve. This rainy-day pot means investment companies often have income to draw on to boost dividends during more difficult times like those we are seeing now.

'If we look at the UK Equity Income sector for example, 18 of the 25 investment companies have enough income tucked away in reserve to pay out their last full year of dividends, even if they don't receive any income from their portfolios.'

According to Panmure Gordon's analysis, the higher yielding AIC sectors with healthy revenue reserves are UK Equity Income, Asia Pacific, Global Equity Income and Europe. Panmure also highlights the UK All Companies, North America and Debt – Loans & Bonds sectors, which have funds yielding over 3%, 3% and 4.5% respectively.

> THIS RAINY-DAY POT MEANS INVESTMENT COMPANIES OFTEN HAVE INCOME TO DRAW ON TO BOOST DIVIDENDS DURING MORE DIFFICULT TIMES LIKE THOSE WE ARE SEEING NOW

And although a blizzard of dividend cuts or deferrals from UK companies has created nervousness around the UK Equity Income sector's ability to sustain dividends, Panmure's analysis reveals that 25 of the sector's 26 trusts have high revenue reserves.

The top four by highest revenue reserves cover are **Law Debenture (LWDB)**, **Shires Income (SHRS)**, **Chelverton UK Dividend (SDV)** and **BlackRock Income & Growth (BRIG)**.

HOLDING OUT FOR A HERO

According to Panmure Gordon, both the AIC's 20-strong band of present 'Dividend Heroes' – which have grown the payout for 20-plus consecutive years – and its 22 next generation dividend heroes – doing it for over 10 but less than 20 years – are likely to retain their status for the year ahead.

They have an incentive to do so as their track records are a key selling point. Their revenue reserves are sufficient to pay at least one, or close to, one year of dividends, although the broker unearthed one vulnerable fund in the form of **Value and Income (VIN)**, a current hero with a 31 year dividend growth record which has no reserves to support its future dividend.

TIME TO GO GLOBAL?

Much of the focus has been on the risk of dividend cuts within the UK Equity Income sector, yet Stifel has helpfully crunched the numbers across the Global and Global Equity Income sectors too. 'Historically, the UK has been a relatively high dividend paying stock market and the largest shortfalls in revenues are likely to be across the UK Equity Income Trust sector,' explains Stifel.

'We think the Global and the Global Equity Income sectors may be less exposed to dividend cuts, given that dividend payments for many of the overseas companies they

UK EQUITY INCOME TRUSTS - RESERVES COVER

Company	Revenue reserve cover (x)	Five-year average yield (%)
Law Debenture	2.7	3.3
Shires Income	1.8	5.2
Chelverton UK Dividend Trust	1.7	3.8
BlackRock Income & Growth	1.7	3.5
Finsbury Growth & Income	1.5	1.9
Edinburgh Investment	1.5	3.9
Schroder Income Growth	1.4	4.0
Dunedin Income Growth	1.4	4.8
JPMorgan Claverhouse	1.4	3.7
BMO Capital & Income	1.3	3.7

Source: Refinitiv, Morningstar Direct, Panmure Gordon, companies accounts

GLOBAL & GLOBAL EQUITY INCOME TRUSTS REVENUE RESERVES

Company	Dividend yield (%)	Revenue reserve cover (x)
Murray International	5.6	1.1
Scottish American	3.1	1.0
Henderson International Income	4.0	0.7
Securities Trust of Scotland	3.6	0.3
JPM Global Growth & Income	4.2	0.0
Monks	0.2	13.5
Scottish Investment Trust	3.1	3.0
AVI Global	2.7	2.4
Alliance Trust	2.0	2.4
Brunner	2.5	2.0
EP Global Opportunities	2.3	2.0
Lindsell Train	2.3	1.9
Witan	3.0	1.9
F&C Investment Trust	1.8	1.8
Bankers	2.4	1.6
Mid Wynd International	1.2	1.3
Martin Currie Global Portfolio	1.5	1.3
Scottish Mortgage	0.5	0.5

Source: Stifel, AIC website, Datastream, company data

own may account for a lower proportion of these companies earnings than for UK businesses.'

Of the 18 trusts reviewed, Stifel found that half of them have delivered dividend growth for at least 15 years on the spin and many for much longer. **Bankers (BNKR)** and **Alliance Trust (ATST)** boast 53 years of consecutive dividend growth, while others with long dividend growth records are **F&C Investment Trust (FCIT)** with 49 years growth and **Brunner (BUT)** with 48 years.

'We take some comfort from the fact that eight out of these nine trusts had in excess of the total cost of one year's dividend in their reserves at their last year-end,' enthuses Stifel, which 'bodes well for the future'.

The one exception to this group is the capital growth-focused **Scottish Mortgage (SMT)**, which only has a dividend yield of 0.5%.

Bruce Stout-steered **Murray International (MYI)**, with a 5.6% dividend yield, is the highest-yielding trust. 'It has substantial revenue reserves, equivalent to 1.1 times the cost of the annual dividend and appears well positioned', says Stifel of Murray, which has a bias to overseas equities and offers exposure to bonds too.

Its Global Equity Income peer **Scottish American (SAIN)**, which has racked up 40 consecutive years of dividend growth, has revenue reserves of £17.3m and cover of one times, according to Stifel.

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

How does the taxman top up my pension contributions?

Our resident pensions expert explains how tax relief works on retirement savings

I have been told the annual allowance for a SIPP is £40,000 (£32,000 personal contributions + £8,000 tax relief) but how do I get the £8,000 from the taxman? And can I backdate for the previous three years and put in £40,000 x three in the current tax year, as well as my £40,000 existing allowance?
Tikam

Tom Selby
AJ Bell
Senior Analyst says:

Most people can pay up to £40,000 a year into a SIPP (the 'annual allowance'), namely £32,000 of their own contributions and £8,000 in basic-rate tax relief. If you contribute to a SIPP, basic-rate tax relief will be added automatically.

If you're a higher or additional-rate taxpayer, you can claim extra tax relief via your tax return.

You need to be aware of exceptions to the £40,000 annual allowance. If you have flexibly accessed taxable income from your pension from age 55, for example by taking flexi-access drawdown, you will trigger the money purchase annual allowance (MPAA).

The MPAA is set at £4,000, meaning you can pay in a maximum of £3,200 into a SIPP and your provider would top it up with basic-rate tax relief of £800. Note the MPAA will not be activated if you take only your 25% tax-free cash or if you buy an annuity.

Very high earners may also have a lower annual allowance as a result of the 'taper'. The taper kicks in once you have 'threshold income' above £200,000 and 'adjusted income' above £240,000. Where both these income measures are breached, your annual allowance will be reduced by £1 for every £2 of adjusted income above £240,000, to a minimum of £4,000.

You can read more about the annual allowance taper here.

In addition, the amount you can save in a pension each year is restricted to 100% of your relevant UK earnings. For example, someone with total employment income of £30,000 could only save £30,000 in a pension for that tax year.

Finally, there is a feature called 'carry forward' which can allow you to utilise unused allowances from the three previous tax years in the current tax year. This means you could pay up to £160,000 into a SIPP in the current tax year (£40,000 in the current year plus three x £40,000 annual allowances from previous years).

You must have been a member of a pension scheme previously to take advantage of carry forward and can still only pay up to 100% of your relevant UK earnings into a pension in any given tax year.

Those affected by the taper in any of the three previous tax years can only carry forward up to the tapered amount from those years, while those who have triggered the MPAA lose the ability to carry forward unused allowances.

You can read more about carry forward here.

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.

Mortgage holidays: what are they and how do they work?

Taking time off from monthly payments might help in the short-term but you will have to pay the cash back

More than 1.2m people have taken advantage of mortgage payment holidays after the Government told banks they had to offer them to customers. But how do these holidays work and what do they cost in the long term?

As part of its package of measures to help people affected by the coronavirus outbreak the Government said that mortgage providers had to offer people the chance to take a mortgage payment holiday for up to three months (although some banks were already offering this).

The take-up has been huge, with UK Finance, the trade body for banks, saying that now one in nine mortgages in the UK are on a payment holiday. It saw a surge in applications in the two weeks between 25 March and 8 April, with around 61,000 mortgage holidays being granted each day.

As the mortgage is usually the biggest monthly outgoing in any household, taking a break from paying it for three months can give people some breathing space if they've seen their income fall or lost their job all together. However, it's not a cost-free option, so make sure you know the pros and cons before you take advantage.

HOW DOES THE HOLIDAY WORK?

You need to speak to your bank if you want to take the holiday. Some are offering information and forms to fill in online, while others will insist that you call up to request the holiday. Due to staff shortages and an influx of calls some people have been frustrated with how long they've been left on hold to wait to speak to someone, but you'll have to persevere if your mortgage provider won't let you process the application online.

Under no circumstances should you just cancel your direct debit and assume that the mortgage provider will take that to mean you want a mortgage holiday – this will be seen as you just failing to make the mortgage payment that month, which will reflect poorly on your credit file.

You can take a holiday for up to three months, which means that you effectively pause the mortgage payments for that time. But you could just take a one-month break if that's all you think you'll need, as it will cost less in the long run.

HOW MUCH WILL IT SAVE ME?

This really depends on how much you've borrowed and what type of mortgage you have. UK Finance says that on the average mortgage size of £132,128, assuming an interest and capital-repayment mortgage, the average person will save £775 a month in deferred payments, which is a big chunk of money for any household.

The average person could save £775 per month

WHY ISN'T THIS FREE?

While you won't pay your mortgage during that three-month period (assuming you take the maximum holiday) you will still accrue interest in that time that you won't be paying off. That means that you'll face a higher total cost of the mortgage over the term of it.

If you assume a £125,000 mortgage debt with 25 years remaining at 3% interest, equating to a £593 monthly repayment, the total additional cost of a three-month deferral is £750. Considering you'll pay this back over the remaining term of the mortgage you may think this is a small sum to pay to give you breathing space – and for many people that's the right call. You just need to make sure you're aware it's not a totally free option.

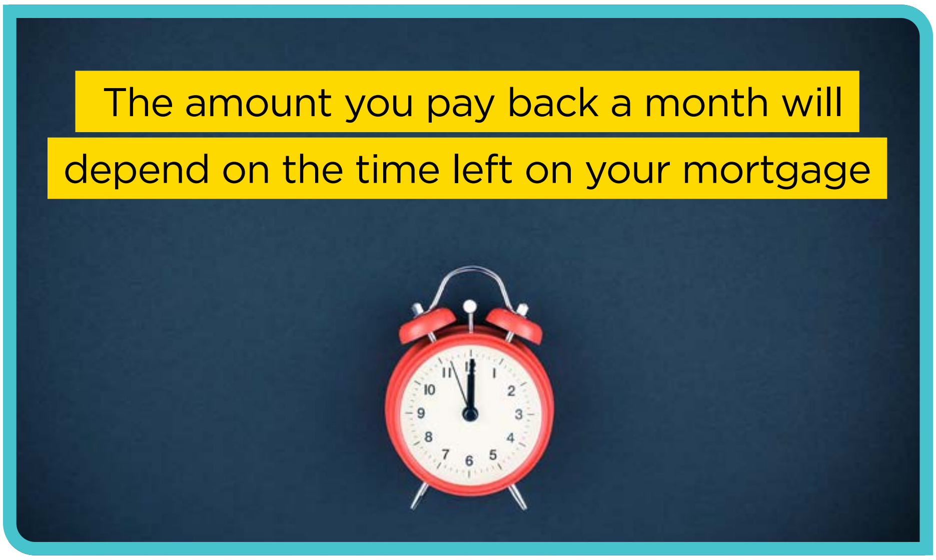
For those with larger mortgages the cost will be higher, as the interest you'll accrue in that three month break will be higher. For example, someone with £400,000 of borrowing at an interest rate of 3% would see the three-month break cost £2,399 more in interest overall.

Also, the higher your interest charge the more you'll pay. If you've fallen onto your lender's Standard Variable Rate, which is usually their highest rate and the one you are moved onto when any fixed-rate or offer period ends, you could be paying up to 5% or even more.

So at this level the additional interest you accrue during the three-month break is higher. On £400,000 of borrowing at a 5% interest rate you'll pay £5,278 more in interest, more than double the example above, while on the £125,000 mortgage, also at 5%, you'll pay £1,649 more.

HOW DO I REPAY THE MONEY?

Most banks will increase you mortgage payments after the holiday is over to make up for the payments you missed. So you'll still pay your mortgage off in the same time period but you'll just pay slightly more each month. This increase will be to pay for the three months' worth



of missed payments plus the additional interest.

Using the same examples above, taking the three-month break on the £400,000 mortgage with 25 years remaining on it at a 3% interest rate would mean your monthly repayments rose by £27 a month for the remaining 25 years of the mortgage. At the £125,000 borrowing level, assuming the same term and interest rate, your monthly repayment would rise by £9 a month.

But, the increases are partly because the additional cost and missed payments are spread over such a long period, as there is 25 years left on the mortgage. If you're closer to paying off your mortgage you'll see a bigger hike – simply because there are fewer months left to make up that shortfall. So if you cut the remaining term down to five years in the above examples the additional monthly cost rises to £127 at £125,000 of borrowing and £407 extra on £400,000 of borrowing.

This means that if you're taking a mortgage holiday you need to factor in that your costs are going to be higher once you start paying it again. You also need to prepare for when the three-month holiday is over, as your finances and income might not have improved by then.

There is a chance the Government could extend the three-month period, depending on how long the country is in lockdown for, but there have been no signs of that so far and that certainly shouldn't be your battle plan.

There's a calculator here that will help you to work out the finances of it all.

WHAT ARE MY OTHER OPTIONS?

If you're paying a high interest rate or are on your lender's Standard Variable Rate then you could instead switch to a new mortgage and cut your monthly mortgage costs by moving to a better deal. This is only an option for those who still have sufficient income to pass the affordability tests from mortgage companies, which depends on what your income is, how much you're borrowing, the equity you have in your home and your other monthly costs.

But with the Bank of England having cut interest rates again, mortgage rates are at rock-bottom levels and so you could cut your costs significantly – particularly for those with larger borrowing. On £400,000 of borrowing over 25 years at a 5% interest rate your monthly repayments would be £2,338 but at a 1.5% interest rate they would fall to £1,600 – saving you more than £700 a month.

Clearly this isn't an option for those who have seen their entire income wiped out – partly because they might not be eligible for a new mortgage and partly because it still leaves them with a large outgoing each month, but for example, those who have been furloughed and are still getting 80% of their salary, it could be a more long-term option.

Another route is to speak to your lender and ask if moving to an interest-only mortgage is an option. This means that you'll only be paying off the interest each month, so will mean a big reduction in your monthly payments.

You'll still need to work out how to repay the capital but it could buy you some time and breathing space. A similar option is extending the term of your mortgage, which means your monthly costs will fall – although as you'll be borrowing the money over a longer period you'll pay more interest in the long run.

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

How and why you might invest in property

We look at the pros and cons of the asset class and the different ways of getting exposure

As an asset class it has taken a battering in the wake of 2020's coronavirus crisis but there are a number of reasons why investors might consider property as part of a diversified portfolio over the long term.

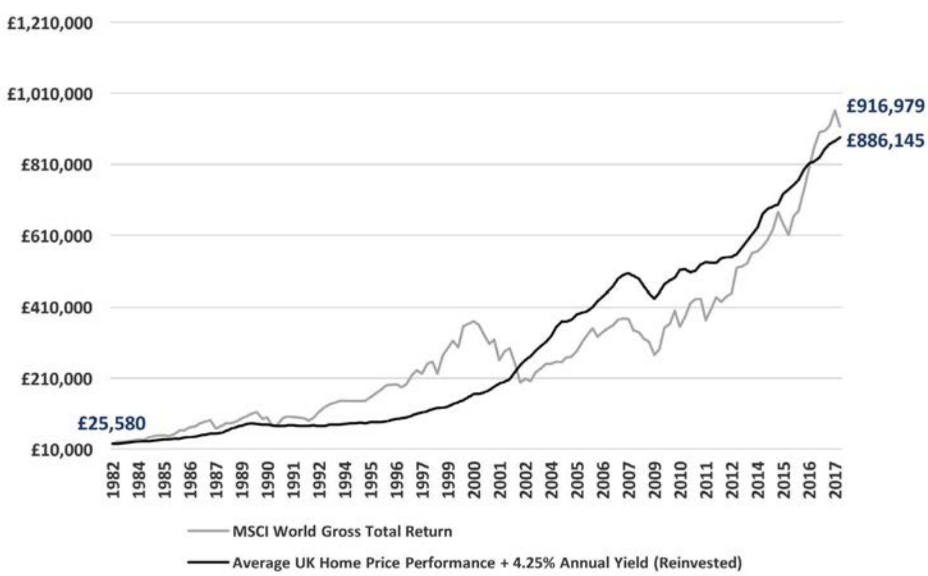
First of all, as a physical asset class its performance tends to diverge from equities and bonds so it can offer genuine diversification in terms of return.

It is also perceived to be a good hedge against inflation. It is a tangible, physical asset and – like gold or agricultural commodities – as such is expected to hold its value better than paper assets which typically see their value eroded by rising prices.

Commercial property can be split into three categories: offices, retail and industrial.

Property offers the prospect of yield (from rental income) alongside capital gain (from an appreciation in its value). So the asset class also, in theory at least, has attractive fundamentals.

GLOBAL EQUITIES VS. AVERAGE UK HOME (TOTAL RETURN)



Source: Gresham Wealth Management, Nationwide House Price Index & FE Analytics

WHY IT IS HARD TO INVEST DIRECTLY

For investors with limited capital, investing directly in property is tricky. In terms of risk, if we are already on the property ladder we will effectively be 'overweight' residential property even if your own home should not be considered an investment in the traditional sense.

Another issue with investing in property directly is a lack of diversification. Unless you are blessed with substantial amounts of capital then you are unlikely to be able to buy more than one or two properties at most.

Even then, any additional purchases of residential property will likely be made using buy-to-let mortgages and regulation and costs in buy-to-let have increased significantly in recent years.

Commercial property can be split into three broad categories: offices, retail and industrial. However, only extremely high

British Land is featured in the FTSE 350

net worth individuals can afford to invest directly. It would be difficult for ordinary investors to buy part of a tower block, for example.

A final issue is one of liquidity. As anyone who has ever moved house will know, it takes time to buy and sell a property even assuming you have a willing purchaser.

WAYS TO PLAY PROPERTY

The listed-contingent with exposure to the property market includes construction firms, housebuilders, property developers and landlords of commercial property. Holding shares in a property developer may not have the same effect as owning a house, but these companies will generate higher profits when property prices rise, which in turn will deliver higher dividends and capital growth.

Real estate investment trusts (REITs) are another way of gaining exposure to this market. These vehicles are allowed, in return for extra regulation, a tax regime that almost replicates the situation you would face if holding property directly.

The core business of REITs is protected from corporation tax, allowing the distribution of rent payments from their tenants to flow straight through to your dividend without being hit by extra levies.

In theory a REIT should provide good levels of income as they are forced to pay out 90% of the profits from their core business within one year, meaning a steady stream of dividends. A number of REITs feature in the FTSE 350 index: including **British Land (BLND)** and **Land Securities (LAND)**.

Funds and investment trusts are popular with retail investors seeking exposure to a wide range of sectors and asset classes, and property is no different. You can find a rough list of property unit trusts on the website of the Association of Real Estate Funds. There are also a number of exchange-traded funds which offer exposure to property.

During spells of volatility, like that seen in the wake of the EU referendum result and the coronavirus outbreak, property investment trusts and exchange-traded funds (ETFs) are arguably at an advantage to traditional funds because they do not expand or contract in size depending on fund inflows and outflows.

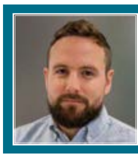
They therefore do not have to sell interests in properties to meet redemptions during periods of market panic. Though they may trade at a discount to the estimated value of their assets.

PROPERTY FUNDS SUSPENDED

Investors in open-ended property funds, which invest directly in offices, shopping centres and warehouses, can only get their money out if the fund's manager redeems their units. As a security measure such funds keep a cash cushion to meet demand from any investors wanting out.

But a spate of withdrawals in the wake of the referendum and problems with valuing properties following the coronavirus pandemic led to the suspension of several property funds.

Tighter rules are being introduced to try and mitigate these issues for ordinary investors. However, the fundamental problem is one of providing the ability to trade daily in a fund which invests in an asset which can take a lot longer to buy or sell.



By **Tom Sieber**
Deputy Editor

Why you should understand 'behavioural investing'

We review three books dedicated to explaining the pitfalls of typical investor behaviour

According to the 'efficient market theory', at any given point in time share prices should reflect all the information available to investors and therefore stocks should always trade at their fair value.

If the theory is correct, it should be impossible for investors to buy undervalued stocks or sell overvalued stocks because the market has already priced in all possible scenarios.

However, the efficient market theory is fundamentally flawed because it fails to take into account one very important variable - investors themselves.

AN INVESTOR'S WORST ENEMY

As we know from history, and many of us from our own personal experience, we tend to believe that whatever happened in the recent past is likely to continue into the near future.

If stocks have been rising for several years, we assume they will continue to rise and we keep buying them even when they become overvalued.

When they suddenly fall, which inevitably they do because nothing goes up forever, we suddenly feel a lot less optimistic, and if they keep falling we make the classic mistake of selling at the wrong time.

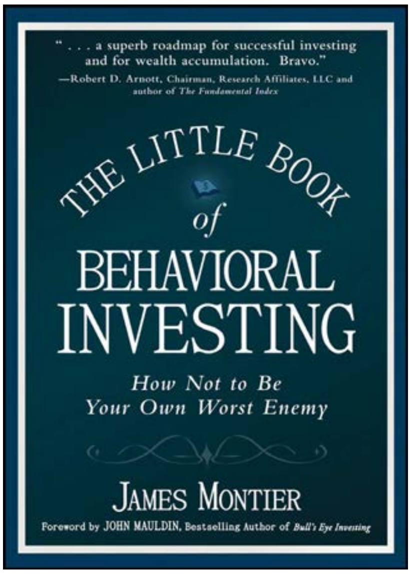
As the father of value investing Ben Graham put it, 'the investor's chief problem - and even his worst enemy - is likely to be himself'.

If all of this sounds painfully familiar it's because we don't seem to be able to learn from past mistakes. This is where 'behavioural investing' comes in: in theory, studying the mistakes we made in the past should help us avoid making those same mistakes – and others – in future.

THE POCKET GUIDE

The first book in our review is James Montier's *Little Book of Behavioural Investing*, part of the same series as Joel Greenblatt's *Little Book That Beats The Market*.

Montier was something of an 'enfant terrible' in his days as an investment strategist and was never short of an opinion. Today



> "Montier was something of an 'enfant terrible' in his days and was never short of an opinion"

he is part of the asset allocation team at GMO in Boston, working alongside renowned value investor Jeremy Grantham.

The 'Little Book' is full of statistical studies showing how our in-built biases lead us to repeat avoidable mistakes in investing. For example, we tend to think that more information leads to better investment decisions, when in practice just a handful of facts can serve us better.

In the same way that Warren Buffett tries to buy 'businesses with good-to-superb economics run by honest and able people at sensible prices,' Montier focuses on three things.

As a value investor his number one concern is valuation: is the stock seriously undervalued? Second, is the balance sheet sound or could it go bust? Third, he looks at capital discipline: what does management do with money investors give them?

He also recommends trying to 'kill' your investments, in other words working through every possible scenario which could undermine the investment case.

Looking at potentially negative outcomes helps to avoid 'confirmation bias', which is the tendency to only consider opinions or facts which back an existing positive view on a stock.

Montier doesn't just draw on examples of human bias in investment, he shows that in the fields of law and medicine the way facts are presented can often sway life or death decisions.

He finishes with the importance of accepting our investment mistakes. If we buy a stock and it goes up, we assume it went up for the reasons we identified.

If it goes down however, we attribute it to bad luck or external events and fail to learn from our mistakes.

MISTAKES WE ALL MAKE

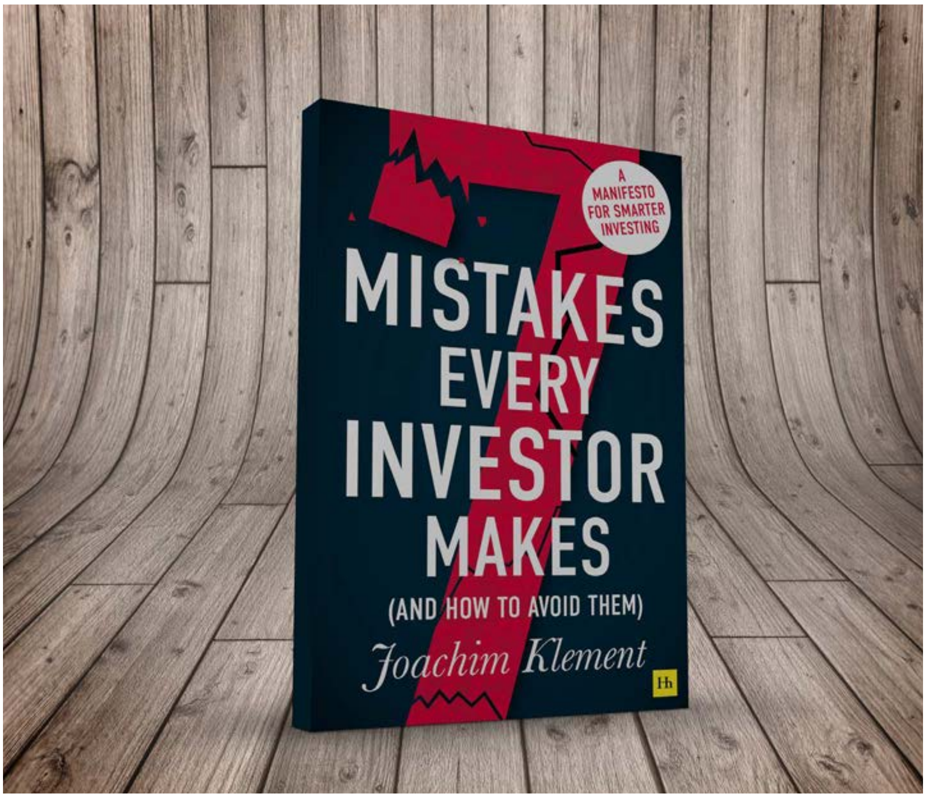
This leads us onto our second book, the snappily-titled *Seven Mistakes Every Investor Makes* by Joachim Klement, head of stock market strategy at investment bank Liberum.

Like Montier, Klement makes good use of academic studies and insights from famous investors to reinforce his arguments. It's worth adding that he has also run discretionary portfolios for investors so he understands investors' thinking.

The first mistake we make is to try to forecast company earnings, multiples and so on. We would be better off basing our assumptions on historic data rather than trying to guess the future.

Another mistake is to take a short-term view and let ourselves be swayed by information flow. There are two reasons for this. First, short-term returns are more volatile and are more likely to show a loss. Second, over-trading seriously eats into your returns.

The best approach is to 'sit there and do nothing', rather than constantly check on your



investments. This is the approach that Terry Smith, founder of Fundsmith, takes: buy good companies and do nothing.

A third mistake is to not consider both sides of a story. This isn't so much tying to 'kill' an investment as weighing up supply and demand for example.

All too often we focus just on the potential demand for a company's products and we overlook the supply side of the equation.

All in all, Klement is an excellent guide, drawing on his own experience – including his mistakes – together with those of well-known investors to underline his seven points. The book is full of useful suggestions and each chapter has a summary of the main takeaways as well as a list of references for further reading.

THE 'WOW' MOMENT

The third book in our review is *The Art of Execution* by asset manager and allocator Lee Freeman-Shor, which looks at the mistakes professional fund managers make and how to avoid them.

Over seven years, Freeman-Shor allocated an average of $50m to 45 of the world's top investors with instructions only to invest in their 10 best ideas.

In theory, the plan couldn't fail because these were the 'some of the greatest minds at work in the markets today' says Freeman-Shor.

His 'wow' moment came when he analysed each trade and found that most of their investments actually *lost* him money.

Even more surprising, some of these 'legendary investors' were only successful one third of the time. Yet all of them made money, because their winning trades made more than their losers.

WINNERS AND LOSERS

The book looks at how some professional investors handle loss-making trades, including their most common mistakes, and how other investors are able to maximise their returns on both losing and winning trades.

Freeman-Shor categorises the serial loss-makers as 'Rabbits', caught in the dilemma of capital impairment. When faced with losses they fail to adapt, neither cutting their positions nor adding to them.

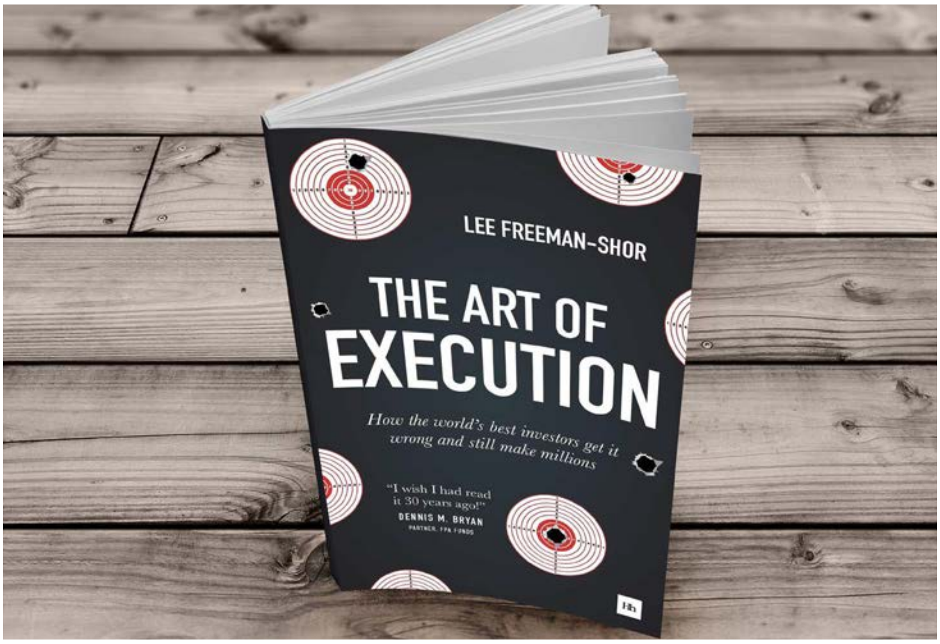
To quote Charles Darwin: 'It is not the strongest of the species which survive, nor the most intelligent, but the one most responsive to change.'

'Assassins', on the other hand, set themselves a time or price limit at the time of investing and are ruthless in killing off losing positions, while 'Hunters' stalk their losers and slowly build their positions to capitalise on a rebound. Each has a strict set of rules which does away with emotion.

When it comes to winning trades, the 'Connoisseur' strategy of taking small profits along the way generates far better returns than the hit-and-run approach of most investors.

Again, having a strict rule-set, which Freeman-Shor calls 'The Winner's Checklist', is essential in maximising gains.

With dozens of real-life examples of winning and losing trades, in stocks as varied as **BAT (BATS)**, **Experian (EXPN)**, Raymarine, **Royal Bank of Scotland (RBS)**, Shoprite and **Spirax-Sarco (SPX)**, *The Art of Execution* is engaging, highly readable and most importantly a genuinely valuable book for those looking to become better investors.



By **Ian Conway**
Senior Reporter

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PUBLICATION DATES ARE LIKELY TO CHANGE DURING THE CORONAVIRUS CRISIS

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