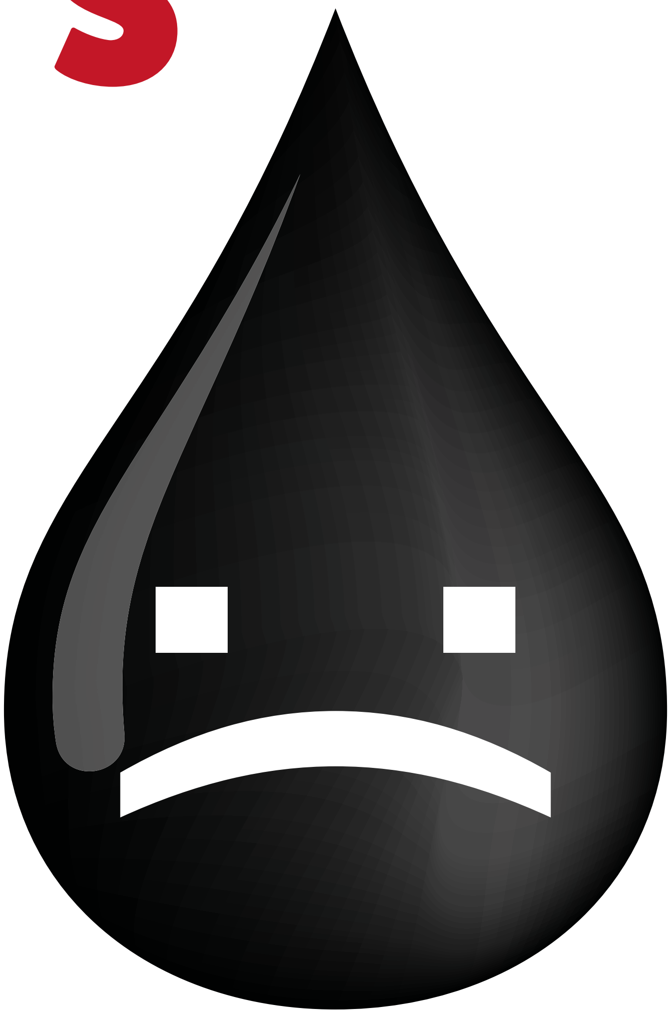
STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 22 / ISSUE 17 / 30 APRIL 2020 / £4.49

SHARES

WE MAKE INVESTING EASIER

NOBODY WANTS OIL



HOW THE COMMODITY HAS GONE FROM BOOM TO BUST

PLUS

BP AND OTHER STOCKS **STILL PAYING DIVIDENDS**

WHY MARKETS ARE UP DESPITE LOTS OF BAD NEWS

LOCKDOWN PROVIDES **BOOST TO GAMING SECTOR**

How return to work plans influence share prices

The housebuilding and construction industries look set to pick up tools again

The forward-looking nature of the stock market means that investors are looking to future events which will act as markers for how they might feel about buying or selling shares.

We saw this with data on coronavirus cases in China and signs that the growth in death rates had peaked. Even though there were still people dying from the virus, a reduction in the growth rates was enough to make investors more confident about life returning to normal, reigniting appetite for equities.

Similar analysis has been applied to Europe and the market is certainly looking closely at the US 'curve' for coronavirus deaths.

The next event in the coronavirus cycle, from the markets' perspective, is when and how businesses will resume activity. Many large cities in China are now getting back to work, albeit with the widespread use of masks acting as a reminder that the virus could still be lingering.

In Europe, millions of people are expected to return to work in Italy on 4 May and its procedures and execution, as well as lessons learned from China, could act as a blueprint for how the UK manages to get back on its feet.

The markets will be watching every move and achievements or failures will have a direct read-across to sentiment towards stocks.

Investors are eager to work out how companies' earnings will be impacted and which ones stand the best chance of recovering. They will be buying and selling ahead of these companies telling us how they've done.

We're already seeing signs of UK businesses slowly getting back to work, albeit in a limited capacity. Housebuilders **Persimmon (PSN)** and **Vistry (VTY)** were back on site at start of this week and **Taylor Wimpey (TW.)** says it is ready to pick up tools next week.

Shares in Taylor Wimpey, in particular, have sparked back to life on this news. Equally as important, is that it continued to sell homes during the lockdown and that there have been minimal cancellations.

Renewed activity among housebuilders is likely to stir interest in other parts of the construction sector such as brick makers and so we wouldn't be surprised to see shares start to move up in that sector as investors speculate about near-term revenue generation.

Along the same theme, one of the worst performing sectors in the past week, at the time of writing, has been travel and leisure. That's because we're hearing from many commentators about how the removal of the lockdown is unlikely to see everyone rush back to pubs and restaurants immediately, even though we would all appreciate a drink and a nice meal.

Numerous surveys about people's intentions would suggest the nation is very nervous about social interaction once lockdown restrictions are removed. Leisure outlets could be off limits to the public until much later in the year and foreign holidays could be off limits until 2021, hence why investors seem to be going off the broader travel and leisure sector (despite it enjoying a recovery rally a few weeks ago).

Sentiment towards sectors (good and bad) could easily change on the slightest bit of coronavirus-related news, so it does pay to keep abreast of what's happening.

By **Daniel Coatsworth** Editor

Contents

VIEWING SHARES AS A PDF? CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

NEWS

BP joins group of FTSE 100 firms maintaining dividends

Despite the fallout from the coronavirus pandemic, some firms are still committed to shareholder payouts

Oil and gas giant **BP (BP.)** has shown there are still some dividend payers on the FTSE 100 after committing to a $2bn payout despite reporting a $4.37bn loss for the first three months of 2020.

Increasing numbers of companies are cutting dividends as more and more look to preserve cash to survive the economic fallout from the coronavirus pandemic, but there still some like BP which have committed to keeping their shareholder payouts intact.

The BP payout, which came despite the massive loss and its debt levels rising above target to $51.4bn, follows the likes of other FTSE 100 names of late such as **Unilever (ULVR)**, **Croda International (CRDA)** and **Pearson (PSON)** which have kept their dividends intact.

Chemicals company Croda said it has for many years operated a 'prudent' dividend distribution policy, which has allowed it to continue to pay its 50.5p per share final dividend, around £65m in total, for 2019.

Education publisher Pearson pointed to its 'strong financial position' with a 'healthy' balance sheet, low net debt and good liquidity as it increased its 2019 final dividend by 4% to 19.5p per share.

It's not just large cap companies which are able to keep paying. Notably AIM-quoted self-storage play **Lok'n Store (LOK:AIM)** announced a 9% increase in its first half dividend to 4p.

With trading resilient for now, its cost of debt falling to 1.7% and the company 'very conservatively financed' CEO Andrew Jacobs told *Shares* he can see little reason to cut the dividend at the moment.

So far 37 FTSE 100 firms have announced cuts to their dividends, with only 16 currently committed to keeping theirs intact.

EXAMPLES OF FTSE 100 COMPANIES STILL PAYING DIVIDENDS

Company	Total value of latest dividend
BP	£1.7bn
Legal & General	£754m
Diageo	£702m
Tesco	£636m
SSE	£582m
Anglo American	£518m
CRH	£437m
Unilever	£424m
Cola-Cola Hellenic Bottling Company	£208m
London Stock Exchange Group	£175m

Source: Shares, AJ Bell, Company Reports

According to Canaccord Genuity Wealth Management's senior equity analyst Simon McGarry, in a worst case scenario up to 50% of the UK's dividend income might disappear in the first half of 2020.

But he highlights five sectors where dividends look relatively resilient. These are mining, the tobacco sector which has seen resilient demand and boasts highly cash generative companies, food retailers like supermarkets, oil companies committed to their dividends like BP and **Royal Dutch Shell (RDSB)**, and fund managers such as **Schroders (SDR)** and **Standard Life Aberdeen (SLA)** which have strong balance sheets and excess capital.

Relisted microchip designers could revamp UK tech sector

Global champions ARM and Imagination may both return to public markets

The threadbare UK semiconductors sector could be revitalised if the mooted stock market return of Imagination Technologies and ARM goes to plan.

This would be good news for the diversity and health of the UK stock market.

There are reports that former FTSE 100 UK chip designs champion ARM is seeking to rejoin the stock market, with chief executive Simon Segars apparently looking at a 2023 IPO.

ARM's controversial £24.3bn takeover by Japan's Softbank in 2016 was widely condemned by critics, including Hermann Hauser, one of the company's founders who helped spin it out of the old Acorn Computers in 1990.

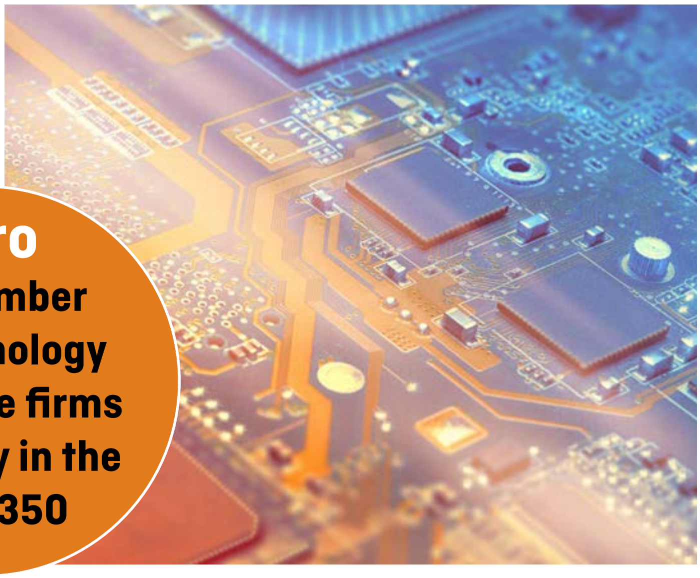
Lord Myners, the former City minister, called the takeover an example of shareholders selling out for a high price but with little regard for the long-term health of British industry.

Cambridge-based ARM designs microchips used in most smartphones, including premium handsets made by Apple and Samsung. In 2015, more than 15bn microchips built to ARM designs were sold, reportedly more than US rival Intel had sold in its history.

Canyon Bridge, the China-backed private equity owner of Imagination Technologies, has confirmed plans to relist the UK-based graphics chip designer, possibly in London, although New York and Hong Kong stock markets are also under consideration.

Returning Hertfordshire-based Imagination Technologies to public ownership now seems to be the best option for Canyon Bridge. The UK Government has reportedly raised concerns over a potential move to China after recent attempts to appoint new directors to Imagination's board.

'The objective would be an IPO over the next few years,' Ray Bingham, Imagination's interim chief executive told the *Financial Times*.



Zero
the number of technology hardware firms currently in the FTSE 350

Reports have since emerged that Imagination and Canyon Bridge have held talks with the UK's Culture Minister to discuss their ongoing commitment to stay Britain-based.

Imagination emerged as one of the world's leading designers of graphics chips, or graphics processing units (GPU). They are used to run the slick visuals on millions of smartphones, computers and gaming consoles.

But it was bought out in 2017 by Canyon Bridge in a £550m deal after the chip designer lost its contract to supply its main customer Apple. The latter wanted to develop more of its graphics technology in-house, leading shares in Imagination to plunge 70%.

The sales of ARM and Imagination were the first of several takeovers of UK chip designers. Bluetooth connectivity developer CSR and audio chip designer Wolfson Microelectronics also fell into overseas hands, leaving the UK stock market's technology hardware sector stripped bare.

Byotrol sees huge surge in demand and Tristel could be next

There is a step-change in the awareness of infection prevention and cleanliness

Shares in specialist infection prevention and control firm **Byotrol (BYOT:AIM)** are up 360% so far in 2020, reflecting the exceptional demand seen for the company's technologies in response to the coronavirus pandemic.

The company recently (27 April) reported a trading update for the financial year to 31 March 2020, and confirmed it is benefiting from a secular shift towards the heightened importance of infection prevention.

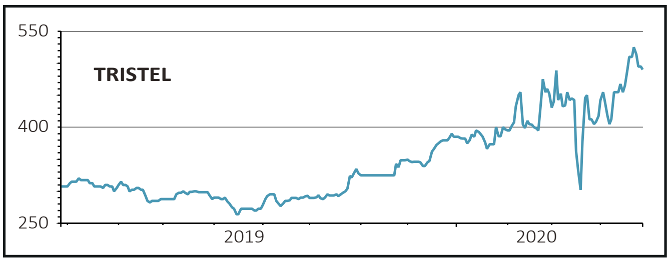
Audited revenues are expected to be around £6m and exclude a material new contract which will now fall into the 2021 financial year. Earnings before interest, tax, depreciation and amortisation (EBITDA) are expected to be £0.25m.

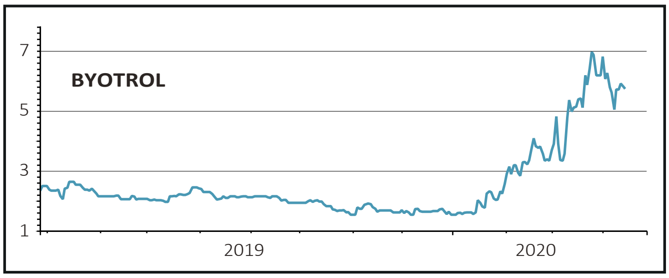
The new financial year started with an order book greater than £2m, compared with £1.7m in March and historically around £0.3m. Supply chain constraints are restricting additional orders being delivered, but these are expected to ease over the coming months.

The order book excludes licences, royalties and technical deals such as the recently signed (20 March) deal with fellow contamination prevention company **Tristel (TSTL:AIM)**.

The 10-year collaboration will result in Byotrol receiving a combination of supply payments as well as royalty and success-based fees.

The company will supply a concentrated disinfectant targeted for use in hospitals as well as a long-lasting anti-microbial product, to be dispensed through Tristel's dedicated hospital surface disinfection portfolio.





Perhaps more importantly, the two firms will work together to bring a new-to-market product which combines Tristel's proprietary sporicidal chemistry with Byotrol's long-lasting anti-microbial technology. The unique product will speedily eliminate spores on application and will then remain active for eight hours after application.

Byotrol has spent a number of years developing technologies which have been approved for use in both the US through Federal Protection Agency and Europe through Biocidal products regulation. The firm is now focused on monetising these technologies.

The management team are working on a number of long-term supply contracts and licences including Byotrol24, a multi-purpose disinfectant for the US market.

Contamination specialist peer Tristel is due release a trading update towards the end of June. Given continuing momentum experienced by Byotrol it wouldn't be surprising to see Tristel benefiting from the same high demand and possibly beating estimates.

According to Refinitiv data the company is expected to report full-year revenues up 15% to £30m and 30% growth in EBITDA to £9.2m. Tristel is a running *Great Idea in Shares*.

Will dividends and share buybacks ever return to historic levels?

A careful rebalancing may be needed once corporate cash flows return to normal

The widespread destruction of dividend income has been one of the biggest changes to investors this year aside from the significant upheaval to how we live our lives as result of the coronavirus pandemic.

The big question is whether the lack of dividends among a large number of companies is a temporary issue or a sign that shareholder returns may be dramatically different for some time to come.

In the first three months of 2020 a staggering £25.4bn of dividends have been put on ice or scrapped altogether, with an extra £23.9bn still at risk, according to the quarterly dividend monitor run by Link Asset Services.

Some of these dividend cuts are a consequence of sensible liquidity management by companies given the scale of uncertainty ahead, while others are due to regulatory pressures. UK banks fall into this latter category, where payouts worth £13.9bn, according to Link, have been axed for now. The plunge in demand for oil and various commodities means the need for cuts across these sectors remains hotly disputed in the markets.

EMERGING DEBATE

Beyond the short-term there is a greater debate about what shape shareholder returns will take once the pandemic has fizzled out. Will dividends and corporate share buybacks resume as before or will there be a 'new normal' in shareholder distributions?

'Those companies that maintain their dividend and/or share buyback commitments during downturns is usually a sign of confidence in the resilience of their operating business models,' says investment bank UBS.

In theory, once cash flows have recovered from the coronavirus crisis companies should be able

> 'We are not convinced (shareholder) distributions will return in the same fashion as and when (or if) cash becomes available'
> **– UBS**

DIVIDEND ARE STRATEGIC, BUYBACKS ARE TACTICAL

'The fundamental difference between dividends and buybacks is that dividends are strategic, whereas buybacks are tactical. Thus, share buybacks can be considered to be more about short-run behaviours such as share price movements and tax windfalls, with fewer broad-based tangible benefits such as pension income from dividends,' writes UBS.

'Exceptions might include companies with very transparent buyback policies, or – for example – tech companies buying back stock to offset higher share counts as a result of stock-based compensation.

'Pre-Covid, share buybacks were already under scrutiny, particularly in light of widespread issues around inequality. Given the significant social and societal issues raised by the crisis, companies could be under pressure to avoid restarting repurchases – especially where they are seen to have meaningful exposure to ESG "S" issues (eg, wages, benefits) – until those issues are addressed.

'Certain types of dividends might be viewed similarly. For example, dividends distributed within pyramid structures (giving the lion's share to e.g. founder owners) or dividend tactics used to optimise tax (already in the firing line of regulators) as well as dividend strategies designed to favour particular stakeholders could be at risk post-Covid.'

to return to practices of the past. But there is the possibility that this may become untenable from now on and so it is not possible to simply predict that things will return to normal.

'We are not convinced distributions will return in the same fashion as and when (or if) cash becomes available,' it adds.

Under a worst case scenario, dividends for the whole of 2020 could more than halve from the £98.5bn paid out in 2019, according to Link's calculations.

'All the "at-risk" dividends would be cancelled as well. This would leave payouts this year at £48bn, down 51% compared to 2019,' says Link.

Were that to happen it would mean the UK dividend yield dropping to 2% for the current calendar year, way below the 3.5% average for the past 30 years.

Fortunately, the worst-case scenario is not the most likely one. If only the 'confirmed and expected cancellations' take place, £71.9bn of dividends will be paid in 2020.

NEW RETURNS LANDSCAPE

UBS suggests it will be difficult for things to return to normal and that the dividend landscape may be permanently changed.

One key reason is that Covid-19 has cast a more intense spotlight on the 'social' element of ESG (environmental, social and governance), with an increased focus on inequality.

'While it is too early to know if attitudes have changed permanently, closer scrutiny of social issues may make it more difficult to continue with (or restart) distributions in line with prior practice,' UBS says.

Higher taxes are one possibility. It says: 'Previously governments might have wanted, but felt unable, to increase tax revenues to address things like climate change, inequality or economic crises. This may bring extraordinary government responses in fiscal policy.'

Distributions will resume for many companies, and while UBS sees dividends as potentially less controversial than buybacks, making any kind of payout to shareholders will understandably have to demonstrate that they will not put long-term corporate health at risk, and fall within the remit of any potential new regulatory or social framework.


FROM GENERATION FLARES TO GENERATION FLAT WHITE
THE INVESTMENT TRUST FOR EVERY GENERATION
At Alliance Trust, we pride ourselves on not following trends. We aim to invest in companies that will offer long-term growth for the future, to help you reach your investment goals. An approach that has paid dividends every year for over half a century. So whether you were a flower child or a nineties kid, we're a trust that aims to look good for years to come.
Find out more alliancetrust.co.uk/generations
When investing, your capital is at risk. The value of your investment may rise or fall as a result of market fluctuations and you might get back less than you invested.
Alliance Trust PLC is listed on the London Stock Exchange and is registered in Scotland No SC1731. Registered office, River Court, 5 West Victoria Dock Road, Dundee DD1 3JT. Alliance Trust PLC gives no financial or investment advice.
Alliance Trust
INVESTING FOR GENERATIONS

Travis Perkins can capitalise on homebuilding restart

The trade-focused business has good momentum and solid foundations

Builders' merchants such as **Travis Perkins (TPK)** could be among the first businesses to return to something approaching 'normal' levels of activity in the next few months.

Having been shut to all but essential services since mid-March as construction work ground to a halt across the country, depots are reopening as homebuilders such as **Persimmon (PSN)**, **Taylor Wimpey (TW.)** and **Vistry (VTY)** restart operations in the next few weeks.

The homebuilders themselves had been maintaining a low level of activity by mainly making sure partly-constructed houses were watertight and finishing those close to completion.

However, all continued to see demand for new homes meaning their contracted forward sales remain healthy, which is positive news for suppliers.

Travis Perkins came into the year with positive momentum in its core merchanting business which outperformed the market last year with 3.3% like-for-like sales growth, divided equally between price and volume increases.

Toolstation delivered an outstanding performance, increasing like-for-like revenues by 16.3% and overall sales by 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 consumer-facing Wickes DIY retail business, which was slated for demerger next quarter as the group wants to focus wholly on trade customers, generated close to 10% revenue growth thanks to new decorating and landscaping ranges.

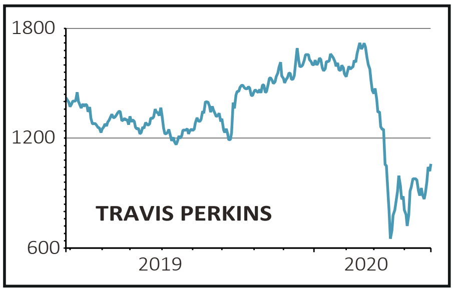
Trading in the period to 20 March was in line with management forecasts, although in the first three weeks of April group revenues dropped by around two thirds.

While Government restrictions on house buying may have temporarily paused the upswing in activity which followed the general election, the market is still chronically short of new housing and indications are that demand and prices remain firm.

As well as the reactivation of the new-build sector, the repair, maintenance and installation (RMI) market should pick up later in the year as social distancing measures are relaxed.

With £125m of cash, the cancellation of the 2019 final dividend, a saving on business rates of £90m, undrawn bank facilities of £400m and no immediate funding needs, the firm's finances are in good shape.

We would expect dividends to be restored once normal trading resumes.



By **Ian Conway**
Senior Reporter

Buy ITV shares as advertising activity could soon pick up

The value on offer is compelling with TV viewing figures up during the crisis

Shares in free-to-air broadcaster **ITV (ITV)** are trading at levels last seen in the early part of the 2010s when the company was starting its turnaround under former CEO Adam Crozier.

This price weakness creates a good opportunity to buy a unique business which will be closely tied to a recovery from the coronavirus crisis when it comes.

According to UBS estimates the company is now trading on a price-to-earnings ratio for 2020 of nine times compared with 11 times in January – and that's despite significant cuts to the earnings per share forecasts in the interim.

These cuts reflect an extremely challenging picture for ITV with TV advertising revenue collapsing and the production business basically on hiatus due to measures taken to contain the pandemic.

However, there is one silver lining to this cloud for ITV as people are watching more TV during the lockdown.

Sky recently published figures showing the highest ever TV viewing among its customers at an extra 72 minutes per day, with younger age groups in particular returning to a medium which they had been abandoning prior to the pandemic.

ITV ➚ BUY
(ITV) 76p

Market Cap: £3.1bn

People's interest in current affairs has surged, with ITV News' audience figures up more than 50%. This increase in viewership should help reinforce the credentials of the medium as a way for advertisers to reach a broad spread of the UK population.

TV advertising could be an important medium for businesses once they believe the time is right to encourage consumers to spend money on their products and services as we emerge from the current period of economic stasis.

A 27 April article in *The Guardian* cited ITV's commercial boss Kelly Williams as saying there were signs some companies were already starting to spend again on advertising.

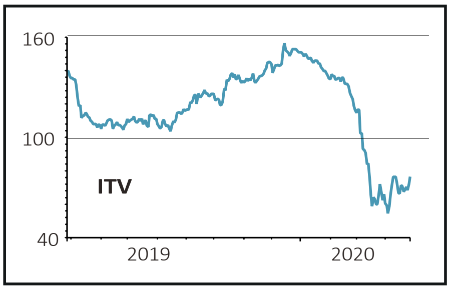
Given the lack of near-term visibility, there are undoubtedly risks associated with investing in ITV.

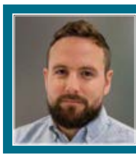
Advertising rates are likely to be lower than normal. You also have to consider the risk that many companies cannot produce new commercials under lockdown conditions and existing

advertisements are unsuitable if they show people in crowds.

Having put dividends on hold, ITV is in a better financial position to weather the storm. The company has £150m of unrestricted cash, a £630m credit facility expiring in 2023 (of which £100m is currently drawn) and an additional undrawn £300m facility. It has no bond repayments until September 2022 and no covenants on its existing facilities.

The next news from ITV is likely to be a first quarter trading update on 6 May.





By **Tom Sieber**
Deputy Editor

COMPUTACENTER

(CCC) £14.90

Gain to date: 23.1%

Original entry point:

Buy at £12.10, 2 May 2019

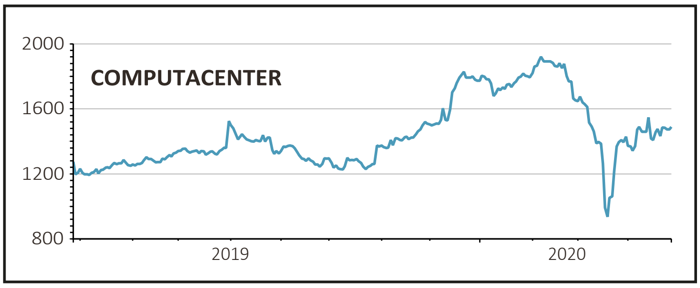
IT re-selling outfit **Computacenter (CCC)** is navigating the coronavirus crisis well so far and we remain positive on the shares.

A first quarter update (23 Apr) saw the company pull its dividend but otherwise it was very reassuring with 2020 expectations unchanged (albeit with the caveat that the second-half is hard to predict) and first-half profit expected to be in line or slightly ahead year-on-year. In summary trading has not been as bad as feared.

The company enjoyed a boost to demand from the increase in working from home, reflecting its status as a provider of PCs, laptops and smartphones as well as software advice to millions of end-users and as a trusted partner for thousands of organisations.

On the flip-side the company saw demand drop off in the industrial sector and in Europe around 10% of its staff are on various state-backed furlough schemes.

In a sign of sound corporate governance, the company's CEO Mike Norris and finance director Tony Conophy have announced they will reduce their salary to zero through to the end of June to show solidarity with their furloughed employees.



SHARES SAYS:

While the end to a proud dividend track record is disappointing we remain fans of this resilient business.

LUCECO

(LUCE) 94p

WINNING STOCKS FOR 2020

Loss to date: 8.6%

Original entry point:

Buy at 116p, 19 December 2019

WE MAY BE out of pocket on our 'buy' call on electronic components firm **Luceco (LUCE)** but the shares have doubled from their bottom at the height of the coronavirus-inspired market sell-off.

Sentiment was helped by full-year results on 23 April which revealed a 470% increase in pre-tax profit.

Luceco supplies a wide range of electrical and wiring products to retail and wholesale markets, encompassing industries like construction, housebuilding and housing maintenance.

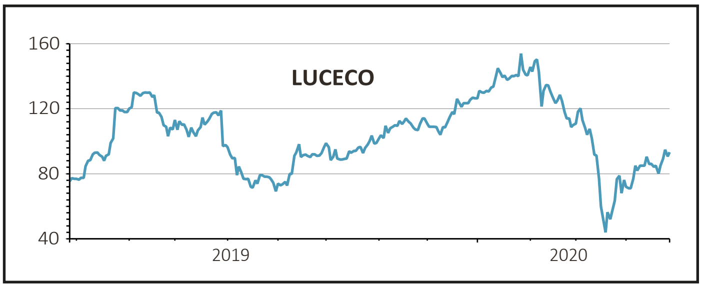
The company was hit early amid the panic over the virus given the feared impact on its supply chain in China.

However Luceco confirmed alongside its full-year numbers that the disruption to product supply had gone by the end of the first quarter.

The issue now is likely to be demand. Signs of construction activity picking up as lockdown conditions are eased offer some reasons for hope.

The company has also moved to secure its financial position by loosening banking covenants and applying for the COVID Corporate Finance Facility.

Numis analyst Kevin Fogarty says: 'Even on our lowered forecasts, the implemented cost mitigation initiatives and additional financial headroom implies that Luceco has sufficient liquidity to move beyond the darkest hour and capture the upside of any medium-term demand recovery.'



SHARES SAYS:

Still a buy.

AVAST

(AVST) 450.6p

Gain to date: 50.8%

Original entry point:

Buy at 298.8p, 16 May 2019

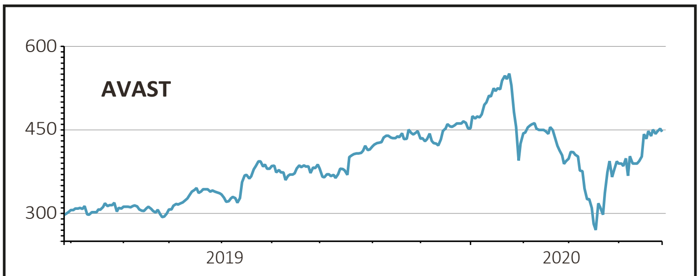
TO CALL THE recent rally for IT security firm **Avast (AVST)** pronounced would be an understatement. The stock has jumped by two thirds in a month since hitting pandemic panic lows of 270.6p in March, sparking a big paper profit recovery for our original investment pitch.

Driving that rapid recovery is a market mood buoyed by an impressively stable first quarter, with a 3.1% increase in adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) to $121.2m.

That was on $213.1m revenue, 6.5% ahead once the defunct Jumpshot business is excluded and currency oscillations are flattened out, implying 56.9% margins, up on 2019's 55.3%. It also committed to pay the $0.10 per share 2019 final dividend.

Avast saw freemium-to-paid conversion rates and billings accelerate for its desktop solutions as customers increasingly worked from home, although weaker advertising rates came as no surprise. Mobile security sales are still very slow though.

A robust balance sheet is comfortably within banking covenants, with more than $1bn of borrowing capacity available.



SHARES SAYS:

Avast remains a robust business but slow mobile progress continues to grate. This is a sensible time to crystallise those paper profits into hard cash. Sell.

KAINOS

(KNOS) 677p

WINNING STOCKS FOR 2020

Loss to date: 5.7%

Original entry point:

Buy at 718p, 19 December 2019

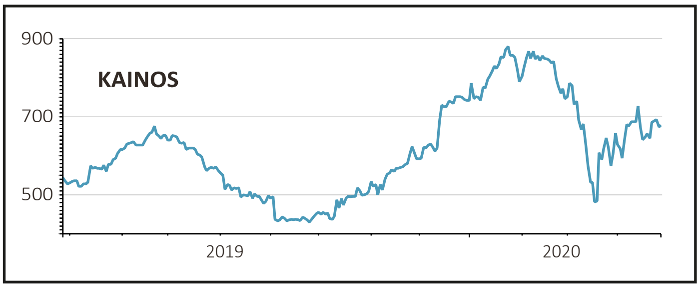
GIVEN A PRIMARILY UK Government and healthcare customer base, **Kainos (KNOS)** is in a considerably better position than other more enterprise-focused IT consultancy businesses.

But while public sector digital transformation budgets haven't necessarily been cut, it will be interesting to see if the type of projects are changing, from big-ticket digital transformation infrastructure to more immediate enabling solutions around remote working, security, data optimisation and cloud delivery.

What that might mean for the company's previously racing and lucrative Workday practice remains to be seen, although there has been precious little negative evidence to date.

Sensible cost and cash saving measures have been put in place, including axing the final dividend (saving £8m) and the executive team taking pay cuts of between 50% and 100% this year. The balance sheet remains bulletproof with more than £40m of cash and no debt.

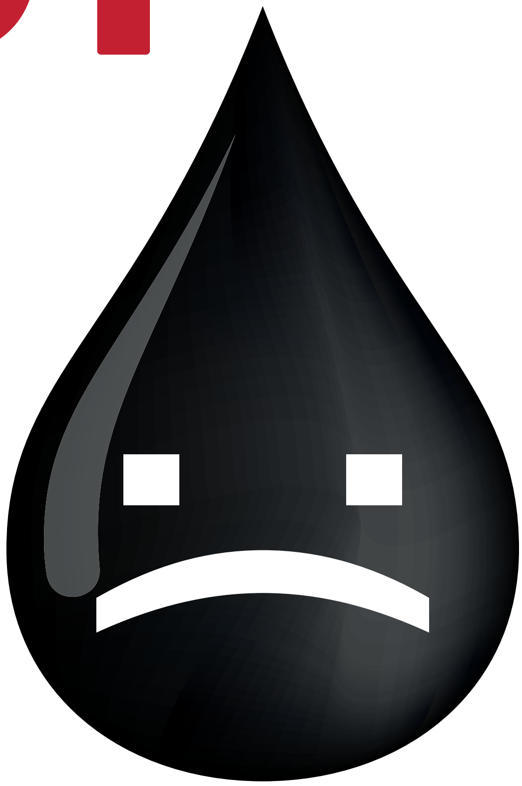
We should get information about future earnings expectations when 2020 results are published on 26 May.



SHARES SAYS:

Analysts widely see Kainos as being well positioned for the recovery when it comes. We agree, so keep buying the shares.

NOBODY WANTS OIL

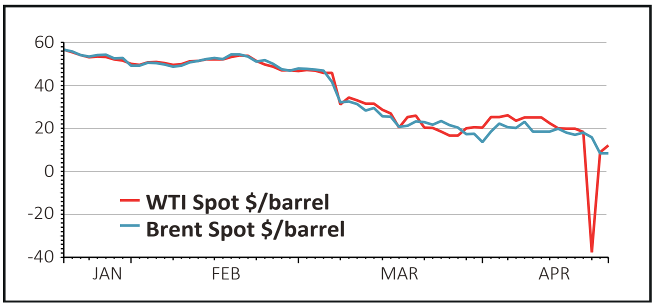


HOW THE COMMODITY HAS GONE FROM BOOM TO BUST

WHAT HAPPENS NEXT IN THE OIL MARKET?

It's very strange times for the oil market and there could be further trouble ahead. Unless demand picks up dramatically in the coming weeks then mid to late May could see a repeat of the recent scenario where people had to pay others to take oil off their hands.

In this article we will explain what is going on with oil, what it reveals about the economy and what it means for wider markets. We also look at how oil companies can and will respond and potential ways of playing an eventual rebound in the commodity.



By **Tom Sieber** Deputy Editor

SUB-ZERO OIL

A confluence of factors led to the extraordinary situation of 20 April where the price of West Texas Intermediate (WTI) oil for delivery in the month of May fell as low as minus $40.32 a barrel, becoming negative for the first time in history.

Some of them were technical and linked to the futures market but at its root the weakness in the oil market is a question of demand, supply and storage capacity.

The level of demand destruction in the oil market is greater than has been seen in living memory. Within a matter of weeks people have stopped flying, they aren't driving nearly as much and many businesses have been closed down as countries take measures to contain the coronavirus outbreak.

If oil is the 'engine' of the world economy, then, in effect, it is not needed as the world economy is off the road.

On the supply side the situation wasn't helped by the seemingly kamikaze decision by Saudi Arabia to launch a price war with Russia after a 4 March meeting of oil producers' cartel OPEC+ (the plus effectively being Russia) failed to agree on production cuts.

The cuts eventually agreed at a meeting of the organisation in early April probably didn't go far enough to rectify the situation.

FUTURES SHOCK

Like the majority of commodities, oil is traded in futures contracts. The purchase or sale of a barrel of oil is agreed at a fixed price for delivery on a specified date.

WTI was already trading in a state of 'super-contango' (see box-out for an explanation of contango and backwardation) but then the situation became truly remarkable.

With the May futures contract for WTI expiring on 21 April, no takers for physical delivery, a growing supply glut putting pressure on key infrastructure, most notably the delivery hub in Cushing, Oklahoma which is heading for capacity, and traders looking to sell or roll over contracts to the next month, there was a perfect storm which drove the extreme market action which saw sub-zero prices for the first time.

There are reasons why this won't happen with Brent which is the main pricing benchmark outside the US. Brent futures contracts are settled in cash rather than with physical delivery of a barrel of oil so a fall into negative pricing is not on the cards.

There is also more waterborne storage and not the same pressure point on a single infrastructure hub as there is with WTI. However, at the time of writing Brent was still close to historic lows itself at just over $19 per barrel.

The wildcard with the oil market is geopolitical risk and traders were served notice of this fact with oil prices bouncing back a bit on sabre rattling from the Trump administration against Iran on 22 April.

There is certainly a chance of a more meaningful recovery in oil prices when demand returns.

There are two points to consider. First, demand destruction won't be repaired overnight as the coronavirus crisis is likely to have a lasting impact on global growth and there will be lots of oil in storage to absorb.

Equally, OPEC and its affiliates are cutting output, while drilling will stop and production is likely to be reduced or stopped by independent operators as it becomes uneconomic to continue pumping oil out of the ground. Bringing this production back on stream is not as simple as turning on a tap.

Looking further out, the cancellation and deferment of projects which would otherwise have been greenlit will further affect the supply/demand balance in future years.

Although the world is attempting to move away from oil, that change will happen somewhat in

A significant number of oil tankers in Singapore

WHAT IS CONTANGO AND BACKWARDATION?

Contango refers to the market condition whereby the price of a futures contract in a commodity is trading above the spot price (which is the current market price).

The resulting futures 'curve' would be upward-sloping with prices for dates further in the future trading at ever higher levels.

Backwardation describes the reverse – where futures are trading below the spot price – often because of short-term tightness in the underlying market. Arguably contango is a more natural state as it reflects costs of ownership such as storage and insurance.

slow motion.

Ron Lansdell, the chief operating officer of UK small cap oil explorer **Jersey Oil & Gas (JOG:AIM)**, says: 'Oil is forecast by most reliable commentators to play a large part in the energy mix for the next 25 to 30 years. That's true in developed economies but particularly true for developing nations.'

WHAT DOES THE OIL PRICE SLUMP SAY ABOUT THE ECONOMY AND MEAN FOR MARKETS?

The extreme price action in the oil market is sounding a clear alarm bell on the global economy. Oil is central to areas like transportation, power generation and plastics production, to name but three of its end uses. As such its fortunes are closely tied to movements in GDP.

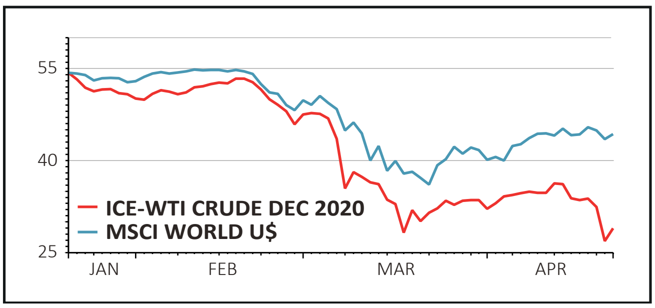
It was notable how oil seemed to factor in a coronavirus-inspired deterioration before stocks did earlier in 2020.

So is the renewed weakness in crude a new warning signal that equity investors are too complacent about the impact of the outbreak and the measures taken to contain it?

The fact that the economy is in a period of stasis is not new news. Spot oil prices (covering immediate delivery of crude) and those for futures contracts which are close to expiry have to factor in the supply and demand picture as it is today.

Stock markets act as a discounting mechanism which reflect a perception of the future ahead of time. Shares will be valued and priced according to this perception until reality – in the form of a trading update, set of results, macro-economic development or some other piece of news – intervenes to change the market's view.

There is no reason for investors to get too concerned about backward-looking economic data which is inevitably going to be horrible at present, the focus is on how and how quickly economic activity can recover. That explains the attention



given to the number of infections and deaths from the outbreak and progress towards vaccines and treatments which can fight it.

If we look at contracts for oil covering delivery around the end of the year they are still at very depressed levels. As a very *crude* comparison the December 2020 contract for WTI is trading at half its level at the start of 2020 while the MSCI World stock market index is down by around 16% year-to-date.

This suggests it would be naïve to expect smooth sailing for equities from here on out. Assuming you have a long-term investment horizon then the best thing to do is to stay invested, rather than trying to time the market, and to do what you can to prepare for further volatility.

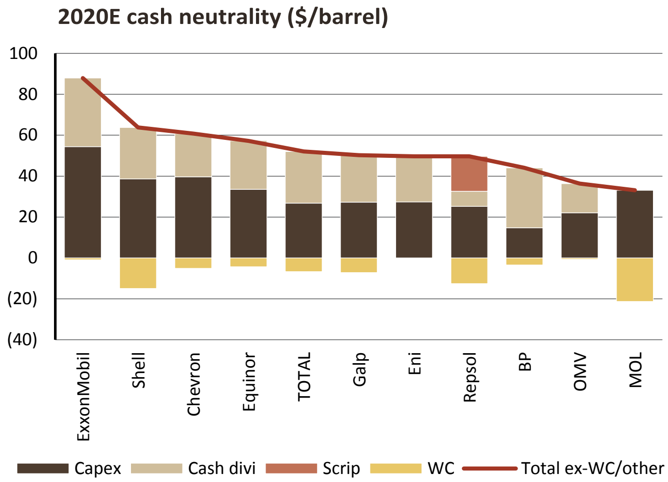
Another factor to consider is the risk of contagion as bad debts in the oil and gas sector affect the banks. This may be a particular issue in the US, where institutions have lent heavily to the domestic shale producers.

Many of these could go out of business if oil prices remain depressed, though US president Donald Trump may come to the rescue with his promise of financial aid to the industry.

WHAT DOES THE PRICE CRASH MEAN FOR THE OIL INDUSTRY?

Already under pressure thanks to the so-called energy transition as the world looks to wean itself off fossil fuels and move towards renewables and other alternatives, the oil industry faces a huge challenge in the near term as it contends with the collapse in oil prices.

The chart shows UBS's estimates on a price



Source: Company data, UBS estimates
WC = working capital

threshold for cash neutrality at the big global major oil companies. This is the price at which they would have the same amount of money coming in as is going out the door. The average is $53 per barrel – a long way north of the current level.

In previous oil price crashes, which didn't see this level of demand destruction, the integrated oil firms had something in their locker which they don't this time.

As well as developing and producing reserves of oil and gas, integrated firms also have big refining and marketing arms. These parts of the business acted as a natural hedge against falling prices as cheaper crude boosted refining margins. Today there is very little demand for refined products.

We are beginning to get an indication of how this is impacting the big oil firms. Italian outfit ENI reported a 94% drop in profit for the first quarter – and that's despite the fact the full impact of coronavirus wasn't really felt until March.

WHAT WILL HAPPEN TO DIVIDENDS?

Norway's Equinor became the first oil major to cut its dividend where its proposed quarterly payout was slashed by 67% quarter-on-quarter. **BP (BP.)** said on 28 April that it would keep paying dividends. **Royal Dutch Shell (RDSB)** was scheduled to report on the day this article was published (30 April), including news on its dividend intentions.

Morgan Stanley believes oil sector dividend cuts between 30% and 50% are necessary to keep gearing levels at around 30%. UBS thinks there is a chance firms will hold off for now.

Previewing the current first quarter results season for oil companies, it commented: 'An area of keen interest will be dividends and how strongly companies defend their payout. There are pros and cons but we see limited benefit in immediate capitulation and longer term value in defending the commitment even if policy is revisited at a later, calmer, date.'

If the heavyweights of the oil sector are wrestling with the pressures of the current situation then this is nothing compared with the challenge facing some of their smaller counterparts – particularly those with substantial debts.

Canaccord Genuity analyst Charlie Sharp believes a trio of firms in this positon – **Premier Oil (PMO)**, **EnQuest (ENQ)** and **Tullow Oil (TLW)** – enjoy little if any equity value at an oil price below $45 per barrel.

Tullow managed to improve its situation with the $575m cash sale of its Ugandan assets (23 Apr) but Sharp still estimates the company will be weighed down by a $2.15bn net debt position by the end of 2020.

Asia Pacific-focused **Jadestone Energy (JADE:AIM)** is in a much stronger shape with net cash of $72.1m as at 31 March. The company has hedged 50% of its oil from its flagship Montara field in Australia at a floor price of $68.45 per barrel through to September and capital expenditure has been cut by 80%.

Tight control of operating costs mean that for the remainder of the year it expects to be breakeven on a free cash flow basis at an oil price of $27 per barrel.

Chief executive Paul Blakeley tells *Shares* the company hopes to take a further $3 to $4 per barrel off that number by driving down operating costs. Notably Jadestone still plans to pay its first dividend later in 2020 at a targeted range of $7.5m to $12.5m.

Blakeley says: 'We're assuming, to be prudent, this is going to go beyond this year and into next. We're going to do the right thing for the business and are managing our programme accordingly.

'I don't think we'll be on complete lockdown but it will take global industrial recovery at least that amount of time and more to get back to normal. Whatever normal is.'

If Jadestone's strong financial position and low operating costs shield it somewhat from oil price volatility, **SDX Energy (SDX:AIM)** benefits from having significant gas production on long-term sales agreements.

In Egypt this output goes straight to the state energy firm, where sales have continued as normal. However, in Morocco customers are in lockdown and aren't taking the company's gas.

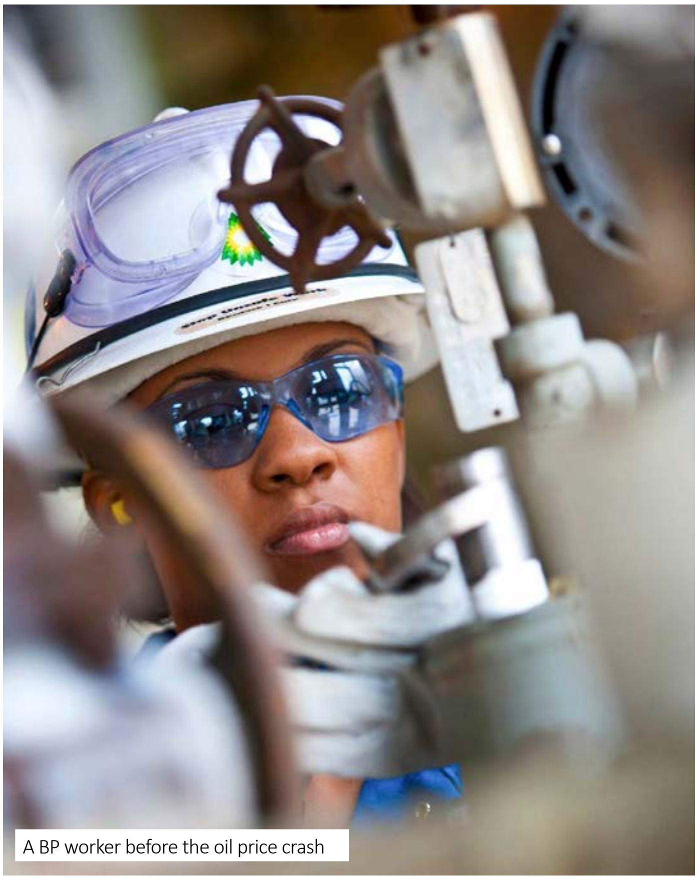
SDX does also have some oil production and CEO Mark Reid says: 'We've budgeted at $30 per barrel for 2020 and $35 for 2021. It could bounce down below that or bounce slightly above that, but we're not going to be at $60 next year.'

From an operational point of view *Shares*' conversations with oil companies suggest they are better placed than some to contend with the coronavirus. Teams are often highly dispersed and used to working from remote locations so social distancing is less of a challenge than it is in other industries.

HOW TO PLAY THE OIL MARKET

While oil could experience further weakness in the short-term there is reason to believe the commodity will trade at a higher level than it does today when the world emerges from lockdown.

We must stress that the commodities market is very high-risk, volatile and trying to time the rebound in the oil price is not something most investors should consider.



A BP worker before the oil price crash

However, if you understand the risks involved and have money you can afford to lose then there are various ways to get exposure to the oil market.

We suggest you only consider the shares of financially-strong oil producers and diversified investment funds.

At 42p, half its level at the start of 2020, we think Jadestone Energy looks well positioned and its strong balance sheet means it could take advantage of opportunities that arise from the current dislocation in the market.

We recently added Royal Dutch Shell to our *Great Ideas* list on the basis of its double-digit dividend yield and an exceptional track record of not cutting the dividend since the Second World War. We will find out today (30 Apr) if this record is being maintained.

As we write the shares are up modestly since we said to buy and we still think there is further recovery potential, particularly if Shell continues to be a good source of income in a dividend-starved world. If the dividend is cut then we will reassess our view on the stock.

WHAT ABOUT ETFS?

It is worth noting that several exchange-traded funds offering exposure to oil have been affected by the recent extreme volatility in this market.

A large US product – United States Oil ETF – actually contributed to oil's recent journey into negative territory as it was one of the largest holders of the WTI May 2020 contract. It couldn't take delivery of the crude these futures implied so dumped them in the open market.

It has subsequently had to adapt the way the product is structured using separate derivative vehicles which mean its ability to track the oil price effectively could be further constrained.

In a sign of the stress on oil-related ETFs, several leveraged products (offering two or three times the movement in underlying oil prices) have recently delisted from the stock market.

There are also technical reasons why oil-related ETFs don't always track the underlying price over a long period. For example, **WisdomTree WTI Crude Oil (CRUD)**, rose 79% from the bottom of the previous oil crash in January 2016 through to a high point in 2018. However, WTI itself was up more than 150% over the same period.

MITON GLOBAL OPPORTUNITIES

Premier Miton
INVESTORS

Miton Global Opportunities plc (MIGO) seeks to find pricing anomalies and special situations within the investment trust market. In the most basic terms, we look to buy good assets for as little as seventy pence in the pound.

Investment trust shares are openly traded on the stock market. Their shares change hands at a level decided by the balance of supply and demand, not the official valuation of the underlying portfolio. Recent market turmoil has caused some investment trust discounts to widen to an extent not seen since the Great Financial Crisis. The wheat is yet to be sorted from the chaff post the sell-off, this has created some excellent deep value opportunities. Where we often say we can buy a pound's worth of assets for as little as seventy pence, in recent weeks we have had opportunities to buy into trusts on even bigger discounts.

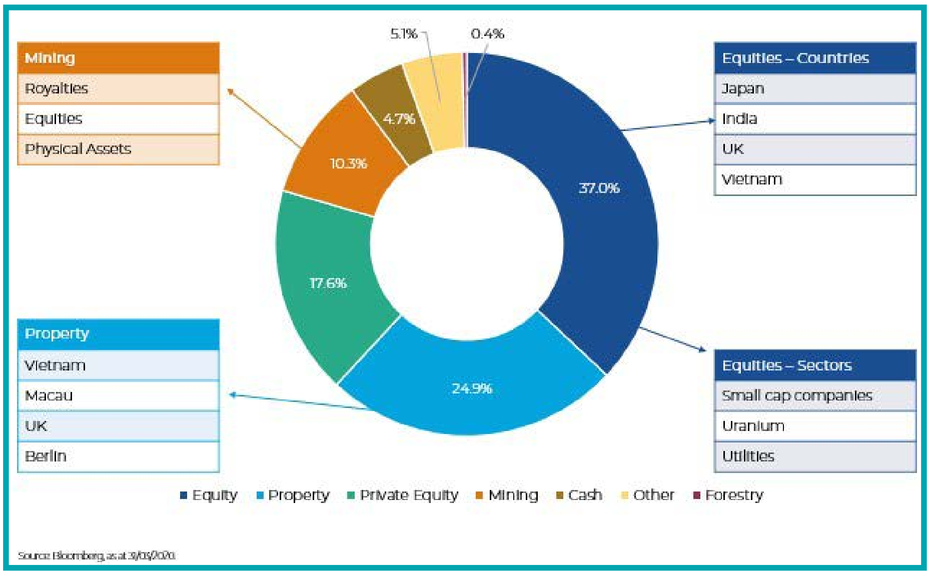
The investment trust world is a home for alternative asset classes allowing MIGO to create greater diversification than could be achieved merely using equities. The trust has exposure to a number of difference asset classes, such as shipping, precious metal royalties and property. There was little discrimination during the sell-off and the market malaise saw investment trusts owning alternative classes marked down in unison with equity trusts. This despite the fact that many of those alternative trusts own underlying portfolios with very different return profiles that will not necessarily be hit as hard by the pandemic shutdown.

We have taken advantage of this disruption to buy into trusts such as Yellowcake, which owns physical uranium, and Tufton Oceanic, which owns a fleet of ships. Closures of uranium mines due to the pandemic has meant the rising price of uranium has increased the value of Yellowcake's portfolio but the share price has fallen, thereby creating a great value opportunity for us to start our holding. In shipping, the recent plunge in oil prices has increased the value of tankers. The ships that Tufton typically owns are chartered for the next three years, so they have plenty of secure income. Therefore, the trust can continue to pay a well-covered dividend. We expect income focused investors to find their way to the investment trust market in their search for yield, boosting the share prices of trusts which pay useful dividends.

MIGO owns a portfolio of trusts trading on a wide discount. When discounts narrow as well as the underlying portfolio's assets rising, this creates a powerful combination for potential returns.

Fund Manager:
Nick Greenwood

Assistant Fund Manager:
Charlotte Cuthbertson

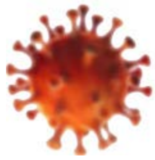


RISKS

The value of investments can fall as well as rise and investors may not get back the full amount invested. Forecasts are not reliable indicators of future returns Investments in emerging markets are potentially higher risk than those in established markets. For trusts investing globally, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment. The trust may borrow money to invest in further investments, this is known as gearing. Gearing will increase returns if the value of the investments purchased increase in value by more than the cost of borrowing, or reduce returns if they fail to do so.

RUSS MOULD
AJ Bell Investment Director

What does coronavirus mean for markets long-term?



There seem to be three likely scenarios as investors react to the pandemic

In last week's edition this column looked at the potential near-term implications for financial markets of the coronavirus outbreak.

At the time of writing, markets are still trying to rally and are being encouraged to do so by the combination of ongoing monetary and fiscal support from central banks and governments and a gradual move in some nations to ending the lockdown.

Italy, the initial epicentre of the European outbreak, is relaxing its rules step-by-step and Milan's MIB-30 index continues to make steady progress as a result. The last reported number of new daily cases across Italy was 2,324 and the number of fatalities was 260, compared to the peak figures of 6,155 on 21 March and 919 on 30 March.

It is to be hoped that the trend remains down, for humanitarian reasons above all others and if so investors might have to start thinking about not just the shape and nature of the economic recovery in the short-term but the longer-term implications of the outbreak and how the authorities, companies and individuals responded.

TRIO OF OPTIONS

From this column's perspective, looking at the outbreak solely through the narrow prism of investment, there are three crude alternatives: everything goes on as before; a few things change; or there are radical shifts in behaviour which could have profound implications for markets and asset valuations.

Option 1: Business carries on as before and firms behave in the same way as before. The world recovered quickly after 9/11 in 2001 and it was not that long after the financial crisis of 2007-09 that merger and acquisition activity, stock buybacks, adjusted earnings numbers and other forms of financial engineering were back in fashion and WeWork was being valued at $48bn by its backers.

Moreover, private individuals who had been frightened about losing their money on a bank run in 2008 were, barely a decade later, at various stages paying $900 a share for Tesla and nearly $20,000 for a Bitcoin.

To paraphrase JK Galbraith, such is the extreme brevity of the financial memory and it may be that risk appetite recovers quickly and markets carry on as before, especially as central banks seem happy to backstop them with bounteous liquidity in the form of the quantitative easing (QE) and zero interest rate policy (ZIRP) schemes.

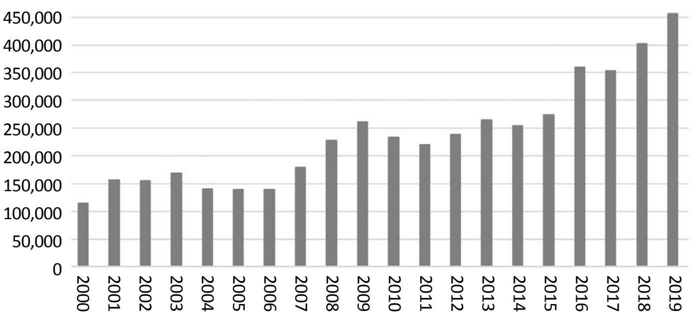
Option 2: Company behaviour does alter in some ways. One change that is perfectly possible is companies abandon theories of efficient balance sheets and the primacy of return on equity and focus instead on cash. Just like any private individual listening to their financial adviser, their first step is to build a cash buffer and then sit on it, so that six to 12 months' operational and capital expenses can be met whatever the circumstances.

Debt and leverage to goose returns go out of fashion. Managers breathe more easily but shareholders get lower profits, lower returns on

RUSS MOULD
AJ Bell Investment Director

equity and less dividend growth, perhaps with the result that dividends do not return to 2019's levels for some time.

FTSE 100 DEBT HAS MUSHROOMED SINCE 2007-09'S CRISIS



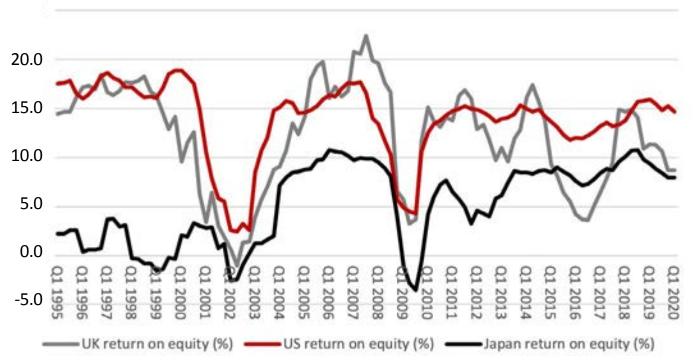
Total FTSE 100 net debt, excluding banks (£ billion)

Source: Company accounts, Bloomberg

The logical corollary of all of this is that equities suffer a de-rating. Even as profits recover (the E in the price-to-earnings ratio), the multiple that investors are prepared to pay (the P) goes down and equity returns are crimped.

Such fallow periods are not unprecedented. Japan turned away from borrowing toward saving after its bubble burst in 1989 and the Nikkei 225 stock index stands at barely half of where it did at its peak as a result. The irony then is that Japanese returns on equity (now on the way back up under Abenomics) meet American and British ones on the way down.

WILL US AND UK RETURNS ON EQUITY SAG TO JAPANESE LEVELS (AND HIT EQUITY VALUATIONS AS A RESULT?)



Source: Bloomberg, based on MSCI indices

Option 3: Things change a lot. Under the first two scenarios, stock markets may rise or at least flip-flop to give traders something to tackle according to whether central banks are applying or vainly trying to withdraw stimulus.

It is tempting to think Japan's experiences cannot be repeated but the FTSE 100 traded at 6,930 in December 1999 and it stands near 5,800 today, after some 21 years' huffing and puffing. Such a world also places an even greater emphasis on dividends as part of equities' total return.

The third scenario is more serious still. Government is providing support to many firms through multiple schemes. It may exact a price in the future. Banks and insurers have already been asked by regulators to cancel dividends and buyback programmes. Taxes could rise.

Firms that are perceived by the public/politicians/both to have 'behaved badly' may find themselves under greater scrutiny. Reputations could be tarnished in the current, extraordinary environment, fairly or unfairly, with long-term repercussions for how firms are perceived by customers, to the potential detriment of revenues and business levels – and ultimately the value of their stock.

Greater regulatory or state-intervention is generally anathema to financial markets (rightly or wrongly) and firms should do their bit to avoid this by focusing on the needs of staff and customers (stakeholders) more than ever. If they can do that well, the rest may well take care of itself over time.

Shareholder value comes from firms providing a service or product to customers and doing it well, to the satisfaction of those customers. Shareholder value is not an end or aim in its own right. It is impossible to create any value if you have no (happy) customers, as current circumstances show.

But happy customers served by happy staff is the dream ticket that leads to profits, cash flow and ultimately the dividends which could prove even more valuable if the West really is about to get some Japan-style returns for a while.

Why are markets up despite all the bad news?

A combination of hope, faith and stimulus is keeping stock prices afloat

'Why is it that stock markets have not fallen further, given that the financial effects of the coronavirus are forecast to be so much greater than those of the 2008 recession, unemployment rates are forecast to be so high and dividend support is disappearing? Can it simply be attributed to government bailouts?'
Dave Hopes

Ian Conway, Senior Reporter replies

While government bailouts are undoubtedly part of the reason why stocks seem to have stopped falling after the initial (albeit punishing) slump. Investor psychology is another major factor.

The stock market's interpretation of economic data is often counterintuitive. Sometimes bad news is just plain bad news, but at other times bad news can be spun as good news because it means central banks will lower interest rates and bail equity investors out.

Faced with an unprecedented slowdown in global economic activity, investors – like economists and politicians – have absolutely no idea how bad the crisis could get.

When we see poor economic news, like an unprecedented surge in jobs claims or a collapse in industrial activity, the numbers are so bad it's hard to fully grasp them.

The fact that the data is backward-looking also means we can console ourselves that at some point the news will get better, therefore we should be looking forward and 'buying the dip' so that we don't miss out on a market recovery.

Therefore, surprise at the sudden increase in US jobless claims – 26m in the last four weeks – is tempered by the expectation that the people who have been laid off will get another job as soon as the crisis is over.

Similarly, the cataclysmic fall in preliminary US, UK and European purchasing managers' surveys for April – simultaneously the worst readings on record and the sharpest ever monthly contraction in global activity – can be overlooked on the basis that the readings 'have to' improve in the next few months.

Even if that were the case, it will take much longer for actual levels of economic activity to recover, and to reach anywhere close to pre-crisis levels could take years rather than months.

BLIND FAITH

Where corporate earnings and dividends are concerned, another unfortunate tendency is for investors to 'look across' the divide, writing off this year's numbers as an anomaly and betting on a juicy recovery next year.

Analysts are typically reluctant to cut their earnings forecasts, and without any clear guidance from companies they have begun with baby steps, shaving their estimates by 10% here and 10% there so as not to look like outliers.

In the US, analysts have been somewhat more aggressive, with 12-month forward estimates for large cap S&P 500 company earnings having been cut by 17% on average in the last month. Small caps have seen a 30% cut on the basis that they are less well-capitalised and therefore more vulnerable in a downturn.

At the time of writing, the S&P 500 index had rallied nearly 30% from its March low, meaning investors are paying significantly more than they were a month ago for less earnings this year.

Having been told that they need to invest for the long term, investors are doing just that, looking forward to a big recovery in earnings once the US economy begins to reopen. The new buzz phrase is 'exit strategy'.

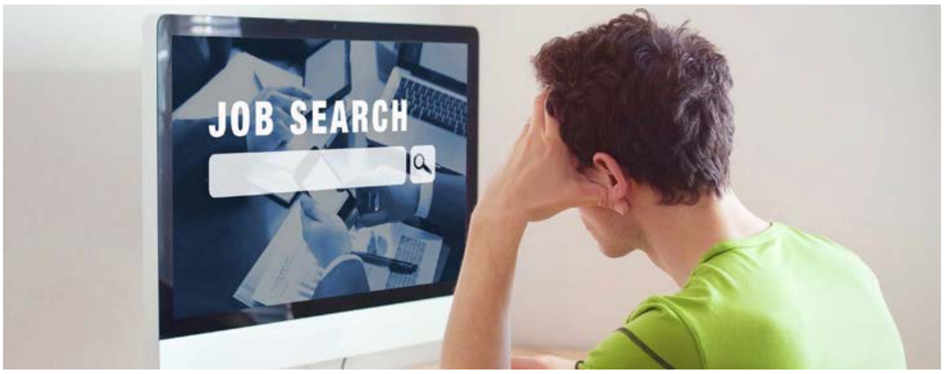
GOVERNMENT BACKSTOPS

There is no doubt that government and central bank intervention has boosted the markets.

The US government has committed $2.9trn of aid to the economy, the equivalent of 15% of US GDP, while the Federal Reserve has committed over $2trn in lending. Fed chairman Jerome Powell vowed that the bank 'would never run out of ammunition'.

In unleashing an unprecedented wave of stimulus, buying low-grade corporate bonds to stop them falling into 'junk' territory, the world's central banks haven't just thrown out the rule book, they have jumped up and down on it, set it on fire and then thrown it out.

They are also buying 'junk' bonds and bond ETFs, and there are suggestions that they could even buy equity stakes in struggling firms in 'strategic' industries such as energy and defence. As *Bloomberg* reporter Katherine Greifeld puts it, this is 'a lesson in how risk works in a vacuum'.



MORAL HAZARD

These central bank actions have worked in distracting investors from the worst economic outlook in decades, but by sending a message to the markets that risk assets are effectively backstopped, they have reinforced the 'bailout culture' and created enormous moral hazard.

Neil Birrell, chief investment officer at Premier Miton Investors, says: 'At the moment it's difficult to know just how bad an employment number, or any other economic data point needs to be to hurt markets.

'As bad as it sounds, another 4.4m initial jobless claims in the US is not it, whilst the government and the Fed are standing firm. Policy versus reality, for now policy is winning.'

In other words, investors could keep ignoring bad economic data for months until it looks as though conditions are normalising and government support is providing a 'cushion' to the economy and to corporate earnings.

However, it's worth bearing in mind that in the 2000-01 bursting of the tech bubble, and in the financial crisis of 2007-08, markets eventually looked through all the stimuli and the backstops and carried on falling.

DO YOU HAVE ANY QUESTIONS ABOUT MARKETS AND INVESTING?

Let us know if we can help explain what's going on with certain activity in the markets, how markets work or anything else to do with investing. We'll do our best to answer your question in a future edition of *Shares*.

Email editorial@sharesmagazine.co.uk with 'Reader question' in the subject line.

Please note, we only provide information and we do not provide financial advice. We cannot comment on individual stocks, bonds, investment trusts, ETFs or funds. If you're unsure please consult a suitably qualified financial adviser.

HOME ISOLATION PROVIDES HUGE BOOST TO THE GAMING SECTOR

By **Martin Gamble** Senior Reporter

Enforced lockdowns across the globe have turbocharged the number of people playing video games.

In this article we will look at the main domestic and global players in this market and identify two ways to gain exposure to this emerging space.

DEMAND SHOWING UP IN PLATFORMS

The demand for gaming is showing up in online marketplaces like Steam which has seen a 40% increase in players to 25m since March.

US telecom carrier Verizon reported a 115% increase in data traffic and research firm Earnest Research reported that spending on games in the US was 75% higher in the week ending 1 April.

In the UK sales of gaming consoles spiked 127% in the week beginning 9 March and 250% the following week. In the week before lockdown, digital sales of games shot-up 67% week-on-week while Italy, Spain and France saw even bigger spikes.

While undoubtedly driven by the increased number of people working at home with extra time on their hands, video games have more of a social and interactive element relative to watching Netflix for example.

In fact the World Health Organisation (WHO) recently endorsed video gaming as part of the campaign 'Play Apart Together' to encourage adherence to social distancing measures. Mental health workers have highlighted the potential long-term damaging effects of extended periods of total isolation.

People like watching other individuals and playing games isn't any different, as seen in the data gathered by Twitch, one of the largest streaming platforms, which showed an amazing 73% increase in viewers watching others play games since February 2020.

E-SPORTS KICKING REAL SPORTS INTO TOUCH

Another knock-on effect of social isolation has been the cancellation of many popular global sporting events, depriving people of one of their most prized social activities. This void is being

GAMING FIRMS OUTPERFORM

Company	Price	Market Cap	Share price gain/loss (%) year-to-date
Team17	566p	£700m	51.5
Frontier Developments	£14.20	£535m	12.2
Activision Blizzard	$66.2	$51.5bn	11.9
Ubisoft Entertaiment	€66.40	€8.4bn	11.4
Electronic Arts	$116	$33.3bn	7.3
Sumo	175p	£287m	-0.8
Codemasters	273p	£409m	-2.7
Average			**13.0**
FTSE 350			**-24.8**

Source: Sharepad, Stockopedia. Data as at 24 April 2020

increasingly filled by growth in e-sports, where around 400m people around the globe pay to watch other players compete against each other.

One recent example is the launch of the inaugural ePremier League Invitational tournament which featured fans and professional players alike competing against each other.

The prize fund will be donated to the NHS under the #PlayersTogether initiative, advising viewers to stay at home and observe social distancing. The semi-finals and final were broadcast live on Sky Sports Premier League.

Another example is Formula 1 where the first eight races have been postponed or more likely cancelled due to the global pandemic.

Racing game developer **Codemasters (CDM:AIM)** would normally benefit from the release of a new version of its F1 game during the season, so in its absence the PC version of the official F1 2019 PC video is being used in the new F1 Esports Virtual Grand Prix series, featuring several current F1 drivers.

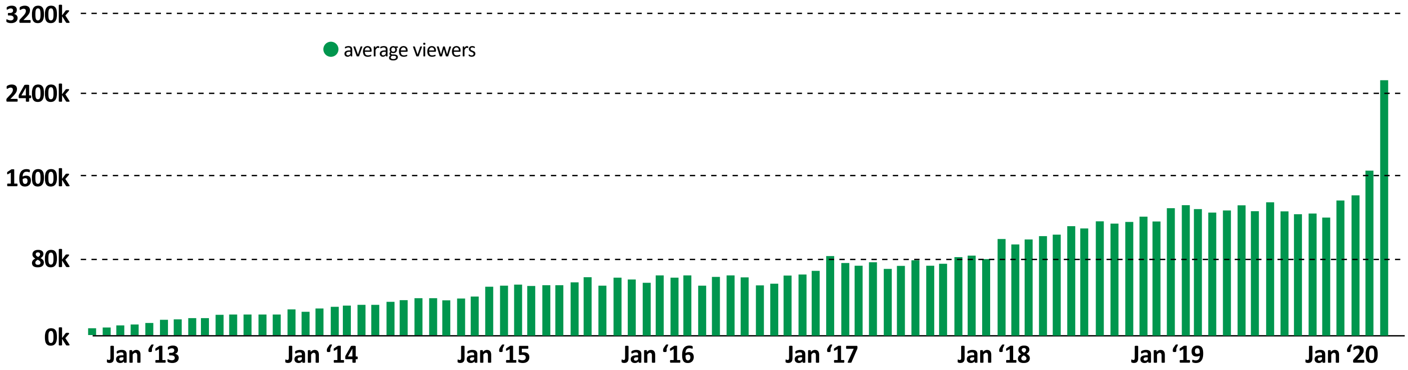
FOCUS ON FORTNITE

While e-sports is a fledgling and growing business the biggest prize pots and audiences have traditionally been seen in the bestselling video games.

Fortnite, which was released in 2017, is a survival game where the winner is the last man standing The game, which is 50% owned by Tim Sweeney, chief executive of Epic Games and 40% by Chinese online games company Tencent, pays out over $100m in annual prizes.

Reportedly one player who went by the name

CONCURRENT VIEWERS USING TWITCH LIVE STREAMING PLATFORM FOR GAMERS



Source: Twitch

of Tyler 'Ninja' Blevins made $1m a month playing *Fortnite* and streaming it on Twitch.

Broker Peel Hunt believes the unexpected boost to the gaming industry is simply accelerating already established long-term trends and it will therefore maintain the momentum post lockdown.

While the lockdown has presented some logistical challenges for the gaming sector, all companies have transitioned to home working without too much disruption.

In its full-year results announcement on 21 April developer **Sumo Digital (SUMO:AIM)** said it had experienced some delays around larger projects of 150 people or more, but expected to see this normalise later in the year.

Chief executive Carl Cavers told *Shares* there were early signs that working from home may actually be increasing productivity. Sumo tends to attract creative people for whom working is more of a passion and lifestyle choice.

SECTOR OUTPERFORMANCE

Shares in most gaming companies have shown gains this year against a fall of 25% in the FTSE 350. We have included overseas shares to underscore the global nature of the outperformance. The UK's exposure to gaming is relatively small in a global context, with much larger firms in the rest of the world.

UK gaming firms are specialist developers working within a specific niche. Codemasters specialises in racing games, **Frontier Developments (FDEV:AIM)** makes games which are based on simulated worlds, such as *Jurassic Park*, and **Team 17 (TM17:AIM)** develops tactical games such as its iconic *Worms* where players combat other teams of worms or the computer.

Sheffield-based Sumo Digital has collaborated on big franchises such as *Hitman*, *F1 2009* and *Mortal Kombat 11* as well as working with the world's biggest publishers including Microsoft and Sony.

However, the firm is instrumental in the creation as well as the development of games and this is reflected in the fact that it owns the intellectual property attached to around a third of its revenue.

The company's latest launch was a co-owned game with Apple called *Spyder*, which is available on the Apple Arcade platform.

On 21 April the company reported that revenue grew 27% to £49m and gross profit was 30% higher at £24m. However, the company has been one of the poorest stock market performers against peers this year.

SUCCESS STORIES

Frontier Developments was founded by industry veteran David Braben in 1984 and today publishes its own innovative games across different genres. *Planet Zoo* was released in November 2019 and sold the most units on PC of any of Frontier's games during an equivalent time period, crossing 500,000 units in early December.

The game allows players to build their own individual zoo and populate them with animals that think and feel while exploring the world that

players create for them.

At the interim stage the company stuck to its prior full-year revenue guidance of £65m to £73m.

Independent Wakefield-based developer and publisher Team17 has released over 90 premium games over 30 years and won many awards in collaboration with partners.

The shares have been by far the best performer in the gaming sector so far in 2020, up 52% and since floating on the AIM market almost two years ago are up an impressive 338%.

It reported another very strong performance in 2019 with revenues up 43% to £61.8m and operating profits up 52% to £19m. The company is debt-free and had cash equivalents of £41.9m at year-end with the board saying they expect the group to be 'significantly' cash generative in 2020.

The benefit of increased demand for games has more than offset any disruption impact from home working and the company is confident it has the technology and systems in place to allow working from anywhere.

While management has impressed since coming to the stock market, faultless execution is perhaps already reflected in the share rating with a forward price-to-earnings (PE) ratio of 40.

OVERSEAS PLAYERS

California-based Electronic Arts is one of the largest gaming companies in the world with annual revenue of $5.2bn, publisher of the largest sports video game, *FIFA* soccer, as well as *NBA Live*.

On 16 April the company said it had witnessed a dramatic increase in viewership for e-sports broadcasts while its *Apex Legends* game saw two-to-three times more viewers in the first quarter of 2020.

Over two thirds of its revenue is generated through digital channels and via live streaming, providing more visibility compared with new game releases. The digital format also attracts higher margins as the distribution costs are negligible. The company is due to report full-year results to 31 March 2020 in early May.

With a world-renowned portfolio of brands such as *Assassin's Creed* and *Tom Clancy's Ghost Recon*, French company Ubisoft Entertainment is expected to generate revenue of $1.5bn in the year to 31 March 2020.

The company has one of the biggest in-house creative capabilities in the industry with more than 80 teams and 40 development studios. In October the company slashed profit targets after delaying the release of five major titles.

Following the lockdown the company announced a month-long series of offers, trials and discounts in an effort to encourage people to stay at home.

Activision Blizzard owns renowned franchises such as *Call of Duty*, *Candy Crush* and *World of Warcraft*. It reported better than expected revenue and profit in 2019 with sales of $6.4bn and operating profit of $1.6bn.

Growing popularity of *Call of Duty* mobile and e-sports initiatives are expected to provide good near-term revenue momentum.

TWO INVESTMENTS TO MAKE

Codemasters 273P BUY

CODEMASTERS IS THE biggest laggard in the peer group, down 3% year-to-date, and trades on the cheapest PE ratio of around 15.4 times. This doesn't reflect the strong pipeline of game releases over the next two years.

The acquisition of Slightly Mad Studios in November 2019 will potentially provide a 30% uplift to earnings and is based on the release of two games for launch in 2021; a new mobile game *Project CARS GO* and a game based on an existing, successful franchise.

Beyond this two further game releases are expected in 2023. In addition, the Formula 1 franchise was extended to 2025, de-risking the business.

The delayed release of the *Fast and Furious Crossroads* game, based on the film franchise is expected to be launched sometime in the first quarter of 2021. The movie franchise has grossed $5.1bn across the eight movies in the series.

Meanwhile, the virus pandemic has given extra momentum to digital revenues as physical outlets have closed which provides margin uplift to the company. The strong growth profile seems to be at odds with the valuation of the shares.

VanEck Vectors Video Gaming and eSports ETF (ESGB) £20.90 BUY

FOR THOSE INVESTORS with a lower risk appetite, it may be worth looking to get a broader sector exposure through an exchange traded fund (ETF). This will also provide exposure to adjacent businesses such as console makers and other technology businesses.

The aim of VanEck ETF is to replicate the performance of the MVIS Global Video Gaming and eSports Index as precisely as possible in terms of price and yield, before costs and fees.

The index tracks the performance of the global video game and e-sports industry and is designed to offer a 'pure play' concept, only including companies that generate more than 50% of their revenue from video games and/or e-sports.

The $133m ETF is invested in large cap gaming stocks across the world with 53% invested in Asia and 37% in the US. The largest holdings include computer graphics processors maker NVIDIA (8%), Chinese entertainment platform company Tencent (7.7%) and Japanese console maker Nintendo (7%).

What's the risk of holding more than £85,000 cash in a SIPP?

Our resident pensions expert explains the compensation rules

I have more than £85,000 in cash in my SIPP at the moment. What is the risk of holding money beyond this threshold?
A reader

Tom Selby
AJ Bell
Senior Analyst says:

The reason £85,000 is an important number for savers and investors to remember is because it is one of the key Financial Services Compensation Scheme (FSCS) limits.

The FSCS is a lifeboat fund which pays out compensation if the institution with whom you are saving or investing goes bust or you receive bad advice from a regulated adviser. There are different levels of compensation in place depending on the type of investment you make.

Anyone who buys an annuity – a product which pays a guaranteed income for life – from an insurer which subsequently fails, for example, enjoys 100% protection.

Cash in a bank, building society or held within a SIPP is covered up to £85,000, as are investments held with an FCA-regulated fund manager.

There are a couple of key things you should be aware of in relation to this compensation limit.

Firstly, the £85,000 relates to the financial institution which ultimately holds your money. So if you invest in a fund via a platform such as AJ Bell Youinvest, then you will be covered up to £85,000 if the fund manager goes bust.

Equally, if you hold cash in your SIPP then the £85,000 relates to the bank or building society your SIPP provider uses. Just ask your provider if you are unsure.

Note in relation to deposits held with banks or building societies that some institutions will have multiple brands. The compensation limit only applies per institution, so it's worth checking which institution is behind whoever you bank with to ensure you are maximising your compensation entitlement.

Secondly, FSCS protection only applies where you invest either via a regulated adviser or in a regulated product. Anyone who invests outside these parameters is therefore at risk of not being covered in the event something goes wrong.

WHAT HAPPENS IF MY PLATFORM GOES BUST?

If the platform you are using goes bust this shouldn't result in you losing money. This is because a platform doesn't usually hold your money directly – instead it provides a low-cost route for you to invest in things like stocks, funds and bonds.

It is these end investments where the FSCS protection kicks in (provided they are eligible), which is one of the reasons doing due diligence is so important.

However, where your platform goes bust and there are problems finding your end investments the costs of doing this could potentially come from your funds. This is unlikely to be the case when you're investing in regulated funds, but it's still worth checking the financial stability of your provider, including how much cash they hold in reserve.

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.

Your coronavirus finance questions answered

How to get help with mortgage payments, rent, loans, insurance and much more

A large chunk of the nation has seen their finances impacted by coronavirus, with more expected to be hit in the coming weeks and months. But what can you do during this time and where can you find help? We answer the big questions in this article.

MY INCOME HAS FALLEN, CAN I STOP PAYING MY MORTGAGE?

Banks have to offer a three-month mortgage holiday – which means stopping your monthly payments for up to three months – if you've been affected by coronavirus. You can read more about the pros and cons and how it works here.

MY INCOME HAS FALLEN, CAN I STOP PAYING RENT?

You need to talk to your landlord, don't just stop paying your rent. Landlords who have a mortgage can take a payment holiday from it and then pass on that monthly saving to you (see next question below). But you'll need to negotiate how you pay back that money over the remainder of your contract – or extend your contract and pay it back over a longer period.

You should also make sure you're claiming all the other Government help available to supplement your income before you approach your landlord.

I'M A LANDLORD, SHOULD I GIVE MY TENANTS A RENTAL HOLIDAY?

This really depends on their finances and your own finances. If you have a buy-to-let mortgage then you can take a mortgage holiday and pass that monthly saving on to your tenant.

For example, if they pay £1,000 a month rent and your mortgage is £500 a month you could take a mortgage holiday and reduce their rent to £500 a month for three months to give them breathing space. Just make sure you agree how that money is going to be repaid.

It's unlikely their income will have fallen to zero, with Government help available and furlough money on offer for many, so make sure they are claiming all the help they can get before coming to you. Open communication is key here.

I HAVE DEBT, DO I HAVE TO STILL PAY MY MONTHLY REPAYMENTS?

The regulator, the Financial Conduct Authority, has announced changes to how debt is repaid during the current crisis. It has said that providers must offer a three-month debt holiday on credit cards and personal loans, which won't affect your credit rating. However, interest will still accrue during this time, so it's not a free option.

It has also proposed a three-

month holiday for motor finance, and rent-to-own and buy-now-pay-later credit. For short-term credit like payday loans it has proposed a one-month interest-free payment freeze. You can read more here.

WHAT ABOUT MY OVERDRAFT?

Banks must now offer a £500 interest-free overdraft to customers for up to three months. What's more, the interest rate on some overdrafts was set to shoot up to 40% or higher as a result of changes made by the regulator, and it has now said that banks and building societies must ensure that during the current period people shouldn't be paying more for their overdraft than they were before the changes were announced. You can read more here.

I'M NO LONGER COMMUTING, DO I STILL HAVE TO PAY FOR MY SEASON TICKET?

Many with long train journeys into work will be paying hundreds of pounds a month for a train ticket they're no longer using. But the good news is that people can get refunds for their season tickets, and also other train tickets they might have bought for future journeys.

Train companies are also waiving the usual £10 admin fee for off-peak and advance tickets, and have extended the refund period up to eight weeks after the day you were due to travel.

Understandably, rail companies don't want you to go to the station to get your refund, so follow the instructions on your train company's website, although be aware some have long delays for processing refunds. Each train company has slightly different rules on refunds too. More general information can be found here.

> Government research recently found that around 40% of people think they can save money in lockdown

MY INCOME HASN'T BEEN HIT, BUT I'M WORRIED IT WILL BE. WHAT SHOULD I DO?

The main thing you should focus on is building up an emergency pot, sometimes called a rainy-day fund.

This is where you save money in a cash account that you have easy access to, in order to give you a cushion in case your income is hit or you face unexpected costs.

Government research recently found that around 40% of people think they can save money in lockdown, as they aren't paying to commute, go out or go on holiday. If this is the case then you can use this time to ramp up your savings. Read more on how to recession-proof your finances here.

I'M NOW WORKING FROM HOME FULL-TIME, CAN I GET MY EMPLOYER TO PAY THE EXTRA COSTS?

A big chunk of the nation is now working in hastily put-together home offices full time, and some will see higher costs as a result, mainly in energy and heating bills.

At the same time, a number of employers will be saving money by not having to pay for heat and energy in offices. Employers can give you £6 a week towards these costs, tax-free – but many haven't offered or have declined to do so.

Otherwise you can claim tax relief of £6 a week from HMRC, and it says during these times it doesn't need evidence for this, so no bills or receipts to prove your higher costs. However, this is £6 of tax relief, so for basic-rate taxpayers works out as £1.20 a week or £2.40 for higher-rate taxpayers – not exactly a king's ransom.

You can claim more but you'll need to give evidence of your extra costs. [Here is more information from HMRC](#).

I'M NOT USING MY CAR, DO I NEED TO RENEW MY CAR INSURANCE?

If people have their car insurance renewal coming up and haven't touched the car in weeks they might question whether it's worth paying up. But you still need insurance even if you're not driving it – unless you have off-road parking you can put it on, so a driveway or garage, and then you can declare it SORN (statutory off-road notification) with the DVLA and won't have to pay car tax either.

It depends how long you think lockdown will last and whether you'll want to use your car straight away when restrictions are relaxed as to whether it's worth the hassle. More information from the DVLA on the SORN process can be found [here](#).

MY CHILD'S NURSERY IS CLOSED, BUT THEY ARE STILL ASKING ME TO PAY. DO I HAVE TO?

This is a very tricky one. How nurseries have reacted to this varies dramatically. Some have said that parents don't have to pay any fees but others are still charging 50% or even 100% of the fees. If you don't pay up, many parents are faced with being kicked out of the nursery – which is particularly a problem in areas with a large waiting list.

Many parents are sympathetic as they don't want to see their nursery hit such financial difficulty they have to close.

Firstly, if you've seen your income hit then definitely talk to your nursery as they may be able to reduce your costs. Otherwise as a parent you have a right to know if the nursery is claiming all the Government and other financial help available before they ask you to stump up.

After that, it comes down to a myriad personal choices, including whether you're willing to risk the nursery place by not paying.

WANT MORE HELP?

If you have other questions you want answering, then please email editorial@sharesmagazine.co.uk

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

Ways to play the Asia Pacific opportunity without relying on China

Shares reveals how investors can reduce China risk via Asian funds with less than a fifth of assets in the People's Republic

The coronavirus is wreaking havoc on health and economies around the world and there is increasing anger being directed towards China, widely accepted as the source of the coronavirus.

But the lure of investing more widely in Asia Pacific, a region with youthful demographics and low financial services penetration to name just two bull points, may still have appeal.

For those interested in investing in this region without significant Chinese exposure, *Shares* has screened the Investment Association's Asia Pacific ex-Japan sector. We have identified funds with less than 20% of their assets listed in China, and less than 30% in Hong Kong on whose stock market many Chinese concerns trade.

WHY CHINA COULD BE OUT IN THE COLD

Having obfuscated around the origins of the disease and alerting the world to the virus' human-to-human transmission, China risks being left in the cold.

Nations around the world, and many companies crippled by pandemic-induced supply bottlenecks, are already looking to reduce reliance on the world's second biggest economy.

ASIA PACIFIC FUNDS WITH LIMITED CHINESE EXPOSURE

FUND	FIVE YEAR RETURN (%)	TEN YEAR RETURN (%)
Schroder Asian Income	25.1	105.8
BNY Mellon Asian Income	21.1	105.4
Stewart Investors Asia Pacific	7.4	97.3
Schroder Institutional Pacific	26.0	80.1
Aberdeen Standard I Asian Smaller Companies	5.3	72.4
iShares Pacific ex Japan Equity Index	22.1	66.6
HSBC Pacific Index	21.1	63.0
Jupiter Asia Pacific Income	13.1	58.1
Pictet Pacific Ex Japan Index	13.7	55.6
Osum Pacific RIM Equity	3.1	8.9
Nomura Asia Ex-Japan High Conviction	50.6	n/a
Fidelity Asian Dividend	36.2	n/a
Schroder Asian Income Maximiser	19.4	n/a
Jupiter Asian Income	n/a	n/a
New Capital Asia Pacific Equity Income	-11.8	n/a

Source: FE Fundinfo. Data to 24 April 2020.

Once the global pandemic passes, the world may not be as keen to trade with or source products from China.

Investors could also decide to jettison Chinese investments too, due to the absence of strong environmental, social and governance (ESG) credentials in China, not to mention the country's dubious tendency towards corporate accounting blow-ups, Luckin Coffee being the latest in a long line of scandals.

Actively managed Asia Pacific funds with limited holdings in China include **BNY Mellon Asian Income (B8KT3V4)**, which has delivered a 10-year return of 105.41% according to FE Fundinfo. At 31 March, exposure to China was modest at 6.4% – the leading geographic allocations being to Singapore, Hong Kong, South Korea and Australia.

A top performer on a five-year view is **Fidelity Asian Dividend (B8W5M02)**, a fund that scours this vast region for attractive dividend yields and capital growth potential; again, the exposure to China is contained to 15.4% (Hong Kong 22.4%, Taiwan 16.7%).

This fund also has a defensive bent. Manager Jochen Breuer looks for high-quality, cash-generative businesses with robust balance sheets and the process has a strong emphasis on capital preservation.

OTHER ASIA AVENUES

Using FE Fundinfo data, we have identified other funds with respectable long-run records that can help investors diversify risk away from China.

With a decade-long return of 105.8%, **Schroder Asian Income's (B5BJ7M1)** latest geographical breakdown reveals weightings of 16.2% and 16.3% to China and Hong Kong respectively. It also has allocations as of the end of January to Australia (19.9%), Taiwan (14.3%), Singapore (13.7%) and South Korea (11.7%).

The largest three positions were Taiwan Semiconductor Manufacturing, Samsung Electronics and **BHP (BHP)**, although positions still included Sands China, China Mobile and China Petroleum & Chemical.

Another name which fits the criteria is is the capital growth-focused **Stewart Investors Asia Pacific (3018408)**, which has generated a 97.3% 10-year return.

Prospective investors should be aware that this fund will shortly (22 May) change its investment policy to include Japan and be renamed the Stewart Investors Asia Pacific and Japan Sustainability Fund.

DIVIDEND CUTS EXPECTED

Another way to access the region without going large on China is **Jupiter Asian Income (BZ2YND8)**, the £603m unit trust managed by well-followed stockpicker Jason Pidcock. According to the April factsheet, China and Hong Kong exposure sits at 13.9% and 17.7% respectively, with significant allocations to Australia, Taiwan, Singapore and South Korea.

Top holdings do include China's Tencent and Sands China, although there is also exposure to Korean handsets-to-freezers maker Samsung Electronics and Taiwan Semiconductor Manufacturing, the world's top contract chipmaker.

Pidcock is in no doubt there will be a widespread cut in dividends due to the impact of the coronavirus. 'However, we have to remember share prices have fallen by some way, and if dividends don't fall as much, then yields will still look very attractive, particularly in comparison to government bond yields,' he says.

Pidcock adds: 'Ultimately, dividends have to be funded by earnings and the latter will be under pressure this year. At this stage we are hopeful that there will be an earnings recovery in 2021, which ought to be positive for dividends.'

INVESTING IN ASIAN SMALL CAPS

Investors with sufficient risk appetite might further diversify Asia Pacific portfolios by looking at smaller companies specialists. One option is **Aberdeen Standard Asian Smaller Companies (B8GQ580)**, a long-term total return vehicle which invests in smaller companies based, or carrying out much of their business, in Asia Pacific countries excluding Japan.

The top 10 is an eclectic mix of businesses ranging from Dutch chipmaker ASM International and Indonesian palm oil play **M.P. Evans (MPE:AIM)** to Chroma ATE, a Taiwanese provider of test and measurement equipment, and Kuala Lumpur-listed Shangri-La Hotels Malaysia.

PASSIVE OPTIONS

Other ways to diversify Asia Pacific portfolio exposure is through China-lite trackers. Examples include **HSBC Pacific Index (B80QGT4)** and **iShares Pacific ex Japan Equity Index (B849FB4)**, the latter largely exposed to Australian, Taiwanese and South Korean equities with just 0.2% direct exposure to Chinese shares.

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

Most commodities and all cryptocurrencies do not suit new investors

They should only be considered once you've built a core portfolio of funds that invest in stocks and bonds, and you have money you can afford to lose.

When you see adverts talking about how you can make a mint quickly by 'trading the markets', if they are not referring to foreign exchange then they are typically focused on commodities and cryptocurrencies.

While a majority of us might know what cryptocurrencies are (or at least think we do – more on that later), commodities are an oft-mentioned term in finance and business articles which people don't really stop to explain.

Commodities are raw materials which can be bought or sold. Examples of commodities include metals like copper or gold, agricultural products like coffee or cocoa beans, and energy sources like oil and gas.

It should be made clear that commodities and/or cryptocurrencies are not a natural starting point for first-time investors. It is important to know what they are – yet they should only be considered by more experienced investors who understand how they work and already have experience investing in other assets like shares and bonds.

This is an important point. A lot of people might see adverts on YouTube, for example, saying to start playing the markets via trading Bitcoin. Individuals might come to the conclusion that's a natural starting place to try and get a better return than cash. We disagree.

These are very high risk places to invest or trade, depending on your viewpoint, and it is easy to lose money very quickly.

THE PROS AND CONS OF COMMODITIES

There is often a lot of excitement around commodities and it is easy to see why people might be attracted. Shares in commodity explorers and producers can deliver spectacular returns, although they can also be disastrous investments.

Many companies who think they've found a big amount of oil in the ground or metal in a mountain eventually find out there isn't enough stuff that's economical to extract.

It's also important to understand that commodity producers have no pricing power which means they can't set the price at which they will sell material.

The price of the vast majority of commodities is set by the interaction between supply and demand. High demand and low supply sees prices go up, while high supply and low demand sees prices go down.

But that's not to say it's not worth investing in commodities, as there is a time and place for looking at them.

THE APPEAL OF GOLD

Gold is considered the ultimate safe-haven asset, which is something that is considered good at protecting you when markets are weaker, however this is not guaranteed.

Other examples of safe-haven assets include government bonds from wealthy countries (because they're not likely to turn round to investors and say we can't pay you back), the US dollar (it's the most traded currency in the world) and cash, which isn't going anywhere if it's sitting in your account and not subject the whims of the stock market although inflation will eat away at your returns.

Gold tends to have a negative correlation with equities – essentially when the stock market falls, gold usually goes up, though this is not guaranteed.

Then there are other commodities like copper, the price of which could potentially increase for a prolonged period of time because it's a really important metal in making electric vehicles among other things.

If there is this 'electric vehicle revolution' we've all been promised will happen, car manufacturers will require way more copper than they need at the moment.

ALL ABOUT CRYPTOCURRENCIES

Cryptocurrencies are a much newer asset class, i.e. group of investments. A cryptocurrency is a digital or virtual currency designed to work like other types of money, except it has no coins or notes and exists only in electronic form. They usually

HOW TO INVEST IN GOLD

When people talk about the gold price and how it's rising or falling, it may be more relevant than you think.

Just like those coins from the Royal Mint or the big slabs held deep in the vaults of the world's biggest central banks, gold is valued by the prevailing market price.

Usually this value is quoted in US dollars and by ounce. For the last 10 years, gold has been valued at anywhere between $1,000 and $1,900 per ounce.

Gold jewellery or buying a gold coin are ways to invest in gold, but in these cases you also have to think about the cost of insurance.

Perhaps an easier way to get exposure, particularly if you can't afford to splash out over a grand for an ounce of gold, is to invest in a fund which tracks the gold price.

An example includes exchange-traded fund **iShares Physical Gold (SGLN)** whose value moves up and down in line with the gold price. You don't actually receive gold; you're buying shares in the fund which tracks the metal price. You can also get exchange-traded funds which track most other commodity prices.

Other ways to get exposure to gold include buying shares in gold mining companies. You have to consider this comes with added risks such as a company's financial strength, geopolitical risk where governments impose heavy taxes on mining in order to get their share of the riches, and operational risks.

Shares in mining companies can outperform an increase in the commodity they are producing because of these extra risks but they can also fall harder than a decline in the commodity price. This applies to gold and any other type of commodity.

POPULAR CRYPTOCURRENCIES

Bitcoin is the most popular cryptocurrency globally, but there are two others which also hold significance – Ethereum (Ether) and Ripple.

Ethereum is actually the name of the blockchain, or infrastructure, which supports the Ether currency – the second most traded cryptocurrency globally – but most people call the currency itself Ethereum.

It is a popular cryptocurrency for companies who engage in initial coin offerings (ICOs), which are similar to crowdfundings or initial public offerings (IPOs) but use crypto money instead of physical money.

While Ripple is often regarded as the 'establishment' currency because it was set up to support the transfer of fiat currencies, i.e. money declared by a government as legal tender.

A number of banks use the currency, and Plus500 reckons there's a 'genuine possibility' it could become part of the traditional finance system one day.

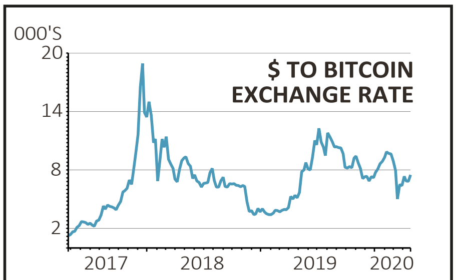
allow for secure payments to be made online.

Unlike pounds or dollars, they're not issued by any central authority like a government or a central bank, and so are theoretically immune from any government interference.

But cryptocurrencies are still a nascent area, given the first decentralised one to be created was Bitcoin in 2009. They can suffer from extreme exchange rate volatility, while there can also be problems with the underlying infrastructure.

According to trading platform Plus500, there are more than 1,600 cryptocurrencies listed on major, medium-sized and specialist cryptocurrency exchanges.

The most well-known cryptocurrency is the



aforementioned Bitcoin, which is the most traded in the world and the price of which influences the rest of the crypto market.

Unlike normal currencies which can be printed, there are only a fixed number of Bitcoins in existence. This is meant to prevent inflation which can be caused by money printing.

NOT FOR FIRST-TIME INVESTORS

A growing number of people have made a lot of money from trading cryptocurrencies and taking advantage of the price growth and volatility.

However, many more have lost a fortune, and cryptocurrencies should only ever be considered by experienced investors who have a detailed knowledge of how they work, understand all of the risks and are only prepared to invest money they can afford to lose.

First-time investors are better off starting with funds that invest in stocks and bonds, and potentially adding commodities (principally gold) once you've built a core portfolio.

By **Yoosof Farah**
Reporter

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**
- **Overseas**
- **ETF**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

6 May: Vertu Motors. **7 May:** BT, Trainline.

Half year results

6 May: Cambria Automobiles.

Trading statements

1 May: Royal Bank of Scotland. **5 May:** GetBusy. **7 May:** Equiniti, Flutter Entertainment, InterContinental Hotels, Keller, Mondi, National Express, RSA, Superdry, Theworks.co.uk.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg; Ian Conway @SharesMagIan

REPORTER: Yoosof Farah @YoosofShares

CONTRIBUTORS Russ Mould, Tom Selby, Laura Suter

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.

All chart data sourced by Refinitiv unless otherwise stated