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USERS **STREAMING** IN BUT CAN **SPOTIFY** PROFIT?

WHAT **BANK** RESULTS REVEAL ABOUT THE **UK ECONOMY**

HOW SOME **INVESTMENT TRUSTS** CAN KEEP **COSTS** SO LOW

Limits on taking money out of property funds might be no bad thing

A lack of transparency could be the big drawback of FCA property fund proposals

Thanks to the introduction of technology, a competitive landscape for products and platforms and the general faster pace of 21st century life we have all got used to the idea of being to buy and sell our investments whenever we want.

The idea of giving six months' notice to exit an open-ended property fund, a key recommendation put forward by regulator the Financial Conduct Authority in its latest response to the problems in this space (3 Aug), seems extremely onerous.

However, it is probably a move in the right sort of direction. Most open-ended property funds have been suspended anyway since March amid uncertainty over the valuation of their assets thanks to the Covid-19 pandemic.

Expectations of being able to buy and sell units in a fund which invests in an asset class which can take weeks or even months to sell was always liable to throw up problems.

These were particularly acute in the financial crisis and after the Brexit referendum, when facing a wave of redemptions as investors looked to sell out of the funds, managers ran out of cash and the funds had to be suspended.

THE DIFFERENCE BETWEEN TRADING AND INVESTING

Selling an asset during a period of intense volatility, when the kinds of liquidity issues seen with property funds are most likely to crop up, is not likely to be a good idea.

And while six months might seem like a hell of a time to wait, for an investor with a long-term horizon it is really the blink of an eye.

There are two main ways of profiting from the financial markets. The first is to buy and hold assets with the aim of achieving a reasonable and sustainable return. The second, higher risk

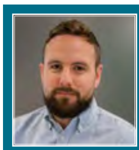
approach, is to trade in and out of assets for a quick profit.

Only someone pursuing the former strategy could accurately be described as an 'investor' as opposed to a 'trader'.

The biggest downside of the proposed 180-day notice period from this author's perspective is that appears you would agree to sell at a price which you would only discover when the notice period came to an end.

If you want more flexibility and crucially transparency there are other options. You could buy a real estate investment trust or other property-related trust.

As these trade on the stock market you can buy and sell more or less whenever you like at a price you can see immediately but you also need to accept that trusts may trade at a discount to their net asset value, particularly in difficult markets.



By **Tom Sieber** Deputy Editor

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What the banks' results say about the economy and the outlook

A steep rise in provisions suggests more bad news is coming

While recent data like industrial production, consumer confidence and house prices offer hope that the UK economy may be through the worst of the crisis, the first half results from the big banks suggest that the second half of this year is still fraught with difficulty for businesses.

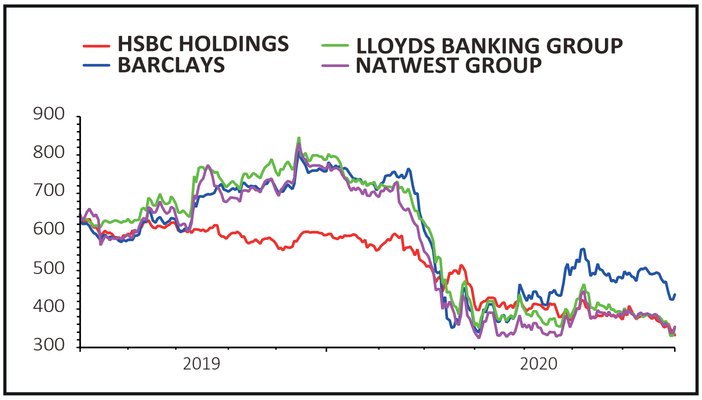
So far **Barclays (BARC)**, **Lloyds (LLOY)** and **NatWest (NWG)**, formerly Royal Bank of Scotland, have put aside a total of more than £10 billion of provisions for expected credit losses, and they expect to take up to half as much again in additional provisions by the end of 2020.

GOVERNMENT SUPPORT

The importance of the Government's decision to support firms through the furlough scheme, breaks on business rates and value-added tax and the Covid financing facility can't be over-stated.

Extraordinary times call for extraordinary measures, and without this support it's likely that a large number of small firms would have gone to the wall within weeks of the pandemic striking as economic activity went off a cliff.

Indeed, the number of firms filing for insolvency and being wound up through the courts is significantly down on last year, but there are fears that the true picture is being masked by state aid and the fact that the court system has barely functioned since lockdown.



Bad loan provisions for the UK's top three lenders

	1H 2019	1Q 2020	2Q 2020
Barclays	£928m	£2.1bn	£1.6bn
Lloyds	£579m	£1.4bn	£2.4bn
NatWest Group	£323m	£800m	£2.06bn

Source: Company results, *Shares*

Business advisory firm **Begbies Traynor (BEG:AIM)** is predicting that 'a dam of company financial distress' is waiting to break this autumn as support is withdrawn, pushing what it calls 'zombie' companies which were just about clinging onto survival over the edge.

POTENTIAL LOSSES

When trying to understand why the banks' provisions for credit losses are so large, it's important to look at *how* they reach these numbers.

Under the IFRS 9 reporting standard, which we looked at earlier this year, banks no longer make provisions for bad loans once a loss has been incurred.

Previously, when a payment was 30 days overdue the loan was classified as 'doubtful' and a small

Monzo is one of the more successful new entrants to the UK market, having increased customer numbers from 1.6 million to 3.9 million in the year to February, but its losses more than doubled to £114 million over the same period

amount of cash was put aside to cover potential losses. When it was 90 days or more overdue, it was classed as 'bad' and a larger amount was put aside.

The new accounting rule means that banks have to make provisions ahead of time based on the *potential* for those loans to go bad according to a range of economic forecasts.

In the case of NatWest, where credit loss provisions more than trebled from £800 million in the first quarter to £2.86 billion by the end of June, the increase reflected 'the deterioration of the economic outlook' and a central assumption that the percentage of its personal and corporate loans that would default would be 1.72% instead of 1.18%, or 45% more than it had previously forecast.

For personal loans the main loss drivers in all the banks' calculations are expectations for the unemployment rate, house prices and the Bank of England base rate. For corporate loans, losses are forecast based on credit cycle indices which factor in specific economic drivers for each region and industry, on the assumption that losses on corporate loans tend to follow regular cycles.

UNCERTAIN TIMES

The problem is that almost every individual and business has been negatively affected by the economic and social disruption caused by Covid, and given the severity of the economic shock and the lack of visibility over the outlook, forecasting losses accurately is almost impossible.

It may be that the level of provisioning in the first half is too much, but equally it may be too little as this is far from a 'regular' credit cycle. If forecasts for the economy – and in particular the unemployment rate – deteriorate this quarter, the banks will have to assume a higher default rate and put aside more provisions.

For the challenger banks, which tend to stick to deposit-taking rather than lending to individuals or businesses, the major concern for now isn't credit losses but getting funding.

In the past, private and public markets were happy to support the new banks as they built 'reach before revenue' – the classic Amazon.com model – but the crisis has raised questions over valuations and even the durability of some new entrants.

Monzo is one of the more successful new entrants to the UK market, having increased customer numbers from 1.6 million to 3.9 million in the year to February, but its losses more than doubled to £114 million over the same period.

In its annual report, Monzo cautioned that since March its revenue streams had been 'severely impacted by the pandemic and resulting economic uncertainty.' It also warned that tighter regulation could mean fewer customers and a need for more capital.

The bank concluded that there was a 'risk the group will not be able to execute its business plan', including generating a profit and raising enough capital, and even went as far as to say there were 'material uncertainties that cast significant doubt upon the group's ability to continue as a going concern.'

Big tech smashes forecasts in second quarter

$29 billion of earnings underlines thriving platforms in pandemic

The US technology-led Nasdaq index was given another huge lift at the end of last week as four of the world's big five tech companies posted huge profits just days after a marathon five-hour grilling from Congress over their scale and power.

Google-owner **Alphabet**, **Amazon**, **Apple** and **Facebook**, worth a combined $5.15 trillion (£3.95 trillion), smashed second quarter expectations, with Amazon, Apple and Facebook booking record profits.

Nasdaq closed on 3 August at a new record high of 10,902.80.

The largest US technology companies are thriving in a pandemic that has increased dependence on their products and services, while hammering much of the rest of the economy.

Together, the quartet reported revenue of $206 billion and net income of $29 billion in the three months to 30 June 2020, showing that the industry is capitalising on the crisis as locked-down consumers use tech gadgets and the internet for entertainment, social connection, shopping, learning and work.

Amazon posted a 45% jump in earnings per share to $10.30, pulverising a consensus estimate of $1.50 as operating margins expanded, 'despite spending $4 billion on incremental Covid-19 initiatives in the quarter to help keep employees safe and deliver products to customers in this time of high demand,' pointed out analysts at broker Killik.

Demand soared for gaming and entertainment apps as millions stayed home, with streaming services like YouTube posting strong growth for Alphabet, although ad revenues took an expected hit, while Facebook's monthly active users (MAUs) passed the three billion mark for the first time.

Working from home trends also saw shoppers swoop for updated devices, with Apple reporting strong growth in Mac and iPad, while the launch of the low-cost iPhone SE saw growth in iPhone revenue.

Cloud adoption was also a huge theme as businesses across the globe raced to embrace solutions to keep operations going while offices stayed empty. Google Cloud revenues jumped 43% in the quarter, and even though growth slowed for public cloud leader Amazon Web Services, it still posted 29% higher sales.

'The penetration of e-commerce is accelerating,' said Hari Srinivasan, a senior analyst with Neuberger Berman. While a strong second quarter had been widely anticipated for big tech, the scale of outperformance underlines why some technology experts believe platform businesses such as these, and others, will continue to command valuations at a premium to the rest of the market.

Should BP have cut its dividend more?

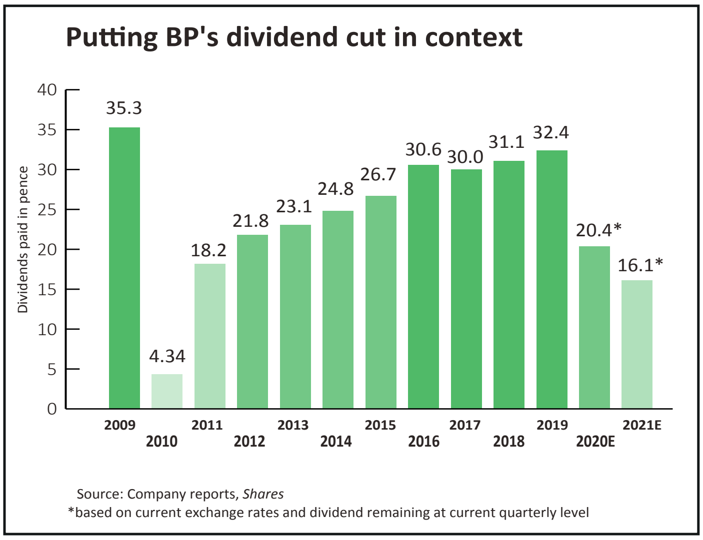
Company is due to give further detail on strategy shift in September

A little more than three months after **Royal Dutch Shell (RDSB)** moved to cut its dividend, **BP (BP.)** has followed suit alongside its second quarter results (4 Aug).

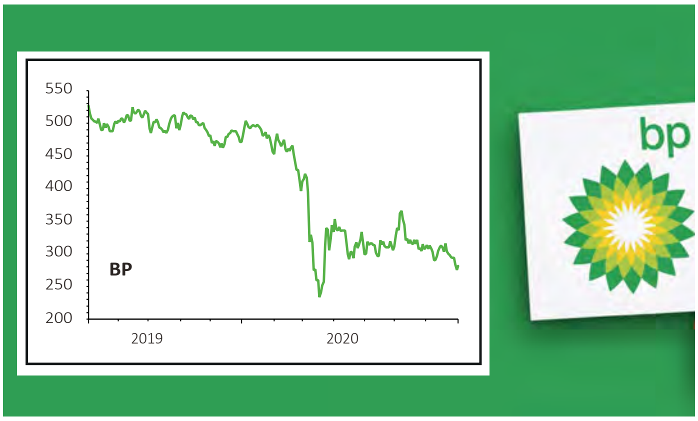
This was widely expected and the market's attention appears to have been drawn to further details on the long-term strategy which imply a marked move away from hydrocarbons and a possible route back to growth. This helped the shares rise more than 7% to trade above 300p.

Berenberg analyst Henry Tarr said: 'The focus may be on the strategy update rather than earnings, where the company is signalling an aggressive shift away from hydrocarbon production and into low carbon activities, and is targeting 7-9% EBIDA (earnings before interest, depreciation and amortisation) growth per share to 2025.'

It is probably good for BP that its immediate earnings performance was put in the shade. The company revealed $9.2 billion of impairments pinned partly on falling crude prices. It declared a dividend of 5.25 cents per share for the quarter, down 50% from the previous quarter and said the dividend reset would remain fixed at this level. BP previously suspended dividends altogether in the face of the Gulf of Mexico oil spill in 2010.



Source: Company reports, *Shares*
*based on current exchange rates and dividend remaining at current quarterly level



STILL A GENEROUS YIELD

Even at the reduced level of dividend the shares offer a forward dividend yield of more than 5%, assuming it is maintained throughout 2021. Thanks to the writedowns net losses for the three months through June amounted to $16.85 billion, compared to losses of $4.37 billion in the first quarter.

Earnings in its trading division were actually bolstered by the volatility, with the posted total of $1.4 billion comparing with just $300 million pencilled in by analysts. This demonstrated one of the benefits of having diversified exposure to the energy market.

The lingering question is whether BP has gone far enough with the dividend – its cut of 50% compares with Shell slashing its own payout by two thirds back in April.

While the recent launch of hybrid bonds, classed as equity rather than debt, may have optically reduced the level of gearing, net borrowings remain elevated at more than $40 billion.

This raises the question of whether BP can deal with continuing coronavirus-inspired oil price volatility, service its debts and invest in a move away from fossil fuels.

Chief executive Bernard Looney is likely to face scrutiny on how he will balance these competing pressures at a long-awaited capital markets day event in mid-September.

The implications of big commodities rally for the miners

Almost everything from gold to copper to corn has seen a big rebound since the height of the coronavirus pandemic

Commodities have had a wild ride this year, recording their fastest ever recovery from their fastest ever bust.

After the coronavirus pandemic various commodities took a major tumble. A World Bank report from April suggested energy commodities, like oil, natural gas and coal, were set to be 40% lower in 2020 than in 2019, with metal prices tumbling 13.2% on expectations of prolonged public health and economic crises.

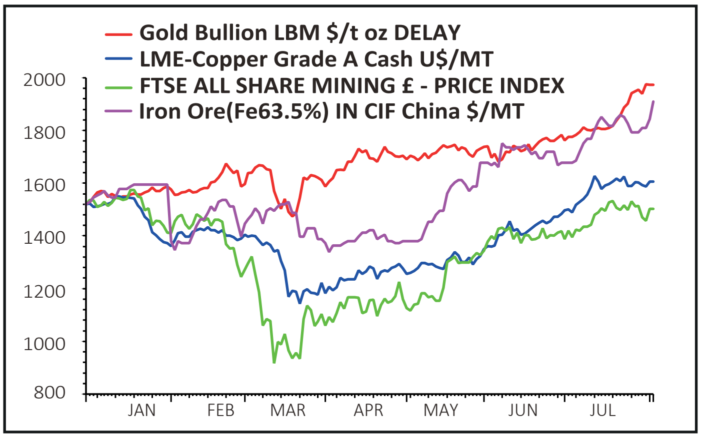
But they have since bounced back with a vengeance, with most major commodities having recorded several week-on-week gains since March.

And gold, which was forecast to go 13.2% higher according to the World Bank, has actually jumped 27% as it hit new all-time highs, fuelled by a weakening US dollar, negative real interest rates and as investors have reached for its traditional safe haven qualities.

The main question however, is whether or not the surge in commodity prices is a real recovery, or just nations stockpiling ahead of another potential incoming downturn.

US corn prices for example surged in early July following production cuts, touching a three-month high of $3.50/bushel, but the real price driver was an order from China, which bought 1.93 million tonnes of corn in its biggest ever purchase and the third largest ever single-day sale in history.

Various reports have suggested China's stockpiles of a range of commodities had been reducing, and so it could be the case that on a global scale a real recovery isn't taking place after all but China is merely replenishing its supplies, particularly given the country is the biggest customer for cobalt, copper and iron ore, three metals which have had a strong rebound since March.



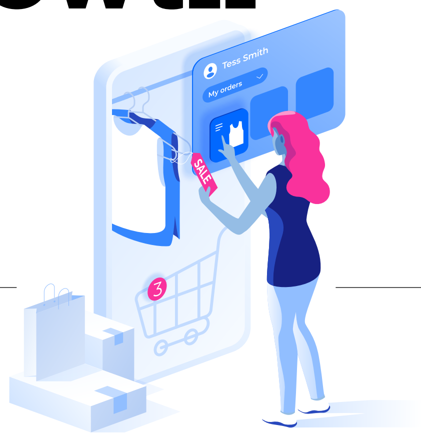
As for how price strength has impacted the FTSE 100 mining stocks and the income they traditionally provide, the picture varies according to what mix of commodities the miner produces.

Rio Tinto (RIO) increased its interim dividend by 3% for example to 155 US cents, having experienced stable iron ore prices and resilient sales of the commodity, reflected in an underlying EBITDA (earnings before interest, tax, depreciation and amortisation) margin of 47%. Rio and **BHP (BHP)** are two of the world's biggest producers of iron ore.

Anglo American (AAL) on the other hand had to halve its interim shareholder payout to $0.28 per share, down 55% from $0.62% in 2019 as relatively stable copper, iron ore and PGM sales were not enough to offset a near collapse in demand in its diamond division, De Beers, as well as plummeting sales of thermal and metallurgical coal.

Pure play copper miner **Antofagasta (ANTO)** also decided in May to reduce its 2019 final dividend to 7.1 cents per share, from 16.2 cents previously, amid what at the time was a 'lower copper price environment'.

Stalling online growth at Next should prove temporary



Web-based sales stagnated as non-essential shops reopened, yet retailer is set to remain digitally driven

While clothing-to-homewares retailer **Next (NXT)** rallied after the high street bellwether reported (29 Jul) a better than feared second quarter sales fall and upgraded annual profit guidance, online sales, for so long the growth driver for Next, appeared to stall between mid-June and mid-July. This looks likely to be a short-term phenomenon.

For the second quarter to 25 July, Next's full price sales fell 28% compared to the same period of 2019, less than half the decline of worst case scenario forecasts.

'Warehouse capacity has come back faster than we had planned, and store sales have been more robust than anticipated,' explained Next. 'As a result, our second quarter sales have been significantly ahead of our internal plan.'

Trading through the quarter highlighted the impact from the store lockdown which started to ease from mid-June onwards, with like-for-like sales in reopened stores down 32% since the reopening.

Online sales grew a modest 9%, though they were broadly flat from the week commencing 14 June to 21 June, actually fell in the subsequent fortnight to 12 July, before returning to their upwards trajectory.

Next's shop-based sales have accounted for a much greater proportion of overall revenue since June and drove overall sales in July.

This trend tallies with the latest UK retail sales data from the Office for National Statistics (ONS), which showed sales surging back almost to pre-coronavirus lockdown levels in June as non-essential stores reopened. The ONS data highlighted an increasing number of shoppers visiting stores in person in June, with the proportion of online spending reducing to 31.8%.

This trend reflected a spike as shoppers ventured out from lockdown to spend in physical stores. From here, the online channel should benefit if consumers bridle at wearing masks in shops and tire of the strictures of social distancing measures.

Shore Capital reckons Next will be 'a retail survivor given its strong online presence and strength in its balance sheet given its historic cash generation', whereas Numis Securities said the second quarter confirmed its hopes that 'a swifter recovery in the apparel market is set to translate into a more robust year.

'Updated guidance leaves further room for upside surprise, depending on the trajectory of Covid-19, but should help underpin near-term momentum.'

Russ will return next week.

Russ Mould's column will return on 13 August

Now is the time to invest in Premier Inn owner Whitbread

Hotel operator looks well placed to benefit from the problems affecting rival Travelodge

Its main competitor is heavily challenged, it has a robust balance sheet, it could benefit from a UK 'staycation boom' and its shares have not really budged much from their coronavirus correction lows. Now is a good time for long-term investors to buy **Whitbread (WTB)**.

Owner of the country's largest hotel chain Premier Inn, the company has already seen a pick-up in demand in traditional tourist regions since lockdown restrictions were eased. The firm has more hotel rooms than any other chain in the country and most of its hotels are now open again.

Its share price has remained at around half its pre-coronavirus level at £22.

Premier Inn is primed to extend its market dominant position thanks to the woes affecting its main rival Travelodge. Analysts at HSBC say that 'whichever way we cut it', Travelodge's entry into administration brings 'clear benefits' for Premier Inn.

Having spoken to Travelodge landlords, the analysts say they see opportunities for Premier Inn to take on new sites as disaffected landlords exercise new break clauses in their contracts,

WHITBREAD
BUY
(WTB) £22.20

Market cap: £4.5 billion

while going forward Premier Inn could also maintain a grip over long term industry supply as Travelodge becomes a less bankable customer for developers to raise finance against.

All of this, HSBC says, points to potentially higher levels of profitability for Whitbread in the longer term. Given the firm's current valuation, it has a price to book value of 1.2 times, they see potential for the company to bounce back to around £30 to £36 per share, and possibly higher, as and when profit margins recover.

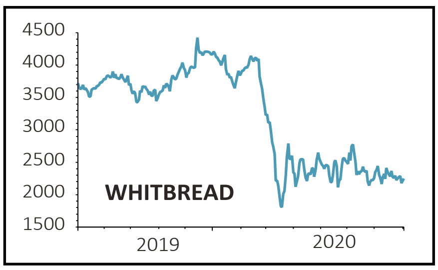
Analysts at Berenberg don't forecast a full recovery until 2023. Business travellers for example have always been a significant market for Premier Inn, and this is an area which looks particularly depressed.

Whitbread has an asset-heavy model, which can be both a positive and negative. As it owns its hotels, unlike the franchise model used by the likes of Travelodge, it has a valuation backed by lots of assets. It also has a greater measure of control when it comes to distancing and hygiene measures.

However, the fixed cost base associated with these hotels also means it suffers from an $18 million hit to its pre-tax profit from every 1% change in RevPAR (revenue per available room). Though conversely it also means it will be in a good position as and when RevPAR recovers.

The economic recovery is the other key risk with Whitbread. If we're in for a second wave and harsh lockdown measures are required again, this will be bad news for the company and earnings will undoubtedly take longer to recover.

This is a stock which should reward patience. A well-known brand (you know what you're getting with Premier Inn), it has a strong balance sheet, more than enough liquidity to see it through another downturn, and good potential for long-term growth as it looks to add to its estate.



Buy Panoply – an exciting new name in digital transformation

There could be significant upside on the cards if new economy consultancy gets it right

One of the clear dynamics to emerge from Covid-19 is the need for businesses to embrace digital transition and cloud-based flexibility. **The Panoply Holdings (TPX:AIM)** has substantial promise to become an investment star right at the heart of this trend.

Panoply is a digital enabler consultancy, designing tools, products and services that can fast track clients' e-commerce and internet delivery ambitions. Founded in 2016 by chief executive Neal Gandhi and chief finance officer Oliver Rigby, it is very small.

The shares may not be always easy to trade, either, with several long-term shareholders on the register and about 26.5% of the stock in the hands of the founders.

But the future looks exciting, and the potential share price upside large.

The company's buy-and-build roots mean it has made six acquisitions at a total cost of £22 million upfront, plus another £19 million based on future earn-outs. This has created a pan-European business making most of its revenue from large organisations, about two-thirds of which sit in the public sector realm where the need for digital change is arguably greatest.

THE PANOPLY HOLDINGS
BUY
(TPX:AIM) 90p

Market cap: **£49.9 million**

We are talking about the BBC, DVLA, UNICEF, and from the corporate world, **Funding Circle (FCH)**, for example.

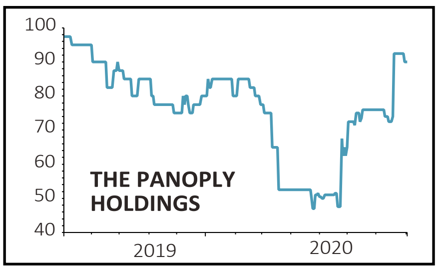
Accounts to 31 March 2020 highlight robust revenue growth of 43% to £31.5 million, with both organic expansion and a contribution from acquired businesses. Significantly, there is a lot of repeat business in those numbers, with about 70% of customers billed in fiscal 2020 also billed the year before. That's very encouraging.

This translated into normalised adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of £3.4 million, versus £2.1 million in 2019.

This was accompanied by operating cash flows of £2.7 million, and while acquisitions saw the company nudge £0.4 million into net debt at the year end, by the end of June it had turned that deficit into a £1.8 million net cash balance thanks to strong cash generation.

With £10.1 million of sales recorded in the first quarter to 30 June and a record £13 million worth of contracts signed, the company believes it can generate 10-15% annual organic growth going forward and is targeting a revenue run rate of £100 million by March 2023.

To get there will mean further acquisitions, so investors should be willing to back future fund raisings to avoid dilution. Back of notebook calculations imply maybe 12p per share of earnings on that sort of revenue. Purely hypothetically, if you were to place that on a typical digital economy earnings multiple of, say 25, investors would be looking at a 300p share price on a two-year horizon.

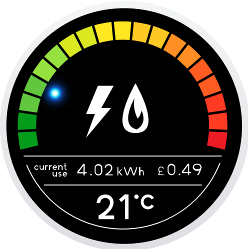


SMART METERING SYSTEMS (SMS) 619p

Gain to date: 31.7%

Original entry point:

Buy at 470p, 24 October 2019



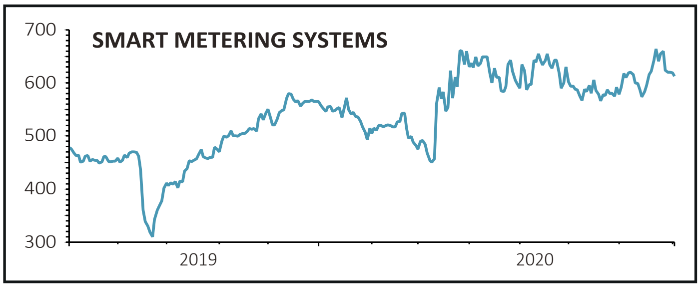
AS A RESILIENT investment uncorrelated to the wider economy, smart meter installer **Smart Metering Systems (SMS)** continues to do well, as its latest statement to the market shows.

The company has more than trebled its full year dividend for 2020 to 25p per share, up from 6.88p for 2019, as its financial performance remains strong despite the coronavirus pandemic.

It comes after SMS said in a trading update for the six months to 30 June that revenue and underlying profit are set to remain in line with pre-coronavirus expectations, with index-linked recurring revenue in the period rising 4.6% to £75.9 million.

It also has a strong liquidity position with £45 million in net cash and access to a £300 million revolving credit facility, while its contracted order book remains promising with a further two million smart meters in the pipeline.

Going forward, SMS expects its smart meter installation run-rate to return to pre-Covid levels by the beginning of next year, while underlying profitability remains in line with previous expectations.



SHARES SAYS:

Smart Metering Systems has proved resilient in the face of a big economic downturn. It should continue to do well given its lack of correlation to the wider market and strong financial position.

SCHRODERS (SDR) £30.37

WINNING STOCKS FOR 2020

Loss to date: 9.2%

Original entry point:

Buy at £33.46, 19 December 2019

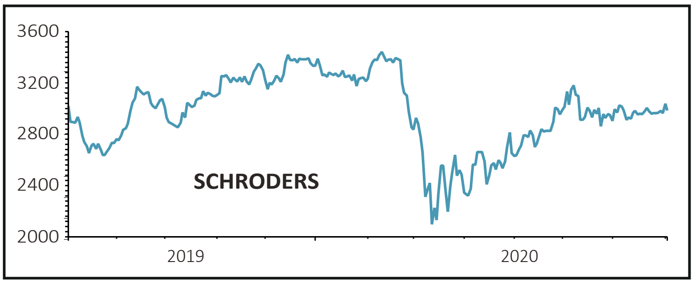
OUR 2020 PICK has beaten the FTSE 100 since we recommended it late last year, having recovered significantly from its March lows, but we sense that further gains are likely to be limited.

Assets under management (AUM) grew 5% in the first half to £525.8 billion, more than expected, mostly thanks to the £29.5 billion Scottish Widows mandate but also driven by large inflows into the Solutions business which has a lower margin, and this is our issue.

Margins are down for most fund managers, and Schroders is no exception. Most of its businesses saw outflows except Solutions, which earns just 0.15% compared with mutual funds which earn 0.7% and Alternatives which earn just over 0.6%. Building AUM at the expense of margins isn't what we bought into and ultimately not what we're after.

The Wealth Management division generated net inflows but to get to scale needs a lot more time. Also, without a niche or an edge – like say **Impax (IPX:AIM)**, **Liontrust (LIO)** or Lindsell Train – it's hard for big firms like Schroders to differentiate themselves.

Fortunately management has a lid on costs, so first half earnings and the dividend were in line with forecasts, but pressure on margins is unlikely to ease and we think there are better investment opportunities.



SHARES SAYS:

Cut your losses.

HIPGNOSIS SONGS FUND

(SONG) 116.75p

Gain to date: 1.1%

Original entry point:

Buy at 115.5p, 18 June 2020

HAVING REACHED 122.5p in July, **Hipgnosis Songs Fund (SONG)** has settled back to 116.75p with additional shares hitting the market through a successful July fundraise. Yet our 'buy' call on the music royalties specialist remains in positive territory and Hipgnosis continues to bolster an impressive catalogue of winning songs.

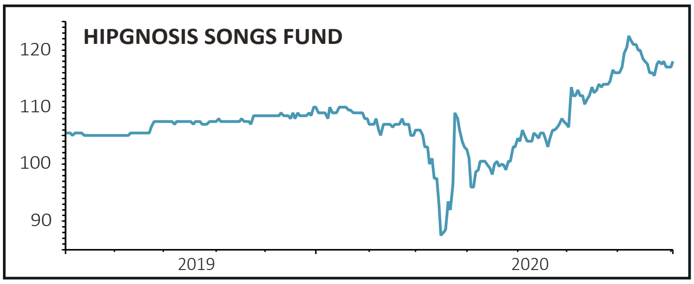
Among the more noteworthy is the acquisition of song writing legend Barry Manilow's music royalty catalogue, for an undisclosed sum.

Hipgnosis Songs Fund buys and owns the rights to certain pieces of music and receives a royalty payment each time they are played on the radio, streamed online, feature in adverts, films, TV programmes or computer games, or are bought on CDs or vinyl.

This helps to fund an attractive stream of dividends and makes the music royalty fund attractive in an environment where dividends are being cut by many companies.

Investors are enthusiastic about the proposition, with Hipgnosis having raised more than £860 million through its summer 2018 IPO and subsequent issues in April 2019, August 2019, October 2019 and this July, when it raked in £236.4 million by issuing new shares at 100p per share.

Following this impressive spate of acquisitions and capital raises, other music royalty firms are thought to be considering IPOs, which could increase competition for assets in the future and is one risk factor to monitor.



SHARES SAYS: ↗

Keep buying.

VOLUTION

(FAN) 165p

Loss to date: 8.6%

Original entry point:

Buy at 180.5p, 9 July 2020

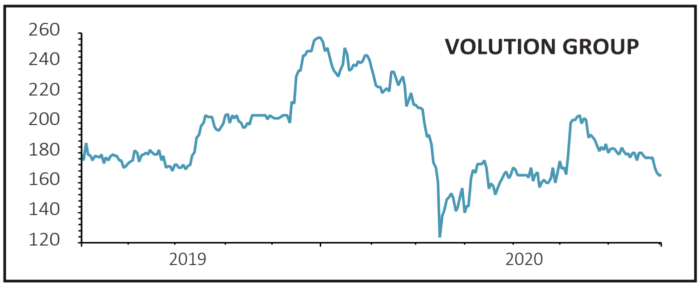
OUR POSITIVE call on ventilation products specialist **Volution (FAN)** is off to a bit of a shaky start after a mixed trading update (30 Jul) but we still thing its long-term prospects are good.

While there was no really bad news in the announcement, the continuing lack of medium-term guidance and some pressure on margins thanks to the hit to activity levels from Covid-19 led to a bit of a sour response from the market.

The flagged 7% drop in revenue for the 12 months to July reflected an extremely weak latter part of the year but trading levels have picked up significantly in recent weeks and the company has benefited from its geographic diversification with business in the UK, Europe, Australia and New Zealand.

Cash generation has also remained strong and the company is reorganising the business, including making some job cuts, to become a leaner outfit heading out of the crisis.

It is the longer term potential we are interested in as one of the lasting impacts of the pandemic is likely to be greater focus on air quality.



SHARES SAYS: ↗

Still a worthy long-term investment.

PETS AT HOME
(PETS) 306.8p

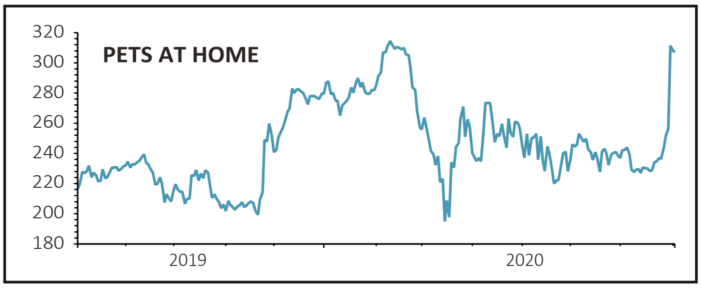
Gain to date: 44%
Original entry point:
Buy at 213p, 5 September 2019

OUR 'BUY' CALL on **Pets at Home (PETS)** is now 44% in the money, shares rallying following a very well received first quarter trading statement (31 Jul) which highlighted recovering momentum after the lockdown restrictions started to ease.

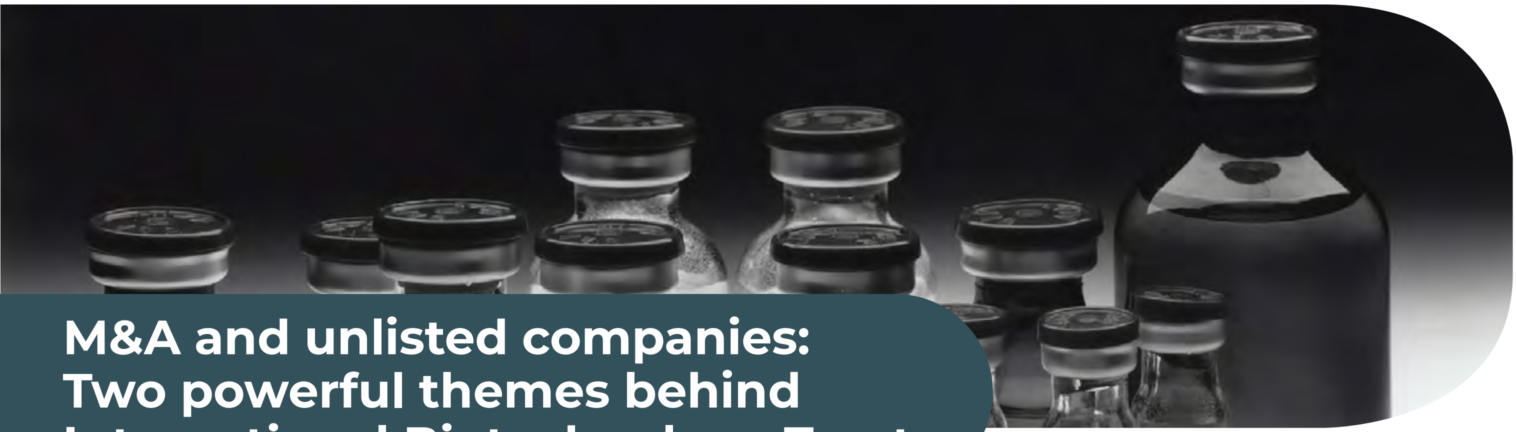
The pet care specialist saw exceptional demand in the closing weeks of the year to 26 March, as the pandemic prompted pet owners to stockpile food and basic medicines. Online was the star performer of the quarter, with sales up 71% year-on-year.

Pets at Home faces short-term headwinds, including increased operating costs to cope with social distancing measures and there is uncertainty on the risk of a second lockdown. While the shares have had a strong run and there is no immediate catalyst for upgrades, the long-term outlook remains positive.

There is increasing demand for pet ownership in the UK, as people adopt new attitudes to work and leisure pursuits, which is reflected in Pets at Home's burgeoning band of loyalty card members and subscription customers, and Pets at Home is winning share in a structural growth market.



SHARES SAYS:
Pets at Home will survive Covid-19 and emerge stronger thereafter. The shares remain a good long-term investment.



M&A and unlisted companies: Two powerful themes behind International Biotechnology Trust

MERGER AND ACQUISITION activity is woven into the fabric of the biotech sector, although the pace has temporarily slowed as COVID-19-related restrictions affect negotiations and recent market fluctuation make it harder to price assets fairly. **International Biotechnology Trust (IBT)** has been a beneficiary of the long-term pattern of M&A that has characterised the industry.

Big Pharma has driven a lot of M&A activity, tapping into the innovation that happens in small companies. Where, in the past, pharma giants had large R&D budgets but did relatively little external innovation, the long-term trend is for them to augment their pipelines with drugs generated by venture-backed companies as well as tapping into innovations from universities. There are three main methods for accessing new assets: licensing; buying up companies that have innovated a best-in-class drug; and purchasing assets in both the private and public sphere. They can afford the lengthy and costly drug trials that small companies cannot, and they have the global reach for subsequent distribution that smaller companies don't. This allows innovating companies to monetise exciting scientific developments at a much earlier stage, and means they can command much higher multiples based on their future ability to create value.

Riding the M&A wave

Many holdings within IBT's portfolio have become takeover targets. While the fund managers don't buy stocks with the sole intention that those companies will be acquired, it often happens because the trust's managers and large companies which buy smaller ones are looking for the same characteristics. When a deal is struck, it can be at a hefty premium after it happens the value of the takeover target can rise because suddenly the small company's risk is reduced with the route to funding and distribution secured. Since December 2017 IBT has seen 11 completed acquisitions at an average premium of 63%.

Array BioPharma: A high-growth success story

One M&A story in the portfolio was Array BioPharma. It had a drug to treat melanoma but was developing a new one for colorectal cancer, which is notoriously difficult to treat. The investment team had followed the stock but did not invest in full until the day the final trial was successful, when the shares rose approximately 55% in June 2019. The managers believed the share price had further to go because the market had not yet recognised the fundamental value in the company, and that the drug trial had reduced its risk. IBT held the position for 45 days before Pfizer bought it at a significant premium, giving the trust a quick return on investment.

Celgene: Cashing in on fundamentals

Celgene was another M&A success which delivered for IBT. Celgene was a business that the fund managers felt was starting to stall, having failed in some of its licensing efforts. However, it was still managing to generate strong cash flows from valuable products in its portfolio and could continue to do so for the next decade. It seemed that the value in the business was not being reflected in its valuation, so the team made a significant investment in Celgene in the second half of 2018. Bristol-Myers Squibb placed a bid for Celgene at the start of 2019, sending the shares up 40%. IBT's managers thought the shares had further to rise, so they increased their position and held on for a few more months before crystallising the profits through sale of the shares. The Bristol-Myers Squibb takeover of Celgene was worth $74bn, one of the largest the sector has ever seen.

Searching for hidden gems

Some of the most fertile opportunities in the biotechnology sector are not to be found among the well-established, listed companies. It is the smaller, newer, unquoted businesses in the industry which have the highest potential to be the rapid growth stories of the future, although they are not without risk.

These venture-capital style private investment ideas are hard for most investors to access, but International Biotechnology Trust offers exposure to them via an investment in a venture fund managed by SV Health. Typically, around 5%-15% of the £300m portfolio will be invested in unquoted businesses through the fund, SV Fund VI, overseen by biotech venture capital expert Kate Bingham.

Positions in the venture fund include biotech companies as well as names from the broader healthcare and life sciences sector and Kate favours those that can rapidly translate their potential into returns, both in terms of benefit to patients and return on investment.

While this is a relatively small part of the portfolio with longer term return horizons, it is a unique differentiator which offers returns which aren't correlated to the rest of IBT's holdings. This has proven to be useful ballast – particularly at times when investor sentiment is volatile. By gaining exposure to unquoted companies via a fund – as opposed to direct investments – IBT is also able to benefit from access to a broad unquoted portfolio with specialist managers, and ready liquidity.

Spotify stock asks too much of investors

A lot has to go right for the music streamer to justify 40-times 2024 net earnings projections

It may seem odd that it was right in the teeth of a global pandemic that shares in music streaming service **Spotify Technology** sprang to life. Since the 3 April 2020, the stock has rallied nearly 130% to nearly $280. It currently changes hands at $254.43.

This sudden jolt of investor support came after a prolonged spell of doing precious little. Since sparking huge excitement by joining the New York Stock Market in April 2018 through a direct listing at $132, the stock had spent most of its time since at about $20 either side of this starting price.

Investors have clearly been seriously conflicted about how to value a business, that appears to have huge growth potential but has yet to make an annual profit.

SPOTIFY 101

Before we get into why this is, and importantly, why it seems to have changed, let's get back to basics. Spotify is an on-demand music streaming service that allows users to browse a vast catalogue of music, licensed through multiple record labels, then create and share playlists with other users.

In much the same way that Netflix has emerged to dominate streaming TV and films, Spotify has become top dog with music. Founded in 2006 in Sweden as a solution to a massive internet piracy problem, it now operates in close to 80 markets worldwide and is estimated to command about 36% of global music streaming market share.

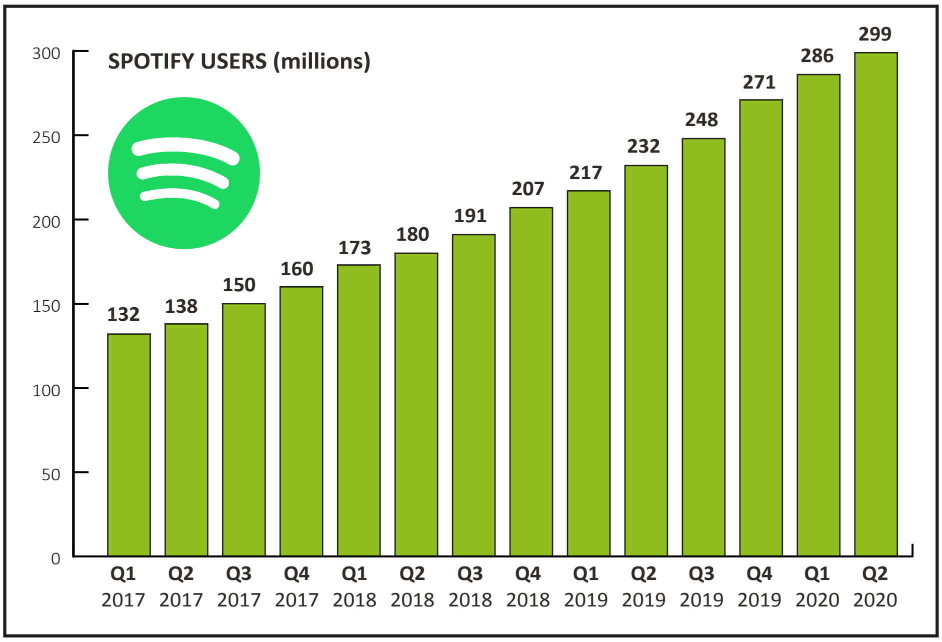
As of 30 June it had roughly 299 million monthly active users (MAUs) of whom 138 million are paying premium subscribers, bolstered by the boost in demand this year as Covid-19 lockdown came into force. The rest use the service on a 'freemium' basis, paying no subscription but having to put up with advert interruptions every few tracks.

For comparison, Apple Music last reported 60 million paid subscribers in the middle of 2019, although it has suspiciously stayed mum on breaking out figures since. Amazon Music has approximately 55 million music subscribers, so Spotify is well ahead in the streaming music wars.

But Apple and Amazon can bundle music in with other services, something Spotify cannot. For example, Amazon Music is part of its Prime package, including its streaming TV service and one-day delivery of millions of items. That's compelling in a way Spotify is not.

Users have access to more than 35 million songs through its handy app, available on all smartphones, tablets, PCs, some smart TVs and other devices.

The model is not complex. Spotify pays licence fees to recording labels, artists, publishers, and other rights holders for streaming their music on its platform. It also uses



Source: CRISPidea, Spotify

clever algorithms to work out what tracks have been played, and pays a royalty per stream to the artist or label. Variables such as where a song is played (geographically), local currency, artist value and a load of other factors go into the royalty calculation per stream.

The company stays tight-lipped on details, this is very market sensitive stuff, but it has been speculated by experts in the music industry that the average royalty payout per stream lands somewhere between $0.006 and $0.0084.

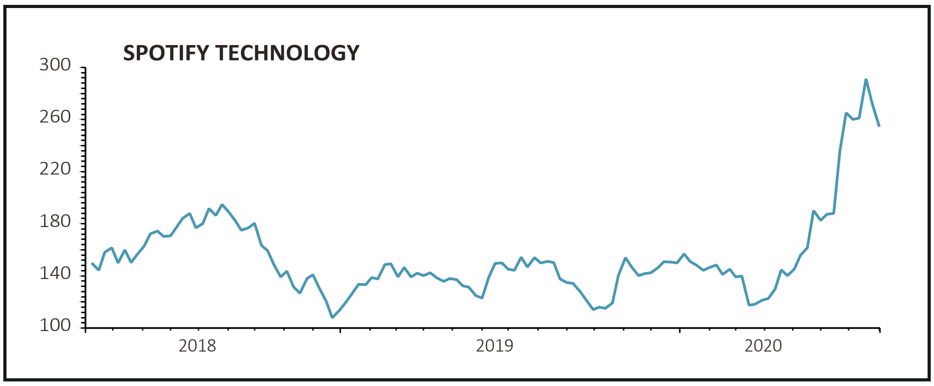
PODCASTING IMPACT

What has got investors really excited, however, is Spotify's bold move beyond music and into the world of podcasts, short recorded talk shows. These are becoming hugely popular with consumers.

The company made a big splash earlier this year by signing an exclusive, multi-year deal with US comedian Joe Rogan for his Joe Rogan Experience podcast, one of the most popular podcasts out there.

Deals have been struck with Kim Kardashian and the DC Comics universe to exclusive podcasting deals. This bolsters its content catalogue to 50 million-plus music tracks and podcasts.

Given that subscriptions make up something like 90% of



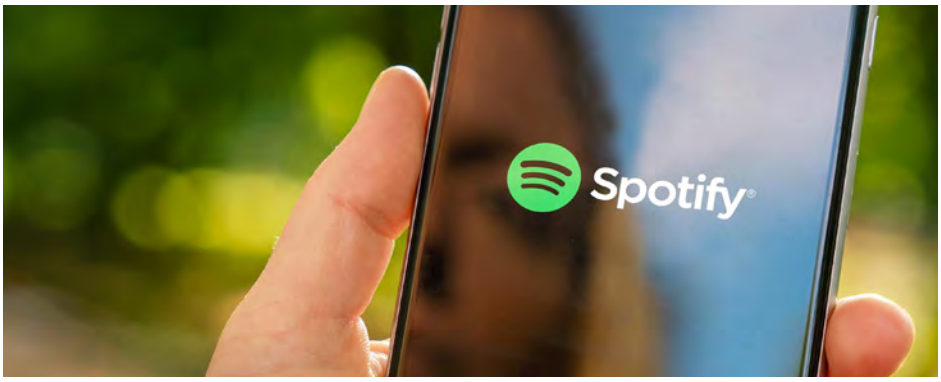
Spotify's revenue, podcasts are seen as a great way to accelerate the ads side of the business. The production of podcasts involves a modest fixed cost, so a large number of listens means far more in advertising earnings. This is effectively the model used by Facebook and Google-owner Alphabet – give people a reason to tune in, then target ads at them.

It's a big opportunity, Facebook has about 2.6 billion MAUs, Google's YouTube about two billion, so one billion for Spotify over the next 10 years, say, is not beyond the realms of possibility.

Ramping its music subscriptions at the same time, you can see why fans believe there is scope to really move Spotify's needle and get profits rolling fast.

This could help solve one of the obvious limitations for Spotify's (and Netflix's, for that matter) subscriptions model.

This is that it doesn't have a usage lever to pull, so it gets no benefit even if paying users spend vastly more time on the platform, such as during lockdown.



ANOTHER HEADWIND TO PROFIT GROWTH

There is another possible headwind to profit growth. As the company expands its user numbers it will inevitably push into lower value markets as well as run promotions. This could act as a drag on ARPU, or average revenue per user while its costs remain, largely, fixed.

In 2019, operating costs (sales, marketing, admin etc) were just shy of $1.8 billion, versus $1.72 billion of gross income (revenue after licence fees and royalties).

Spotify gross income is predicted to grow by around 17% to a fraction more than $2 billion this year (to 31 December), while operating costs expand 30% to $2.34 billion. This gap between income and costs will not close until at least 2023.

UBS is forecasting more than $1.1 billion of net earnings by 2024 but a lot has to go right for Spotify to get there. The level of intervening uncertainty is too high to warrant paying more than 40-times 2024's predicted net earnings.

By **Steven Frazer**
News Editor

5G REVOLUTION

How to invest in the new era of communications

By **Steven Frazer** News Editor

Imagine if you were to jump straight from bashing the keys on a typewriter one day, to using the latest laptop the next. The speed and ease would undeniably improve your workday, and make you a significantly more productive, efficient and happy person.

With 5G adoption we are on the cusp of a similarly crucial transformation, catapulting consumers and industry into a new era of superfast connectivity, where downloading movies takes seconds, smart factories crammed with automation are the norm, and cars drive themselves safely and efficiently.

'Put simply, 5G is revolutionising our communications,' says a Samsung Insights report.

This technological shift will take several years, not months, and there will be bumps along the way. This has been made abundantly clear with Chinese mobile network equipment being barred in the UK, US and elsewhere, and the recent, and completely unsubstantiated, health rumours about 5G masts.

POTENTIAL VALUE

The global 5G market is projected to reach $668 billion by 2026, according to Allied Market Research, implying compound annual growth of 122%. 5G will enable $12.3 trillion of global economic output, according to a 2018 report from IHS Markit.

The switch to 5G is already well underway, with countries like China, the US, South Korea and Germany joining the UK in leading the way, spending billions since 2015 to get infrastructure in place. There were more than 13 million 5G subscriptions globally at the end of 2019, according to the Q4 2019 Ericsson Mobility Report, 'signalling

DATA BANDWIDTH

3G	4G	5G
2 Mbps	1 Gbps	10 Gbps

*M/Gbps = megabytes / gigabytes per second
Source: BrainBridge, Visual Capitalist

the start of a new era,' the study said.

Investors don't have to wait as there are myriad opportunities today.

WHAT IS 5G?

5G is the fifth generation of mobile broadband that will eventually replace, or at least augment, current 4G connections. With 5G, consumers will see exponentially faster download and upload speeds, much greater bandwidth to send the explosion of data volumes, and latency (time lag) all but eradicated.

And when we say 'exponentially faster' we mean it. 5G's speed improvement is something to behold, shooting data from A to B up to 20 times faster than 4G networks.

For example, an average movie takes about six minutes to download on 4G. That waiting time is slashed to less than 20 seconds with a 5G connection.

Other benefits include greater device density. You may have been frustrated failing to get text messages sent or calls connected when you are in large crowds, perhaps at a football match or music festival. Try sending texts at midnight on New Year's Eve, when everyone near you is doing the same.

That network clogging will be a thing of the past with 5G, which is able to seamlessly handle about 10 times the number of devices at once in the same area. This is pivotal for its use in the Internet of Things (IoT) shift.

Finally, the time delay sending data from point A to point B will no longer be a problem. With 5G, latency plunges 25 times compared to 4G, resulting in almost instantaneous data transfers.

5G VS 4G: WHAT'S THE DIFFERENCE?

4G	5G
Faster downloads (peak data speed)	
125Mbps	2,500Mbps
Increased connectivity (devices per km²)	
100,000	1,000,000
Lower latency (delay, time lag)	
50 milliseconds	<2 milliseconds

*k/M/Gbps = kilobytes / megabytes / gigabytes per second
Source: Samsung Insights, Visual Capitalist

MOBILE INFRASTRUCTURE REQUIRED FOR 5G

The complete adoption of 5G will take a few years, but as the technological shift continues to unfold, investors can take advantage of the wave of opportunities it presents.

Devices

5G-enabled devices will be needed to fully access the network, although some people may experience faster speeds on existing 4G smartphones as 5G is being built on top of existing networks.

Network access

5G requires many small cell sites – roughly the size of a pizza box – to be built near to one another, to improve network density in urban areas.

Carriers

The shift to 5G will be a huge investment, but telecoms operators and carriers can consider partnerships to speed up the roll-out and help maximise returns.

Source: McKinsey

Big deal, you may think. An email pops up a blink of an eye quicker. But think about safety in self-driving cars, where milliseconds could be the difference between a collision or avoiding one. Another example is a top surgeon conducting open heart surgery remotely via robotic tools.

This illustrates why 5G is likely to see a rapid adoption curve in applications to the good of people and business once the infrastructure is in place.

It'll speed up the march towards widespread industrial automation and artificial intelligence applications, make our roads far safer and less clogged by removing the most dangerous element (people, in the case of driving) and introducing things like 'truck-trains' going up and down our motorways to improve fuel economy. It will also impact on medicine and healthcare provision.

SUPER-CONNECTED WORLD

5G networks are the perfect backbone for Internet of Things. IoT networks will see millions of gadgets and devices connected via the internet and able to receive and send useful data, supporting increasing device numbers, facilitating growing data transfers, and improving response time among connected devices.

According to McKinsey, 5G will likely speed up the mainstream adoption of the IoT across multiple industries.

TRANSPORT

- 5G enables self-driving cars to make split second decisions, making them safer.
- Self-driving vehicles can also connect to buildings, other cars, and even pedestrians in smart cities, responding rapidly to any issues and improving traffic flow.

These two uses are estimated to bring a $170 billion to $280 billion global GDP boost to the mobility sector by 2030, according to McKinsey.

MANUFACTURING

- 5G could result in high-tech industrial set-ups, using virtual and augmented reality (VR/AR) to boost productivity and precision in 'dark factories', entirely automated facilities that need few to zero human workers.
- Analytics and advanced robotics in smart factories can streamline manufacturing processes, leading to efficiency gains and cost savings.

Altogether, the impact could be a $400 billion to $650 billion boost to the industry by 2030, predicts McKinsey.

HEALTHCARE

- While robotic surgeries are not new, 5G could allow these procedures to occur remotely.
- Wearables and other smart medical devices provide real-time updates on patients and make accurate diagnoses.

These two applications will contribute an additional $250 billion to $450 billion in GDP to the healthcare space by 2030, forecasts McKinsey.

OVERHYPE & FAD VALUATIONS

There are threats and challenges to overcome, and investors need to know what they are, and their possible impact. Political risk is probably the most obvious in the wake of Chinese company Huawei's ban in the UK, US and elsewhere.

In July 2020 the UK ruled that a ban on the sale of Huawei 5G equipment would come into effect from January 2021. The embargo will also force UK mobile networks to strip out all existing Huawei kit by 2027.

This was a national security decision, the UK Government said, following a hearing where both **BT (BT.A)** and **Vodafone (VOD)** claimed that the ban would cost them billions of pounds, cause service interruptions, and delay the roll-out of 5G in the UK.

But those claims have been brushed aside by some experts. Richard Windsor from research group Radio Free Mobile says something like 70% to 80% of the network needs to be replaced when upgrading to 5G, 'meaning that the Huawei equipment will be ripped out regardless of who the 5G vendor is.'

In theory, banning one of the communication infrastructure equipment's major players would

reduce competition which could drive up costs. This could increase the capital expenditure budgets of mobile networks and these costs would have to be passed on, says Zehrid Osmani, who manages investment trust **Martin Currie Global Portfolio (MNP)**.

That could initially taper profits for companies hoping to make hay from 5G, and perhaps reduce returns for investors.

But while national security is paramount, the political decision to ban Huawei kit does not change the need for equipment upgrades or the wider benefits to be gained for businesses, investors and wider society long-term.

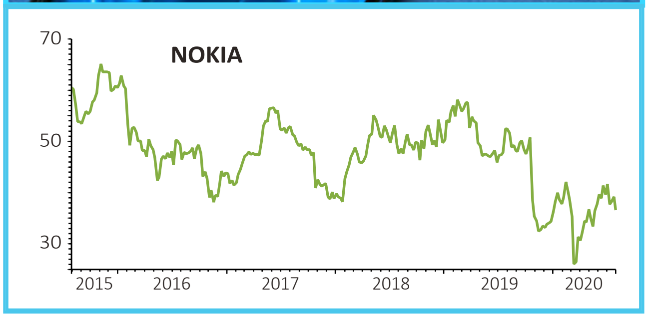
With Huawei now out of the picture, Swedish network equipment supplier Ericsson, arguably Huawei's clearest peer, is seen as the main beneficiary, but don't rule out Nokia, says Windsor.

The Finnish firm used to be known for its mobile handsets, but it has long since switched to providing communications kit.

'Nokia has by far the most to rally,' he says, because instead of being the 'small player stuck between two giants, now it will be the only alternative to Ericsson.'

For any UK investors interested in these companies, Nokia's US-listed shares are widely available on UK investment platforms, as are Ericsson's Stockholm or US-listed shares.

Many listed companies will be hoping to make big profits from this mobile revolution which, if successful, should mean relative share price outperformance and, in some cases, attractive dividend payments.



But don't get hooked on a 5G fad. 'Don't get caught up in the theme story,' is the advice from Martin Currie's Osmani, because not everything fifth generation mobile will work out, and not all investments will generate the returns you are looking for.

STOCKS PROVIDING ACCESS TO 5G

The most obvious plays on 5G are the mobile network operators, **Vodafone (VOD)** and **BT (BT.A)** – which owns the EE network – in the UK, or perhaps Verizon Communications which has gone live with 5G networks in Chicago and several other US cities.

FTSE 250 firm **Spirent (SPT)** provides communications testing and connectivity kit and has been busy working on 5G projects. It said in April that the development of 5G 'continued at pace' and that it had secured key orders to support customers.

Those exposed to industrial applications, such as automation, robotics, health and transport include engineering software suppliers like London-listed **Aveva (AVV)**, Autodesk and Adobe in the US, and **Ocado's (OCDO)** automated grocery fulfilment centres.

Ross Teverson, head of strategy, global emerging markets at fund manager Jupiter, say semiconductor chip makers TSMC and Mediatek have seen lacklustre demand for consumer electronics products being shored up by demand from the roll-out of 5G networks and rising demand from servers as people consume more data and employees work from home around the world.

FUNDS THAT INVEST IN 5G

The Defiance Next Gen Connectivity ETF, or FIVG, was launched in the US in April 2019, designed to track a universe of 78 companies exposed to 5G, be it mobile network operators, infrastructure kit, semiconductors or software for apps.

It is not available to UK investors, yet its portfolio gives an indication of the breadth of companies chiming to 5G's tune, including Ericsson and Nokia, chipmaker Qualcomm and American Towers, which owns mobile mast networks.

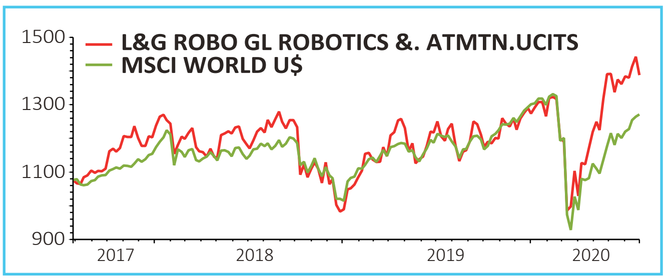
One option that could become available to UK retail investors in the near-term is a 5G Connectivity open-ended fund recently launched by investment manager Neuberger Berman. It plans to invest in a global portfolio of between 40 and 60 companies where at least half of their future earnings will come from 5G adoption and connectivity. The global fund hopes to appear on UK investment platforms soon.

In the meantime, there are plenty of options for UK investors to gain exposure to either 5G directly, or to secondary themes, like automation, internet companies or the general technology space. Here are three to buy:

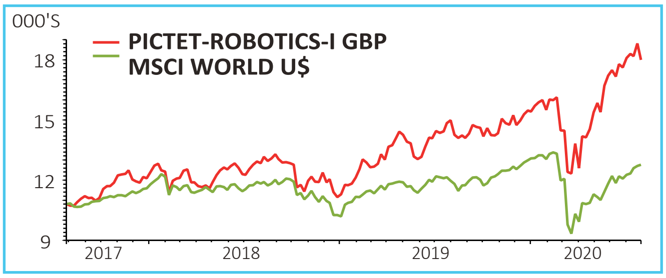
ROBO Global Robotics and Automation ETF (ROBG) £13.83

This index-tracking ETF is designed to match the performance of companies that not only manufacture and operate robotics and automation systems, but artificial intelligence too.

Spread across 12 sub-sectors, such as 3D printing, logistics automation and healthcare, it offers decent diversification while exposing investors to many 5G beneficiaries, such as machine vision designer Cognex and consumer robot maker iRobot. It boasts 18% annualised returns over the past five years, according to Morningstar.



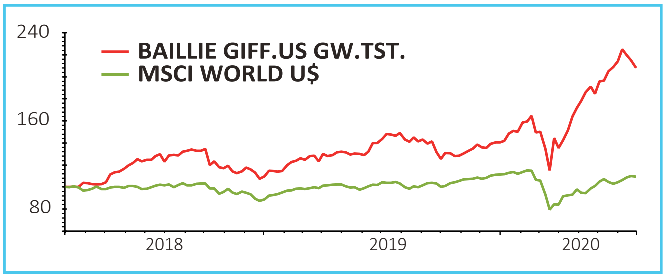
Pictet Robotics Fund (BDB6DB9) £179.89



This fund invests in companies that make a good chunk of their profits from robotics, automation and its value chain. Key holdings include German industrial automation engineer Siemens, chip giant Intel and US data analytics company, Splunk.

It has returned 66.9% over the past three years, lagging the 71.8% from the Investment Association Technology & Telecoms index over the same period, but smashing the 39% investors would have got from the S&P 500, according to data from FE Fundinfo.

Baillie Gifford US Growth Trust (USA) 216.7p



Typical of Baillie Gifford funds, manager Gary Robinson is not concerned with the here and now; his strategy is to identify and own the exceptional growth companies in America.

5G-focused stocks in the trust's portfolio include the self-driving ambitions of Tesla, real-time advertising space buying platform The Trade Desk, film and TV streaming provider Netflix and e-commerce group Shopify.

The trust's shares have doubled since their March 2018 launch, and up 46% since we said to buy last August.

INVESTOR DIARY:
Taking control of my pension

We look at how someone is running their own retirement portfolio

We're pleased to introduce Malcolm from Edinburgh who will share his experience as someone in retirement properly taking charge of their investments for the first time. Discover how he set up his first portfolio and in future articles Malcolm will explain how he is managing his investments.

Malcolm from Edinburgh says:

As retirement beckons there is a need to get financial matters in order and what follows is a narrative account of my attempt to become more responsible in managing the self-invested part of my pension. No recommendations or advice are offered; merely a snapshot of experience.

By way of context, I invested during the middle years of my career in a free standing additional voluntary contribution (AVC) scheme. I paid little attention to this investment and was misguided enough to believe that retirement at 52 (rather than 63) was realistic.

I then compounded matters by not continuing to invest in the pension in my later working life. Despite this lax approach, the invested sum increased six-fold and totalled around £150,000 by retirement.

I had 95% of the invested AVC in the same fund – a riskier situation than necessary, so I entered retirement determined to do better and where possible enjoy investing.

I opened a SIPP (self-invested personal pension) with the £150,000 and created a stocks and shares ISA account to which £40,000 has been added over the last two years.

PUTTING A PLAN INTO ACTION

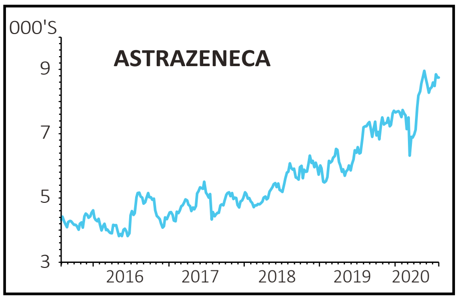
By mid-December 2019, I was at the starting line. I had no set goals in mind – I just wanted to gain satisfaction from knowing that something more certain than luck was informing investment decisions.

At the outset, I decided to retain a quarter of the joint SIPP/ISA money in cash savings to ensure shares could be purchased or money withdrawn without raising funds through selling.

Next, I invested £40,000 split equally across two equity investment funds, one more cautious and one more adventurous. These moves were designed to provide some stability to my portfolio.

The remaining half of the fund is currently invested in 22 different shares, all from the

FTSE 100 and FTSE 250 indices. The minimum investment is £4,000, the majority at £5,000 and a few at £6,000 to £8,000.



I've tried to take a conservative approach based on investment clusters in certain sectors, most notably health and pharmaceuticals (including **AstraZeneca (AZN)**, **Hikma Pharmaceuticals (HIK)** and **Smith & Nephew (SN.)**); construction (including **Barratt Developments (BDEV)** and **Balfour Beatty (BBY)**); food and drink (including **Associated British Foods (ABF)** and **Tate & Lyle (TATE)**); and natural resources (**BP (BP.)** and **Royal Dutch Shell (RDSB)**).

BUYING BEFORE THE MARKET CRASHED

Most shares were bought in the window after the UK general election in mid-December 2019 and before the full extent of Covid-19 became known in late February 2020.

Timing is important in the financial world and clearly this was unfortunate timing. So, as of 22 July 2020, I am just over 9% down, equivalent to a loss of £13,500.

This is a little disappointing but something I'm sanguine about especially as I have recently sold eight shares at a profit of £7,000.

I do not follow the maxim that shares necessarily need to be held for the longer term. My greatest pleasure thus far has come from identifying previously unknown to me FTSE 250 companies, such as **UDG Healthcare (UDG)** and **Essentra (ESNT)** and investing successfully in them.

> I usually avoid stocks showing marked price swings (up and down) as well as share tips.

I mostly use visual information rather than language description to comprehend matters. For example, considering the term 'overweight' as a wealth enhancing possibility rather than as a health-related concern seems complicated relative to reviewing the shape and profile of share price charts over a week, a month, three months and onwards up to 10 years.

I also find the objectiveness of the price-to-earnings ratio useful when determining whether a stock is overvalued or undervalued.

I usually avoid stocks showing marked price swings (up and down) as well as share tips. Instead, I listen to financial podcasts as these can help considerably in gaining a broader business understanding.

THREE STYLES

Going forward, I need to manage three types of shares: 'succeeding' ones which are in profit or close to profit and deciding whether to invest further in these shares or to hold or sell them.

Then there are the generally 'sound' shares which have fallen in line with Covid-19 impact and which are between 5% and 20% down. These shares need scrutiny in terms of improvement or otherwise and will probably be held for the present.

Finally, there are my five 'sink' shares which are between 25% to 45% down since purchase. Most likely, I will hold these shares for some years. I have yet to sell a loss-making share, but this is something meriting review in the future.

There are many other challenges such as exploring whether investing in the AIM market and buying shares in other global markets is a good idea. I hope to report on these in a future column.

Until then, the intention is to keep learning and to become more responsible in making investment decisions which do not unduly compromise the enjoyment of everyday life.

Investment trusts with the lowest charges

We explain how some products are able to have very low fees

Low-cost tracker funds including exchange-traded funds have been grabbing ever more market share as investors demand value for money, but there are now an increasing number of active funds, especially investment trusts, competing on price.

When talking about fund pricing, the ongoing charges figure (OCF) is a useful way to compare costs. It includes the annual management charge, administration and custody fees but excludes trading costs and performance fees.

There are currently 17 investment trusts with OCFs of 0.5% or less. Some are large and well-established funds such as **Scottish Mortgage (SMT)**, **City of London (CTY)** and **Monks (MNKS)**, while others are smaller and managed by less well-known groups.

REGULATORY PRESSURE ON FEES

There has been downward pressure on charges across the fund management world as regulation has encouraged providers to look more closely at the value they give to investors.

In the first half of this year, 18 investment companies changed their fees to benefit shareholders, according to the Association of Investment Companies (AIC). When a trust amends its charges, actions can include lowering management fees, scrapping performance fees, and introducing tiered fee structures linked to size.

One of the trusts with an OCF below 0.5% is Scottish Mortgage, one of the largest and best known in the marketplace at £14 billion in size. It used to have a flat 0.3% management charge, but in April 2017 it introduced a tiered fee of 0.3% on the first £4 billion of assets and 0.25% on the rest.

Another example is the £1.2 billion **JPMorgan American (JAM)** investment trust, which removed its performance fee last year and waived its management fee for nine months (until 29 February 2020) before bringing in a tiered fee of 0.35% on the first £500 million of net assets, 0.3% on the next £500 million and 0.25% above £1 billion.

Trusts with OCF below 0.5% charging a performance fee
Aurora
Henderson Smaller Companies
Highbridge Tactical Credit
Schroder UK Public Private Trust

Source: AIC/Morningstar

The board pointed to the need to offer simple and value-for-money fees, noting that performance fees are often seen as an unnecessary complication by potential investors.

At the other end of the spectrum, the most expensive investment trusts in the marketplace in terms of charges include specialist vehicles such as **CATCo Reinsurance Opportunities (CAT)** and **Life Settlement Assets (LSAA)**, and they tend to be smaller in size.

ECONOMIES OF SCALE

Despite a few outliers, the trajectory on fees is very much downwards. Over the past two years, 19% of investment trusts have reduced fees, amounting to 78 fee changes which have lowered costs for investors.

'This demonstrates that investment companies are continuing to cut fees, following the trend of recent years,' says the AIC's communications director Annabel Brodie-Smith. 'Independent boards are a major advantage of investment companies and it's good to see them continuing to work for shareholders' benefit by bringing charges down.'

So how is it that some trusts are able to offer such competitive fees? They can do this because the larger trusts get, the cheaper they are to run, explains Brodie-Smith. 'One of the benefits of the investment trust structure is an independent board of directors and, as the company grows, it's up to the board to make sure economies of scale are passed on to shareholders.

'Directors have been very proactive in terms of ensuring their fees are very competitive, many of them have reduced their fees not once but a number of times.'

STRAIGHTFORWARD VS COMPLEX ASSETS

Low fees are also possible when a trust invests in straightforward assets such as equities, rather than something more complex like property.

Kunal Sawhney, CEO of equities research house Kalkine, explains that real estate or private equity trusts, for example, will be more expensive to reflect the extra work that goes into each investment they make.

'Such specific trusts have to carry out comprehensive research on unlisted companies, complex deals negotiation and more attention in managing those businesses. The real estate sector also tends to have a higher cost as developing, managing, refurbishing of properties can be a costly affair. No monthly rental for some odd periods, legal costs and stamp duty charges will add to the cost burden.'

He suggests that investors do their homework before buying trusts like these, making sure past performance justifies higher fees, and that you're not taking on too much risk in illiquid and cyclical assets. 'It is mainly considered a high risk, high return investment strategy for which investors need to pay higher charges to have exposure to such complex assets,' he adds.

10 most expensive trusts by OCF

Investment trusts	Ongoing Charge (%)	AIC sector
Worsley Investors	10.22	UK Smaller Companies
British & American	9.10	UK Equity Income
Sure Ventures	8.78	Technology & Media
Life Settlement Assets A	8.32	Insurance & Reinsurance Strategies
RDL Realisation	8.25	Debt - Direct Lending
CATCo Reinsurance Opportunities	7.20	Insurance & Reinsurance Strategies
Life Settlement Assets B	6.07	Insurance & Reinsurance Strategies
BH Macro	5.84	Hedge Funds
Chelverton Growth Trust	5.74	UK Smaller Companies
LMS Capital	5.69	Private Equity

Source: Morningstar, ex VCT, ex companies currently suspended.

PERFORMANCE FEES: A DYING BREED?

Some investment trusts have a low OCF but still charge a performance fee, although these are in decline on investment trusts investing in mainstream assets.

Across the closed-ended marketplace, 89 investment trusts still have a performance fee in place. Typically, these are 10% to 20% of any outperformance above their benchmark index. If the fund doesn't meet its set performance target, investors don't pay the performance fee.

'Generally, if you look at

Trusts with lowest ongoing charges	
Company name	**Ongoing charge (%)**
JPMorgan Elect Managed Cash	0.01
Fair Oaks Income 2017	0.22
Independent Investment Trust	0.24
Law Debenture Corporation	0.30
Hansa Investment Company	0.31
Highbridge Tactical Credit	0.34
Blackstone/GSO Loan Financing	0.36
Scottish Mortgage	0.36
Invesco Perpetual Select Managed Liquidity	0.39
City of London	0.39
JPMorgan American	0.39
Henderson Smaller Companies	0.42
Schroder UK Public Private Trust	0.43
Aurora	0.45
Mercantile	0.46
Monks	0.48
Temple Bar	0.49

Source: Morningstar, ex VCT, ex companies currently suspended.
This is the OCF excluding the management fee waiver which was in place until February 2020

the sorts of assets they are invested in, they are things like infrastructure, technology, private equity and hedge funds. They are more specialist assets that will require more active management, and there is clearly competition for really good specialist mangers,' says Brodie-Smith.

The AIC's view is that performance fees are not in themselves a bad thing as they can align the manager's interests with those of shareholders. However, these fees should be carefully set to ensure they don't encourage managers to take excessive risks.

By **Hannah Smith**

WATCH RECENT PRESENTATION WEBINARS

Pensana Rare Earths Plc (PRE) - Paul Atherley, Chairman

With Presidential approval and backing from the Angolan Sovereign Wealth Fund, recently LSE listed Pensana Rare Earths is bringing online the first major rare earths in over a decade to help meet the rapidly growing demand for magnet metals critical for electric vehicles and offshore wind turbines.

Quadrise Fuels International (QFI) - Mike Kirk, Chairman & Jason Miles, CEO

Quadrise Fuels International is engaged in the manufacturing and marketing of emulsion fuel for use in power generation, industrial and marine diesel engines and steam generation applications.

ReNeuron Group (RENE) - Michael Hunt, CFO

ReNeuron Group is a biotechnology firm. The principal of the business involves the research and development of stem cell technology for the treatment of motor disabilities and blindness-causing diseases.

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How is 'pension recycling' defined?

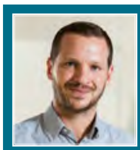
HMRC rules aim to prevent you taking more tax relief than you are owed

I retired five years ago, fully crystallising my SIPP by taking the 25% cash lump sum and putting the remaining 75% into flexi-access drawdown.

For the last five years I have been working part-time and contributing below the £4,000 per tax year limit into the company pension scheme.

Now I have fully retired I wish to continue paying into my SIPP up to the £3,600 per tax year maximum.

However, would this continued contribution be classed by HMRC as 'pension recycling'?
John



Tom Selby
AJ Bell
Senior Analyst says:

HMRC has rules in place designed to prevent people manipulating the system to get extra tax relief. As you say, this concept is referred to by the taxman as 'recycling' and applies specifically to your use of the 25% tax-free lump sum entitlement.

It's probably easiest to show you how recycling might work with an example. Let's assume someone is 60 years old and has a SIPP valued at £40,000. They take out their maximum tax-free sum (£10,000) but rather than spending it, invest it straight back into another SIPP with a different provider.

As a result, they get basic-rate tax relief on the 'new' contribution (immediately boosting the value of the contribution by £2,500 to £12,500) and can then access 25% of that money (£3,125) tax-free as well.

SPECIFIC RULES

Clearly such behaviour would present a significant risk to the Treasury – which is why HMRC has specific rules in place designed to prevent excessive recycling. Anyone who breaks these rules risks being hit with a 55% unauthorised payment charge.

HMRC will consider recycling to potentially breach its rules where the tax-free sum (or sums) received over a 12-month period are worth more than £7,500.

The rules kick in where the payment of a tax-free lump sum has resulted in a 30% or more increase in contributions to your pension compared to what might normally have been expected.

While this might sound a bit vague, it's actually a specific condition – HMRC looks at contributions paid in the rest of the tax year after you took your tax-free cash plus up to two more years afterwards. This is then compared with the contributions made during a similar period before tax-free cash was taken.

You can't get round this by paying into different pension schemes as HMRC will look at all of your contributions when making its assessment.

Equally, HMRC will penalise you for recycling if you borrow money to pay contributions or pay into your pension out of savings and then use the tax-free lump sum to pay off the loan or top up savings.

Based on the information you have provided it seems unlikely you would fall foul of HMRC's rules as you have not used your tax-free lump sum to boost your annual contributions (in fact you have reduced them since retiring). Indeed, HMRC itself notes that 'very few' lump sum payments will be affected by its recycling rules.

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 information 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.

Managing your pension in your 20s and 30s

Handy hints on how to start putting money aside for later life

Pensions offer people of all ages the opportunity to grow their hard-earned savings tax efficiently, providing an upfront incentive via tax relief and tax-free investment growth.

Furthermore, when you reach age 55 you can access 25% of your pot tax-free and have total flexibility over how you draw an income.

However, what you prioritise is likely to evolve as you go through different phases of your life.

In the first part of a series, we look at some of the key things that savers in their 20s or 30s should be thinking about as they get started on their retirement journey.

THE EARLIER YOU START, THE EASIER IT IS

Anyone aged 22 or over who is employed and earning £10,000 or more should be automatically enrolled into a workplace pension scheme.

When you are auto-enrolled at least your first 3% of contributions are matched by your employer. If you opt out of auto-enrolment you'll be waving goodbye to this free money forever, so make sure you stay in the scheme if you can afford to.

The minimum auto-enrolment contribution is 8% of earnings between £6,240 and £50,000 – of this, 4% comes from the employee, 3% from the employer and 1% via pension tax relief.

Who qualifies for automatic enrolment?

To be eligible, you must be:

1. **At least 22 years old**
2. **Not yet at state pension age**
3. **Earning a salary of at least £10,000* p.a. (under current rules)**
4. **Normally working in the UK under a contract of employment**

*This is known as the earnings threshold and you will be assessed for eligibility at each pay period. The earnings threshold will be prorated meaning the actual earnings threshold amount will differ if you are paid monthly, four weekly, fortnightly or weekly. As you are assessed for eligibility at each pay period you may find that you are automatically enrolled if your earnings increase – if only for a short period.

For example, if you are paid monthly, you will be deemed to meet the earnings threshold if your monthly earnings reach at least £833. If you are paid weekly, you are deemed to meet the earnings threshold if your weekly earnings reach at least £192.

You will receive tax relief on your contributions. If you're not eligible, you can still ask to be put into a pension scheme and your employer may pay into it.

Source: The Pensions Advisory Service

HOW MUCH SHOULD I SAVE?

One very rough rule of thumb is to aim to save half the age at which you started as a percentage of your salary each year.

For example, if you start saving at 20 then you aim for 10%, while delaying until 30 means you'll be targeting 15%, and waiting until you're 40 will mean you need to set aside 20%.

Don't let these numbers scare you though – any money saved in a pension is a good investment. But be aware that by taking the bull by the horns and starting early, the journey will be much easier.

Other reasons to save for the future

It's worth noting that long-term saving isn't just about pensions. Those wanting to prioritise buying a first home may want to save their spare cash in a Lifetime ISA, for example (although you should aim to do this alongside your workplace pension if you can).

It's also sensible to build up a decent-sized 'rainy day' fund in an easy access cash account you can get at quickly in case of emergency. Aiming to have around three months' fixed expenses in this emergency account is a good place to start, and make sure you shop around for the best interest rate you can find.

HAVE A BUDGET AND WRITE DOWN YOUR SAVINGS GOALS

For most people in their 20s and 30s there will be many competing financial priorities. For example, individuals may have their sights set on paying off debts or saving for a first home (or both).

Clearly all of us only have so much money and it's unrealistic to save every penny you earn, but writing down your outgoings and incomings is a good first step to understanding what you truly can afford to set aside for later life. And the earlier you do this, the easier it will be.

WHAT IS PENSION TAX RELIEF?

If you think you can afford to save above and beyond your workplace pension, your contributions will benefit from pension tax relief. This will automatically convert an £80 contribution into £100 in a pension, while higher and additional-rate taxpayers can claim back extra tax relief from HMRC.

Some workplace schemes – such as salary sacrifice pension arrangements and so-called 'net pay' schemes – will pay this tax relief automatically, provided your contribution comes from salary taxed at 20% or higher.

Because of this generous tax treatment, annual pension contributions are capped at £40,000 for most people (or 100% of your UK relevant earnings if this is less than £40,000).

THINK ABOUT YOUR INVESTMENTS

While how much you pay into your pension (and how early you start) is arguably the key factor in determining your eventual retirement outcome, investments can provide a significant boost too – particularly over the longer term.

If you're in your 20s or 30s, your investment time horizon is likely to be 30 to 50 years, which is long-term in anyone's book.

Your auto-enrolment pension will be picked for you by your employer. If you take no action you will be placed into the 'default' investment fund, which benefits from a cap on charges currently set at 0.75%. This fund will not be designed based on your attitude to risk, however, but rather targeted at the broad scheme membership.

Furthermore, different default funds have vastly different investment strategies and as such will deliver different investment outcomes for their members.

At the very least you should have a look at the default fund into which you are being put and make sure you are happy with the investments you own and the level of risk you are taking.

While attitude to risk differs from person to person, generally younger investors can tolerate greater fluctuations in the value of their pot over the short-term as they don't need to access the money for decades.

Historically, those who have been willing to accept volatility over the short-term have generally been rewarded via returns over the long-term.

CAN I RUN A PENSION MYSELF?

If you save over and above auto-enrolment in a pension such as a SIPP (self-invested personal pension), you'll enjoy a whole world of choice for your investments.

If you aren't confident in choosing individuaL stocks or bonds, you may want to look at funds or investment trusts where a fund manager will select everything that goes into their portfolio.

An alternative is to use a tracker fund or exchange-traded fund which mirrors the performance of a specific basket of stocks, bonds or other asset classes, or a mixture of them.

Lots of ISA and SIPP providers also offer ready-made portfolios based on attitude to risk, ranging from cautious to adventurous. You can usually choose between 'active' funds – which are run by a manager trying to beat the market – or 'passive' funds which simply track an index.

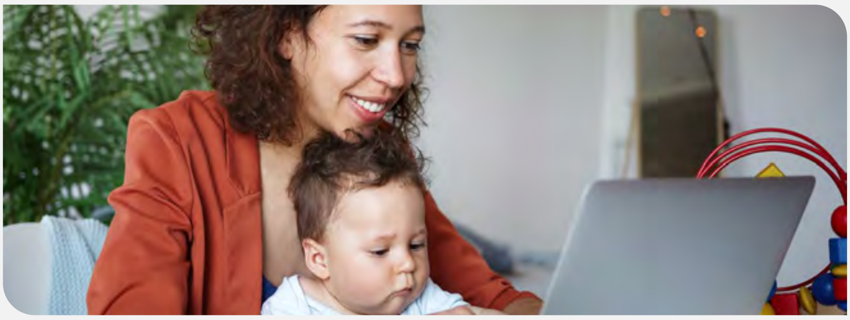
LOOK AT THE CHARGES

If you're picking your own investments, once you've established the appropriate level of risk it is crucial to keep your costs as low as possible. This is because even small differences in charges can compound over time to wipe thousands of pounds off the value of your pension.

In terms of cost, active funds tend to have higher charges than passive ones (although active managers say this charge is justified because they have the skill to deliver higher returns).

Once you're happy with your attitude to risk and the investments you have chosen, there should be no need to do anything to your portfolio until you are around five to 10 years from retirement, apart from checking that nothing has changed to the investment case of each asset.

In fact, in most cases the last thing you want to do is trade too often as this will layer on extra costs with no guaranteed benefit.



Saving for your children

For lots of savers in their 20s and 30s the focus isn't just on their own savings but building a pot of money tax efficiently for their children as well. If this is a priority there are two 'junior' versions of traditional savings products you could consider.

You can save up to £2,880 a year on your child's behalf in a Junior SIPP and it will be topped up automatically via pension tax relief to £3,600. The mechanics of tax relief are the same as for an adult saver, just with a lower annual contribution limit.

In all other ways a Junior SIPP works in the same manner as a regular SIPP, with 25% of the pot available tax-free from age 55 (due to rise to age 57 in 2028) and the rest taxed in the same way as income.

The other main option is a Junior ISA where the annual allowance is £9,000. Once your child reaches age 18 their Junior ISA will convert into an adult ISA and they will be able to access the money tax-free.

A parent who started saving in a Junior ISA for a new-born child could build a tax-free pot of more than £240,000 by the time their child reaches 18, assuming they put the maximum in each year and it grows by 4% every year after charges.

COMING SOON

Don't miss next week's pensions article, looking at what people in their 40s should do with saving for retirement.

By **Tom Selby**
AJ Bell
Senior Analyst

Six ways to teach your children about money

The holidays are a great time to get kids involved in money, from running a tuck shop and washing cars to buying shares in companies they know

With the summer holidays now in full swing, many parents will be wondering how to keep their kids entertained over the coming weeks. Finance lessons may not be the first thing that pops to mind but new research has found that kids enjoy learning about money when its mixed with games, jokes and real-life examples.

Research from the Bank of England found that only a quarter of children like learning about money at school. The survey of 1,642 children aged seven to 14 years found they would find learning about money more fun if there were jokes and funny stuff, games, and using real money in real situations.

The research found that young girls are less likely to enjoy learning about money than boys, with just a fifth of girls saying it is fun compared to a third of boys.

HOW TO MAKE MONEY FUN

Start a tuck shop: During lockdown lots of parents came up with innovative ways to give their children real-life examples of spending money while shops were closed.

One option is to have an at-home tuck shop. Each child gets a (theoretical) amount to spend each day and snacks in the house each have a price tag.

This means children must work out budgeting, look at whether they want to save up to buy a bigger treat and do some basic maths to work out how far their virtual pennies will stretch.

You can make healthier snacks cheaper while chocolate and biscuits are more expensive if you want to encourage healthier snacking.

Use the *Beano* to help kids learn: The Bank of England and *Beano* have launched some tools to help kids learn about finances and money.

The tools are intended for teachers to use but are available online. There are different lessons for different ages, such as explaining money and debt to ethical spending. It includes things like helping Minnie the Minx to spend her £10 birthday money or helping Dennis The Menace avoid a charity fundraise scam.

Get them to set up a business: You could set your child the task of how they can make some money. They will need to decide on what they want to do or make (this will be age dependent) from offering to wash a neighbour's car to making some cakes and selling them to people on your street. It will get them thinking about how to set prices, how to sell, and how to make their own money.

Get them to set an end-of-summer goal: Most parents give their children pocket money, but you could use the six-week break to teach your children about saving money.

Get them to think about something they really want to buy and work out how much money they would have to save each week to afford it by the end of summer.

They could boost their savings pot by doing extra chores or selling old toys, and some parents might offer to match any savings or add a proportion to give an extra incentive. This will not

only teach your children how to save for something specific but it will also teach them about working towards a goal and delayed buying, rather than getting everything immediately. They could even club together with siblings to buy something together.

Clear out and sell it: Lots of people have used lockdown to clear the clutter in their house, but children may be more unwilling to get rid of their stuff.

You could set them the task of clearing out any unwanted old toys, clothes, shoes or gadgets and then get them to sell the items for money. You could go to a car boot sale or you could sell the stuff online, such as on sites like Facebook's marketplace, Gumtree, Ebay or Depop for clothes.

Not only will you get a tidier children's room (hopefully) but you'll teach them about making money from the things they no longer want.

Set up an investment account: Clearly this involves committing some of your own money but if you've been intending to set up some investments for your child, either in a Junior ISA or just in your own ISA, you can get them involved to learn about investing.

It depends on the age of your children as to how involved they can get, but some parents like to invest a bit of money in shares their child may be interested in – such as Disney, Amazon or Netflix, for example.

By investing in recognisable companies you'll make investing more relatable. You can then use this to explain some of the basics of how investing works, what the stock market is and how buying a Disney DVD on Amazon contributes to those companies' earnings and therefore share prices.

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

How the stock market works

We explain how the stock market brings buyers and sellers together, when and where you can trade and what an 'auction' is

Novice investors often approach the stock market with trepidation, but the market is simply a forum that brings together investors who want to buy and sell part-ownership stakes in companies, known as stocks or shares.

As we have discussed in previous entries in this series, investing in shares offers you the potential to grow your money at a quicker pace than would be possible if you squirrelled cash away in a bank account and in return for a paltry rate of interest.

In order to trade with other buyers and sellers, you will first need to open a dealing account or an individual savings account (ISA) with a stockbroker, whose platform will connect you with other traders.

TRADING ELECTRONICALLY

For many decades, the **London Stock Exchange (LSE)** provided a trading floor where members could buy and sell shares. Today, share trading is almost entirely done electronically and the LSE offers this service with state-of-the-art systems that can process over a million trades per day.

Stock market opening times reflect the geographic location of each local exchange.

WHAT IS AN AUCTION?

Different to regular trading on an exchange, auctions are used in many markets around the world to open and close stock markets and as well as a way to re-start the market if a stock has been halted due to a 'volatility interruption', which in plain English means a wild share price move up or down.

The opening of the market is preceded by an opening auction. This sets the opening price in a SETS security; the opening auction 'call period' is where orders are collected from the market. This starts at 7.50am and ends just ten minutes later at 8am.

During the opening auction, stockbrokers can enter certain types of orders for execution during what's known as an 'uncrossing', basically a process where orders that can be matched between buyers and sellers are executed. The trading day ends with a similar auction pre-4.30pm and, as discussed, auctions can occur during the trading day, triggered by substantial price swings in a security.

WHAT DETERMINES A SHARE PRICE?

Numerous factors influence a share price, among them investor sentiment towards the sector or industry a company is in, but the main factor is how well said business is performing.

When a firm is doing well investors want to own it, so demand pushes the share price higher, and vice versa. Share prices reflect the market's view

WORLD STOCK MARKET OPENING TIMES

Market	Opens	Closes	Major indices
New York Stock Exchange	2.30 pm	9:00 pm	Dow Jones/S&P 500
NASDAQ	2.30 pm	9:00 pm	NASDAQ 100
Japan Exchange Group	12:00 am	6:00 am	Nikkei 225
Shanghai Stock Exchange	1.30 am	7:00 am	SSE Composite
Euronext	8:00 am	4.30 pm	AEX/CAC 40
London Stock Exchange	8:00 am	4.30 pm	FTSE 100/FTSE 250

Note- times are GMT/UK time

of the prospects for a company and its earnings and cash flows, as well as the tone and detail of recent news announcements.

Positive trading updates and forecast-beating financials typically drive upgrades to earnings estimates and a re-rating of the multiple investors are prepared to pay for a stock.

In contrast, downbeat updates and profit warnings trigger downgrades and de-ratings of a stock and its earnings multiple. Over-supply of a stock following the issue of new shares, which dilutes equity ownership, can also exert downwards pressure on a share price.

Salient examples in today's market include Elon Musk-steered electric vehicle maker Tesla, whose shares have surged ahead amid frenzied buying in the belief the company will come to dominate the electric vehicle market.

Retailer **Marks & Spencer's (MKS)** shares remain in the doldrums with investors anticipating a bleak future for the heavy challenged shopping chain amid seismic shifts in the retail sector.

HOW MANY SHARES CAN I BUY?

Investors should not get hung up on a company's share price in isolation. It really doesn't matter if you own 10 shares at 10p or one share at 100p. However, some share prices are high enough that it would make a difference if you wanted to invest a smaller lump sum or to drip feed a modest amount into the market at regular intervals. Let's assume Marcus, a 35-year-old quantity surveyor, wanted to put £75 per month into perhaps one or two individual stocks. Even a single share in the likes of pharma giant **AstraZeneca (AZN)**, consumer goods firm **Reckitt Benckiser (RB.)** and engineering giant **Spirax-Sacro Engineering (SPX)** would all be out of his price range at August 2020 prices.

PRICE ISN'T THE SAME AS VALUATION

One classic mistake many novices make is to confuse a low share price with a low or cheap valuation. You cannot judge whether a share is cheap by its share price alone. Let's say you want to invest in the sportswear retail industry, where there are three competing companies listed on the stock market: Trainers PLC, The Snazzy Tracksuit Company and Bobby's Sporting Goods. Their shares are priced at 50p, £4.50 and £10 respectively, so obviously Trainers PLC is the bargain selection, right?

Wrong! Bobby's Sporting Goods trades on a forward price-to-earnings ratio of just seven times, despite the nominally higher share price, versus a 12 times multiple for The Snazzy Tracksuit Company and 18 times for Trainers PLC, an online-only retailer whose shares are in vogue with the market as it is delivering rapid earnings growth.

That said, Bobby's Sporting Goods has lots of debt on its balance sheet, which is risky, while many of its brick and mortar stores are underperforming and its earnings are in decline, so it may not be the bargain pick. Its shares may well be cheap for a reason.

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

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

7 August: Hargreaves Lansdown, Simec Atlantis Energy. **11 August:** Versarien. **13 August:** Frasers, Renishaw, Watches of Switzerland.

Half year results

7 August: Hikma Pharmaceuticals, Rightmove, Standard Life Aberdeen. **10 August:** ContourGlobal, Diversified Oil & Gas. **11 August:** Amino Technologies, Domino's Pizza, JKX Oil & Gas, Plus500, Prudential, SDL, Zotefoams. **12 August:** Admiral, Capital & Counties Properties, CLS Holdings, Empresaria Group, Hostelworld, Impact Healthcare REIT, Spirax-Sarco. **13 August:** Anexo, Empiric Student Property, GVC Holdings, Helios Towers, National Express.

Trading statements

11 August: Cairn Homes, S&U. **13 August:** Pennant International.

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