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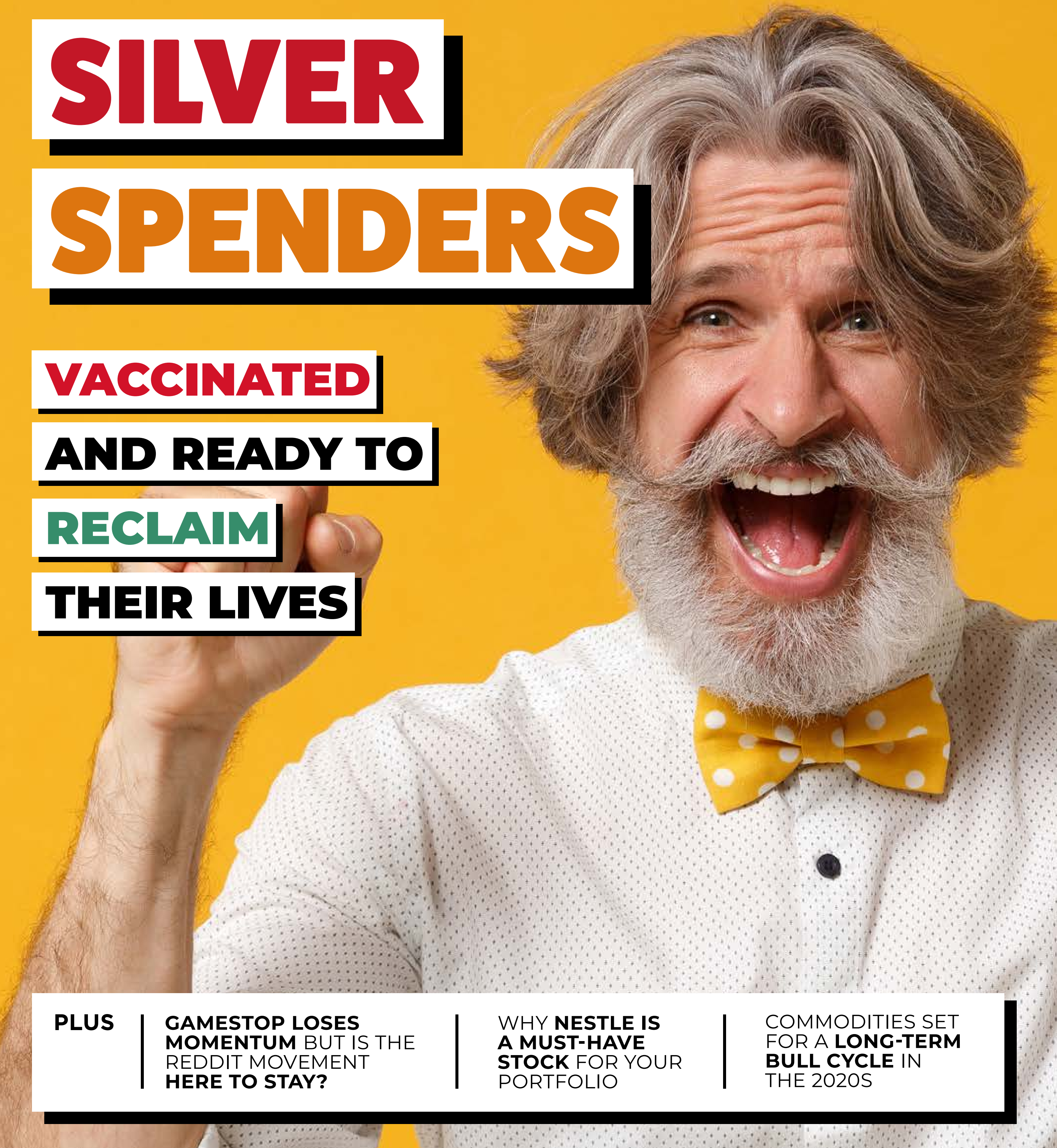

SILVER SPENDERS

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PLUS

GAMESTOP LOSES MOMENTUM BUT IS THE REDDIT MOVEMENT **HERE TO STAY?**

WHY **NESTLE IS A MUST-HAVE STOCK** FOR YOUR PORTFOLIO

COMMODITIES SET FOR A **LONG-TERM BULL CYCLE** IN THE 2020S


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New investors drawn in by GameStop need to dial down expectations

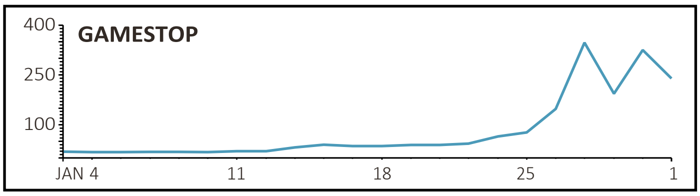
If you fancy making money from the markets, just remember that 100% daily gains are not normal

The hype around GameStop's shares and Reddit users chasing other stocks higher may not have made everyone rich, but it will have opened the doors to greater interest in investing.

That must be applauded as it is so important for people to try and generate good returns for their hard-earned money over the longer term.

For all the criticisms about the tactics used by social media communities to talk up certain shares, it is worth considering that the stock market has just received global news coverage. Normally that would only happen if markets were crashing.

This unprecedented spotlight on markets should have got more people talking about buying shares. That's great, but only if they have the right expectations for the level of money that can be made.



GameStop delivering 100%+ gains in a day sends the wrong message about investing. For the uninitiated, it implies that getting rich from stocks is fast and simple. Ask anyone who has been doing this for a while and you'll know that investing is more of a get rich slowly game.

If you're new to investing, or you know someone who is and want to help them, just consider that 100% gains in a day is extremely rare. So is a near-50% single day drop which GameStop has also just experienced. These wild gyrations would leave anxious people dazed and confused as to what's happening to their money.

You need to be able to sleep at night when investing which means knowing your limits with risk levels and what's realistic in terms of returns.

A 2020 study by Barclays found the average annual return in the 10 years to the end of 2019 for UK stocks and shares was 4.9%, adjusted for inflation. The previous decade saw a 1.2% average annual loss. In the 10 years to the end of 1979 the figure was a 15.6% average annual gain.

US stocks did better at 10.2% average annual return for the 10 years to end of 2019, or 6.1% a year over 50 years (UK: 5.3%).

You'll see these figures are nowhere near the level of GameStop's recent daily performance, and that it is possible to lose money as well as make it.

You can have very good years, such as in 2020 where many stocks and funds did very well. But in general, you should have much lower expectations for returns. We'd suggest 7% to 10% would be a far more realistic goal (not adjusted for inflation).

The other important factor to consider is that should the GameStop/Reddit bubble burst, it won't necessarily mean game over for all shares, so don't give up at the first sign of failure. There are plenty of decent companies on global stock markets which should continue to deliver strong returns and it's really a lesson about buying quality businesses.

GameStop and many other Reddit-inspired stocks that have been trying to go to the moon are low quality. At some point valuations will come to the forefront and prices could easily fall if company share ratings cannot be justified. The frenzy will inevitably die down and investors who are here for the long haul will likely shift their focus back to companies in good financial shape with strong earnings growth.

By **Daniel Coatsworth** Editor

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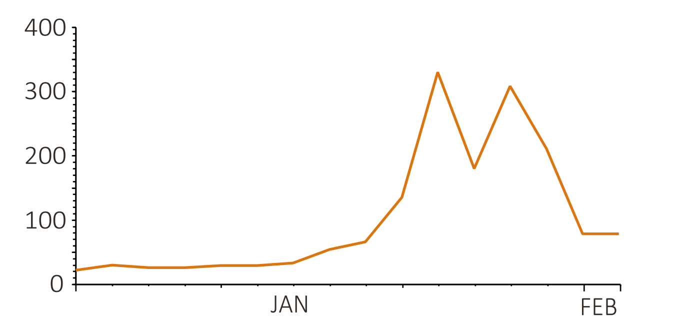
GameStop loses momentum but is the Reddit movement here to stay?

The social media network could become much more influential with stocks globally

It has been a wild couple of weeks in stock market terms as a group of traders on the Reddit social media platform have wreaked havoc by targeting short sellers. At the time of writing, both Gamestop shares and the price of silver – another Reddit 'target' – were losing momentum.

Gamestop shares are losing momentum



How heavily shorted UK stocks have performed amid the GameStop saga

Company	Performance since close on 22 Jan '20
Petrofac	20.5%
Cineworld	19.3%
Pearson	7.7%
Premier Oil	2.2%
Sainsbury's	-1.5%
Network International	-6.2%
FTSE All-Share	**-2.9%**

Source: Shorttracker.co.uk, SharePad, data to 1 February 2021.

There are two main questions for investors at this juncture. Is the Reddit hype a short-term phenomenon which will rapidly fizzle out? Or could concerted action by ordinary punters become a regular feature of market trading and is this activity a sign of a wider bubble across asset classes?

As we previously discussed, the action started with Texas-based computer games seller GameStop, targeted for a short squeeze by the 'Wallstreetbets' Reddit forum, whose sights were trained on hedge funds betting on further declines for the share price.

Since 21 January GameStop has traded as low as $40 and as high as $469 with several platforms including Robinhood introducing temporary trading restrictions on this and other Wallstreetbets targets like cinema operator AMC Entertainment and Blackberry.

There have been some limited signs of a similar phenomenon in the UK and Asia. As the table shows, heavily shorted UK stocks like **Cineworld (CINE)** and **Pearson (PSON)** have seen some signs of a bump in their share price since the GameStop phenomenon gathered steam, albeit to nothing like the same extent as has been seen on Wall Street.

What is apparent from the last few weeks is that there are an increasing number of people with the time and inclination to actively trade shares and other assets, with stock targets arranged via social media.

This raises the prospect of further volatility, even if GameStop and other stocks of its ilk will not be able to defy gravity indefinitely. It might be tempting to view this as top of the market behaviour, but for now these bubbles seem relatively contained, with limited risk of contagion into the market as a whole. [TS]

Amazon drops a bombshell during bumper US earnings season

A change in CEO didn't knock the shares off course as Amazon joins the ranks of other big tech firms to report very strong quarterly numbers

Online shopping giant Amazon dropped the bombshell during the peak of the US earnings season by announcing that chief executive Jeff Bezos will stand aside from the day-to-day running of the company. Andy Jassy, current boss of Amazon's cloud computing business AWS, will become CEO later this year.

Moving to the role of executive chairman will still see Bezos involved in the business, hence why there wasn't a big sell-off in the shares on the news. Helping support the stock was a forecast-busting fourth quarter. All parts of Amazon did well, with domestic US revenues jumping 37% year-on-year, international up 57% and AWS, the chief driver of profits, 8% ahead.

With Google-owner Alphabet's online advertising machine roaring back to life in Q4 2020 and largely knockout earnings from Apple, Facebook, Microsoft, Netflix and others, this has so far proved to be a very strong earnings season from major US companies, even if stock prices haven't necessarily reflected as much following the announcements.

'E-commerce stocks have done extremely well during the pandemic driven by necessity from consumers with limited buying options in the physical world,' says Eleanor Creagh, market strategist at Saxo Bank.

Companies have also used large amounts of data to better manage changes in demand. For example, Google was able to tell German airline Lufthansa which routes users were looking at so that it could meet demand as well as it could considering limitations on travel, notes Richard Windsor of research group Radio Free Mobile.

Fourth quarter reports in the US show the cycle has turned and earnings are now accelerating to the upside. Across the board S&P 500 earnings growth has increased sequentially by 4.87% versus -7.44% in the third quarter. That suggests the bottom in the earnings cycle is behind us, with the global cycle now in an early expansion.

On average, Q4 earnings have beaten expectations by 20% for the 216 US companies that have reported to date, according to Saxo data.

Analysts believe that the wider implications of strong US earnings are promising for investors. 'The profit cycle has turned, and earnings are accelerating to the upside far quicker than expected,' says Creagh.

'Balance sheets have also been bolstered, cost structures trimmed and optimised, and demand is rebounding and will continue to do so, particularly with vaccines now being rolled out on a large scale,' she adds. [SF]

Latest quarterly earnings: actual vs expected

	EPS ($)		Revenue ($bn)	
	Actual	Expected	Actual	Expected
Alphabet (Google)	22.3	15.7	56.9	52.9
Amazon	14.1	7.16	125.6	119.7
Apple	1.68	1.42	111.4	103.3
Facebook	3.88	3.19	28.1	26.4
Microsoft	2.03	1.64	43.1	40.2
Netflix	1.19	1.36	6.64	6.62

Source: Reuters * Latest quarter to 31 December

Pfizer sales boost puts vaccine economics under the spotlight

AstraZeneca and Johnson & Johnson say they don't intend to profit from the pandemic

The price of Covid-19 vaccines have been put under the spotlight after Pfizer said it should generate around $15 billion in sales during 2021 from its Covid-19 vaccine, higher than its previous estimate. Global industry vaccine sales before the pandemic were around $33 billion.

AstraZeneca (AZN) has always maintained that it will supply its vaccine at cost in perpetuity to low and middle-income countries. For other countries, the company has priced its vaccine at under $4 per dose, the cheapest of the three approved mainstream drugs, although South Africa revealed it had paid $5.25 compared with the $2.15 paid by the EU.

Johnson & Johnson's vaccine has a price tag of $10 a dose which is competitive with AstraZeneca if only one dose is needed.

The Pfizer/BioNTech vaccine is priced at $20 a dose while Moderna's is the most expensive at around $37 or close to 10 times the cost of AstraZeneca's.

Rich nations would reap huge economic benefits if they paid the approximate $27 billion costs to vaccinate developing nations against Covid-19, according to a study commissioned by the Chamber of Commerce Research Foundation.

The report concluded that failure to act would cost the global economy $9.2 trillion, half of which would fall on rich nations.

This puts into perspective the spat between the UK and the EU over a shortfall in deliveries of AstraZeneca's Covid vaccine.

AstraZeneca warned the EU that it could only supply a quarter of the initial 100 million doses in the first three months of the year due to supply chain issues. The EU has ordered 300 million doses with an option for a further 100 million. The EU Medicines Agency approved the AstraZeneca vaccine for emergency use on 29 January.

VACCINE COSTS

Vaccine	Cost per dose ($)
Moderna	37
Pfizer/BioNTech	20
Johnson & Johnson	10
AstraZeneca	4

Source: Statistica, Reuters, Financial Times, CNBC

US biotech firm Moderna caused dismay after it told France and Italy it was delivering 20% fewer doses than promised. Similarly, the UK's first approved vaccine from Pfizer/BioNTech has suffered delivery delays highlighting the logistical challenges faced by companies in meeting demand.

The good news is that two new vaccines could be available soon after Johnson & Johnson's vaccine showed 66% effectiveness in phase three trials and Novavax's vaccine was said to 89% effective according to interim trial data.

The Johnson & Johnson vaccine is potentially game changing because it only requires one dose and can be stored and transported at normal refrigerator temperatures. Novavax said its vaccine performed well against the new, more virulent strains.

Data from the National Audit Office shows the UK has secured 267 million doses of five different vaccines at a cost of $2.9 billion. [MG]

BP's big challenge in funding its transition to renewable energy

Its latest results show the shift away from fossil fuels is not going to be easy

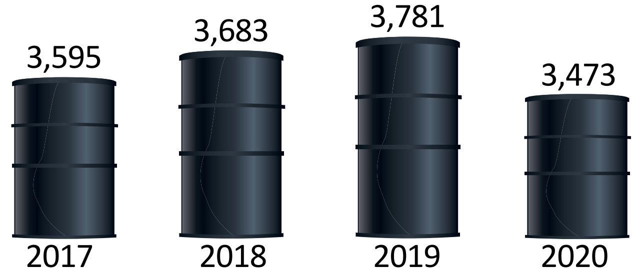
Oil major **BP (BP.)** has nailed its colours to the mast: it wants to become a cleaner and greener company over time. However, the problem is that it still derives nearly all of its profit and cash flow from its oil and gas assets.

The company's latest full year results showed output at a four-year low and as more assets are sold off and investment in them dries up, this figure is likely to fall further.

The company's reserves replacement ratio, measuring the extent to which the year's production has been replaced by proven reserves added to the reserve base, came in at 78% and the longer this number is below 100% the larger the medium-term impact on production.

Some of this relates to what BP will hope is a short-term collapse in demand for oil and products refined from oil in the wake of the pandemic, however it could take some time for consumption of jet fuel, in particular, to recover.

– BP production –
Million barrels of oil equivalent per day



Source: BP

Another challenge facing BP is competition and rising prices as it looks to deploy capital into alternative energy projects, particularly as it is aiming to reduce debt, maintain dividends and even introduce share buybacks. Ultimately it feels like something will have to give. [TS]

Dr. Martens and Moonpig 'pop' on market debuts

Opening day gains and punchy price tags demonstrate strong demand for the British boot maker and online greetings cards firm

ICONIC FOOTWEAR BRAND **Dr. Martens (DOCS)** and online greetings cards website **Moonpig (MOON)** both enjoyed strong debuts on the UK market. This demonstrates there is strong demand from both institutional and retail investors for initial public offerings (IPOs).

Dr. Martens' shares have risen from their 370p issue price to 450.1p, a gain of 22%, following an eight times oversubscribed IPO offer that valued the Air-Ware shoes and boots maker at a bumper £3.7 billion. Evidently, investors are keen to buy into the successful transformation and global growth potential of Dr. Martens.

As *Shares* went to press, Moonpig's shares were 23% higher at 429.6p in debut dealings (2 Feb). The online greetings cards retailer priced its IPO at a top of the range 350p for a starting market tag of around £1.2 billion, investors seemingly buying into the online retailer's technology credentials and the potential for Moonpig to sell more gifts alongside its personalised cards.

'There is potential to increase customer numbers, and to lift AOV (average order value) – especially by attaching gifts,' says Peel Hunt, adding that 'the data science and the technology behind the scenes is impressive'. [JC]

Marston's fights takeover interest from US private equity firm

Platinum Equity may want to use Marston's as an acquisition vehicle to buy up more pubs hurt by Covid-19

Pubs group **Marston's (MARS)** has rejected three takeover proposals from US private equity firm Platinum Equity at prices ranging between 88p and 105p per share, saying they significantly undervalue the company.

Merger and acquisition activity in the pubs sector has been steadily brewing since 2019 with the £2.7 billion acquisition of Green King by Hong Kong's Li Ka-Shing and Stonegate Pub's £1.3 billion purchase of Enterprise Inns.

Last year Marston's and Carlsberg merged their UK brewing assets in a £780 million deal with Marston's owning 40% of the combined business.

Broker Numis says a change of control clause would allow Carlsberg to buy Marston's 40% interest at a fixed multiple of earnings in the event of a takeover. This means a financial buyer for Marston's could potentially reduce their upfront investment, adding further leverage to the transaction.

Analysts take the view that Platinum Equity is interested in Marston's because of the potential for a sharp bounce back in trading post Covid-19 as well as improved profitability on the back of lower promotional spending.

The US firm isn't alone in eyeing opportunities in the hollowed-out hospitality sector. Last month the former chief of Greene King, Rooney Anand, raised £200 million to invest in pub assets. [MG]

What you need to know about changes to Bankers and Baillie Gifford European shares

The two investment trusts are doing a 10-for-1 stock split

ON THE FACE of it, the share price of **Baillie Gifford European Growth (BGEU)** plunged a whopping 90% this week, but investors shouldn't be alarmed as the investment trust has actually completed a 10-for-1 stock split.

A stock split is where a company divides its existing stock into multiple shares, in this case 10-for-1, so investors in the Baillie Gifford trust have received 10 new shares for every one old share they own. Don't be shocked if the share price looks a lot lower than before, the value of the holding remains exactly the same.

Another investment trust, **Bankers (BNKR)**, is doing the same with its 10-for-1 stock split set to become effective on 1 March.

Generally the reason for a stock split is to make a stock *seem* more affordable.

Bankers said its split is to 'assist monthly savers and those who reinvest their dividends or are looking to invest smaller amounts', adding the split may also improve the liquidity in and marketability of its shares, 'which would benefit all shareholders.'

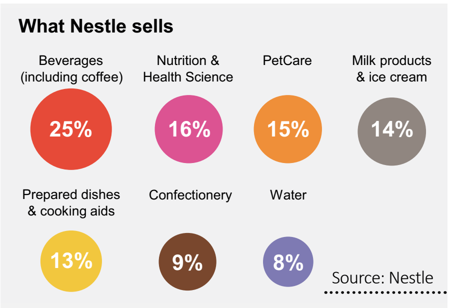
It's a route an increasing number of trusts and companies are going down, including US giants Tesla and Apple in 2020.

Popular investment trusts which should consider a stock split include **Lindsell Train (LTI)**, which has a share price of £1,325, and **Personal Assets Trust (PNL)** with a share price of around £450. [YF]

Why Nestle is a must-have stock for your portfolio

Leading global consumer firm is set for long-term growth

Despite being the world's largest food and beverage company, Nestle has been an undoubted winner from the worldwide restrictions imposed due to Covid, as 90% of its sales depend on the in-home market and just 10% are driven by the out-of-home and food service market.



While we've all been cooped up indoors, many of us with our pets, it seems we've been consuming more of the company's products than ever before.

This was borne out by sales for the nine months to September, which showed in-home revenues up by 7.1% with third-quarter revenues alone up 8.6%. By comparison out-of-home sales were down around 30% in the first nine months of last year, although the fall moderated from 55% in the second quarter to 26% in the third quarter.

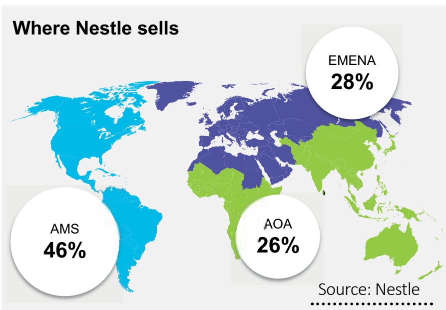
SALES ACCELERATING

In fact, the third quarter of last year saw the highest level of organic sales growth in almost seven years at 4.9%, compared with consensus forecasts of just 2.6%. The increase was almost all (4.7%) thanks to what the company calls real internal growth, that is volume and product mix.

NESTLE
BUY
(NESN:SWX) Buy at CHF 100
Market cap: CHF 273 billion

Chief executive Mark Schneider even commented on the analyst call that the quarter 'felt different' to the previous three months, with sales less dependent on re-stocking by retailers and more on an underlying increase in in-home consumption of the firm's core premium categories.

Sales in the Americas, which represent 46% of group turnover, increased an impressive 6.2% on an organic basis in the first nine months of last year, with real internal growth of 5.7% and price rises of 0.5%. US sales were up mid-single digits while Brazil registered double-digit growth.



Growth in Europe, Middle East and North Africa, which make up 30% of sales, was more measured, up 2.2% on an organic basis. Prices were slightly lower oven nine months, but improved in the third quarter.

Other African and Asia-Pacific markets eked out organic growth of 0.6% split evenly between real internal growth and price rises, with China registering positive growth for the first time in several quarters.

PREMIUM BRANDS WORK WELL ONLINE

Online sales accounted for 12.5% of group revenues at the end of the third quarter, an increase of almost 50% on the previous year, with Nestle seeing higher market shares online than offline.

This suggests that rather than being disrupted by cheaper rivals, the premium Nescafe coffee and 'heritage' Nestle confectionery and food brands still appeal to online shoppers, who maybe due to being confined to their homes feel they deserve to treat themselves a little.

Nespresso posted mid-single digit organic sales growth with strong momentum in online sales helped by the new Vertuo system, which offers coffee in more cup sizes with a wider range of blends than the original system.

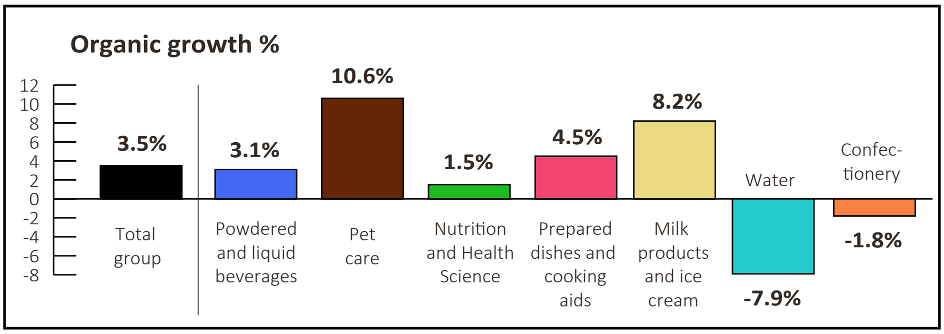
Purina pet care products experienced the strongest growth of any category, up 10.6% on an organic basis over nine months, underlining how beneficial lockdown has been for all types of companies catering to the pet care market.

RE-SHAPING THE BUSINESS

True to his promise when he took over, the chief executive continues to drive Nestle out of low-margin non-core markets and into new growth areas.

Last November the firm disposed of its Yinlu peanut milk and canned rice porridge business in China, which had sales of $768 million in 2019, to local firm Food Wise, and it is on track to dispose of its North American Waters business in the first quarter of this year.

The Waters business, which includes the Pure Life brand and generates profits of $600 million, could fetch as much as $5 billion according to Reuters.



Source: Nestle. 9 months to 30 Sep 2020

At the same time, Schneider has taken the firm into the direct-to-consumer market with the acquisitions of US prepared-meal delivery firm Freshly for $1.5 billion and a minority stake in UK firm Mindful Chef late last year.

He also bolstered the fast-growing Health Science business last year with the acquisition of Aimmune Therapeutics, adding to its double-digit underlying organic growth as demand for vitamins, minerals and health supplements continues to rise. Health Science sales are set to hit CHF 4 billion by the end of this year against CHF 2 billion in 2017.

Nestle has also become a popular ESG (environmental, social and governance) investment due to its commitment to make all its packaging recyclable or reusable by 2025 and to spend CHF 2 billion to boost the market for food-grade recycled plastics.

QUALITY GROWTH AT AN ATTRACTIVE PRICE

Full year organic sales growth in 2020 is expected to be in the range of 3% to 3.5%, similar to 2019, which for a global business is outstanding given the impact of Covid on the world economy.

Analysts at Berenberg expect organic growth to top 4% this year, albeit with a degree of quarterly volatility. Moreover, margins and returns on capital are set to improve thanks to a better product mix and a reshaped portfolio.

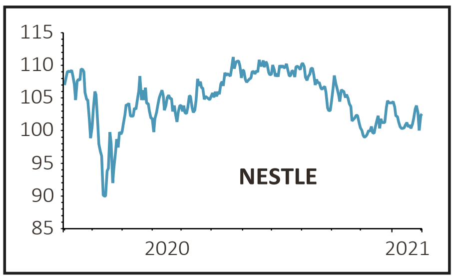
The shares have lagged the market for the last six months, in part due to a recovery in cheaper 'value' stocks late last year, and trade on a forward price to earnings ratio of 22.7 based on consensus forecasts.

To us this represents an excellent opportunity to buy a genuinely world-class business at an attractive price for the long term.

Consensus forecasts for Nestle

	2019A	2020E	2021E
Group sales	92.6bn	84.8bn	85.6bn
Organic sales growth	3.5%	3.5%	3.9%
Trading operating profit	13.7bn	14.5bn	14.8bn
Trading operating margin	14.8%	17.1%	17.3%
Pre-tax profit	15.1bn	14.2bn	13.7bn
Net profit	12.6bn	12bn	11.6bn

Source: Nestle S.A., all figures in CHF
Note: 2020 figures lower than 2019 due to disposals



Buy Bloomsbury after pandemic-led book boost

The publisher has a very strong balance sheet and still looks attractively valued

It seems we rediscovered the joy of a good book in lockdown and this has helped propel shares in publishing firm **Bloomsbury (BMY)** to the heights it last enjoyed in the mid-noughties when the Harry Potter craze was at its height.

The stock looks inexpensive, meaning there is still time to buy the shares and hopefully see them go up further in value. Bloomsbury is now a more diversified and digital story and we see medium to long-term growth potential backed by a strong balance sheet.

The company's latest trading update (28 Jan) said revenue is expected to be 'ahead' and profit 'well ahead' of market expectations of £161.8 million and £12.1 million respectively for the year to 28 February 2021.

Based on upgraded February 2022 forecasts from Investec the shares trade on an undemanding 17.8 times forward earnings per share.

The enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA) ratio (which factors in the company's estimated £49 million of net cash) arguably highlights the shares' attractions better at 8.6 times. Investec says this is 'notably below the level of recent industry transactions'.

While people have been unable to go to book shops for large periods of the last 12 months due to Covid, the nation was already comfortable with ordering books online and consuming titles through e-readers.

BLOOMSBURY
BUY
(BMY) 283.84p
Market cap: £231 million

Releasing content in a digital format allows Bloomsbury to generate revenue from a 'backlist' of previously published books at very limited additional cost, benefiting margin performance.

Bloomsbury was something of a one-hit wonder historically, heavily reliant on sales of the *Harry Potter* titles. However, the list of standout bestsellers over the past six months shows this is now a publisher with a much broader portfolio.

They include new releases such as *Eat Better Forever* by Hugh Fearnley-Whittingstall and *Joe Biden: American Dreamer* as well as strong backlist sales of the Sarah J. Maas books.

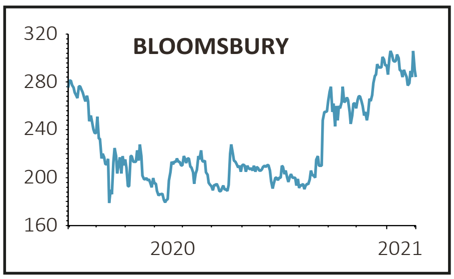
The company's academic and professional publishing arm has been a key part of its growth strategy and a focus on digital

resources has served it well during the pandemic.

Risks include a hit to consumer spending as the economic fall-out from the coronavirus crisis feeds through and a hit to academic-related sales from depressed enrolment rates at universities.

The company also may have alienated elements of its shareholder base with a dilutive £8.4 million share placing in April 2020, which looks increasingly premature in hindsight.

However, this fundraise does at least leave the business cashed up and with the option to invest either in acquisitions or in the existing business.



ASML

(ASML:AS) €457.40

Gain to date: 72.9%

Original entry point:

Buy at €264.60, 23 April 2020

FOR A COMPANY the size of ASML to jump more than 70% in less than a year is impressive, but to do so during a global pandemic is little short of astonishing.

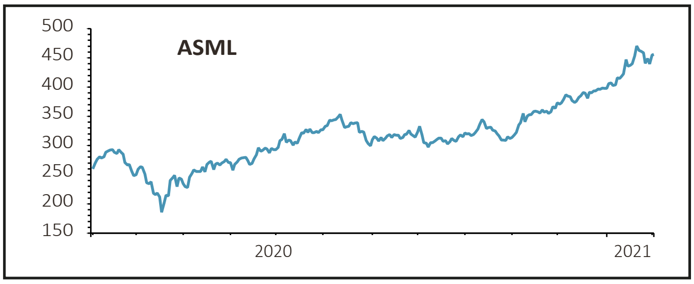
This is one of Europe's largest listed businesses worth in excess of €184 billion. That would place it 21st if it was listed on the S&P 500, snuggled between Netflix and Intel.

Yet analysts reckon there is more to come, following a bumper end to 2020 and upbeat guidance for this year. 'ASML's extremely strong fourth quarter 2020 results and first quarter 2021 guidance reflects the current tightness of semiconductor supply, as well as increased customer confidence in demand for leading edge devices over the longer term,' says Liberum.

The broker is currently expecting a rough one-third jump in pre-tax profit this year to €5.28 billion on €16.8 billion revenue.

Berenberg analysts admit to seeing some pushback from clients over ASML's valuation, now on a 2021 price to earnings ratio of 43. But they point to accelerating demand for its EUV technology (extreme ultraviolet lithography) as semiconductor manufacturing clients speed up chip shrinkage roadmaps.

Liberum expects further 2021 forecast upgrades and Berenberg believes the stock could jump another €100 this year.



SHARES SAYS:

ASML remains a great long-run value creator. [SF]

INSPECS

(SPEC:AIM) 340p

TOP STOCKS FOR 2021

Gain to date: 25.5%

Original entry point:

Buy at 271p, 23 December 2020

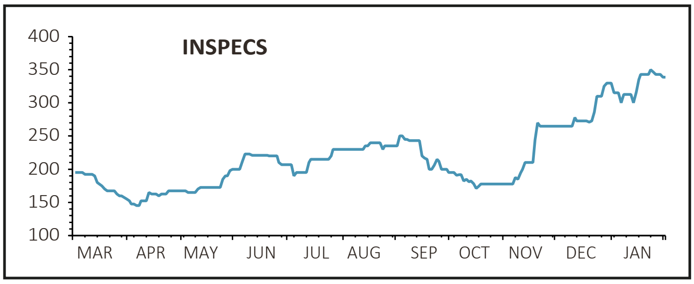
SHARES IN EYEWEAR frames designer-to-optically advanced spectacle lenses maker **Inspecs (SPEC:AIM)** are up an eye-catching 25.5% since we highlighted the group's global growth potential and the scale benefits arising from the acquisition of eyewear supplier Eschenbach in December.

An in-line update (29 Jan) for 2020 showed sales coming in at $46.2 million (2019: $61.2 million), a shade ahead of Peel Hunt's $45 million forecast, and Inspecs also flagged a good start with the integration of Germany-headquartered Eschenbach.

While Covid-related restrictions may hold back Inspecs' short-term progress, the essential status of opticians means the eyewear industry should remain resilient during the remainder of the pandemic.

'Inspecs is well placed to make strong progress when restrictions ease and the synergies start to come through, and now has a platform to build a materially larger business,' says Peel Hunt.

The broker forecasts a sales surge to $241 million in 2021 for adjusted pre-tax profits of $19.5 million, ahead of $256.5 million sales and $24.9 million of taxable profits in 2022. The broker has upgraded its price target from 325p to 365p and reiterated its 'buy' rating on the stock.



SHARES SAYS:

Keep buying. [JC]

DIAGEO

(DGE) £30.04

TOP STOCKS FOR 2021

Gain to date: 2%

Original entry point:

Buy at £29.45, 23 December 2020

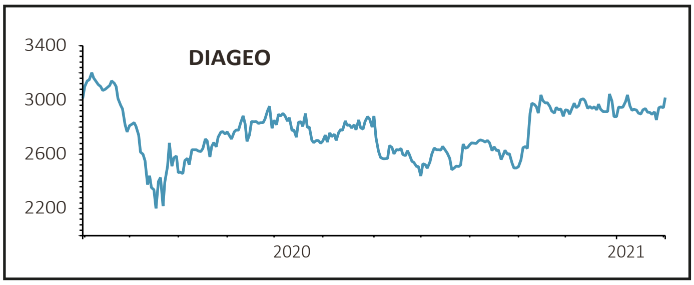
OUR BULLISH CALL on high-quality spirits maker **Diageo (DGE)** is 2% in the money and we are sticking with the business as a compelling reopening trade. Diageo should see a strong recovery in demand in 2021 and beyond as vaccine rollouts enable the global hospitality and travel sectors to recover.

One of *Shares*' key selections for 2021, the Johnnie Walker whisky-to-Smirnoff vodka maker returned to organic sales growth during the six months to December 2020. Organic growth of 1% was far better than the decline forecast by analysts, demonstrating the resilience of the spirits leader during a period of pub and bar closures.

Diageo continued to take market share in the retail channel while performance in North America, its biggest market, came in ahead of management's expectations.

Cash generative Diageo also raised its dividend by 2% to 27.96p, even after operating profits were pressured by pub and bar closures and unfavourable foreign exchange rates.

Diageo did not provide specific guidance for the full year to 30 June 2021 because of the ongoing uncertainty and volatility created by the pandemic, but it expects to see a second half improvement across all regions given weak Covid-impacted comparatives.



SHARES SAYS: ↗

Stick with Diageo. [JC]

ASOS

(ASC:AIM) £47.18

Loss to date: 3.3%

Original entry point:

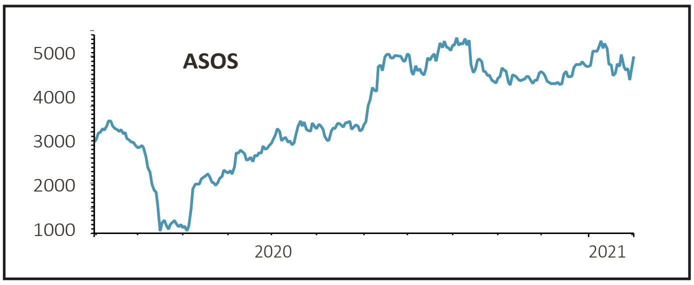
Buy at £48.79, 28 January 2021

OUR 'BUY' CALL on web-based fashion retailer **ASOS (ASC:AIM)** is 3.3% in the red, but this reflects wider stock market turbulence rather than anything company specific. In fact, investors applauded the online retailer's £295 million acquisition (1 Feb) of the Topshop, Topman, Miss Selfridge and HIIT activewear brands from Arcadia's administrators, names which represent exciting additions to ASOS's winning online platform.

ASOS is acquiring the brands and intellectual property plus around £30 million of stock, while maintaining selective wholesale relationships such as Nordstrom in the US, though unsurprisingly, the online pure-play is not taking on the stores.

Bringing one-time Arcadia jewel in the crown Topshop in-house, this exciting deal provides ASOS with a significant opportunity to drive the global growth of brands which are highly complementary to ASOS's existing portfolio and will be slotted into its existing infrastructure.

Pre-Covid, this quartet of brands generated total sales of around £1 billion across all channels, underscoring their potential. Chief executive Nick Beighton expects the deal to deliver a 'double-digit return on capital' in the brands' first full year of ASOS ownership.



SHARES SAYS: ↗

The acquisition of Topshop and other Arcadia brands will help structural growth winner ASOS to stand out in the fast fashion crowd. Keep buying. [JC]

RUSS MOULD
AJ Bell Investment Director

What the GameStop games really mean

The Reddit-inspired volatility can tell us something about the market's mood

One of the most intriguing things about the surge in shares in loss-making American video games and consoles retailer GameStop is how they gained so much in a week when the broader US indices had their worst five-day spell since October. Such gyrations do not normally breed confidence.

The spike in the VIX fear index that accompanied the stampede into GameStop and tramping of hedge funds' positions by retail investors (at least to some degree) is therefore equally eye-catching, especially in the context of overall US equity market valuations, which on some metrics look very lofty by historic standards, as discussed by [this column last week].

The VIX is a measure of expected volatility so someone, somewhere is buckling up in preparation for choppier times ahead (although extreme readings are often useful contrarian indicators). Add in three other 'softer' gauges of sentiment toward US equities and you can perhaps understand why, although there are enough variables at play to give support to the bullish view that the Dow Jones, S&P 500 and NASDAQ Composite benchmarks could yet confound the doubters.

SHORT SQUEEZE

The first indicator relates to GameStop and the epic 'short squeeze' which has inflicted pain on hedge funds who were betting on a drop in the share price and instead were confronted by stunning gains.

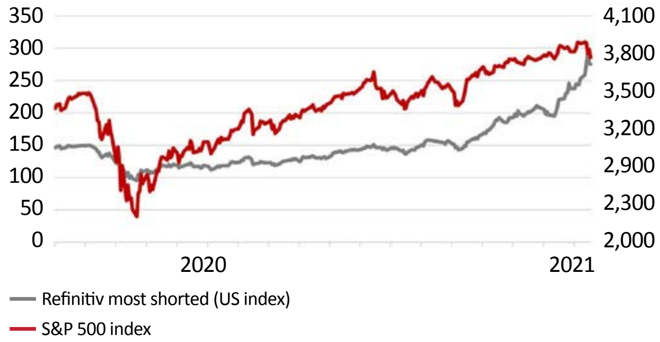
Those hedge funds have mismanaged their risks and paid the penalty. To be caught shorting stocks where total short positions exceeded the total free float of the target company left them exposed to a

squeeze if the fortunes of that firm turned around unexpectedly or what remain bouncy markets started to lift all boats on the tidal wave of liquidity provided for markets by central banks' ultra-loose monetary policy.

Credit where credit is due to the retail investors who spotted this and profited from it.

But the most shorted stocks in America have been massively outperforming the wider benchmarks since last November.

Short squeeze in the US dates back to November



Source: Refinitiv

This suggests that GameStop was a professional hit first – hedge funds forcing other hedge funds out of their positions by squeezing share

RUSS MOULD
AJ Bell Investment Director

prices higher – with retail investors cottoning on (or even being encouraged to follow a trail of breadcrumbs?) and piling in second.

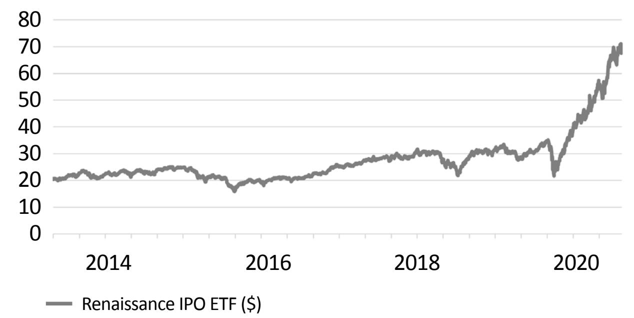
The share gains may have little or nothing to do with the company's fundamentals and everything to do with market technicals and unalloyed financial speculation – something that tends to develop a lot closer to stock market tops than it does stock market bottoms.

FLOATING HIGHER

But it is not just old, previously downtrodden stocks that are feeling the love. Market newcomers are receiving plenty of adulation, too. This can be seen in US-traded Renaissance IPO exchange-traded fund, which is designed to mirror the returns from 80% of the market capitalisation of the universe of companies that have gone public in America within the last two years, minus its running costs.

Airbnb and DoorDash were both added at the last quarterly review in December. The ETF currently tracks 49 stocks and it is up by a third since November, helped by strong early gains in those two recent market entrants. Investors snapping up IPOs for the early share price 'pop' and to snag a quick gain can also sometimes be a sign of a frothy market.

New market entrants are getting a warm welcome in the US

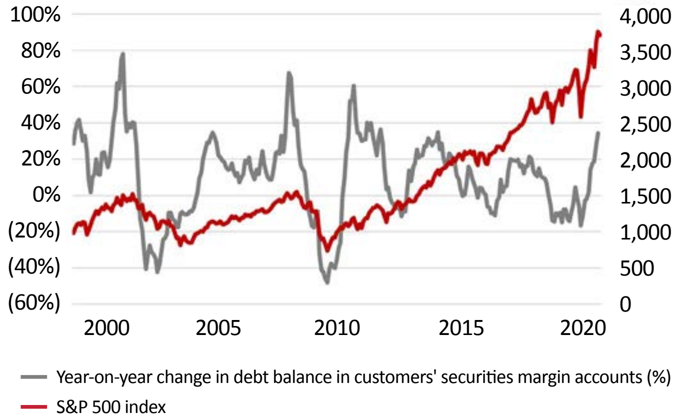


Source: Refinitiv

One other trend that can be a sign of animal spirits and that as a result investors and traders are perhaps taking on more risk than they would normally is margin debt. This is the amount of money an investor can borrow from their broker via a margin account to buy shares (or even short sell them).

Regulations cap the amount that can be borrowed at 50% of the account balance but even so, margin debt is at record highs. This gears returns when markets are rising (as the investor or trader can get more exposure) but looks less clever when markets are falling. Indeed, falling asset prices can force so-called margin calls where the investor or trader must start repaying the loan – and sometimes they must sell other positions to fund that repayment, creating a negative feedback loop in markets.

Margin debt stands at record highs in the US



Source: Refinitiv

CONCLUSION

There is no sign of such forced selling yet, although it will be worth watching for it should GameStop's shares start to sag and there is no guarantees that history will repeat itself and see these trends act as an early warning sign of a market top.

After all central banks keep on pumping out liquidity and emboldened investors and traders, accustomed to their support, may simply demand more if there is a market dislocation, although whether this is a trend to be encouraged over the long run is questionable. As British economist (and shrewd stock market participant) John Maynard Keynes once noted, 'When the capital formation of a country becomes the by-product of a casino, the job is likely to be ill-done.'

What if the consensus reflation trade is wrong?

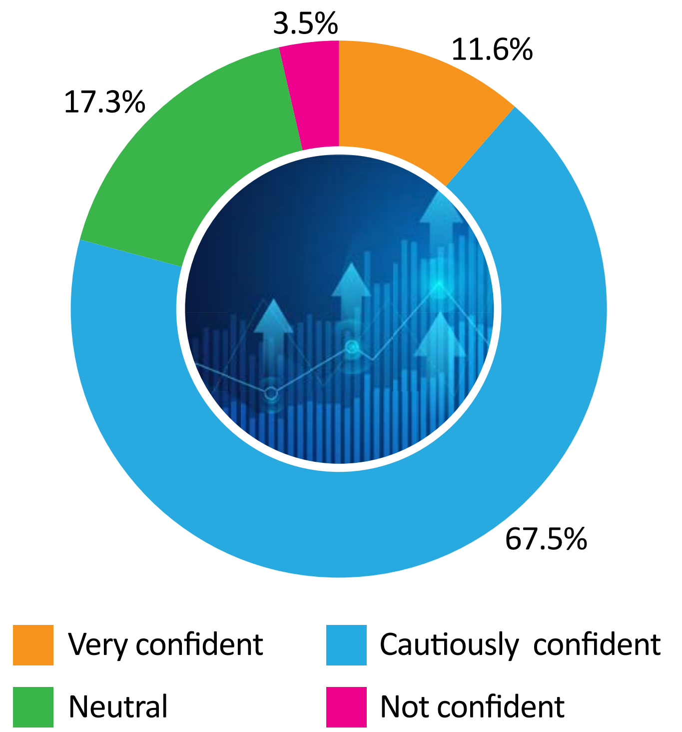
We question whether the current widely-held assumptions about markets stack up

For all the bullishness heading into 2021, so far markets this year are barely changed outside of Asia. This is despite a record $272 billion of net inflows into US stocks in the last three months, including the second largest ever inflow into small caps.

Some investors might be disappointed with this outcome and wonder why so many stocks aren't moving when there is still a broad consensus that markets will go up this year thanks to universal vaccination and a splurge in consumer spending as a wave of pent-up demand is released.

Shares sees plenty of reasons to be optimistic, yet it always pays to be a rational investor and consider what might cause markets to be wrong. This article is food for thought.

HOW CONFIDENT ARE YOU ABOUT THE OUTLOOK FOR YOUR OWN INVESTMENT PORTFOLIO IN 2021?



Source: AJ Bell Youinvest Investor Outlook 2021

CONSENSUS VIEW: MARKETS WILL RISE

In an AJ Bell survey of 2,000 private investors in December, three quarters saw the FTSE 100 rising by at least 7% this year while a quarter believed the index could rise by more than 15% to above 7,500 points.

UK investors weren't alone in looking ahead to sunny uplands. A survey of global asset allocators by Absolute Strategy Research showed record levels of optimism that global equity prices would increase this year, global earnings would be higher, stocks would beat bonds, value would beat growth, cyclicals would beat defensives, and emerging markets would beat developed ones.

In the AJ Bell poll, two thirds of retail investors cited the rollout of Covid vaccines and a return to 'normal' by Easter as a reason for their confidence in markets.

However, as it stands, delays in getting hold of the vaccine and treating enough people, together with the emergence of a more virulent strain of the virus, mean we could still be in lockdown in two to three months' time.

Globally, vaccinations are running way behind projections according to data from Bank of America and Bloomberg.

The only region which seems to have moved past the point of coronavirus restricting its economic growth is Asia, but it can't pull the rest of the world along single-handedly.

CONSENSUS VIEW: CONSUMERS WILL SPEND LIKE CRAZY

The notion that all consumers will indulge in a spending frenzy once lockdown ends also seems to be misplaced, at least in the UK. A survey by digital financial app Claro revealed that 20% of UK adults or 10.5 million people have insufficient savings to cover their household bills even for one month if they were to lose their job or their furlough payments.

More worryingly, the proportion of 18 to 24-year-olds without a month's financial 'cushion' was over 30%, with more than 40% of young people saying their income already falls short of their outgoings.

Sadly, prospects for retail and hospitality – which employ large numbers of young people – are not looking bright. At the end of March, the sector faces the end of the lease forfeiture moratorium, meaning businesses could face rent arrears of up to £3 billion.

CONSENSUS VIEW: RATES WILL STAY LOW BECAUSE INFLATION ISN'T A PROBLEM

Probably the most consensus call of all is that central banks can keep interest rates low and keep credit flowing without stoking inflation.

However, a recent Harvard Business School study suggests the pandemic has altered consumer spending habits to such an extent that real inflation is double the rate registered by the official indices.

On the one hand, the basket of goods in most consumer price indices no longer reflects what people are buying, while on the other many elements of 'essential' spending such as housing, healthcare, education and childcare are grossly under-represented.

It's also worth flagging that inflation works in two ways: you can either pay more for the same quantity of something, or you can pay the same for a smaller quantity, a more pernicious phenomenon known as 'shrinkflation' which doesn't show up in the official indices. Chocolate bars are classic example of the latter, which is one reason why investors like Warren Buffett love confectionery makers.

UK inflation has been stoked both by the pandemic and Brexit, which has raised the price of imported goods while creating a scarcity of supply. In addition, companies are starting to see rises in input costs such as freight and raw materials. The fear in corporate circles is that at some point firms are likely to face calls for higher wages or risk industrial stoppages.

In the US meanwhile, the Federal Reserve's shift to targeting 'average' inflation of 2% means it will let prices overshoot before it dares to lift interest rates.

A growing number of observers believe 2020 will be the inflection point for US rates, and as Bank of America points out, rates, regulation and redistribution (for example retail investors via the Reddit Wallstreetbets forum versus Wall Street hedge funds) are historically the catalysts which bring bull markets to an end.

In a worst-case scenario, we could end up with no growth but higher inflation and higher interest rates, which would be disastrous for investors in mainstream financial assets.

Disclaimer: AJ Bell is the owner and publisher of *Shares* magazine. The author Ian Conway and Shares' editor Daniel Coatsworth own shares in AJ Bell.

Commodities set for a long-term bull cycle in the 2020s

Many commodities including silver have been hitting multi-year highs as investors turn optimistic on a range of metals

As we enter what could be the roaring 2020s, many commodities have been soaring in value in recent months. Silver has even reached an eight-year high as it became the next target of the Reddit Wallstreetbets retail investor community.

In general investors are turning bullish on a range of metals because of rising optimism over a recovery in the global economy thanks to the rollout of coronavirus vaccines, as well as long-term structural growth drivers such as the rise of electric vehicles and renewable energy.

Rising inflation expectations are also important as miners should be able to charge more for their products.

The likes of copper and iron ore have soared in recent months as markets become more upbeat on prospects for the global economy, and this has helped bump up the share prices of FTSE 100 stalwarts like **Anglo American (AAL)**, **BHP (BHP)**, **Glencore (GLEN)** and **Rio Tinto (RIO)**.

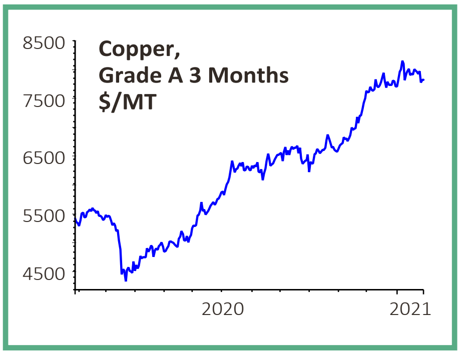
In this article we look at some of the main commodities driving investor interest and highlight two stocks to play rising commodity prices.

COPPER BRIGHT SPOT

We'll start with copper and iron ore. These two metals are keenly watched by investors as they are considered economic bellwethers.

Copper prices have risen on the back of expectations for an economic recovery and the metal is trading at $7,852 per tonne, up 80% compared to its lows in the first half of 2020 when demand tanked on lower industrial activity.

Canaccord analyst Sam



INVESTING IN COMMODITIES VIA TRACKER FUNDS

There are various tracker funds which track the gold price including **Amundi Physical Gold ETF (GLDA)**. Such funds are designed to mirror the performance of the asset being tracked, so in theory a 2% rise in the gold price should see a gold ETF rise by the same amount.

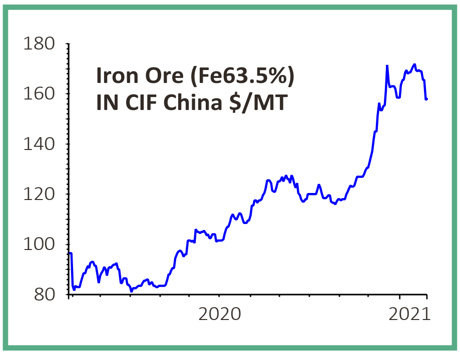
The selection of ETFs is more limited for silver and copper, but some relevant names include **iShares Physical Silver ETC (SSLN)** and **Wisdom Tree Copper ETF (COPA)**. We are not aware of an iron ore ETF available to UK investors.

Catalano expects the continuation of Chinese stimulus to support copper demand, working in conjunction with the economic recovery underway in the rest of the world throughout 2021.

He says: 'Upside risks include further deterioration in the US dollar, or further disruption of supply in key producing countries — Chile and Peru have elections and labour force negotiations upcoming.'

IRON ORE PULLING BACK

Iron ore prices have started to come back to earth somewhat at around $165 per tonne, but this is still 65% higher than the price a year ago.



Anglo American, BHP and Rio Tinto are some of the big iron ore producers. Analysts at Morgan Stanley believe that if iron ore prices stay elevated throughout this year, it could underpin 45% to 70% consensus earnings upgrades among such miners.

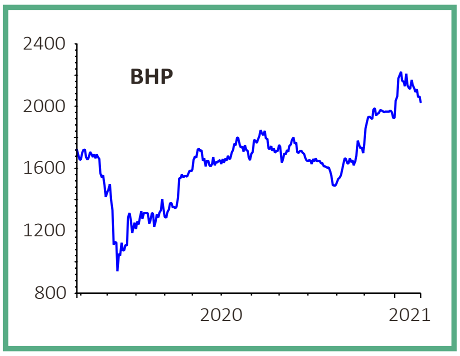
They say any combination of higher steel production growth in China (the world's largest consumer of iron ore), better than expected ex-China demand recovery and supply disruptions could push the iron ore market into a deeper deficit and prices even higher, potentially reaching $200 per tonne.

The analysts highlight Rio Tinto as a key player, with 76% of its earnings coming from iron ore, alongside Brazilian miner Vale which is the world's largest iron ore producer. 'A hypothetical increase in our long-term price forecast from $64 per tonne (base case) to $110 per tonne (bull case) could yield a disproportionate 60% to 200% upside to share prices,' the analysts say.

THE GOOD ALL-ROUNDER TO OWN

If commodities are in for a long-term bull cycle, what better way to play this situation than through a diversified miner? BHP is one of our top stocks to own in the commodity sector.

BHP benefits from having low cost assets which means it can still generate cash even in tougher economic conditions.



The miner has worked hard on improving its ESG credentials, writing down its coal assets and reducing its scope 3 emissions, while it has set a target to be carbon neutral by 2050.

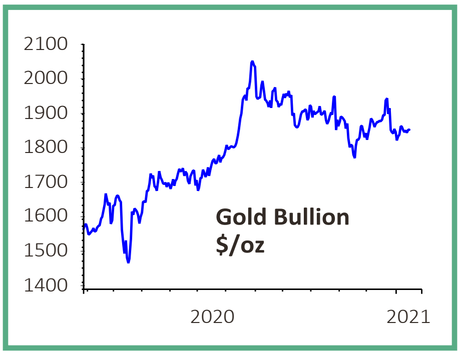
Its products are relevant to investments around the world in infrastructure and renewable energy.

For example, in 2020, BHP said over the previous year it had produced 280 million tonnes of iron ore, enough to create the steel for 875,000 wind turbines. It produced around 1.7 million tonnes of copper which could be used to build around 600,000 megawatts of PV solar capacity.

BHP also produced around 80,000 tonnes of nickel which would make enough lithium-ion battery packs to power around 2.5 million electric vehicles.

GOLD AND SILVER

Along with iron ore and copper, two metals which often receive attention in commodity markets are gold and silver.



Analysts at Berenberg forecast an average price of $1,850 per ounce for gold and $23.50 per ounce for silver in 2021.

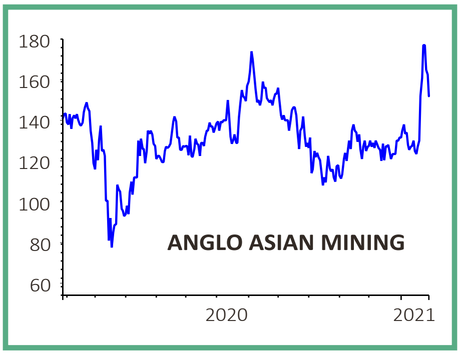
At the time of writing, gold traded at $1,862 and silver at $29.70. Put another way, gold currently trades at 63 times the silver price, against the long-run average of 58 times, so on paper silver is the cheaper of the precious metals, even after its recent rally.

Berenberg says precious metals should be supported by lower interest rates globally, with potential to go higher if central banks are 'obliged to engage in further exceptional monetary policy measures or if material second-order economic impacts from the pandemic emerge', like what happened after the global financial crisis in 2008 and 2009.

Under an bullish scenario, they expect the gold price to move back above $2,000 an ounce and 'potentially materially higher'.

BUY THIS GOLD AND COPPER STOCK

Investors wanting an under the radar way to play rising copper and gold prices should look at AIM-quoted **Anglo Asian Mining (AAZ:AIM)**.



Unlike a lot of other small mining companies, Anglo Asian is an established metals producer and had such a bumper year in 2020 it recently announced plans to pay a special dividend of $0.015.

The firm, which has mines in Azerbaijan, reported record annual revenues for 2020 in excess of $100 million, driven by higher metal prices in the year.

This helped the company go debt-free with cash increasing to $38.8 million at the end of December.

This has also given the miner added impetus to pursue growth opportunities and it said it will continue exploration of five priority discoveries at its Gedabek project with the aim to fast-track them into production.

HIGH EXPECTATIONS FOR METAL PRICES

Eldur Olafsson, chief executive at gold explorer **AEX Gold (AEXG:AIM)**, believes the market is in a 'bullish cycle for commodities' generally at the moment, and adds lower overall supply of gold in the past year, combined with higher demand from the likes of central banks, could also underpin gold prices.

He says: 'The supply/demand

issue and the money printing we are seeing at the moment are working hand in hand, and I think we will see a price floor at around $1,800. Historically there are price swings within that range, but I think we are in a bull cycle for gold for at least the next five to 10 years.'

Nitesh Shah, a research director at WisdomTree, believes silver could outpace gold and reach $34 an ounce by the fourth quarter of 2021.

Silver jumped by 19% between 28 January and 1 February as retail investors using the Wallstreetbets forum on social media platform Reddit rallied together to push up the price. This resulted in a big rally for many silver miners including **Fresnillo (FRES)**.

While it is feasible that this rally is short lived, Shah at WisdomTree says industrial demand for silver is expected to recover this year, supporting the value of the metal.

'Although silver faces some headwinds from potential supply increases as mining production recovers post-Covid, its correlation to gold should act as strong tailwind,' he says.

'Moreover, its hybrid status will allow it to benefit from a cyclical upswing, as we pass the "bumps in the road" in combating the Covid-19 pandemic. Silver outperformed gold in 2020 and its historic high gold beta may continue to see it outperform gold when the price of the metal is rising.'

By **Yoosof Farah**
Reporter

SEARCHING FOR INNOVATIVE HEALTHCARE INVESTING? THAT'S WHAT WE DO.

BBH Total Return % (assuming reinvestment of dividends in security)			
Period ending 31.12.2020	1 Year	3 Years	Since launch
BBH Share Price	29.1	66.2	98.2
BBH NAV	25.7	71.9	96.0
MSCI World Heathcare Index (GBP)	10.9	44.3	65.8

- **Market capitalisation £930m (LSE: BBH)**
- **Objective is to generate capital growth and income by investing in portfolio of listed global healthcare equities with a 3-5 year horizon**
- **Differentiated investment philosophy, "reinvention of the healthcare ecosystem"**
- **High conviction portfolio (max. 35 holdings) coupled with unconstrained (sub-sector, geography, market cap) healthcare mandate**
- **Targeted 3.5% Dividend Yield (scrip or cash options available)**
- **Effective discount control mechanisms (annual redemption option, buybacks)**
- **Experienced portfolio managers with extensive scientific, medical and finance backgrounds**

Modern healthcare systems have done an excellent job of reducing mortality rates and extending life expectancy. However, this benefit has regrettably come with unsustainable, spiralling costs associated with managing the multiple chronic diseases facing an ever aging population.

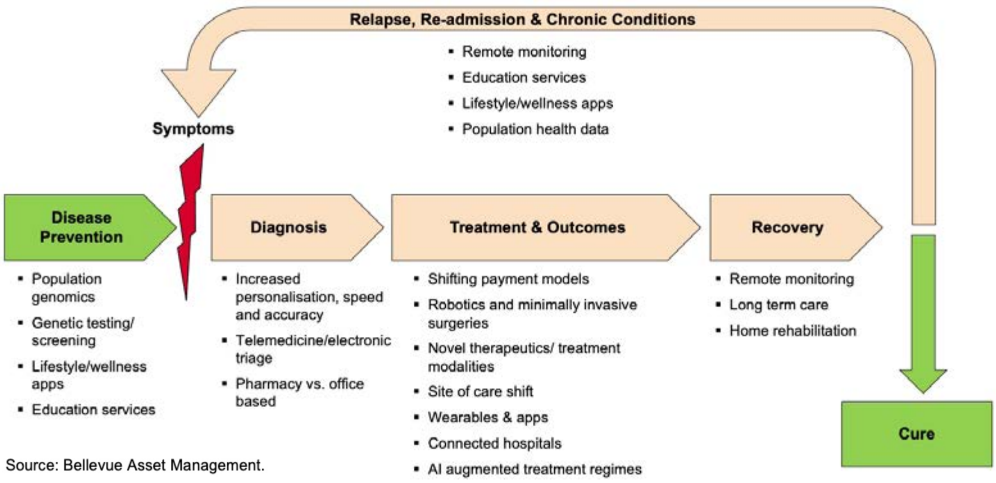
As a result, many healthcare systems can no longer cope with the needs of the 21st century population having been conceived in a different era. The solution to the problem is not 'more money' but a wholesale reinvention of the entire healthcare ecosystem.

We have identified a number of areas ripe for profound change, where the opportunity to revolutionise care delivery has been made possible by the emergence of new technologies, products, services and approaches.

The pictogram below represents our view of the 'patient journey' through a healthcare system. Whilst not exhaustive, the 21 bullets represent some of the opportunities for the reinvention of the healthcare ecosystem thereby improving outcomes, lowering the cost of care, or both, thus beneficially bending the aforementioned unsustainable spiralling 'cost-curve'.

All of these 'bulleted themes' are featured in our portfolio. In short, we are looking to provide investors with operationally geared exposure to the bullet points, through a balanced, bottom-up selection of companies to optimise the risk/reward profile.

If you would like further more detailed information then please visit www.bbhealthcaretrust.com



Source: Bellevue Asset Management.

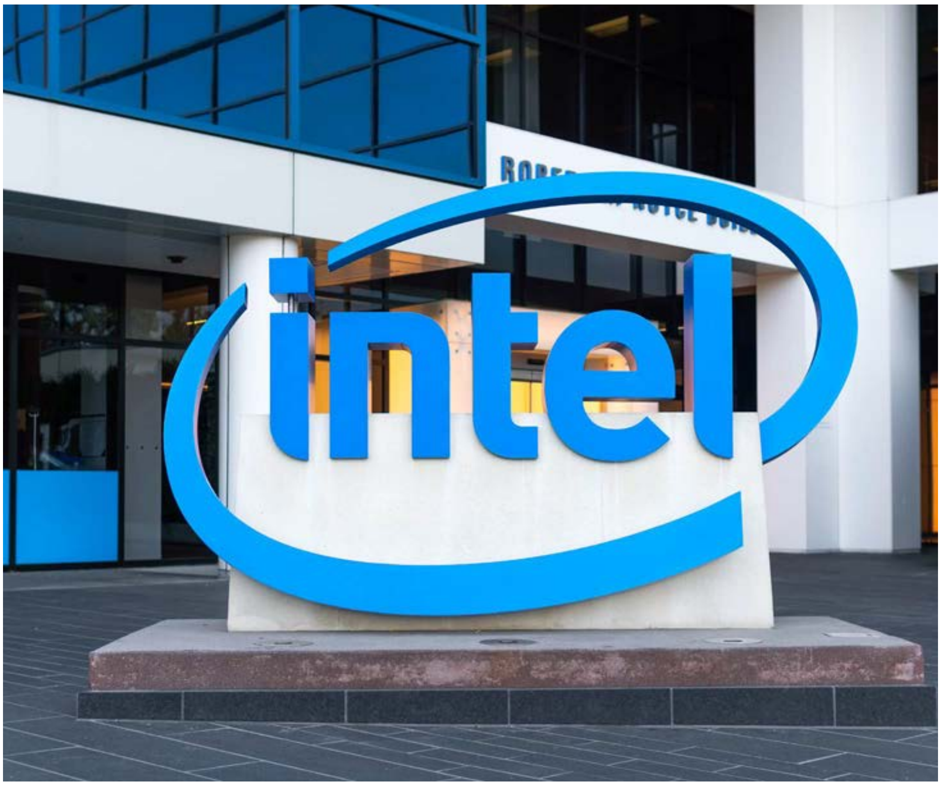
Turnaround scope means you should have 'Intel inside' your portfolio

The microchip giant is a great value tech recovery play

Microchips giant Intel had a rough 2020. While most major technology stocks soared last year, this one-time bellwether has struggled as rivals like Nvidia and Advanced Micro Devices (AMD) ate its lunch.

Even after a double-digit recovery rally in 2021 the stock has bounced less than 30% off 2020 lows, dismal when compared to the S&P 500's 70% rally. Nasdaq, where Intel is listed, has almost doubled in price.

The days when every computer gadget seemed to be powered by 'Intel inside' seems a long time ago, yet there is hope that the Santa Clara-based business is ripe for a reversal of fortune.



Intel: trends

($ billion)	R&D	Revenue	R&D as % of revenue
2020	13.6	77.9	17.4
2019	13.4	72.0	18.6
2018	13.5	70.8	19.1
2017	13.0	62.8	20.7
2016	12.7	59.4	21.4
2015	12.1	55.4	21.6
2014	11.5	55.8	20.5
2013	10.6	52.7	20.1
2012	10.1	53.3	18.8
2011	8.4	54.0	15.4

Source: Refinitiv, Intel

We believe new Intel leadership is capable of sorting out its manufacturing struggles, retaking control of its future, and rebuilding its reputation within the industry and with investors. If so, we would expect the stock to power beyond all-time highs of over $70, while still paying handsome dividends.

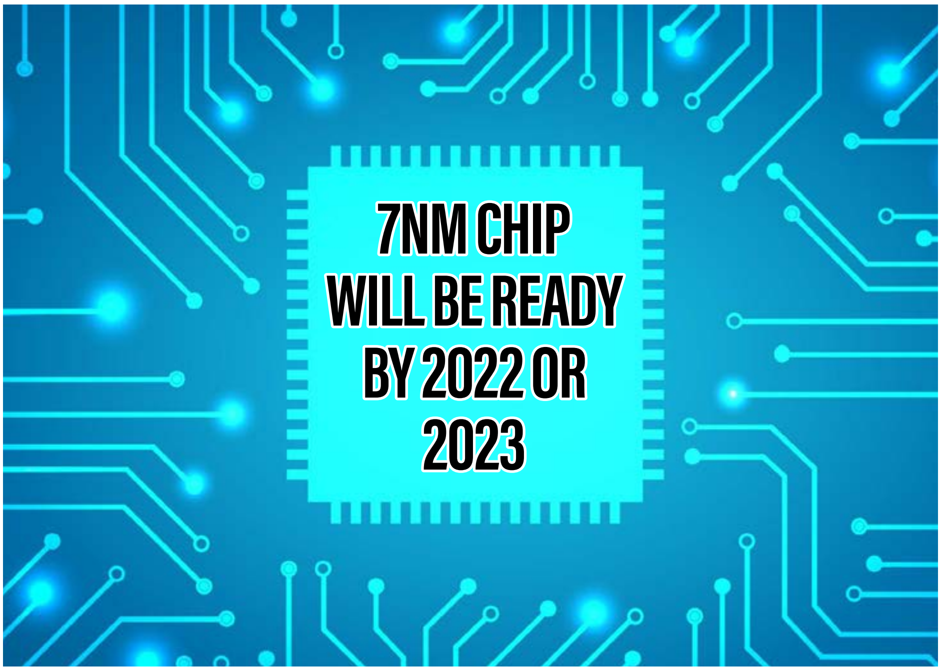
TRIPPED ITSELF UP

Intel's problems have been largely of its own making. Under chief executive Bob Swan the company has focused on reducing capital expenditure and boosting share buybacks to drive shareholder returns, financial engineering that has left its semiconductor engineering R&D (research and development) under-resourced. R&D as a percentage of revenue fell to its lowest in 10 years in 2020 at 17.3%, versus the 10-year average of 19.6%.

That myopia has seen Intel lose its grip on the microchip bleeding edge and fall behind rivals. Struggles to ramp up production of newer 10nm (nanometre) chips have had knock-on effects. In July, Intel stunned investors by admitting its next generation 7nm chip development was running at least 12 months behind target and won't be ready until 2022 or even 2023.

TSMC is already manufacturing 7nm chips for AMD and other chipmakers, and it will likely be producing 3nm chips by 2022, according to analysts. Apple has also announced that it plans to design its own semiconductors (based on ARM architecture) for its Mac range and outsource manufacturing, ending years of partnership with Intel.

Investors are now pushing for Intel to outsource manufacturing like many of its design rivals do. This would slash the expensive business of factory (known as fabs) retooling and free the company to concentrate on design, with its faster growth and higher margin profits.



Incoming CEO and former Intel chief technology man, Patrick Gelsinger, seems reluctant to stop manufacturing entirely

Managing this task will fall to incoming CEO, and former Intel chief technology man, Patrick Gelsinger. He will take over on 15 February but he is already making his mark, luring back engineering talent from Intel's past.

Gelsinger seems reluctant to stop manufacturing entirely, so it looks like a balance will be struck in time, but the greater focus on R&D and design is a huge step forward. That should ensure that Intel reclaims its position at the top end of the supply chain for PCs, laptops and, increasingly important, data centre server computers and internet of things connectivity applications, while pushing ahead in graphics processors and automotive development.

Intel has just reported a 15% fourth quarter revenue beat on estimates at $20 billion and earnings per share (EPS) of $1.52, versus $1.10 expectations.

Intel forecasts 2021-2023

($ billion)	Revenue	Free cash flow	EPS ($)
2020	77.9	21.1	4.94
2021	72.7	18.1	4.44
2022	72.6	16.8	4.37
2023	76.6	15.9	5.14

Source: Refinitiv, Intel

Despite better-than-expected Q4 and encouraging guidance for Q1 2021, sluggish data centre demand across cloud providers, enterprise and government end-markets is likely to weigh on the top-line performance in the near term, believe analysts.

That's demonstrated in 2021 and 2022 EPS and revenue forecasts that can be described as pedestrian at best, before the expected pick up in 2023.

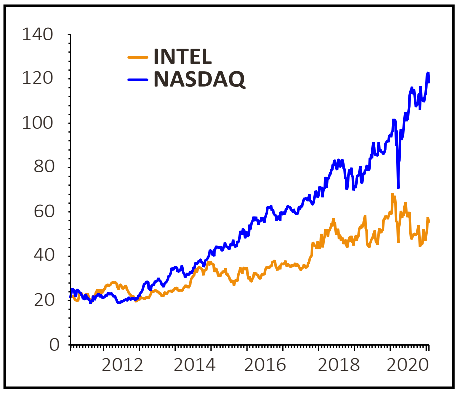
CHANGING THE TUNE

We believe that the previously downbeat mood music is gradually changing, a process that Gelsinger's appointment this month will accelerate. 'With a new CEO coming on board, it does seem the company is stabilising,' says Daiwa Capital Markets. 'Intel does have many competitive advantages, like 15,000 internal and a million external software developers and a full line of products.'

Other wide moats include its brand power, wealth of expertise, years of industry trust and very strong cash flows. Last year Intel threw off a staggering $21.1 billion of free cash flow, its biggest haul in at least five years and easily covering the rough $5.5 billion of 2020 dividends. Net debt of $28.2 billion compares to more than $81 billion of shareholders' equity giving a sleep-easy debt-to-equity ratio of 35%.

Intel is also one of the US's top 20 responsible companies, according to ESG data

Metrics such as return on equity and return on capital employed, which help measure the quality of a company's profitability and bang for buck from investment, averaged 26.5% and 20.2% over the past five years respectively. Intel is also one of the US's top 20 responsible companies, according to ESG (environmental, social and governance).



The stock has a delivered total return (share price plus dividends) of 14.6% and 11.9% annualised over five and 10 year periods respectively, according to Morningstar data, albeit below the average of the Nasdaq.

At $56.06, the stock trades on a 2021 price to earnings (PE) multiple of just 12.8 and promises a $1.37 dividend, implying a decent 2.4% yield for a company with scope to re-energise growth.

That modest valuation and respectable yield should limit Intel's downside even if things don't play out quite as planned.

By **Steven Frazer**
News Editor

Kepler Trust Intelligence

Standing on the shoulders of giants

THE PRIVATE EQUITY industry has seen dramatic growth over the past three decades as institutional investors have flocked to the asset class, as it has historically delivered consistently strong returns, typically uncorrelated to traditional equities. The AIC Private Equity sector, has outperformed the majority of other equity sectors over five years (to 21/01/2021), producing share price returns of more than 204%, on average.

In this article we take a look at **NB Private Equity Partners (NBPE)**, which is unique within the sector because of its co-investment strategy, diversification and cost advantages. Thanks to this, it has a strong track record compared to peers in delivering NAV growth and income through a dividend.

Access to the inaccessible

Over the past five years, ending 21/01/2021, NBPE has delivered NAV returns of 74.2% in USD, while the share price has returned 115.2% (*JPMorgan Cazenove*). Despite the strength of these returns, the trust trades at a discount of close to 19%, making this a potentially interesting time to examine it.

NBPE is unique in that the vast majority of investments made are through co-investments and there are an abundance of advantages to this strategy. Arguably the most important advantage is the direct control the investment manager of NBPE has in the decision-making process. Neuberger Berman makes investments on a "real time" basis for NBPE, based on the available capital and the prospects going forward. This means that the board and manager can apply appropriate levels of leverage (currently 18% of NAV according to the AIC) offering the potential to enhance returns for shareholders, while adding a moderate level of risk which is mitigated by the ability to control capital pacing. NBPE's co-investing strategy differs from peers who either commit to a single manager's funds or to a range of different managers' funds. Commitments are called only when the manager has found and transacted on a deal. Given there is little visibility surrounding when these transactions will take place, unlike NBPE these funds are required to run an over-commitment strategy which also increases risks.

FIVE YEAR RETURNS FROM AIC SECTORS

AIC SECTOR	AVERAGE SHARE PRICE RETURN (%)	AVERAGE NAV RETURN (%)
UK All Companies	62.7	53.9
North America	80.1	77.1
Europe	94.6	93.8
Private Equity (UK Listed Direct)	204.3	148.6
Asia Pacific	218.3	189.6
Global	290.1	289.9

Source: JPMorgan Cazenove (to 21/01/2021).
Past performance is not a reliable indicator of future results.

Another advantage of NBPE's approach is that shareholders will typically only be required to pay one layer of recurring fees. In fact, as of 31 December 2020 on 96% of the direct equity portfolio, NBPE does not pay underlying management fees or carried interest to third-parties. In comparison to a fund of funds, this represents a saving of the underlying management fee, which is typically 1.5–2% of committed capital and a typical carried interest fee of 20% of gains over an 8% hurdle. Investors in NBPE only pay the vehicle level fees on most investments – a 1.5% management fee and performance fee of 7.5%, measured annually and subject to a hurdle rate of 7.5%.

NBPE is a unique vehicle, offering investors a direct exposure to private equity without the usual associated costs. Through their co-investment strategy, the team are able to utilise capital more efficiently whilst increasing visibility, and benefitting from third-party experience. Given the significant discount the trust trades on and its steady historical performance, now could be an opportune time to look at this differentiated trust within the private equity sector.

To read more about the unique approach of NBPE, please **click here**

SILVER SPENDERS

VACCINATED AND READY TO RECLAIM THEIR LIVES

By Tom Sieber, Martin Gamble, James Crux, Ian Conway and Yoosof Farah

It might not seem like it in the depths of a gloomy lockdown winter, but brighter days are ahead of us. By mid-February the UK hopes to have vaccinated most over-70s, with a large chunk of over-50s potentially covered by the end of March.

This cohort should then be much better protected against Covid-19 and that could result in a new spending spree.

Getting the vaccine should allow for the gradual reopening of society and give people more confidence to go out and reclaim their lives, using cash built up in lockdown to hit the shops, eat out, engage in leisure activities and travel.

Older people will be leading the charge because they will have been first to be vaccinated and so it makes sense to focus on where they might spend money.

FIVE STOCKS TO BUY

The rise of the silver spenders, or the so-called 'grey pound', could be a big boon to all sorts of different businesses. In this article, we highlight five stocks to buy which could benefit from increased spending by this demographic.

As well as leisure and retail, we also look at how parts of the financial services sector could benefit. We believe the over-50s will look back at the experience of Covid-19 and think harder about financial planning, which suggests greater demand for financial advice.

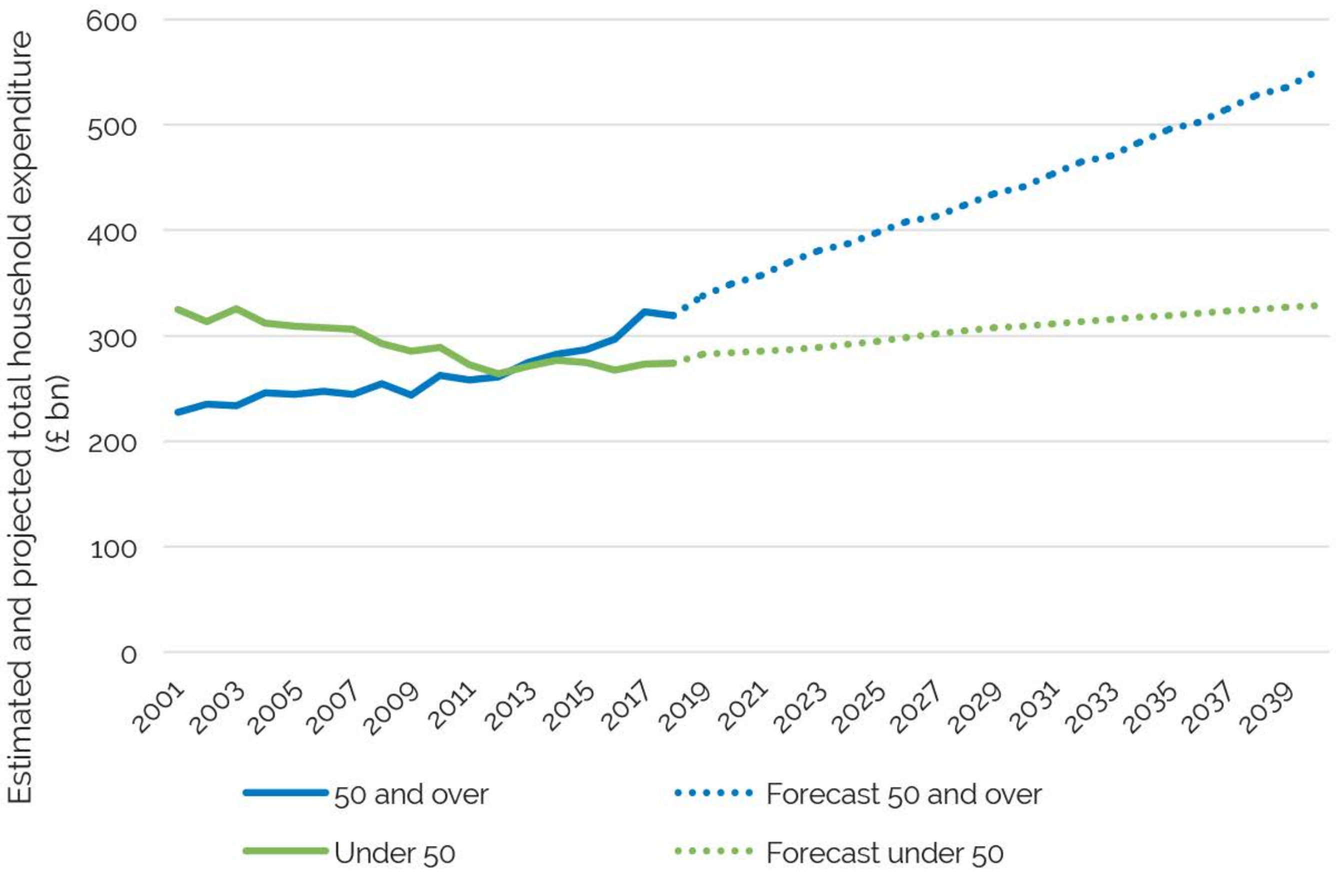
At the moment we can't leave our local area, go to a restaurant, cinema, non-essential shop or other venue even if we wanted to, so some readers might wonder why we are saying to buy certain stocks now. We are taking a forward-looking view.

Judging exactly when restrictions will be lifted is difficult but a gradual easing by the summer doesn't seem an outlandish scenario.

An important point to consider beyond any exit from lockdown is that by being vaccinated you are likely to feel happier about going out without the same risk of catching Covid, even if we still need to wear face masks for a while.

Many people are already planning their activities before even getting vaccinated, so we are confident there is pent-up demand which will soon translate into actual spending.

2001 TO 2040: TOTAL HOUSEHOLD SPENDING BY AGE GROUP



Source: International Longevity Centre UK

INCREASING SPENDING BY OLDER PEOPLE

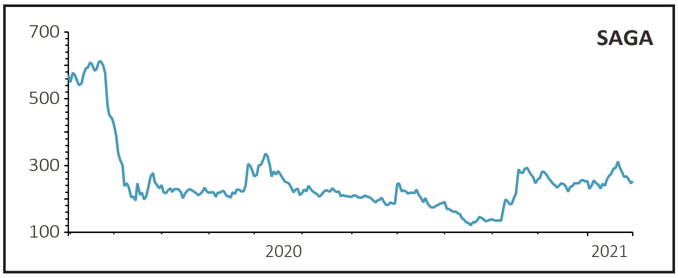
Increased spending by older consumers was already a growing theme before the pandemic. In a December 2019 report the International Longevity Centre UK forecast that by 2040, older households were expected to spend £550 billion a year (63% of total spending).

It said: 'This is £231 billion more than in 2018 and £221 billion more than projected spending by younger households in 2040. This means that by 2040, 63p of every pound spent in our economy would be spent by older households.'

The report also noted that the top three growing sectors for older consumers were recreation and culture, transport and household goods, and services.

Among the most obvious beneficiaries of the silver spenders is **Saga (SAGA)**. The insurance and travel provider targets the over-50s and the growth of this demographic is seen as a long-term catalyst for the group.

Even before the pandemic disrupted its cruise business, Saga proved to be a massive disappointed to the market. This was evident in the big losses it chalked up in its January 2019 and January 2020 financial years. Adjusting for an October 2020 share split, the stock is down 90% on its IPO price. Its fortunes are now improving.



A new CEO, Euan Sutherland, took over at the start of last year and a £150 million fundraise supported by former chief executive and founder's son Roger de Haan, who moved into the chairman's seat, has helped to steady the ship.

After its latest trading statement on 26 January Numis analyst Nick Johnson said: 'We think this is a reassuring update, with insurance on track to meet forecasts, an ample cash position, and encouraging signs of pent-up demand in the cruise business.'

Based on Numis' January 2023 post-pandemic forecast, the shares trade on a price to earnings ratio of 4.3 times. This looks like an attractive buying opportunity.

RETAIL WINNERS

A vaccinated over-50s cohort should have greater confidence in venturing outdoors in the months ahead, a welcome development with positive implications for select retailers. Cooped-up for months on end, consumers of a certain vintage will want to hit the high streets, shopping centres, retail parks and restaurants, and reacquaint themselves with socialising while also investing some of the cash they've saved up during lockdowns.

This behavioural shift offers a potential earnings catalyst for homeware and furniture retailers such as cushions, quilts and kitchenware seller **Dunelm (DNLM)** and sofa sellers **DFS Furniture (DFS)** and **ScS (SCS)**. The latter pair's products are tactile in nature, so a reopening of non-essential stores should see pent-up demand released as over-50s wander into their shops and touch their products before they buy.

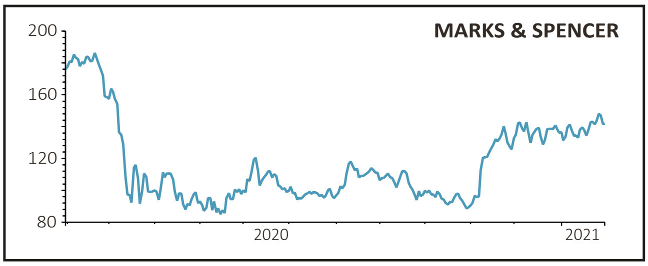
Vaccinations could also sustain the boom in spending on major DIY or home and garden improvement projects, generating a possible earnings tailwind for the likes of B&Q-owner **Kingfisher (KGF)**, specialist retailer **Topps Tiles (TPT)** and PVCu replacement windows and doors maker **Safestyle UK (SFE:AIM)**. The older demographic's rising levels of confidence in getting outdoors could boost other purveyors of big ticket purchases such as cars, offering a potential boost to earnings for major auto retailers **Pendragon (PDG)**, **Vertu Motors (VTU:AIM)**, **Cambria Automobiles (CAMB:AIM)** and **Marshall Motor (MMH:AIM)**.

As social life and events begin to return, retailers catering for the more mature customer may well see an uptick in sales, among them high street stalwart **Marks & Spencer (MKS)** and plus-size digital fashion retailer **N Brown (BWNG:AIM)**, the Manchester-based business which sells to the underserved 50-plus demographic via its JD Williams and Ambrose Wilson brands.

Manufacturers that might see improved trading prospects from the grey pound include the likes of luxury interior design and furnishings specialist **Sanderson Design (SDG:AIM)** and **Portmeirion (PMP:AIM)**, the company behind homewares brands such as Royal Worcester, Spode and Wax Lyrical, not to mention **Churchill China (CHH:AIM)**, the pub and restaurant ceramics maker counting on a recovery in the casual dining market.

Buy Marks & Spencer at 144.65p

Covid-induced lockdowns and restrictions have taken a massive toll on British retail institution Marks & Spencer, as demonstrated by its Christmas trading statement. UK turnover for the three months to 26 December fell 7.6% on a like-for-like basis to £2.53 billion, as a 2.6% rise in food sales was more than offset by a 24.1% decline in clothing and home sales.



Virus restrictions are likely to remain in place until at least the spring, leaving Shore Capital to forecast a collapse in pre-tax profit from £403 million to a mere £24 million for the year to March 2021.

However, the market is forward looking and as the older cohort is vaccinated, restrictions are lifted and non-essential stores reopen, over-50s may begin to congregate at M&S once again, reviving a clothing and home business lapping soft comparatives and boosting Marks & Spencer's food business.

AT THEIR LEISURE

If the government's vaccination plans are delivered by mid-February, the elderly and most vulnerable in society will be able to emerge from their long hibernation behind closed doors.

This may unleash an increase in activities ranging from day trips to the countryside or beach, Bingo nights with friends and more treats such as a nice meal in a country pub or a long weekend at a spa.

At the very least people will want to engage more within their local community and should feel safe visiting friends in local cafes and bars.

Loungers' like-for-like sales up 25% after reopening in 2020

This could drive earnings for community all-day café/bar/restaurant company **Loungers (LGRS:AIM)** whose 168 sites are located in small towns across the country, trading under the Lounge and Cosy Club brands.

As traditional pubs have closed Loungers has increasingly become the social hub for many towns where locals can meet and discuss affairs that affect the community.

The company delivered significant outperformance of the market once sites reopened last July, delivering 25.1% like-for-like sales growth over the 13 weeks to 4 October.

This was no doubt also helped by the fact that the company has no sites in large city locations.

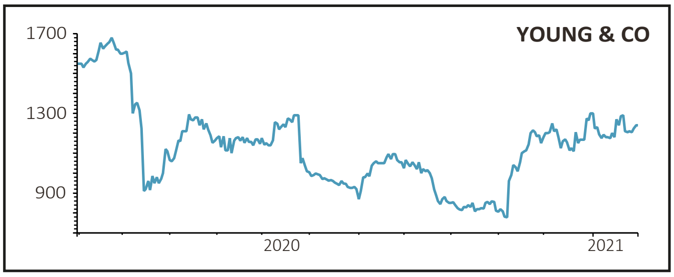
Despite the challenges caused by the pandemic Loungers has continued its growth strategy, albeit on a reduced scale and has a long-term goal of growing to 400 sites.

A chance to escape the local town might also be an attractive endeavour to those people who have been confined to their home for months.

Activities such as taking a leisurely drive to a country pub or staying overnight in a hotel/pub could become more popular. Pubs and hotels group **Marston's (MARS)** has 400 destination pubs and inns spread across the UK from Newcastle to West Sussex.

Our favoured option for investors looking to get exposure to the theme is **Young's (YNGA:AIM)** with its collection of inns and country escapes offering weekend retreats.

Buy Young's at £12.25



The freedom to leave the house with confidence boosted by inoculation extends into the evenings too and a big rebound in bingo could be on the cards.

While there aren't any pure bingo companies listed, **Rank Group (RNK)** owns the Mecca bingo brand. When its venues could open last summer, it saw a 25% uplift in the number of customers visiting its bingo halls.

Ladbrokes and Coral owner **Entain (ENT)**, formerly GVC, owns the Gala bingo brand.

TIME TO TRAVEL

People aged 50 and over are shifting their spending towards non-essential purchases according to a report by the International Longevity Centre.

The report says transport spending among over 50s is expected to see growth of £62 billion from 2019 to 2040 and is one of just a small number of sectors expected to see any growth at all among over 50s.

Signs of this can already be seen since the vaccine rollout started as confidence from this demographic to book holidays grows significantly.

Cruise operators Saga, **TUI (TUI)** and **Carnival (CCL)** have all reported a surge in bookings from over 50s as the demographic offers a ray of hope to beleaguered holiday and travel firms.

Saga for example has said that despite the pandemic, customer retention levels have been high and an average of 69% of cruise passengers rebooked rather than requested a refund.

More recently it said this has jumped to 86%, showing the 'pent-up demand for cruises among our guests who will benefit from the first round of vaccine rollout'. TUI, the UK's largest tour operator, said in mid-January 50% of bookings on its website were made by over-50s, while Carnival said bookings for the first half of 2022 are above 2019 levels.

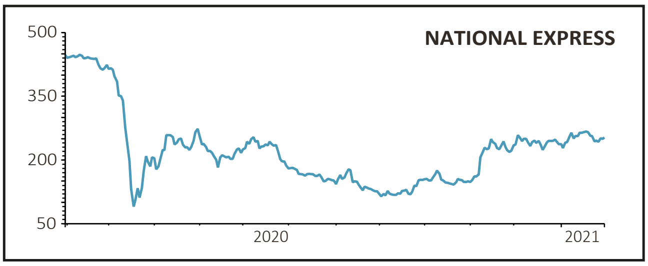
But in less positive news for the big cruise and holidays firms, it could be domestic travel that benefits the most with recent headlines talking about a staycation boom once again this summer.

Extended lockdowns and international travel bans have seemingly hit consumer confidence to an extent in terms of holidays abroad, with a number of domestic operators reporting a sharp rise in enquiries and bookings.

There have been conflicting reports whether Spain for example, by far the most popular destination for UK holidaymakers according to ABTA, will open to tourists before the end of summer, while politicians continue to warn against booking foreign holidays.

Buy National Express at 247.4p

Coach operator **National Express (NEX)** recently reported a 185% increase in spring and summer holiday bookings compared to the same period last year. Around 98% of its holiday customers are over 65s.



Analysts at Berenberg are keen on the stock and say it's a 'matter of when, not if earnings recover', adding it has shown resilience in the pandemic and has many growth opportunities ahead in North America and Morocco, with any boost as a result of the vaccine rollout considered a bonus.

50% of bookings on TUI's website were made by over 50s

SAVINGS AND RETIREMENT PLANNING

When we discuss demographics and the power of the ‘grey pound’, we shouldn’t overlook the importance of the savings and retirement market.

According to the Office for National Statistics (ONS), the market value of UK pension funds reached £2.2 trillion at the end of 2019, boosted by the take-up of auto-enrolment.

UK pension funds hit £2.2 trillion at the end of 2019

By comparison, the total amount of deposits held by UK households, excluding notes and coins, was just £1.5 trillion at the end of last year according to the Bank of England.

The current generation of retirees typically has a well-funded final salary pension scheme and a range of retirement products such as individual savings accounts (ISAs) and self-invested pensions (SIPPs), which means they don’t need a high level of advice beyond estate planning.

However, the generations below them are much less likely to be able to retire at 65 as they don’t have the same generous pensions or level of savings as their predecessors, and typically they are happy to pay for professional financial planning advice.

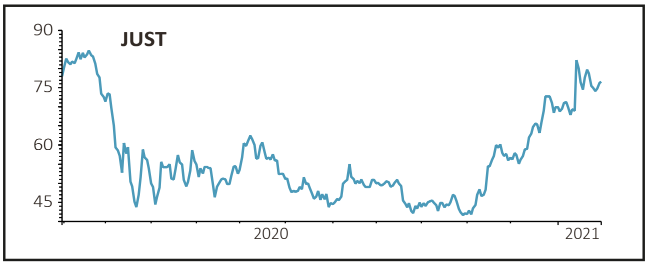
Firms such **AFH Financial (AFHP:AIM)** have been extremely successful in selling advice as well as gathering assets, even seeing inflows during the pandemic despite – or perhaps because of – heightened uncertainty over the economy.

Earlier this month chief executive Alan Hudson said he expected more consolidation in the sector, with AFH one of a small number of larger businesses eventually dominating the landscape.

Within a week of his comments, the firm received a takeover offer at a 16% premium to its market value from a US private equity investor aiming to scale the business up rapidly through mergers and acquisitions.

Buy Just Group at 73p

Just Group (JUST) is one of the leading players in the retirement savings and advice market, having amassed retirement income sales of £2.15 billion in the year to December.



Driving this growth was a 22% increase in defined benefit premiums, courtesy of a very buoyant market. Also, thanks to strong pricing discipline, the firm’s operational gearing has increased meaning profits will have grown faster than turnover.

Analysts at Numis recently raised their full year 2020 and 2021 revenue and earnings forecasts and put a price target of 160p per share on the company, more than double the current level, which reinforces our positive view.

The lost decade for Cash ISA savers

Stocks and Shares ISAs have massively outperformed cash-based products in the last 10 years

It has been a lost decade for Cash ISA savers, with the interest from the average account failing to beat inflation over the last 10 years. That means the money stashed away has actually lost its buying power.

A saver who prudently used their full Cash ISA allowance every year since 2011 would have sunk £127,320 into these accounts. That money would now be worth £124,857 after inflation is taken into account, based on the interest paid on the average Cash ISA account published by the Bank of England. That's a loss in real terms of almost £2,500.

Things have been very different for Stocks & Shares ISA investors. The same £127,320 invested over the last decade into the average global equity fund would be worth £196,079 after inflation, a gain of almost £70,000 in real terms.

There has been a high degree of variation in performance across markets, with technology funds and US funds sitting atop the fund league table. But the average fund sector has delivered a 100% return over the last 10 years, equivalent to doubling your initial investment (in nominal terms, so not adjusting for inflation).

Likewise the five most popular sectors with stocks and shares ISA investors in 2011 have significantly outperformed the average Cash ISA, posting an average 10 year return of 87.8%, compared to 16.6% from cash.

EXTREME DIVERGENCE

The extreme divergence between the fortunes of cash savers and stock market investors over the last 10 years comes down in part to the actions of central banks. Loose monetary policy has depressed the interest paid on cash, while at the same time boosting the prices of the shares and bonds which form the bedrock of most ISA portfolios.

Of course, it's all very well looking back at past performance, but no-one has a time machine to go back to 2011 and make some better decisions, otherwise there would be quite a big queue to get in it.

The question is rather, will returns in the next 10 years look like the last? No-one can answer that with any accuracy. But perhaps we don't have to, if we acknowledge that the last decade has not been just a weird statistical anomaly, because over 10 years it's entirely normal to expect stock market returns to beat cash.

EXTRA REWARD FOR EXTRA RISK

That's the extra reward stock market investors get for taking risk with their capital, and enduring its fluctuations. Since 2011 the scale of the difference between cash and stock market returns has been extreme, but the fact that equities have beaten cash is not unusual.

Today, remarkably, the base rate is even lower than it was 10 years ago, and the Bank of England is considering whether to cut it further, possibly taking it into negative territory for the first time. Despite that, money continues to accumulate in cash accounts thanks to lockdown decimating spending options. The issue of high levels of cash predates the pandemic though, as the financial regulator highlighted in December.

Their consumer research, which took place before the Covid crisis, found that around six million UK adults had investable assets of £10,000 or more, which were all held in cash. A further three million or so had more than three quarters of their assets in cash.

RATES CAN STAY LOW FOR LONGER THAN WE THINK

Here's what the Financial Conduct Authority themselves said in December 2020: 'Many consumers are still holding money in cash that could be invested to provide potentially higher returns, but they have not sought or received the help with their finances that would help them to make better investment decisions.'

The interest rate currently paid on cash doesn't present a high bar to step over by any means. While there is some speculation that monetary and fiscal stimulus will lead to inflation and rates will have to rise, if the last 10 years have taught us anything, it's that interest rates can stay lower than we imagine, for, longer than we expect.

But for savers and investors, speculating over the course of future rates isn't what should be driving decisions in the here and now. The question of whether to save in cash or invest in the stock market is actually relatively straightforward, it simply comes down to thinking about your finances in terms of short, medium, and long term pots.

	10 year total return %	£10,000 invested
AVERAGE CASH ISA	16.6	£11,658
CPIH inflation	19.3	£11,930
Average of all fund sectors	100	£20,000

Best 5 investment sectors	10 year total return %	£10,000 invested
IA Technology & Telecommunications	381.6	£48,160
IA North America	244.4	£34,436
IA North American Smaller Companies	252.3	£35,227
IA Japanese Smaller Companies	220.1	£32,011
IA UK Smaller Companies	179.9	£27,987

Worst 5 investment sectors	10 year total return %	£10,000 invested
IA Specialist	41.5	£14,145
IA Targeted Absolute Return	24.3	£12,427
IA Global EM Bonds Local Currency	19.8	£11,981
IA Standard Money Market	3	£10,303
IA Short Term Money Market	1.8	£10,184

5 most popular ISA sectors in Jan 2011	10 year total return %	£10,000 invested
IA UK All Companies	83.6	£18,363
IA UK Equity Income	76.4	£17,642
IA Sterling Corporate Bond	71.9	£17,190
IA Global	147.7	£24,769
IA Mixed Investment 20 to 60% Shares	59.5	£15,948
Average (of all tables)	87.8	£18,782

Sources for all tables: Bank of England, ONS, Investment Association, FE Total Return in GBP 31/12/2010 to 31/12/2020

For money that you might need in five years or less, cash is likely to be the main focus. For money that you might need in five to 10 years, you could consider putting at least some of it in the stock market.

For money that you won't need for 10 years or more, you might consider investing a higher proportion, or even all of it, in the stock market. Savers may of course choose to take a more conservative approach by holding higher levels of cash, but they should then be comfortable that in the long run, this extra caution will likely come at a price.

By **Laith Khalaf**
Financial Analyst

Can I move money from a workplace pension to a SIPP?

A Shares/AJ Bell podcast listener wants to know how much flexibility they have with managing pension pots

Can I transfer out of a workplace pension to my SIPP at any time, or say at six month or annual timescales? I want to take control of my own investments. What are the laws / rules that cover this?
Matt (podcast listener)

Tom Selby
AJ Bell
Senior Analyst says:

If you are employed in the UK, you should be automatically enrolled into a workplace pension scheme. The rules require your employer to pay a minimum of 3% of earnings between £6,240 and £50,000 ('band earnings') into the scheme, while you pay in 4% and a further 1% comes via pension tax relief.

Opting out of your workplace pension should be a last resort. Anyone who does so will effectively be turning down the free money of a matched employer pension contribution.

As part of the auto-enrolment process your employer will have chosen a pension scheme which has to meet a range of criteria. These include offering a 'default' fund which members are placed into if they don't make an active choice, with charges for this fund capped at 0.75% a year (although lots of providers charge less than this).

While your employer is required to auto-enrol you into a scheme meeting these conditions, you should be able to transfer the funds you've saved to an alternative scheme if you want to.

If you do this, you will be moving your retirement pot from an environment where charges are limited to 0.75% a year to a world where they could exceed this level. Saving in a SIPP will provide you with the freedom to pick and choose an investment portfolio that suits your preferences and risk appetite but keeping costs as low as possible should remain a priority.

Take, for example, two people who save £3,000 each per year, inclusive of tax relief, in a SIPP. Both enjoy identical 5% annual returns but one pays 1% in charges while the other pays 1.5%.

After 30 years, the person who paid 1.5% in charges would have a pension pot worth £160,000, while the person who paid 1% would have a fund worth £175,000. Or to put it another way – paying just 0.5 percentage points more in charges has cost them £15,000 in retirement.

You should also make sure you are comfortable managing two pension pots at the same time, because auto-enrolment rules do not allow your employer to pay your workplace contributions directly into a non-qualifying scheme such as a SIPP.

Finally, before transferring any pension you should also check there aren't any valuable guarantees attached which you might lose or exit fees you will have to pay. As you are moving money from an auto-enrolment scheme this shouldn't be an issue.

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.

INVESTOR DIARY

Paying more attention to FTSE 250 stocks

Malcolm from Edinburgh has reshaped his pension portfolio after studying some past performance data

CATCH UP ON THE FIRST TWO PARTS OF MALCOLM'S INVESTMENT JOURNEY

Part 1 Part 2

Monday 9 November saw things change for investors as the surge of enthusiasm associated with finding a vaccine for Covid-19 buoyed markets. For the first time in many months the vast majority of my 30 shares rose markedly.

This did not trigger a notable increase in buying and selling on my behalf. I reduced my investment in two funds but little else. It was pleasing though to see that half my shares were now in profit, just above a quarter were between 5% and 10% down with most of the others close to between 20% and 25% in arrears. Only two stocks, **BP (BP.)** and **Royal Dutch Shell (RDSB)**, were steadfastly lagging at around 50% below their purchase price.

Following 'vaccine Monday' my first 10 months of investing had now led to a more satisfying break-even figure and in the weeks thereafter to a smallish surplus; all up, something which in my opinion helps justify investing in a pension fund rather than taking out an annuity.

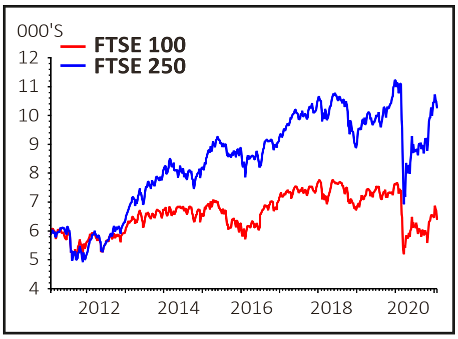
HAVING A MORE CONCENTRATED PORTFOLIO

There is more work to do. What emerged as a priority is to fine tune the width and depth of my portfolio – 30 shares in an invested portfolio of £150,000 now seems to me rather too many – and review the sectors investments are in.

Informing decision making was a table in the *Editor's View* column in *Shares* on 22 October 2020, which highlighted that the FTSE 250 had significantly outperformed the FTSE 100 over the last two decades.

With elegant simplicity the table indicated that the 10-year change in the FTSE 100 was 4.1% and 65.2% for the FTSE 250.

Given that my portfolio contained 18 FTSE 100 stocks, eight in the FTSE 250, two from the AIM market and two shares



from the global Xetra market, a greater prominence for shares in the FTSE 250 was an idea to consider. Moreover, paying closer attention to the FTSE 250 index enables selected trusts and funds be added to my portfolio if wished.

IN AND OUT

So began the process of identifying sound investments from the FTSE 250 to invest in and reviewing whether to retain FTSE 100 shares or not.

Following an analysis of share price charts, price to earnings ratios and increasingly directors' dealings – I do like to see directors buying shares in their own companies – shares were purchased from the FTSE 250 in **Drax (DRX)**, **Hill & Smith (HILS)**, **Kainos (KNOS)**, **Renishaw (RSW)** and **TI Fluid Systems (TIFS)**, plus **Fidelity European (FEV)** and **Smithson Investment Trust (SSON)**.

During this period, shares in FTSE 100 companies **HSBC (HSBA)**, **Smiths (SMIN)** and **Taylor Wimpey (TW.)** were sold.

Most of these new investments matched my continuing preference for investing in construction, banking/insurance and pharmaceuticals and to a lesser extent technology and minerals. Based on relative lack of knowledge and unease about the level of risk/reward, I shy away from retail, leisure and travel.

There were no changes in the sectors I am invested in, but given that most of my investments are typically £4,000 to £6,000, the idea of reducing the number of shares held from 30 to around 20 and investing as much as £8,000 to £10,000 in each of these shares appeals as part of a 'less is more' growth strategy.

ASSESSING OTHER HOLDINGS

In recent months, I have been carefully reviewing share price fluctuations, the relative resilience of shares, and those shares which may well thrive if the recovery programme for Covid-19 is successful. To a lesser extent, dividend payments have been considered as well.

On this basis, **Aviva (AV.)**, **Howden Joinery (HWDN)**, **Scottish Mortgage Investment Trust (SMT)**, **DS Smith (SMDS)**, **Tesco (TSCO)** and **Unilever (ULVR)** seemed to fit my criteria for a larger investment as well as investing from scratch again in past favourites: **Melrose Industries (MRO)**, **SSE (SSE)** and **UDG Healthcare (UDG)**.

Identifying further first-time shares will continue in the months ahead, as will reviewing existing shares, which are modestly in surplus or slightly in arrears and deciding whether to sell, hold or increase investment in them.

I have also paid closer attention recently to the AIM 100 index as in 2020 it performed markedly better than the FTSE 100. It is interesting to review the business model and rationale for these companies and often the changing use of technologies which are planned. So far, I have added **Blue Prism (PRSM:AIM)**, **Gamma Communications (GAMA:AIM)**, **GB Group (GBG:AIM)** and **ITM Power (ITM:AIM)**.

REVIEWING LAGGARDS

A further priority is deciding what to do with shares which are 15% to 25% in arrears. My review of company reports and related literature has helped draw attention to why **Diageo (DGE)**, **Smith & Nephew (SN.)** and **Vodafone (VOD)** are struggling.

While **GlaxoSmithKline (GSK)** and **Tate & Lyle (TATE)** have been praised by some market commentators, my shares in them continue to perform modestly, despite having attractive price to earnings ratios, solid earnings yields and appealing dividend payments. If I could grasp why these shares rarely show sustained improvement, then I might really be onto something.

DISCLAIMER: ***The views in this article are those of the author and not of Shares or AJ Bell, the owner of Shares. Readers should consult a suitably qualified financial adviser if they are unsure about managing their own investments. Past performance is not a guide to future performance. Shares' Editor Daniel Coatsworth owns shares in Smithson Investment Trust referenced in this article.***

The unloved legal eagles chalking up bumper returns

The sector offers low valuations, high returns and good growth prospects

In a year in which 'quality growth' stocks stretched their outperformance over 'value' stocks, notwithstanding a late bounce-back in the latter on the announcement of a Covid vaccine, it seems odd that UK investors should have overlooked the legal sector.

As it is, most legal services and related stocks registered double-digit percentage losses last year with many underperforming the FTSE All-Share index by a wide margin.

The recent negative response to an underwhelming update (26 Jan) from litigation finance firm **Manolete Partners (MANO:AIM)** won't have helped sentiment.

However, considering a good portion of these stocks generate significantly higher returns on capital employed (ROCE) than the rest of the market thanks to their high-margin, high-quality cash flows, the pressure on valuations looks like an anomaly with two outstanding opportunities to buy for the long term.

And with many firms employing a 'buy and build' strategy and having had to put their expansion plans on hold during the pandemic, 2021 is likely to see a sharp rise in merger and acquisition (M&A) activity providing a potential catalyst for the sector.

A 'GOOD' CRISIS

Most quoted legal services firms have come through the pandemic in a strong position financially and in terms of their market position.

Stepping up their investment in technology was a pre-requisite for most firms before they became publicly-listed, so a move to remote working was less of an ordeal than it might have been.

Also, the move from an old-fashioned partnership arrangement to a corporate structure has led to a quicker decision-making process and made it easier to identify cost efficiencies.

Below we present a profile of the leading companies in the legal services sector and the litigation funding sector.

LEGAL SERVICES

Following a spate of flotations on the AIM market in the last couple of years, there are now six quoted law firms offering legal services to consumers, businesses or a combination of the two.

The largest by market value is

LEGAL SECTOR: WEAK PERFORMANCE VS STRONG RETURNS

Company	TTM ROCE	2020 performance
Legal Services		
DWF Group	14.0%	-36.3%
Gateley (Holdings)	29.0%	-28.8%
Ince Group	28.5%	-61.5%
Keystone Law	32.1%	-4.7%
Knights Group	12.8%	16.4%
RBG Holdings	8.3%	-36.2%
Litigtion Funding		
Burford Capital	16.3%	0.1%
Litigation Capital Management	11.9%	-4.5%
Manolete Partners	27.5%	-44.0%
FTSE All-Share average	**4.2%**	**-12.5%**

Source: Sharepad, Shares magazine
*FRP Advisory floated on 6 March 2020

Knights Group (KGH:AIM), the first company of its type to adopt a corporate business model back in 2012 and the fastest-growing firm over the last four years in terms of revenues following a series of acquisitions.

Knights distinguishes itself as the leading legal and professional services business outside London, with a strong focus on the North, the Midlands and the South West, and a list of 18,000 corporate customers including several FTSE 250 companies.

The largest firm by revenue, by some distance, is Main Market-listed **DWF (DWF)**, which has expanded rapidly both domestically and internationally thanks to a string of acquisitions.

It focuses on the insurance market, financial services, the commercial property market and commercial litigation. After a period of expansion, the firm has been consolidating its operations in Europe, the Middle East and Australia.

Curiously, one of the bigger firm by revenue, **Ince Group (INCE:AIM)**, is actually the smallest in terms of market value. Like Knights it has grown largely by acquiring other law firms, which it then leverages through its proprietary platform and infrastructure, yet it hasn't enjoyed anything like as much market favour.

John Llewellyn-Lloyd, director of corporate finance and head of professional services at Arden Partners, believes investors have been put off by the size and complexity of the most recent deal, but he points to the valuation.

'Valuing law firms on earnings is problematic as the majority of long-term equity value is removed each year by the equity partners', says Llewellyn-Lloyd. 'A benchmark valuation for private legal practices is one times revenues. For corporatised firms it is higher than traditional partnerships, often more than two times revenues. Ince trades on about 0.3 times revenues.'

One of the great success stories in the sector is **Keystone Law (KEYS:AIM)**, which not only broke away from the old partnership structure but from the beginning operated on a decentralized basis with 'pods' of lawyers using its platform in exchange for a cut of their fees.

Unlike most of its rivals, it has grown organically rather than by acquisition, recruiting high-quality teams from traditional firms thanks to the attractions of its modern working practices, which came into their own during lockdown.

LITIGATION FUNDING

Having been considered distinctly esoteric a decade ago, litigation funding has begun to move into the mainstream. The largest and best-known company in the sector is **Burford Capital (BUR:AIM)**, which over the last decade has amassed a portfolio of more than a thousand cases working both with corporate clients and major law firms.

Having been a stock market darling for many years, Burford shares suffered a sharp fall in mid-2019 after an attack by a US short-seller, from which they have yet to recover.

Notwithstanding, the company has continued to generate significant returns both from its own case realisations and from cases it manages in private funds.

Burford is joined by **Litigation Capital Management (LIT:AIM)** and Manolete, although they are very different beasts.

Litigation Capital is an international dispute financing firm with its own asset management division, while Manolete is purely focused on the UK and is unique in actually buying disputes in order to manage the entire process and retain all of the proceeds, rather than paying the bulk of its returns to the case holders like its rivals.

It's recent profit warning was linked to the economic support measures in the UK which are supressing the corporate insolvency disputes it would normally invest in.

OUTLOOK FOR 2021 AND BEYOND

Having proved its resilience during the pandemic, despite a generally poor performance in stock market terms, the legal sector is poised for a year of expansion in 2021.

Legal disputes and insolvencies should eventually rise as a result of the pressures on businesses over the last 12 months.

And legal firms which have bided their time during the crisis and accrued cash will want to re-start their growth strategies with targeted acquisitions, which is likely to fuel a rise in valuations.

Added to this, more privately-owned law firms, in particular those in the arena of personal law, will come to market this year after having to shelve their plans to float last year, says Llewellyn-Lloyd.

'External capital will be a key competitive tool for acquisitions, IT upgrades and lateral hires. Moreover, there is a clear arbitrage between unquoted valuations and quoted ones', he adds.

TWO LEGAL SECTOR STOCKS TO BUY

INCE GROUP (INCE:AIM)

Buy at 47p
Market cap: £32 million

GATELEY (GTLY:AIM)

Buy at 171p
Market cap: £202 million

The most obvious valuation anomaly in the legal services sector is **Ince Group (INCE:AIM)**, with the firm having lost two thirds of its market value last year despite posting strong revenue in the face of the pandemic and generating an enviable return on capital employed.

Turnover in the six months to September rose 6%, driven equally by organic growth and acquisitions. The international business saw revenues increase across the board while the core UK business saw income almost recover its pre-Covid level by the end of the half.

Having digested the Ince acquisition, the firm is increasing lateral hires and reducing its debt and expects to generate enough cash-flow to declare an interim dividend with its final results.

Whether using a price to earnings multiple of less than six times, or price to sales of less than a half, there is no question the shares are extremely cheap. Even if it isn't a target for other legal firms or private equity investors, a resurgence in deal activity will lift valuations across the sector, which is no less than the stock deserves.

Gateley (GTLY:AIM) is a consolidator with the professional legal services sector, a factor which has helped it grow its revenues every year since it was founded in 1986.

High margins and strong free cash flow have enabled the firm to make nine acquisitions in the last five years, for a total of £25 million, half of which has been paid on cash and half in shares.

In the six months to October the firm posted a 16% increase in operating profits despite a slight dip in revenues, which is testament to the resilience of its business model.

Encouragingly, turnover in November and December was well ahead of last year and spring comparables look favourable as the firm laps the onset of the pandemic and the shutdown of the economy.

Given the firm's strong returns on capital employed (ROCE), the current multiple of 14 times earnings for the year to April 2022 looks undemanding, especially compared with 20 times for Knights and more than 30 times for Keystone, according to data from broker Liberum.

With a net cash position of over £9 million at the end of October, Gateley has plenty of options to expand organically, by taking on more fee earners – without having to increase office space, thanks to flexible working – or by acquisition, where it is looking to add to its consulting businesses and where it says it has a good pipeline of opportunities.

Disclaimer: The author owns shares in Burford Capital and Manolete Partners

By **Ian Conway**
Senior Reporter

Measuring financial risk and cash conversion cycles

How long it takes a company to turn sales into cash is vitally important

In the second part of our look at key aspects of a balance sheet we move beyond the basics to focus on some of the red flags pertaining to weakness in a company's finances.

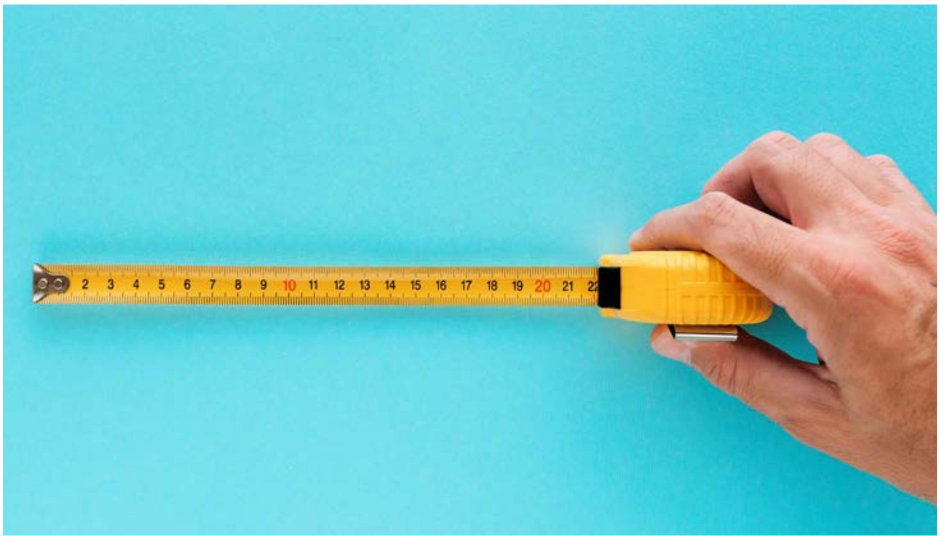
NET DEBT TO EBITDA

To help provide some grounding, we take a closer look at the net debt to EBITDA ratio to explain what it is and how it can be used in relation to a company's balance sheet.

While EBITDA (earnings before interest, taxes, depreciation, and amortisation) is considered a proxy for cash flow, it should be used with caution for companies which own a lot of physical assets.

When a company buys physical assets, it is required to depreciate them over their useful life. This isn't a real cash item, but it is a real cash expense because assets need to be replaced. This means ignoring it, which EBITDA does, can overstate cash flow.

With that caveat out of the way, let's move on to the ratio. The ratio is used by banks and credit analysts to measure the riskiness of lending to a company. Net debt is calculated as short and long-term debt minus cash.



The idea is that higher net debt in relation to the annual cash flow (as measured by EBITDA) implies it will take longer to pay off the debt and therefore increases risk.

Banks specify the maximum amount of net debt a company can have in relation to EBITDA as well as other measures designed to protect their loans.

The tests related to banking facilities are called banking covenants and can be found in the notes to the report and accounts. If these are breached, the bank may ask for its money back.

The required ratio level will differ by industry and is based on capital intensity and expected growth rate of EBITDA.

A ratio above three is considered at the upper threshold for an investment grade rating. Investment grade means that the company has a relatively low risk of defaulting on its debts. A ratio above four or five is considered very risky.

Taking a real life example, food retailer **Sainsbury's (SBRY)** net debt including leases as reported at its interim results on 5 November 2020 was £6.2 billion while EBITDA was £2.2 billion resulting in a ratio of 2.7 times.

Sainsbury's has been targeting a reduction in gearing and expects to reduce net debt by at least £750 million in the two years to 2022.

PENSIONS

When analysing a company's financial obligations don't forget to check its pension liabilities. Older companies may have defined benefit pension schemes which require them to fund pensioners in retirement.

The assets and liabilities of the schemes can be found in the notes to the accounts. Where there is a deficit, it is prudent to take this long-term debt into account when measuring indebtedness.

Sainsbury has a defined pension scheme surplus of around £1 billion. It would be tempting to count the surplus as reducing the company's debts, but it isn't clear whether it belongs to the workforce or the company and its shareholders.

Pension fund deficits can topple mergers and acquisitions because of the power given to trustees which act as powerful creditors in the event of a change of control of the company.

WORKING CAPITAL

We have already touched upon current assets and current liabilities in relation to liquidity measures like the quick ratio which is current assets divided by current liabilities. A measure above 1.2 is considered healthy.

Current assets minus current liabilities is equivalent to the working capital requirements of a business. It is important because even a profitable business can go bankrupt if it runs out of cash in the short-term.

There are three components of working capital: trade receivables; trade payables; and inventories. Most businesses have positive working capital (a cost) but it can be negative when a company gets cash from selling products before it must pay its own suppliers. Food retailers are a good example and we use Sainsbury's as a working example later.

This bolsters short term funding and reduces liquidity risk. It also means that growth is self-funded, which is a very attractive financial attribute.

Trade receivables usually comprise a big proportion of working capital and they represent money owed by a company's customers. Payment or credit terms vary from a few days to 90 days. The longer the cycle the longer it takes to collect cash.

That's fine if a company is paying its own suppliers on a similar cycle, but the longer the timing gap, the more capital is tied up. A company's own outstanding invoices are called trade payables.

To fulfil new orders a company will need to make finished products and have inventory available to meet anticipated demand. Inventory is therefore an important part of working capital.

All three components affect how long it takes to convert revenues into cash which is referred to as the cash conversion cycle (CCC).

Fast-growing capital-intensive businesses require a lot more working capital than capital light businesses.

DAYS SALES OUTSTANDING (DSO)

This calculates the average number of days it takes to collect receivables. Often the amount of sales made on credit aren't revealed in the accounts. In this case it's still useful to calculate DSO using total sales.

Annual DSO is calculated as receivables divided by sales and multiplied by 365 to arrive at the number of days.

Each industry will have its own standard payment terms, so it is more insightful to look at trends in DSO. Taking longer to collect receivables can be a sign of distress and increase the risk of future bad debts.

DAYS SALES OF INVENTORY (DSI)

This measure calculates how many days it takes for inventory to turn into sales. Average inventory is used to iron out seasonal effects where a company builds inventory ahead of busy trading periods.

DSI is calculated by dividing average inventory by cost of goods sold, multiplied by 365 to arrive at the number of days.

DAYS SALES PAYABLE (DSP)

This measures the average number of days that a company takes to pay its trade creditors. A higher value may be a red flag signalling a company's inability to pay its bills on time.

By putting all these components together, it is possible to calculate a company's cash conversion cycle (CCC).

Taking longer to convert sales into cash can be treated as a red flag and prompt further investigation into the reasons for the deteriorating trend.

The CCC is calculated as DSI + DSO – DSP. In other words, the formula calculates a company's short-term cash inflows minus cash outflows.

We have extracted the

Sainsbury's Cash Management Analysis

	2012	2015	2020
Revenues (£m)	22,294	23,775	28,993
Cost of Goods Sold (£m)	21,083	22,567	26,699
Receivables (£m) A	286	101	140
Inventories (£m) B	938	997	1,732
Payables (£m) C	1,908	2,089	2,960
Days Sales Receivables (Days)	5	2	2
Days Sales Inventory (Days)	16	16	24
Days Sales payables (Days)	31	32	37
Cash Conversion (Days)	-10	-14	-12
Inventory Turnover (Times)	22	23	15
Receivables/ Sales	1%	0%	0%
Inventory/Sales	9%	9%	10%
Payables/ Sales	4%	4%	6%
Working Capital (£m) (A+B-C)	-684	-991	-1,088
% of Sales	-3%	-4%	-4%
Payables/ Sales	4%	4%	6%

Source: Refinitv, Stockopedia

relevant data from Stockopedia for retailer Sainsbury's to illustrate the cash management principles we have discussed.

The first thing to note is that Sainsbury's has negative working capital of around £1.1 billion because it collects cash more quickly from its customers than it pays its suppliers.

The table shows that the company receives cash in two days while it pays for its supplies roughly every month, although the time has increased over the last few years, suggesting the company has been squeezing payment terms for suppliers.

On the other hand, it has taken the company longer to convert inventories into cash which can also be seen in the company's lower inventory turnover ratio.

This ratio shows the number of times that Sainsbury's sells and replaces its stock of goods over the year and it has fallen by a third since 2012 to 15 times a year from 22 times.

However, it looks like 2020 was the outlier which is probably down to increased demand during the Covid-19 pandemic as people stockpiled food before the first lockdown as well as spending more time at home.

In other words, the company purposely built larger inventory to meet anticipated demand. It will likely normalise over time.

Next week we will pull everything we have learned so far on company accounts to analyse an individual business from scratch.

By **Martin Gamble**
Senior Reporter

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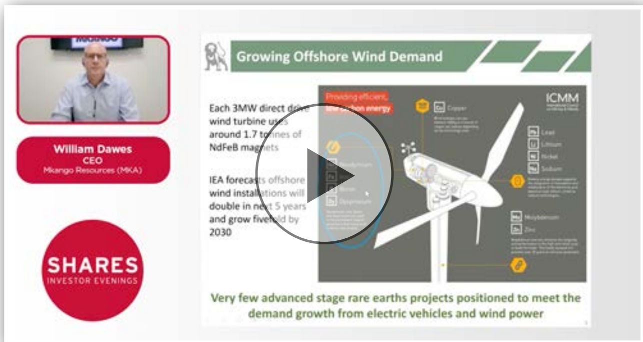
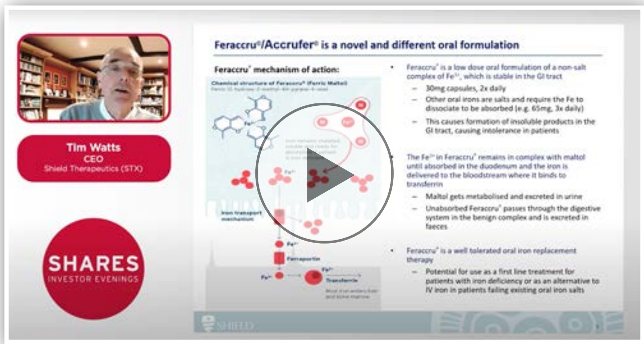


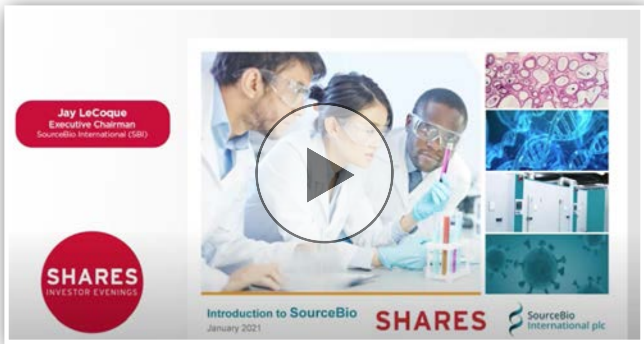
Mkango Resources (MKA) – William Dawes, CEO

Mkango Resources is a mineral exploration and development company focused on rare earth element and associated minerals exploration and development in the Republic of Malawi, Africa.



Shield Therapeutics (STX) – Tim Watts, CEO

Shield Therapeutics is focused on the development and commercialization of late-stage, hospital-focused pharmaceuticals. It is a specialty pharmaceutical company.



SourceBio International (SBI) – Jay LeCoque, Executive Chairman

SourceBio International is an international provider of integrated state of the art Laboratory Services and Products. Headquartered in the UK, with offices in UK, Europe and the USA.

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

5 February: Beazley. **8 February:** Inland Homes. **9 February:** Amino Technologies, Micro Focus International, Ocado, RM, St Modwen Properties. **10 February:** Smurfit Kappa. **11 February:** AstraZeneca, Coca-Cola HBC, RELX.

Half year results

9 February: Mattioli Woods. **10 February:** Ashmore, Avingtrans, Dunelm. **11 February:** MJ Gleeson.

Trading statements

8 February: Electrocomponents. **9 February:** Bellway. **10 February**: Lancashire.

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