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SHARES

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FAST GROWTH STOCKS LET YOU DOWN?

These four investments could be **more dependable**

NEWS

How decades-high US inflation and new ECB direction are leading to market turmoil

by James Crux

Contents

05	EDITOR'S VIEW	The FTSE 100 was 2022's star performer. So why has it ground to a halt?
06	NEWS	How decades-high US inflation and new ECB direction are leading to market turmoil / Apple's push into advertising poses challenges for Meta, Alphabet and Snap / Why shares in Primark parent Associated British Foods are languishing near five-year lows / Airline shares dive amid prospect of high compensation costs
10	GREAT IDEAS	**New:** Watches of Switzerland / Photo-Me International **Updates:** Cheniere Energy / Chemring / Industrials REIT / Fulham Shore
17	FEATURE	Fast growth stocks let you down? These four investments could be more dependable
24	RUSS MOULD	US earnings estimates are being slashed as more bad news piles up
28	ASK TOM	My bills are going up, should I dip into my Lifetime ISA?
29	EDUCATION	How to find and analyse quality growth companies
33	EDUCATION	Why every investor should make sure they own a diversified portfolio
35	FUNDS	Why it's worth spreading your risks with multi-asset funds
39	FUNDS	How top-performing global funds and trusts are different to each other
43	PERSONAL FINANCE	50,000 buy a home with a Lifetime ISA and £1.1 billion tucked away for kids
46	INDEX	Shares, funds, ETFs and investment trusts in this issue

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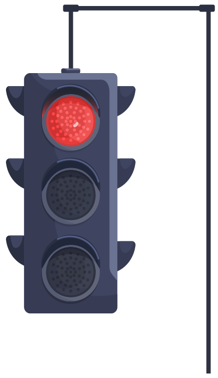
The FTSE 100 was 2022's star performer. So why has it ground to a halt?



The key things that are needed to drive the index higher

So much for the bear market rally. The FTSE 100 ground to a halt in the latter part of May and fell over in early June, meaning it is now sitting on a 3.7% loss year-to-date.

While still better than many other parts of the world, it's frustrating that the index stubbornly refuses to break out and trade higher. Investors want positive absolute returns, not simply a relative outperformance that still adds up to a small loss this year.

In today's market environment, the FTSE 100 should in theory thrive as it offers everything investors currently want: income, cheap valuations, and plenty of companies whose products and services are in demand regardless of the state of the economy.

To see share prices move higher in the FTSE 100, one or more of the following must happen:

- **Companies need to produce better than expected earnings.** This is not impossible. **Barclays' (BARC)** and **Lloyds' (LLOY)** earnings estimates have been rising since April; but those for FTSE 100 heavyweight **HSBC (HSBA)** have been falling since early May. **Unilever's (ULVR)** estimates fell in early 2022 but have been slowly picking up in recent months; the same for **Reckitt (RKT)**. Energy groups **SSE (SSE)** and **Shell (SHEL)** have both seen large upgrades to forecasts this year.
- **Investor confidence needs to improve.** This has happened to some degree with CNN's Fear & Greed index moving from 'extreme fear' a month ago to 'fear' now. However, the return of lockdowns in Shanghai put mining shares in retreat amid concerns over commodities demand, and the latest US inflation figures have spooked the market.
- **Inflation needs to stop being higher than expected.** US consumer prices jumped by 1%in May month-on-month, significantly faster than the 0.3% hike recorded in April and above economists' forecasts for a 0.7% rise.
- **Policy makers need to start panicking, argues Bank of America, as this is when markets could stop panicking.** Central banks have been accused of being too slow to try and arrest the sharp rise in inflation. Many countries now face stagflation which is a rising cost of living and a slump in the economy.

If interest rates keep going up it could cause a recession which should eventually lead to lower inflation as people and businesses spend less. On the flipside, if rates stopped going up or were even cut, businesses might increase investments including hiring more staff, in turn pushing up wages and fuelling inflation. Central banks don't want a recession, neither do they want high inflation, so they're in a pickle.

It's never been more important to park your money with financially strong companies rather than financially weak ones. If the economy grinds to a halt, the latter might have to go cap in hand to investors for more cash, and it seems unlikely that people will be willing to support the weak if they've just suffered a lengthy period of portfolio losses.

The FTSE 100 performance might seem frustrating, but most of its constituents are in good financial health, and you'll be thankful of the generous dividends if the market stays fragile. Stick with it.

How decades-high US inflation and new ECB direction are leading to market turmoil

Investors seem to be losing faith that the US Federal Reserve can engineer a soft landing

Economic data and central bank decisions are proving pivotal for markets and are setting the stage for a potentially difficult time for shares and bond investors alike over the rest of the summer.

The ECB (European Central Bank) on 8 June signalled lift-off for higher interest rates at its July meeting and even hinted that half a percentage point rate hikes might be necessary to tackle decades-high inflation.

The euro initially gained against the US dollar and the pound, but those gains were temporary and soon evaporated after news (10 June) that US inflation came in hotter than expected to reach 8.6% in May, the highest since December 1981.

US bonds and the dollar moved higher on the data demonstrating a growing belief among investors that the US Federal Reserve may need to move more aggressively than previously thought.

The best indicator of where investors believe interest rates are headed is to look at US two-year Treasury yields. They have gained 0.45 percentage points to 3.25% since the inflation print and are up 0.6 percentage points since the start of June.

This implies investors are anticipating more aggressive interest rate hikes from the Fed and possibly a larger move than the half a percentage point the Fed has guided for the next two meetings. (This article went to press before the latest decision on 15 June was known).

VOLATILITY MOVES HIGHER

The so-called fear gauge, or Vix index, has moved back above 30, indicating investors are pricing in 2% daily moves in the S&P 500 index over the next month. For context the Vix moved above 60 in March 2020 at the height of the Covid sell-off.

The S&P 500 briefly looked like it would avoid a bear market – defined as a 20% loss from the peak – but is now sitting in bear territory.

Growth stocks are more interest rate sensitive and that makes them vulnerable in a rising rate environment. The Nasdaq 100 index has dropped 11.5% over the last five days and is nearly a third below the peak reached in November 2021. The technology focused **Scottish Mortgage (SMT)** is down 13% on a five-day view.

Speculative and risky assets like cryptocurrencies have also been out of favour, with bitcoin, having stabilised around the $30,000 level, dropping a further 25% since the US inflation data came out.

Investors looking to hide from the turbulence have historically relied upon all-weather funds and trusts designed to preserve capital. For example, capital preservation specialist **Ruffer Investment Company (RICA)** is up 0.6% in the wake of the shock on US prices. [MGam]

How major markets have performed since ECB surprise and latest US inflation news

Market	Loss (%)
Nasdaq 100 (US)	-11.5%
S&P 500 (US)	-9.7%
DAX (Germany)	-7.3%
CAC 40 (France)	-7.1%
FTSE 100 (UK)	-4.9%

Table: Sharesmagazine.co.uk • Source: Google Finance, 5 days to 14 June 3.15pm UK time

Apple's push into advertising poses challenges for Meta, Alphabet and Snap

The company might soon become a much big player in the advertising world according to reports

Apple (APPL:NASDAQ) is reportedly developing its own advertising business which incorporates detailed user data, including the types of apps downloaded and news stories consumed, according to *The Sunday Times*.

If successful, this could provide a lucrative new source of income for Apple and could potentially see investors willing to pay a higher multiple of earnings to own the shares, triggering something called a 'rerating'.

The emergence of Apple as a new heavyweight player in the advertising space would increase the competitive pressure on the two incumbent advertising leviathans, **Meta (META:NASDAQ)** and **Alphabet (GOOGL:NASDAQ)**.

There are several ways in which Apple can grow its advertising business. First, it could make the app store more of a content discovery destination rather than purely a transactional mechanism.

Second, the group could monetise assets including Apple Maps or Apple TV, which currently have no advertisements, in a similar fashion to Google Maps and Roku.

However, the key challenge for Apple will be to leverage the privacy changes it has introduced, to create a search advertising business that can compete with current advertising incumbents.

Apple's most notable advertising product is Apple Search Ads. It allows developers to buy keywords on the Apple app store to appear at the top of searches.

Last year Apple introduced 'App Tracking Transparency', a change to its privacy and data collection policy that requires all apps on the company's iOS operating system to ask users for permission to share their data.

An article published in *Insider* in April highlighted analysis suggesting these changes could reduce Meta (which owns Facebook and Instagram), Alphabet's YouTube, **Snap (SNAP:NYSE)** and **Twitter's (TWTR:NYSE)** revenues by approximately $16 billion this year.

Data management company Lotame predicts Meta will be the largest casualty of Apple's privacy changes in 2022, inflicting a $12.8 billion hit to revenue which equates to 10% of group sales.

In an interview last summer with *CNBC*, Evercore analyst Amit Daryanani said Apple's $2 billon worth of advertising revenue in 2020 could increase tenfold to $20 billion by 2025.

Daryanani said if Apple developed an advertising business that monetised a potential installed base of 1.6 billion users it could generate top line growth of 6% to 8%.

He believed this would justify a price to earnings multiple for Apple in the mid-30s. This would be in line with a luxury goods retailer, or consumer staples company. Apple currently trades on 20 times forward earnings. [MGar]

Why shares in Primark parent Associated British Foods are languishing near five-year lows

Even value retailers are being hurt by inflation and the cost of living crisis

Associated British Foods' (ABF) third quarter trading update on 20 June will provide investors with a window into the fortunes of its budget clothing arm Primark and whether sales and profits have started to tail off.

Shares in the FTSE 100 foods-to-fashion conglomerate were priced at £15.72 at the time of writing, languishing near five-year lows. The market is worried about the impact of cost inflation across the business and the pinch from rising prices on cash-strapped consumers' capacity to spend on its grocery brands, clothing and accessories amid a worsening cost of living crisis.

During tough economic times, customers increasingly seek out value for money, which should in theory benefit the likes of Primark.

However, retailers with value-based propositions also operate on razor-thin margins, with skinny returns on sales making them more vulnerable to inflation than those with fat margins and pricing power.

This risk factor was demonstrated by a shock profit warning on 31 May from variety discount store **B&M European Value Retail (BME)**. While the company has retained customers won during the pandemic, over the first eight weeks of its new financial year, B&M UK's like-for-likes sales were down 13.2% and 11.5% versus 2022 and 2021 respectively and the retailer warned trading patterns are expected to remain unpredictable in the year ahead.

Primark plans to make 'selective' price increases across some of its autumn/winter stock as it grapples with inflationary pressures.

Shore Capital argues Associated British Foods is 'fundamentally undervalued, not least as global food security becomes much more important, and so valuable'.

'Digitisation is creeping into Primark and while

we are not anticipating a transactional capability any time soon, we do hope that click and collect/ return is at least on the horizon. Should click and collect be so, we sense a strong positive share price reaction would ensue,' says Shore.

Based on the consensus analyst forecast, Primark is expected to generate £7.8 billion revenue for the year to 30 September 2022, putting it back in line with sales from the 2019 financial year, according to Refinitiv data. On a group basis, Associated British Foods is forecast to generate £1.3 billion pre-tax profit, up from £908 million a year earlier.

Analysts have been steadily downgrading their earnings forecasts for the group since December 2021. At that point it was expected to make 139.54p earnings per share in 2022 and now the figure stands at 126.98p, according to Stockopedia, a decline of 9%. The share price has fallen by 20% over that six-month period. [JC]

Associated British Foods

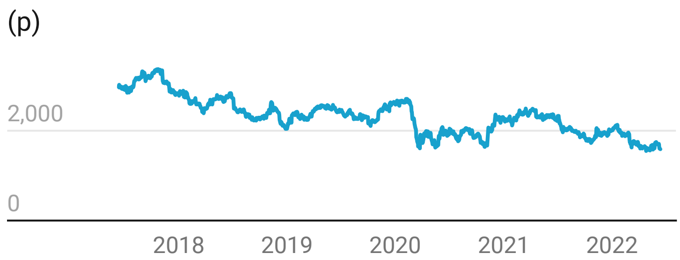


Chart: Sharesmagazine.co.uk • Source: Refinitiv

Airline shares dive amid prospect of high compensation costs

Investor sentiment was already gloomy around the UK aviation industry, now it's got worse

The UK's airline industry is bracing for a huge spike in passenger compensation payouts. Chaos at UK airports continues to see widespread flight cancellations as operators and transport hubs struggle to cope with surging demand as Covid restrictions are lifted.

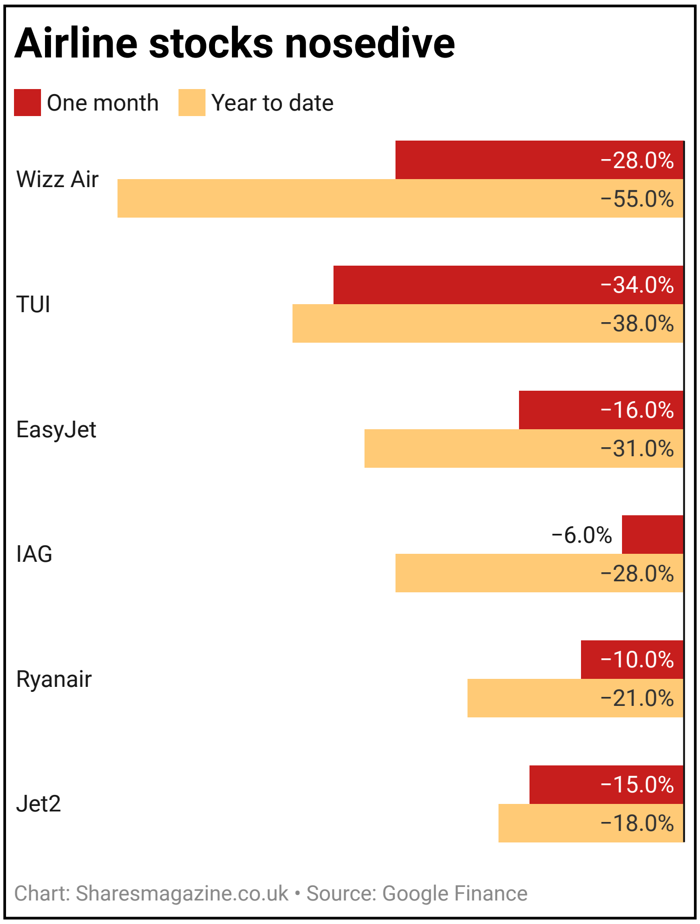
That casts a cloud over the sector's earnings outlook. It adds to pressure on share prices for airline operators on top of market concerns about inflation and the ability for consumers to spend on big ticket items like flights and holidays.

Hundreds of flights have been scrapped in recent weeks by airlines and holiday companies including **EasyJet (EZJ)**, British Airways-owner **International Consolidated Airlines (IAG)**, **Ryanair (RYA:EN)**, **Wizz Air (WIZZ)**, **TUI (TUI)** and **Jet2 (JET2:AIM)**.

EasyJet is reportedly trimming its June flight schedule with 'pre-emptive cancellations' of roughly 40 flights per day for the rest of the month. 'Making these cancellations is not something we take lightly but what's worse is to cancel our customers' plans on the day that they are ready to fly,' said chief operating officer Peter Bellew on 10 June.

Wizz Air's chief executive József Váradi has warned that air fares were likely to increase by 'upper single-digits' between July and September as the industry grapples with multiple issues, including staff shortages, logjams at airports, strikes in Europe and soaring fuel costs.

Data from investment bank Berenberg shows jet fuel per barrel prices have hit their highest in almost 15 years, moving through the $200 level which hasn't been seen since 2008. According to Berenberg estimates, jet fuel costs will account for around 45% of Wizz Air's operating costs in the year to March 2023, up from 34% in 2019.



Wizz Air reported a net loss of €642.5 million for the year to 31 March 2022 last week, but said it is planning to grow capacity by more than 30% in the first two quarters of this financial year.

Canaccord Genuity says fewer consumers may fly given inflationary pressures, but those that do will stick to airlines in which they have the most confidence.

It suggests Jet2 is well placed in this regard. While the airline has recently been forced to cancel some flights due to airport chaos, it developed a good reputation during the pandemic for swiftly refunding passengers unable to fly and the company has also been investing in staff to ensure it has the right resources to meet demand. [SF]

Watches of Switzerland's shares have fallen too far, buy them now

The luxury goods retailer has considerable overseas growth potential and offers a play on the earnings power of the Rolex brand

A 48% year-to-date share price plunge at **Watches of Switzerland (WOSG)** has created a compelling entry point for investors with time on their side.

Shares believes the luxury watch-to-high end jewellery retailer's global growth journey is just getting started. Whereas the outlook for most consumer-facing businesses is bleak, Watches of Switzerland is well-placed to buck the wider retail doom and gloom.

Led by CEO Brian Duffy, the £1.9 billion company enjoys high margins and is blessed with pricing power conferred by the sale of luxury products that appeal to a well-heeled clientele whose lifestyle won't be too affected by inflationary pressures.

Watches of Switzerland has plenty of growth to go for in the UK and US, where demand for luxury timepieces remains strong and consistently exceeds supply, while its entry into the European market brings further geographic diversification to the business.

WHY THE SHARES ARE DOWN

The shares peaked at £14.70 in December 2021, having ticked higher on a sustained run of earnings upgrades and with investors viewing the company as a prime beneficiary of a roaring 1920s-style luxury spending boom.

Investors have this year been less willing to pay a high rating for growth shares, causing a derating in stocks such as Watches of Switzerland. Also weighing on sentiment towards the stock has been the worsening outlook for consumer spending amid rampant inflation around the globe.

Sceptics argue Watches of Switzerland will struggle to sustain the sales growth it enjoyed during the pandemic, when demand was boosted by locked-down consumers spending on collectable watches online and where the group benefited from better product availability as brands such as Rolex diverted supply from Asia to the US and UK.

Yet we think the market is being unduly pessimistic about Watches of Switzerland, whose trading brands include Mappin & Webb, Goldsmiths and Mayors Jewelers.

The company has a leading position in the UK luxury watch market, where it is now the biggest retailer for Rolex, Cartier, Omega, TAG Heuer and Breitling watches, and has built a significant presence in the fragmented US market too.

Consumer desire for 'super high demand' brands such as Rolex, Patek Philippe and Audemars Piguet continues to exceed supply. Other luxury watch brands are enjoying bumper demand and spending on luxury jewellery is also

positive. It is also important to note Watches of Switzerland's customers are overwhelmingly domestic clientele rather than tourists and these upper class or wealthy individuals have the purchasing power to underpin demand in tougher times.

Having said that, the retailer expects to benefit from an ongoing recovery in footfall and airport traffic.

ON A ROLL WITH ROLEX

Gavin Launder, who manages the **L&G Future World Sustainable UK Equity Fund (B8F72V6)** tells *Shares* that Watches of Switzerland has rarity value. 'It's probably the only way you can get equity exposure to Rolex, which is *the* premium watch, but is a private company,' he comments.

Launder points out that between 50% and 60% of Rolex's sales are through Watches of Switzerland and the retailer has moved into the US market 'at the behest of Rolex and other brands have supported the move'.

Rolex and the other watch brands are keen for Watches of Switzerland to become a much bigger player in the US, according to Launder. With the retailer now also entering the Continental European market through the opening of stores in Sweden and Denmark, Launder believes growth can continue for many years.

'From an inflation point of view, everybody likes watch prices going up,' adds Launder. 'The manufacturers will put the prices up; that means retailers' inventory immediately gets re-priced, so they are happy. The person who just bought one is happy because the watch has done what they always thought it would do, which is be a good store of value. The person who wants to buy one is even more convinced it is a store of value and will pay a bit more.'

In its latest update on 18 May, Watches of Switzerland reported a 'stellar' end to its financial year to 1 May, clocking up revenue growth of 48% in the fourth quarter.

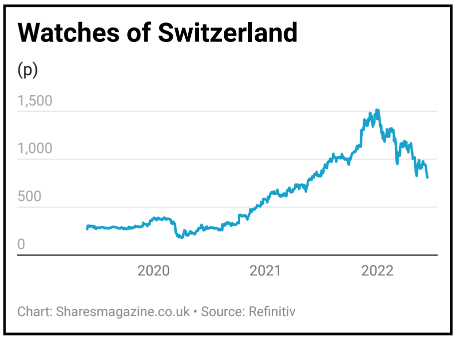
The company said it entered 2023 with 'strong momentum', expecting that the disruption from the pandemic is now largely in the past with ongoing recovery in footfall and airport traffic. Management's cautious guidance for 2023 suggests sales can grow to between £1.45 billion and £1.5 billion, before any potential acquisitions.

For the year to April 2023, Investec Securities forecasts normalised pre-tax profits will grow from £127.8 million to £168.5 million, ahead of £198.8 million in 2024.

Based on forward earnings estimates of 57p this year and 63.8p next year, Watches of Switzerland sells for 13.9 times forward earnings, falling to 12.4 times on the 2024 estimate.

Those ratings are too cheap for a high-quality operator in a resilient category with potential for further organic and acquisitive US and European market share gains.

Sometimes the best time to buy a share is when everyone else has lost interest, and Watches of Switzerland looks like a perfect example. You'll need to be patient as weak market sentiment could weigh on the share price for a bit longer, but there is no doubt that the stock is attractive at current levels. [JC]



Buy shares in Photo-Me for its underappreciated earnings potential

Pent-up demand in photobooths and continued roll-out of new units across laundry and food services underpin growth

With several companies bemoaning challenging macro headwinds and cost pressures it is noteworthy that instant-service equipment company **Photo-Me International (PHTM)** recently increased full-year profit guidance.

Management believes the company has pricing power which means it can effectively navigate current challenges better than most.

Shares believes the combination of good growth coupled with higher cash generation from the completed restructuring are not reflected in the current rating of eight times 2022 earnings per share.

Another factor which should underpin the shares and contribute to a higher rating is the consistent positive earnings revisions seen over recent months. Firms which receive positive revisions tend to outperform the market.

Since January 2021 analysts have increased their earnings per shares forecasts for 2022 and 2023 by around 22% according to Stockopedia.

The company operates, sells and services a wide range of vending equipment aimed primarily at the consumer market.

PHOTO-ME INTERNATIONAL
BUY
(PHTM) 81.2p

Market cap: £309.2 million

The group operates across 20 countries and is focused on four areas: Photo.ME provides photobooths and integrated biometric identification solutions; Wash.ME provides unattended laundry services and launderettes; Print.ME provides high quality printing services; and Feed.ME provides vending equipment for the food service market.

All the firm's photobooths conform to international rules for photo ID for official documentation, including passports.

One of the strengths of the business is the long-term relationships the company has built with major site owners. The equipment is generally situated in prime locations with high footfall including supermarkets and shopping malls.

Most of the equipment is owned, operated and serviced by Photo-Me's network of engineers. It pays the site owners a revenue-based commission depending on country, location and type of machine.

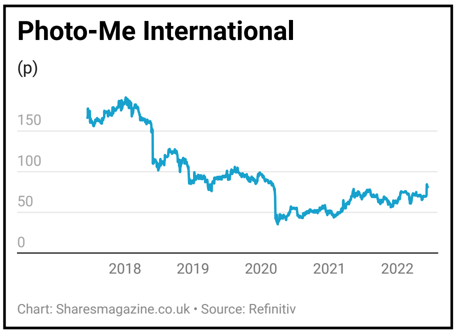
The company's strategy is to expand the number of units in operation and increase the yield per unit.

A good example is the company's new low-cost laundry machine 'Flex' which it said has produced extremely positive early trading results.

The plan is to rapidly deploy Flex across Europe to exploit the strong market opportunity.

The group recently expanded its self-service fruit juice operation and entered the pizza vending machine market via an acquisition.

Photo-Me is aiming to become a European leader and plans to install 100 machines per month by 2023. It is also aiming to become the leading French vending equipment maker by 2023. [MGam]




SIPPs | ISAs | Funds | Shares
AJBell
Youinvest
RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
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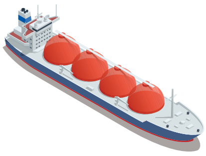
Recommended Provider
Which?
Self-Invested Personal Pensions July 2020
THE TIMES
money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

CHENIERE ENERGY
(LNG:AMEX) $129

Loss to date: 2.7%
Original entry point:
Buy at $132.62, 3 March 2022



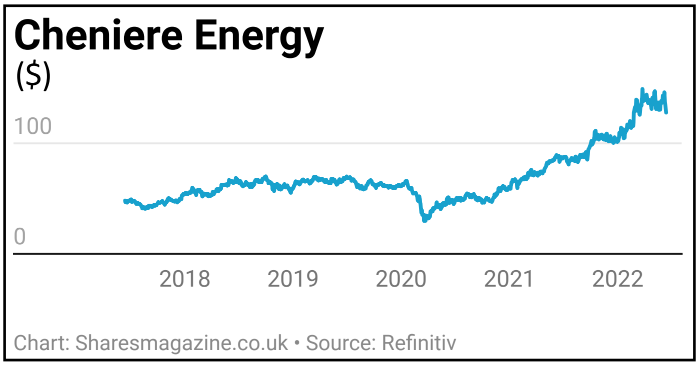
A 2.7% LOSS in three months may be disappointing but given the MSCI World is down the best part of 10% over the same time period, the performance of **Cheniere Energy (LNG:AMEX)** could be called resilient.

Liquefied natural gas specialist Cheniere has a central role in boosting LNG exports from the US to a European continent desperate to wean itself off Russian hydrocarbons.

On 9 June the company announced an LNG supply agreement with Norwegian firm **Equinor (EQNR:NYSE)** under which it will deliver 1.75 million tonnes of LNG per year for 15 years starting from the second half of 2026. The timeline speaks to the fact this is a long-term story.

Half of this total is dependent on Cheniere committing to plans to increase capacity at its Corpus Christi LNG terminal on the Gulf Coast in Texas.

Management recently upped 2022 guidance for adjusted earnings from a range of $7 billion to $7.5 billion to a new level of $8.2 billion to $8.7 billion. Cash flow estimates were also raised from a range of $4.3 billion to $4.8 billion to a new level of $5.5 billion to $6 billion.



SHARES SAYS: ↗
We continue to view Cheniere as being attractively placed given the current backdrop. [TS]

CHEMRING
(CHG) 331.5p

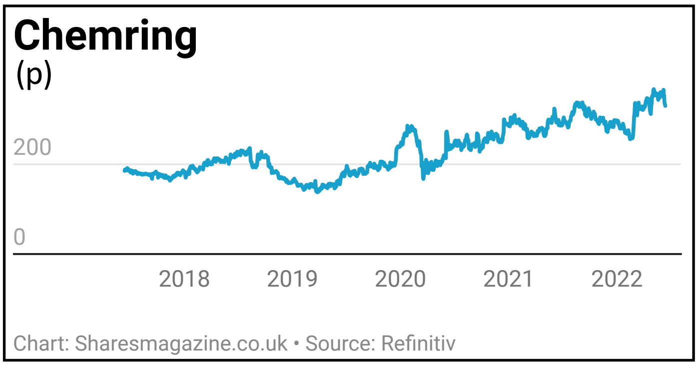
Gain to date: 5.6%
Original entry point:
Buy at 314p, 5 August 2021

HAVING INITIALLY STRUGGLED to gain any traction after we flagged **Chemring's (CHG)** appeal in August 2021, Russia's invasion of Ukraine changed the dynamics of military spending and helped lift shares in the defence firm.

However, results for the six months to 30 April didn't get the best reception from the market (published on 8 June) as the company reported a slowdown in orders. According to the company, this reflected 'adverse US order timing' and the impact of continued Covid-19 restrictions in some geographies.

More positively, the company reported revenue up 11% to £220.4 million and pre-tax profit up 22% to £33.1 million, with net debt cut in half to £18.5 million. The Roke cybersecurity unit, a key reason why we were attracted to the shares in the first place, also did well. It posted strong growth and helped to boost group margins.

Berenberg analyst George McWhirter comments: 'Roke recorded another excellent performance, again recording double-digit growth in orders, revenue and earnings before interest and tax. We expect this momentum to continue, supported by the planned heightened discretionary investment into the business.'



SHARES SAYS: ↗
Keep buying. [TS]

INDUSTRIALS REIT
(MLI) 176p

Loss to date: 7.9%
Original entry point:
Buy at 191p, 3 February 2022

MULTI-LET INDUSTRIAL property company **Industrials REIT (MLI)** posted a record total accounting return of 25% for the year to March.

The uplift was due to a 20.8% jump in the like-for-like valuation of the portfolio topped off by 4.4% like-for-like rental growth.

Occupier demand remains strong due to land scarcity in urban areas, the high cost of building new units, the surge in e-commerce and the need for customers to onshore supply chains and manufacturing.

Occupancy was steady at 93.6% while rent collection was close to pre-Covid levels at 93% of invoices billed last year paid.

While underlying rental growth was in line with the five-year average, on new lettings it was 26% thanks to competition for space.

Manager Paul Arenson believes the business can generate a total return of over 10% per year while continuing to grow. He plans to double the size of the portfolio by 2026. This should reduce the firm's cost ratio and potentially lead to a re-rating of the business in line with sectors like student accommodation and self-storage that trade on big premiums to net asset value.

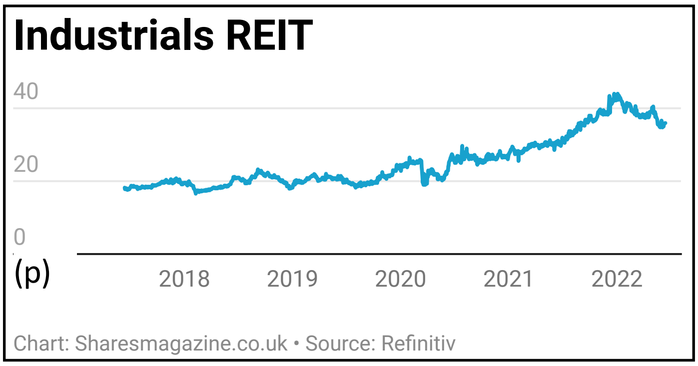


Chart: Sharesmagazine.co.uk • Source: Refinitiv

SHARES SAYS:
This is a great long-term business, keep buying. [IC]

Disclaimer: The author owns shares in Industrial REIT

FULHAM SHORE
(FUL:AIM) 13.75p

Loss to date: 16.7%
Original entry point:
Buy at 16.5p, 7 April 2022

OUR POSITIVE CALL on **Fulham Shore (FUL:AIM)** has been buffeted by a backdrop of mounting cost of living pressures but operationally the restaurant operator continues to deliver.

The latest update from the owner of the Franco Manca and The Real Greek chains revealed trading in line with expectations. Notably, the company said cost pressures facing the industry had been mitigated by increasing menu prices, negotiating down rents and strong trading for venues in suburban areas and shopping centres.

Fulham Shore continues its roll-out of new restaurants, with 11 sites on track to open by the end of September.

Shore Capital analyst Greg Johnson commented: 'So far the uptick in tourism has helped mitigate a slower recovery in restaurants located in office-dense areas with a return to office work a potential positive future delta (i.e. trading boost).

'Even after menu inflation, both portfolio fascia in our view remain very well positioned, offering consumers little compromise on quality but at a reasonable price.'

Chart: Sharesmagazine.co.uk • Source: Refinitiv

SHARES SAYS:
We are still positive on the basis Fulham Shore can be a relative winner in the dining-out sector. [TS]

M&G Investments

THIS IS AN ADVERTISING PROMOTION

An investment trust from the fixed income experts

For a full list of terms used on this webpage, please visit the M&G Glossary

The M&G Credit Income Investment Trust looks to generate high-quality, reliable income from a diversified credit portfolio, while seeking to preserve investors' capital through low net asset value (NAV) volatility.

The trust has the flexibility to invest in both public and private debt, which allows individual investors to access potential opportunities normally only available to large institutions.

By investing in these specialised areas of fixed income, we can construct an investment grade-quality portfolio with the potential to produce superior income to traditional bond portfolios without compromising on credit quality.

This is thanks to our position as one of Europe's largest private debt fundraisers and our decades of experience in these markets, which enable us to source deals unavailable to other asset managers.

Through the trust's closed-ended structure, we can benefit from holding these private assets to their maturity, while investors retain access to their capital via the trust's publicly listed shares.

The value of investments will fluctuate, which will cause share prices to fall as well as rise and you may not get back the original amount you invested. There is no guarantee that the Company's Investment Objective will be achieved.

Watch this short video to learn more about the M&G Credit Income Investment Trust.

RISKS ASSOCIATED WITH THE STRATEGY

The value of investments will fluctuate, which will cause share prices to fall as well as rise and you may not get back the original amount you invested. There is no guarantee that the Company's Investment Objective will be achieved.

The Company may be exposed to the possibility that a debtor will not meet its repayment obligations.

Changes in interest rates may adversely affect the market value of some of the Company's investments.

Debt instruments may be repaid by issuers at short notice: as a result it may be difficult for the Company to reinvest capital at an attractive price or at all, which may affect it adversely.

A variety of factors, such as market conditions, liquidity concerns or Company performance may lead to a reduction in trading volume or shares trading at a discount to their net asset value. Shareholders may also be unable to realise their investment at quoted prices or at all.

Please note this is not an exhaustive list, please refer to the risk section in the Prospectus for further details

We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

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If the Company is not able to pay you what is owed, you could lose your entire investment.

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FAST GROWTH STOCKS LET YOU DOWN?

These four investments could be **more dependable**

By **Tom Sieber**, **James Crux**, **Ian Conway** and **Steven Frazer**

After a multi-year run of impressive gains investors have been let down by fast growth stocks in 2022. The US technology-heavy Nasdaq index has fallen more than 20% since the start of the year as investors have suddenly balked at paying high valuations to gain exposure to the potential for significant growth in the future.

The performance of this headline index doesn't even tell the whole grim story as previous high-fliers like **Netflix (NFLX:NASDAQ)**, down by two thirds year-to-date, and **PayPal (PYPL:NASDAQ)**, 59% lower over the same period, have returned to earth with a bump.

Against this backdrop now is an opportune time to turn to businesses which deliver steady if unspectacular growth year after year, generating lots of cash which they can then return to shareholders. These types of stocks are sometimes known as 'compounders'.

WHAT IS A COMPOUNDER?

Morgan Stanley says: 'The key financial characteristic of compounders is that they enjoy sustainable, high return on invested capital, which is generated by a combination of recurring revenues, high gross margins and low-capital intensity. This combination helps support strong

Nasdaq Composite

Chart: sharesmagazine.co.uk • Source: Refinitiv

free cash flow generation that, crucially, must be either reinvested or distributed to shareholders.'

In simple terms return on invested capital is the amount of money a company makes above and beyond the average cost it pays for its capital, whether that is through debt or shares.

'Compounders' might only be delivering growth in the mid-to-high single digits but, crucially, the growth is consistent, it already exists rather than being promised years down the line, and it is backed by lots of cash.

Compounding describes the process where investment returns themselves generate future gains. The value of an investment can increase exponentially because growth is earned on the initial sum of money and the accumulated wealth.

The cash generated by compounders can either be used to supercharge the company's own growth by being reinvested in the business or it can be returned to shareholders who can use it to generate their own compounded returns, something we will explore with a real-world example later in this article. These effects can be very powerful over time.

VALUATIONS HAVE BECOME MORE ATTRACTIVE

The problem for investors attracted to this type of share is that many compounders had become expensive over the past decade or so. Ever since the financial crisis their attributes had been in high demand thanks to extremely low interest rates, and this had helped drive shares in many of these firms to elevated levels.

However, because of high valuations these companies have also been caught up in this year's market rotation into value stocks and have seen their share prices fall accordingly. This has created an opportunity to buy compounders at more reasonable prices.

In a recent piece of research Bank of America looked at a group of 33 compounders noting that between 2007 and 2015 they traded, on average, at price to earnings multiples in the range of 15 to 20 times earnings but that from 2015 that went up to a peak of 35 times as of the fourth quarter of 2021.

Subsequently this collection of shares has seen their average earnings multiple decline to 26 times (as of 7 June).

How it works in practice – Ashtead is a king of compounding

WE DISCUSS THE appeal of tool hire business **Ashtead (AHT)** in more detail later in this article but as an archetypal compounder which has delivered significant growth in earnings, cash flow and dividends over a long period of time, it offers a useful example of how powerful compounded returns can be.

Let's assume you bought 1,000 shares in the company at the beginning of 2012 when they traded at 226p, amounting to an initial investment worth £2,260.

Every time you were paid a dividend you used that sum to buy as many shares in the company as you could. Any money left over would (for simplicity's sake) be held in a zero-interest easy access account and added to the next dividend payment to buy more shares.

Based on our calculations, after reinvesting 10 years' worth of first-half and full-year dividends, a decade later your stake would be worth £66,767. In addition, you would be holding 1,152 shares compared with the 1,000 originally purchased. This represents a return of 2,854%.

As well as the boost from dividend reinvestment, you will also have benefited from Ashtead's own smart reinvestment of its cash which has helped support significant gains in earnings and the share price.

Note: In our example, the purchase price for each trade was based on the closing share price on the dividend payment date. It does not include trading costs.

Ashtead is a compounding king

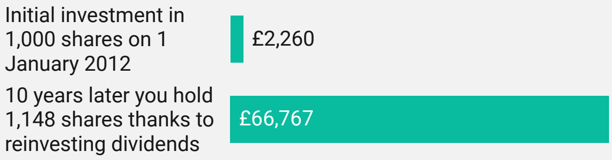


Chart: Sharesmagazine.co.uk • Source: Shares, SharePad, Ashtead

FOUR COMPOUNDERS TO BUY

Shares has looked for stocks which have the right qualities to offer strong and consistent returns, and which are trading at less than 20 times forecast earnings.

We have identified four names which investors should consider buying with a view to achieving long-term compounded gains.

Two US-listed companies feature on our list. For any account apart from a SIPP (self-invested personal pension), you will need to complete a W-8BEN form to buy US-listed stocks, and any dividends from these investments will be subject to a withholding tax of 15%. US investments inside a SIPP do not require a W-8BEN form and they are automatically exempt from withholding tax.

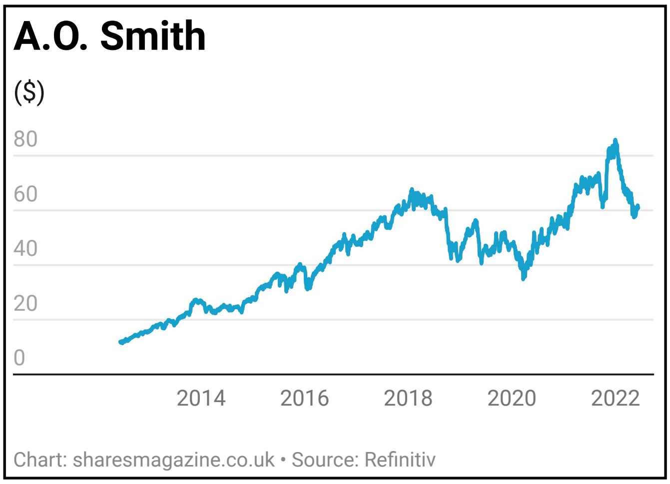
This article provides more information on buying overseas-listed shares.

Our quartet of stock ideas features water treatment specialist **A.O. Smith (AOS:NYSE)**, tool hire business **Ashtead (AHT)**, meat producer **Cranswick (CWK)** and semiconductor firm **Texas Instruments (TXN:NASDAQ)**. [TS]

A.O. Smith (AOS:NYSE) $58.06

Investors on the lookout for a US-listed compounder trading at a valuation discount to recent history might consider putting money to work with **A.O. Smith (AOS:NYSE)**, a long-established yet fast-growing global water technology company.

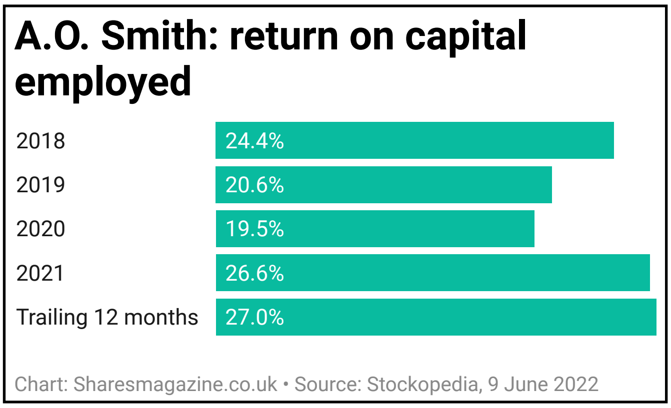
Dividend-paying A.O. Smith has consistently delivered a return on capital employed north of



20% according to Stockopedia and has delivered a trailing 12-month return on invested capital of almost 25%.

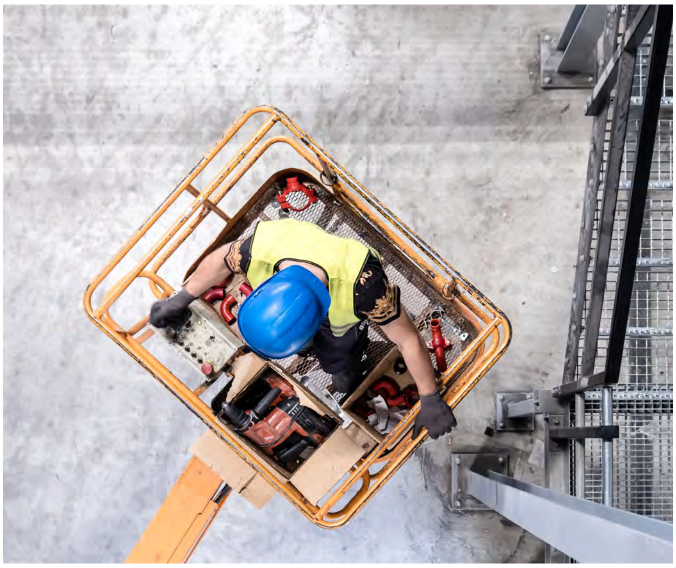
Founded in 1874, Milwaukee-headquartered A.O. Smith is one of the world's leading manufacturers of residential and commercial water heating equipment and boilers, as well as a manufacturer of water treatment products, selling its wares in North America as well as Europe, China and India.

Based on Stockopedia data, a year-to-date share price correction has left A.O. Smith trading on a prospective price to earnings ratio of 16.4, falling to 15.2 for 2023's estimate.

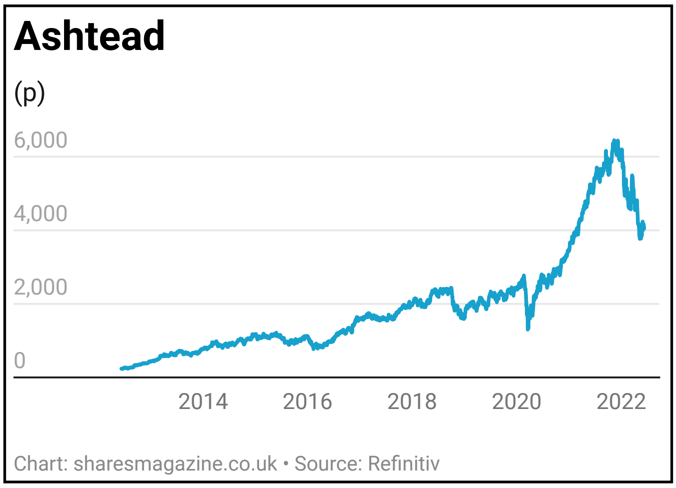


This suggests recent weakness presents a buying opportunity for fans of quality merchandise on sale. In the face of component shortages, supply chain issues and Covid surges, A.O. Smith's first quarter results (28 April 2022) still revealed a 27% year-on-year sales increase to $978 million as the company raised prices to offset higher costs. [JC]

Ashtead (AHT) £35.77



No discussion of long-term growth compounders would be complete without a mention of international plant and equipment hire firm **Ashtead (AHT)**.



Yet due to concerns over global growth and the possibility of a slowdown in the US new-build housing market – which only represents a fraction of Ashtead's business – the shares are down more than 40% this year.

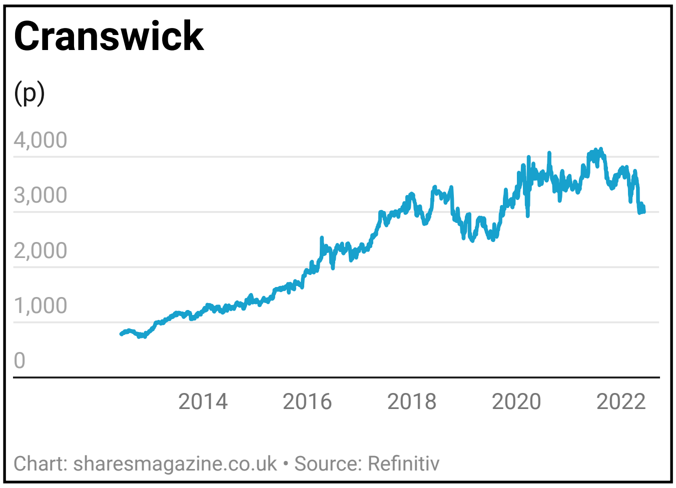
For this, investors are being asked to pay just 14 times this year's earnings and 11.7 times next year's.

Recent full-year results (14 June) revealed record performance with revenue up 18% to $7.96 billion and pre-tax profit up 35% to $1.67 billion. The company was able to invest $2.4 billion in the business and $1.3 billion in bite-sized acquisitions to help lay the groundwork for future growth while also buying back $414 million worth of shares and paying out $269.3 million in dividends.

According to analysts at Bank of America, even after spending on new equipment to support future rental growth the firm will still generate enough free cash flow to increase dividends by more than 10% and buy back between $600 million and $700 million worth of shares every year. [IC]

Cranswick (CWK) £30.66

A 25% one-year share price reverse at **Cranswick (CWK)** should have bargain-hunters salivating since this high-quality compounder, which deploys capital at consistently attractive rates of return, is on sale amid stiffening consumer and input cost headwinds.



The fresh pork, poultry and convenience products play, which supplies the retail and food-to-go sectors, has pedigree in passing on rising pig prices to customers and uses its cash generation to support sustained investment in its asset base to cook up organic growth and fund complementary acquisitions.

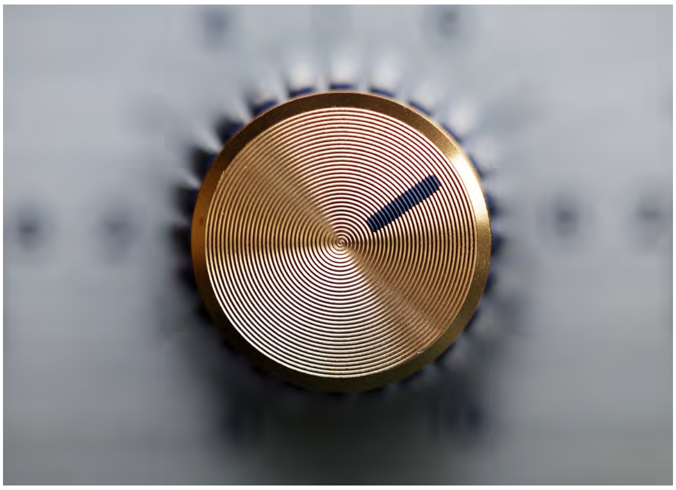
Cranswick, which has strengthened its non-meat range and entered the fast-growing pet food market through acquisitions, continues to show resilience in the face of labour and supply chain challenges.

Sales topped £2 billion for the first time in the year to March 2022 and Cranswick delivered a 5.6% hike in pre-tax profits to a forecast-beating £136.9 million while achieving a healthy return on capital employed of 16.9%.

For the year to March 2023, Shore Capital forecasts pre-tax profits of £142.6 million for a rise in earnings per share from 204.5p to 213.2p, placing Cranswick on a prospective PE ratio of 14.4, a discount to a 2019 high of 28.9 according to Stockopedia.

Having now delivered 32 years of unbroken dividend growth, Cranswick is forecast to grow the shareholder reward to 79.4p this year ahead of 83.3p in 2024. [JC]

Texas Instruments (TXN:NASDAQ) $165.37



In less than 25 years **Texas Instruments (TXN:NASDAQ)** has had to deal with an enormous dotcom bubble, a massive worldwide debt crisis and now, a global pandemic and its fallout. In each case, the company has recovered and prospered, and according to Morningstar data, has never once cut the dividend, with an unbroken record of increasing its annual shareholder payout which stretches back over 30 years.

Morningstar calculates that over the past 10 years, shares in the world's largest manufacturer of analog microchips have delivered average yearly returns close to 21%, beating the Nasdaq's 16.8% and S&P 500's 14.4%.

If that doesn't look like much of an outperformance, let's look at what it would have meant to you.

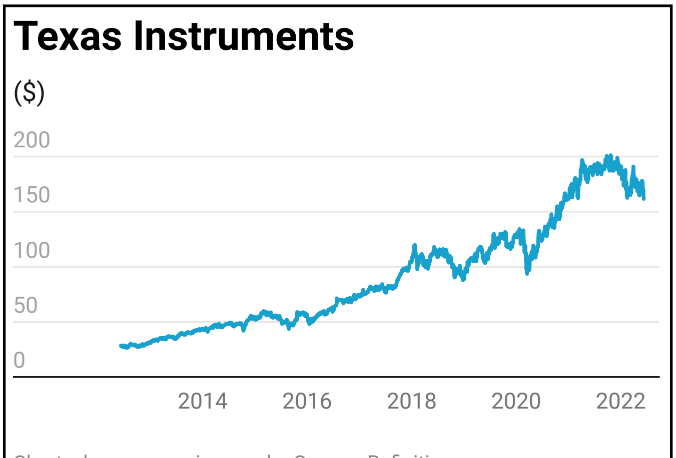


Chart: sharesmagazine.co.uk • Source: Refinitiv

In simple terms, the power of compounding would have seen an investor's £1,000 in Texas Instruments grow nearly twice as much as owning an S&P tracker.

This is not a coincidence. Texas Instruments' dominance in its field gives it pricing power, demonstrated by gross margins that have averaged 65%, 12 percentage points above the industry average. Operating margins are more than 40% on average.

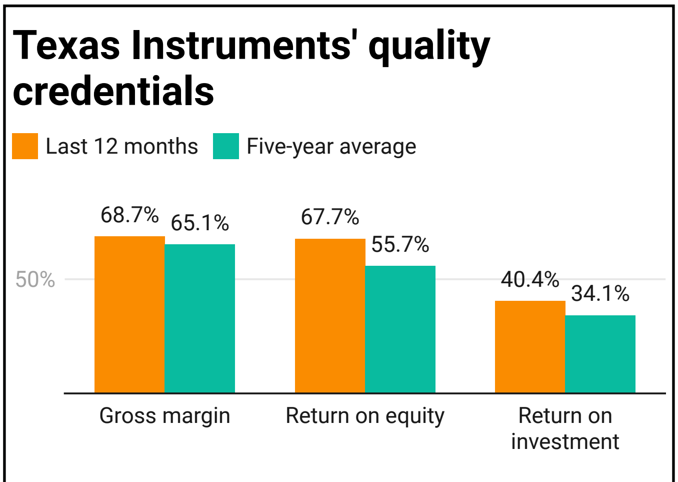


Chart: sharesmagazine.co.uk • Source: Investing.com

The company also has a superb record of squeezing value out of what it spends, with a five-year average return on investment of 34.1%, nearly twice that of the industry, while return on equity since 2017 has worked out at 55.7% on average.

These are all marks of a high-quality business capable of quietly building considerable wealth for shareholders over years. [SF]

Invesco

INVESCO SELECT TRUST PLC – GLOBAL EQUITY INCOME SHARE PORTFOLIO: MANAGER INSIGHTS

Stephen Anness
Head of Global Equities

In this video update, Stephen Anness provides an update on the global equity market after the first quarter of the year and shares his views on the outlook for Global Equities.

Stephen answers the following questions:

- There has been a lot to worry investors in Global Equities in 2022, inflation and Ukraine war especially, are you surprised how well markets are holding up?
- Have you adjusted your process or approach in the light of events?
- How did the investment trust perform over the first quarter of the year?
- Have many changes been made in the portfolio over the first quarter?
- How do you see the outlook for Global equities for the rest of 2022 and into 2023?

Invesco

GLOSSARY OF TERMS

Policy tightening
Also known as monetary policy tightening. Tightening monetary policy typically involves central banks raising interest rates to reduce the demand for credit, and selling government bonds to the market to reduce the money supply and liquidity in the economy.

Cyclical
A cyclical stock is a stock whose profits are significantly impacted by level of economic growth and optimism in the global economy. Cyclical stocks tend to perform well in periods when the global economy is growing, and less well when the economy is slowing down or in recession.

Pro-cyclical
A company whose profits are highly correlated with the positive or negative developments in global economic growth

Asymmetry re AMEX
We no longer saw the upside opportunity for growth in AMEX profits outweighing the potential downside risks to profits. Hence the company became a much less attractive investment proposition.

Loose policy
Loose monetary policy, also known as expansionary monetary policy is when a Central bank seeks to expand or grow an economy. This is done by lowering interest rates to increase the demand for credit, reducing the reserves the banking sector must hold in order for them to make more commercial loans, or buying government bonds from the market in exchange for cash to stimulate liquidity (so called 'quantitative easing').

The Fed
The US Federal Reserve

Hawkish
The term 'hawkish' means a more aggressive stance towards monetary policy designed to reduce inflationary pressures. For example, a central bank is described as hawkish they might have tightened monetary policy by increasing interest rates or might be expected to take stronger action.

INVESTMENT RISKS

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.
When making an investment in an investment trust/company you are buying shares in a company that is listed on a stock exchange. The price of the shares will be determined by supply and demand. Consequently, the share price of an investment trust/company may be higher or lower than the underlying net asset value of the investments in its portfolio and there can be no certainty that there will be liquidity in the shares.
The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.
The Invesco Select Trust plc uses derivatives for efficient portfolio management which may result in increased volatility in the NAV. In addition, some companies are suspending, lowering or postponing their dividend payments, which may affect the income received by the product during this period and in the future.
The Invesco Select Trust plc – Global Equity Income Share Portfolio invests in emerging and developing markets, where difficulties in relation to market liquidity, dealing, settlement and custody problems could arise.

RUSS MOULD
AJ Bell Investment Director

US earnings estimates are being slashed as more bad news piles up

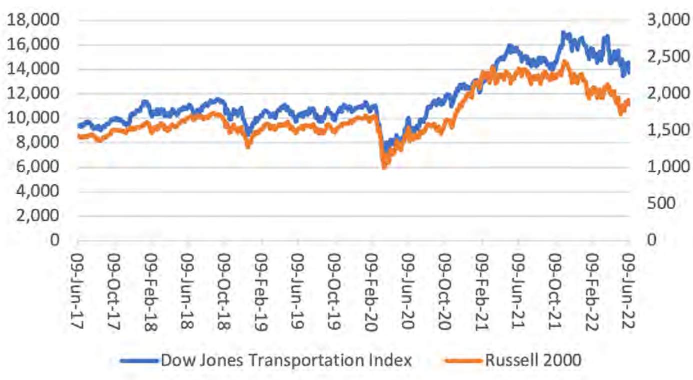
Investors want to know if markets have already anticipated profit warnings

The Federal Reserve, like so many other Western central banks, remains on the horns of a dilemma. The US central bank can either let inflation run unchecked and run the risk that damages the economy as consumers' pockets and corporations' margins feel the pinch, or it can raise interest rates to try and dampen inflation but run the risk that growth slows down, or a recession develops.

Stock markets are clearly perturbed. The Dow Jones Industrials is down 12% from its highs and the S&P 500 by 16%. That suggests some bad news is priced in. But other indices are clearly frightened that worse news is to come.

The Dow Jones Transportation is index is down by a fifth from its autumn 2021 zenith, leaving it flirting with a bear market, while the small-cap Russell 2000 has already been gored, as it has fallen by a quarter from its peak.

Economically-sensitive US indices are sagging



Source: Refinitiv data

Both of those indicators are trying to rally but technical analysts will tell you the charts look ugly, while corporate news is taking on a darker tone too, certainly if a mild profit warning from **Microsoft (MSFT:NDQ)** and a big, bad one from retail giant **Target (TGT:NYSE)** are to be believed. Perhaps the US economy is weaker than markets believe?

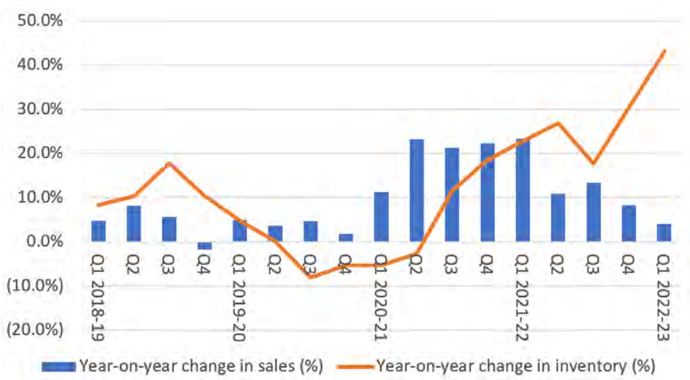
OFF TARGET

Microsoft is blaming the strong dollar, and analysts are therefore brushing that one off, but the implication of the Target disaster is much more serious.

Target's inventories of goods on its shelves and in its warehouses had outpaced growth in sales for four straight quarters, so something had to give – either revenue growth picked up or Target had to stop buying and start discounting.

RUSS MOULD
AJ Bell Investment Director

Target's swollen inventories have caught up with the retailer



Source: Company accounts. Financial year to January

Target has now started cutting prices and swallowing fines and penalties that result from cancelling orders on its suppliers. This combination means management expects the operating margin to slide to 2% in the second quarter, compared to 5.3% in the first and 9.8% a year ago.

That is clearly bad news for Target, but it will hardly bring cheer to the firms that manufacture and supply its products or those that ship them.

The retailer is reportedly the second largest importer of containers into the US so it is no wonder the Dow Jones Transportation index is looking so sick – data from the giant Port of Long Beach is showing flat volumes for loaded inbound containers for 2022 to date and a year-on-year decline for May.

PEAK PRACTICE

Target's share price suggests something is amiss because it stands at levels last seen in September 2020, when the US government was handing out stimulus cheques as if they were confetti. Those cheques are now a thing of the past, interest rates are going up and inflation is eating away at consumers' disposable incomes.

Private consumption generates about 70% of US GDP so a slowdown, either a temporary one as retailers whittle down their stocks or a longer one as consumers slow down their spending, could be a major blow to the US economy and the earnings power of corporate America.

It is here that the wider danger for US equities may lie. Based on earnings estimates collated by Standard & Poor's, US equities trade on 20 times forward earnings for 2022 and 18 times for 2023. Both of those ratings are still above historic norms.

They also assume earnings grow to new peaks in both 2022 and 2023, which could be a false premise if Target is any guide, especially as work from Standard & Poor's suggests aggregate consensus estimates for the US stock market are starting to fall.

US earnings estimates still call for new peaks in 2022 and 2023 ...

Source: Standard & Poor's research

In the past month, consensus forecasts for earnings per share have dribbled down by 5% for each of 2022 and 2023, to $217 and $244 respectively. The combination of above-average earnings multiples and falling earnings forecasts could quickly turn toxic, especially as the S&P 500's operating margins are already at record highs and analysts are implicitly forecasting further improvement, despite inflation and Target's warning.

... even though margins are already at new highs and inflation is surging

Source: Standard & Poor's research

This takes us back to Robert Rhea's [three phases](#) of a bear market: 'The first represents the abandonment of hope upon which stocks were purchased at inflated prices; the second reflects selling due to decreased business and earnings, and the third is caused by distress selling of sound securities, regardless of their value, by those who must find a cash market for at least a portion of their assets.'

Equity indices are trying to rally, and confound forecasts of a bear market and US recession. It is now up to investors to decide whether they are right or whether we are moving from phase one to phase two of Rhea's downcycle.

My bills are going up, should I dip into my Lifetime ISA?

A reader wants to top up their emergency cash savings pot as living costs increase

I'm expecting my energy bills to go up by about £1,000 which means my emergency fund no longer covers six months' fixed expenses.

I'm thinking of accessing £1,000 from my Lifetime ISA early to top up my emergency fund, but in doing so I'd pay a 25% charge.

Is it worth holding off for a bit just in case the Government reduces the early withdrawal charge?

Jason

Tom Selby, AJ Bell Head of Retirement Policy says:

Building a decent-sized 'rainy-day' savings pot is a cornerstone of sound financial planning. This pot of money should ideally be held in an easy access cash account paying the highest rate of interest available.

While clearly during periods of high inflation the real value of that money will be eroded, it is important to have some cash to cover any unexpected bills. Aiming for three to six months' fixed expenses is sensible.

Millions of Brits have seen their living costs driven higher this year, primarily by surging energy bills caused by global supply and demand issues and exacerbated by the war in Ukraine.

As energy is a fixed expense the recent rise in costs means it makes sense to review your rainy-day pot to make sure it remains sufficient.

The average annual energy bill (for those on the price cap) increased £693 to almost £2,000 in April, with another £800 increase anticipated in October.

If your annual energy costs go up by £1,000 and you want to maintain a buffer covering six months' fixed expenses, that implies adding around £500 to your rainy-day pot.

Anyone aged 18 to 39 can open a Lifetime ISA and pay in up to £4,000 a year. This money will then be topped up by a 25% government bonus, up to a maximum of £1,000 a year.

Once you have opened an account you can keep subscribing and receiving the Government bonus until your 50th birthday. The money can be accessed tax-free where it is used for a first home worth £450,000 or less, from your 60th birthday or in serious ill-health.

In all other circumstances your withdrawal will be subject to a 25% early withdrawal charge. Because this is applied to the entire withdrawal, it not only aims to reclaim the upfront bonus but acts as a 6.25% penalty too.

During the pandemic the Treasury cut this charge from 25% to 20%, meaning it was only aiming to return the government bonus.

There have been calls for ministers to provide similar support during the cost-of-living crisis but so far there has been no indication this will happen.

Given the impact of the early withdrawal charge, if you want to top up your rainy-day fund, consider doing it from other assets, such as a Stocks and Shares ISA, or from your salary if you can afford it.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@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.

How to find and analyse quality growth companies

The attractions of businesses with strong sales growth and high returns on capital

Growth and value investing have become part of the investment lexicon in recent years. Investment consultants use the labels to pigeonhole a fund manager's style of investing.

Growth stocks generally have high price to book and high price to earnings ratios. They command a higher valuation because of the potential growth on offer.

For this article we take a common-sense approach and argue that every investment should be evaluated from both a growth and value perspective.

For the purposes of the discussion, we will focus on stock specific factors, acknowledging there are many factors which influence stock prices such as interest rates and the state of the economy.

DEFINE YOUR GOALS FIRST

Investing is about outlaying cash today to harvest an uncertain but larger amount of money in the future. The investor's goal is to maximise the overall rate of return while minimising the risks.

So rather than thinking about a style of investing, we start by defining our investment objective. For the purposes of this article our objective is to achieve 10% annual returns on average over the long term.

This implies doubling our capital every seven years. It is ambitious because it represents a higher rate of return than the stock market has historically provided of around 6% a year.

By the way, this is about the same as the average growth rate in profits that the market has

THIS IS PART ONE of three articles looking at how to find and analyse growth stocks. We also explain important financial considerations to consider.

In the second and third articles we will take a deeper dive into a UK stock.

delivered. This shouldn't be surprising because share prices follow profits in the long run.

Fundamentally, to achieve the 10% return goal, we need to find and invest in companies which can grow their profits by at least 10% a year.

However, there is an implicit assumption the price to earnings ratio – also known as the PE – doesn't change too much while we are invested in the shares.

That seems an unrealistic assumption because PEs move around over time reflecting peaks and troughs in investor sentiment.

While the stock market does a good job of valuing companies, it isn't perfect.

Therefore, we must factor in the possibility that the PE will change. The good news is that over time the contribution to returns from a lower/higher PE becomes less impactful.

KEY RISKS TO CONSIDER

There are two risks to bear in mind when investing in companies with higher-than-expected growth. Firstly, growth can disappoint, and secondly the PE can fall which is known as a derating.

Sometimes they both happen together, which is brutal for the share price. Even a derating on its own can be punishing.

China's leading online marketplace technology company **Alibaba (BABA:NASDAQ)** provides a cautionary example. The firm's net profit has more than doubled over the last four years, representing around 20% annualised growth. However, the share price has fallen by 45% over this period.

Part of the reason is that there has been a derating of the shares (along with other growth companies) which has squeezed Alibaba's PE from 40 times to 12 times. Essentially investors have increasingly been reluctant to pay a high multiple of earnings to own the shares – the less they are prepared to pay, the lower the PE multiple for the stock.

This highlights the risk of overpaying for growth. Always consider what level of growth is already priced in.

Additionally, it is prudent to build some valuation cushion into your expectations to account for unexpected risks. The Chinese government's crackdown on technology stocks with tighter regulation is a key reason why Alibaba's shares came under pressure, for example.

This demonstrates the importance of using a value perspective to complement a growth mindset.

LOOK FOR COMPOUNDERS

One underappreciated benefit of investing in companies is their ability to earn high returns on equity – also known as ROE – and grow. Profits can be reinvested to earn similarly high rates of return, and so on.

This is called a compounding effect as growth builds upon previous growth each year. At 15% ROE, a company can double its shareholder equity every five years, leading to significant value creation for shareholders.

Return on equity is net profit divided by book value, or equity. Shareholders' equity shows how much the owners of a company have invested in the business, either by investing money in it or by retaining earnings over time.

COMPOUNDING IN ACTION

Global music and audio products company **Focusrite (TUNE:AIM)** has grown earnings per share at a compound annual growth rate of 34% a year over the last six years according to Stockopedia.

Most of the profits (82%) have been reinvested and have earned an impressive 25% ROE a year on average.

Retained profits are added to book value. This means book value has grown slightly less than profits because around 22% of profits have been paid out as dividends.

The power of a stock rerating

Mr Kipling cakes company **Premier Foods (PFD)** is a great example of what happens when a stock rerates – namely that investors are happy to pay a higher multiple of earnings to own the shares.

The company had been drowning in debt which meant the business was starved of investment as a lot of spare cash was needed to service its borrowings.

It gained a reputation of being a 'zombie' company and the shares fell to a very low PE rating as investors didn't want to touch it. Miraculously management got the business in a stronger position, debt fell sharply, and they were finally able to reinvest in the business to improve marketing, product innovation and operational efficiencies.

Growth was back on the table and investors became more interested in the company, hence the PE ratio increased, and the share price moved a lot higher.

Premier Foods' expanding PE ratio

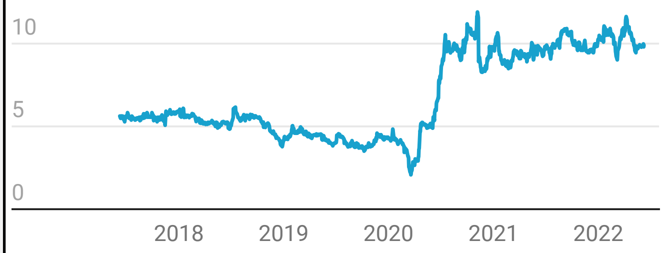


Chart: Sharesmagazine.co.uk • Source: Refinitiv

Even so, book value has grown by 28% a year (34% annual earnings growth times 0.82). This is equivalent to more than a quadrupling of book value.

Shareholders have been richly compensated with the shares rising six-fold over the period from 165p to £10.40.

The shares have grown at the same pace as earnings per share while the price to book ratio has increased from around four times to 6.4.

HOW TO FIND COMPOUNDERS

A useful way to think about future growth potential is to consider the total addressable market for a company and the industry in which it operates.

Companies often reveal their total addressable market in strategic reports and at capital market days. It represents the theoretical size a market can grow to and provides a clue to its stage of maturity.

It is clearly better to invest in industries which are far from maturity and companies which have a long runway of growth ahead of them.

However, don't forget about the competitive landscape. If there are many companies fighting for share and the industry is highly competitive, returns on equity will likely drop as firms look to undercut each other.

Management teams often provide information on competitive strengths (but not many identify weaknesses) of the business and strategic priorities.

THE LINDY EFFECT

Sustainability of growth is very important and an interesting way to think about this is to consider the Lindy Effect.

The phrase was coined by Albert Goldman in 1964 and he named it after a famous New York City delicatessen where fellow comedians would gather after shows.

The idea is that the life expectancy of something is proportional to its current age. For Goldman the longer a comedian could stay on tour the longer they should be expected to remain on tour.

In other words, the longer a non-perishable item has been around the longer it is likely to persist.

Investors can adopt this concept for companies with demonstrable long track records of growth. It can be used as a proxy for a company's durability.

Coca-Cola (KO:NYSE) has been around since 1892 and is still expanding its global footprint.

LET BASE RATES BE YOUR GUIDE

Behavioural biases can prevent investors from considering all the relevant pieces of information and no facts should be considered in isolation.

The base rate is the naturally occurring frequency of something happening, based on real life experience.

Investment bank Credit Suisse has compiled a database of US companies showing historical sales growth rates from 1950 to 2015.

If an analyst is forecasting a company's sales will grow between 25% and 30% a year over the next 10 years, for example, how realistic is it?

Credit Suisse data suggests only around 1% of companies have sustained such high growth rates over a decade.

Investment strategist Michael Mauboussin contends that sales growth rates for companies are distributed in a similar way to people's heights. This means most will fall around the average.

By **Martin Gamble** Education Editor

Why every investor should make sure they own a diversified portfolio

We look at the perils of not diversifying and ask how much is enough

It might sound odd, but diversification isn't designed to maximise your returns, so you may well ask what is the point?

Diversification is 'the practice of spreading your investments so that your exposure to any one type of asset is limited', according to US fund giant Fidelity.

The idea is that holding a selection of different investments should help reduce the volatility of your portfolio over time.

The same applies if you just have a portfolio of stocks – you need to spread your bets so that you aren't putting all your eggs in one basket.

WAYS TO DIVERSIFY

If you mainly invest in shares and don't want to hold bonds, commodities, real estate or other assets directly, it is still possible to get exposure to these asset classes indirectly by buying shares or units in an investment trust, fund or ETF (exchange-traded fund).

Also, if you like a sector but you would rather not take individual stock risk, you can invest in sector-specific investment trusts, funds and ETFs.

The same goes for investment themes like ESG investing, robotics, space technology or biotechnology, for instance.

Buying a fund or a trust takes the guesswork out of the equation as the managers, who are typically specialists in their field, do the work for you. An ETF also makes life easier by tracking an index of relevant shares, so you don't have to do any stock picking.

TIME AND RISK

There are two things you need to consider when building a portfolio: how long you need to invest for and how much risk you are prepared to take to reach your goals.

If you have a 30-year time horizon then you will probably be more willing to take risks as you have time to make up for any poor decisions, although it's worth repeating the first rule of generating wealth – don't lose money.

If you have a relatively short time horizon then you probably won't want to take too many risks as you don't want to lose capital.

Whatever your perspective, however, you should only take on the level of risk you are comfortable with, and diversification is a way to moderate risk.

HOW MUCH IS TOO MUCH?

One of the earliest studies into the benefits – and the limitations – of diversification was by academics John Evans and Stephen Archer of the University of Washington in 1968.

In their paper *Diversification and the Reduction of Dispersion: An Empirical Analysis*, the authors concluded the optimal size for a portfolio was between 10 and 15 stocks.

Beyond that, once the number of stocks topped 20 the benefits of diversification tailed off dramatically.

There has been a lot of academic research since the Evans and Archer paper was published, with most concluding that somewhere between 15 and 40 stocks works best.

In *The Behavioural Investor*, Daniel Crosby cites a Morningstar study which measured the volatility of high-conviction portfolios – those with less than 40 stocks – against the volatility of much broader portfolios with more than 200 holdings.

The study concluded that 'concentrated funds are not more volatile than more diversified funds on average and some are surprisingly steady despite their small number of holdings'.

THE COST OF NOT DIVERSIFYING

A study in the *Review of Finance* by William Goetzmann and Alok Kumar concluded that, in general, US individual investors were guilty of owning 'under-diversified' portfolios.

They found the level of under-diversification was greater among younger, low-income, less educated and less sophisticated investors.

The authors said: 'The level of under-diversification is also correlated with investment choices that are consistent with over-confidence, trend-following behaviour, and local bias.'

If that sounds like the recent craze for meme investing where young, bored, first-time investors started spending their stimulus cheques on whatever was hot on Reddit chat boards or social media platforms, it's no coincidence.

Another key aspect of the study was finding clear economic costs to being under-diversified in terms of performance.

'As the level of diversification increases, both performance measures (mean monthly excess return and the Sharpe ratio) increase,' report the authors.

On an annual basis, the most diversified investor group earned a 2% higher return than the least diversified group which in theory is taking more risk.

Part of the reason was that more diversified investors trade less frequently, because they have a greater range of investments, while part of the performance gap was down to the 'large idiosyncratic risk exposures' of the less diversified.

In other words, less diversified investors tend to go for stocks they think will go to the moon and tend to go all-in rather than doing their research and spreading their bets.

By **Ian Conway** Companies Editor

What do famous investors have to say about diversification?

Benjamin Graham, author of *The Intelligent Investor*, believed it was enough to own between 10 and 30 holdings of 'large, prominent, conservatively financed companies` with a bias towards those with low debt to equity ratios and high yields.

Warren Buffett argued instead you should own between five and 10 stocks 'if you are a "know-something" investor, able to understand business economics and to find sensibly-priced companies which possess important long-term competitive advantages.'

John Maynard Keynes, who is often considered to be the father of modern economic theory, believed a dozen or so companies 'which one thinks one knows something about, and in the management of which one thoroughly believes', was the optimal size for a portfolio.

Seth Klarman, billionaire investor and founder of Baupost, also argues in favour of around a dozen stocks because you are 'better off knowing a lot about a few investments than knowing just a little about each of a great many holdings.'

Ultimately, common sense suggests you are better off holding a smaller number of stocks than a larger number as long as you are really doing your homework on them.

Why it's worth spreading your risks with multi-asset funds

As equity markets struggle a more balanced approach could pay off

With stock markets wrestling with the twin concerns of too little growth and too much inflation, cautious investors who want to spread their risk might want to look at multi-asset funds.

Rather than just owning shares, these funds own a mixture of equities (another term for stocks and shares), bonds, currencies, and alternative assets such as property and infrastructure.

As such they take the guesswork out of spreading your money across different asset classes and offer an all-in-one solution.

SPREAD YOUR BETS

Over the last five years, multi-asset funds have lagged global stock markets which have been driven mainly by growth companies.

However, during periods of market stress such as the onset of the Covid pandemic and more recently the invasion of Ukraine, multi-asset funds have offered a degree of protection.

Given the growing uncertainty over the strength of the world economy in the face of central bank tightening, it makes sense for cautious investors to consider spreading their money across different asset classes.

US asset management firm Vanguard offers a range of 'LifeStrategy' funds with varying allocations to shares starting at 20% for investors with the lowest risk tolerance rising to 40%, 60%, 80% and 100%. The balance is held in bonds.

Similarly, there are plenty of funds offering a mixed investment strategy with 0% to 35% shares, 20% to 60% shares or 40% to 85% shares.

According to The Investment Association, there is over £150 billion invested in these types of funds, with the majority (£86 billion) invested in the mixed 40% to 85% category and most of the rest (£54 billion) invested in the mixed 20% to 60% category.

TOP OF THE CLASS

Two of the best-performing funds in the mixed 20% to 60% category are the **Royal London Sustainable Diversified Trust (B844WJ6)** which has returned 34.4% over the last five years and the **VT Momentum Diversified Income Fund (B7JTF56)** which has returned 25.9% against 12.2% for the UT Mixed Investment 20% to 60% Shares

Retail sector index.

The Royal London fund invests with a three to five-year time horizon, mainly in UK assets which are deemed to make a positive contribution to society.

As co-manager Sebastien Beguelin explains, the decision on which assets to buy is driven by detailed fundamental analysis of individual companies rather than a top-down macro view of the world.

'We can't claim any expertise in asset allocation, we're stock-pickers so we take a bottom-up approach. We look for innovative companies which are improving things for society. It's a disciplined approach which has delivered over more than a decade,' says Beguelin.

Once a company has passed muster, the equity and credit teams at Royal London decide whether

ROYAL LONDON SUSTAINABLE DIVERSIFIED TRUST

Fund size £3.75 billion

Asset Class	Direct or Indirect (Funds)	Weighting
UK Fixed Interest	Direct	40.4%
North American Equity	Direct	27.7%
UK Equity	Direct	20.7%
European Equity	Direct	9.7%
Emerging Markets Equity	Direct	0.9%
Cash & Equivalents		0.6%

Table: Sharesmagazine.co.uk • Source: Company fact sheets March 2022

Stock	Weighting
AstraZeneca	2.2%
London Stock Exchange	2.1%
Thermo Fisher Scientific	2.0%
Microsoft	1.9%
Schneider Electric	1.9%
Segro	1.9%
SSE	1.9%
Amazon.com	1.8%
Visa	1.8%
Alphabet	1.8%

Table: Sharesmagazine.co.uk • Source: Company fact sheets March 2022

Sector Breakdown	Weighting
Fixed Income	40.6%
Industrials	17.1%
Technology	13.9%
Health Care	10.6%
Consumer Discretionary	7.6%
Financials	3.4%
Basic Materials	2.3%
Real Estate	1.9%
Utilities	1.9%
Consumer Staples	0.8%

Table: Sharesmagazine.co.uk, • Source: Company fact sheets March 2022

VT MOMENTUM DIVERSIFIED INCOME FUND

Fund Size £174 million

Asset Class	Direct or Indirect	Weighting
Specialist Assets	Direct	31.9%
Credit	Indirect via funds	26.4%
UK Equity	Direct	19.6%
Overseas Equity	Indirect via funds	10.8%
Defensive Assets	Indirect via funds	7.4%
Cash & Equivalents		3.9%

Table: Sharesmagazine.co.uk • Source: Company fact sheets March 2022

Top Five Holdings By Asset Class

Specialist Assets	Weighting
Chrysalis Investments	2.0%
Fair Oaks Income	2.0%
International Public Partnerships	1.9%
AEW UK REIT	1.7%
Syncona	1.6%
UK Equity	**Weighting**
Legal & General	1.5%
M&G	1.5%
OSB Group	1.3%
BT Group	1.0%
Origin Enterprises	1.0%
Overseas Equity	**Weighting**
Morant Wright Fuji Yield	3.7%
JPMorgan European Inv. Trust	1.6%
CIM Dividend Income	1.6%
Samarang Asian Prosperity	1.1%
Prusik Asian Equity Income	1.1%

Table: Sharesmagazine.co.uk • Source: Company fact sheets March 2022

to invest in the shares or corporate bonds.

'We tend to buy more industrial stocks than consumer stocks,' says Beguelin. 'Obvious examples are firms which help other companies by reducing their energy consumption.'

As well as industrials, the fund has a heavy weighting towards technology and healthcare stocks, and very little towards consumer, utility, basic material or energy companies.

Asked whether the rally in oil prices might tempt the Royal London team to increase their energy exposure, Beguelin was unequivocal: 'We aren't buying oil producers, we're long-term investors and the sector is fundamentally a "sell".'

VALUE TILT

The managers of the VT Momentum fund also take a bottom-up approach to building their mixed-asset portfolio, this time with a strong focus on value.

In contrast to Royal London the team doesn't invest directly in credit, preferring to own a mix of corporate and government bond funds instead.

Similarly, exposure to overseas equities and alternative assets such as property and infrastructure is through funds, which allows the team to pick who they deem to be the best managers in each sector and focus their efforts on picking UK stocks.

'Investing through funds isn't risk-free but it's a

AJ Bell multi-asset funds: 5 year total return

Chart: Sharesmagazine.co.uk • Source: FE Fundinfo, 3 June 2022. Total return in pounds sterling.

lot less risky than trying to pick individual foreign stocks or high-yield bonds,' explains lead manager Richard Parfect.

Alternative – or specialist – assets make up nearly a third of the Momentum fund and are primarily chosen for income and are typically inflation-linked.

'These really came into their own during the pandemic when UK companies went on strike and stopped paying dividends,' says Parfect.

Interestingly, two of the fund's top five UK holdings, **Legal & General (LGEN)** and **OSB (OSB)**, have both announced share buybacks of around 10% of their market caps.

While this isn't much help on the income front, it does demonstrate the managers' focus on value and in particular the sustainability of income.

'We look for companies which are really well-capitalised,' says co-manager Mark Wright. 'The fact they've chosen to buy back their shares in this instance means they should generate capital gains over and above the market.'

HAPPY ANNIVERSARY

Also in the multi-asset space, April marked the fifth anniversary of the launch of five funds by investment platform **AJ Bell (AJB)**.

The funds, which range from Cautious to Adventurous, offer a varying mix of shares, bonds and other assets depending on investors' risk appetite. Each portfolio contains a range of exchange-traded funds.

All five of the AJ Bell funds rank in the top quartile of performance when looking at the five-year data to 3 June 2022, although it's important to note they didn't stay in the top quartile for the entire five-year period.

'Looking back on the past five years, the portfolios have clearly had to contend with a wide array of different economic, macro, political and social events, so it is heartening to see them come through so strongly,' says Kevin Doran, chief investment officer.

While the funds have had drawdowns as the market has fallen, in the three big market declines during the past five years – the China trade war in late 2018, the pandemic slide in early 2020 and the invasion of Ukraine earlier this year – they have typically outperformed.

'This performance isn't necessarily by accident given how we have designed our asset allocation approach. We are unashamedly long-term investors, who believe in the power of diversification, keeping costs as low as possible and trying not to be too clever,' says Doran.

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By **Ian Conway** Companies Editor

How top-performing global funds and trusts are different to each other

The likes of Scottish Mortgage, Fundsmith and F&C do not follow the same path

Funds and investment trusts that put money to work outside the UK are popular with investors because they offer diversification away from the domestic market at a stroke.

Nevertheless, investors need to familiarise themselves with the different underlying assets of global funds as there are significant variations in terms of investment styles, underlying assets and levels of risk, even among the strongest performers.

GLOBAL STAR TURNS

Shares has crunched the data using to highlight the best performing global funds and trusts of the past 10 years, a sufficiently long timeframe to assess consistency. Our search looked at products with more than £1.5 billion in assets. As you'll see, the approaches and underlying assets of the top performers are markedly different, confirming there is more than one way to deliver positive returns to shareholders from a basket of global equities.

The best performer is **Scottish Mortgage (SMT)**, Baillie Gifford's flagship investment trust famed for backing disruptive growth businesses, which has generated a 10-year total return of 487%, though it is down 44% over the past year due to the sell-off in growth names triggered by inflation and expectations of rising interest rates.

The second best performer of the past decade is **Fundsmith Equity (B41YBW7)**, the Terry Smith-steered global fund which has returned 349%, followed by **BMO Responsible Global Equity (3314504)** with a 277% return.

DARING TO BE DIFFERENT

Considering the stiff headwinds facing global equity funds and particularly those with a focus on growth, it is hardly surprising that shares in Scottish Mortgage have suffered of late.

A market rotation from growth to value has negatively impacted the trust, which provides investors with a way of accessing interesting growth businesses and has a focus on tech companies, disruptors and positions in out of favour Chinese domiciled companies.

The April factsheet reveals a high active share of 94%, meaning the fund is very different from the benchmark, with the top 10 holdings including the likes of **Tesla (TSLA:NASDAQ)**, **Tencent (HKG:0700)**, **Amazon (AMZN:NASDAQ)**, **Alibaba (BABA:NYSE)** and **Moderna (MRNA:NASDAQ)**.

While the trust's portfolio is well-diversified across listed investments, risk (and potentially reward) is increased through Scottish Mortgage's investments in unquoted companies.

Global funds and investment trusts ranked by 10-year performance

Fund/Trust	3 years (%)	5 years (%)	10 years (%)
Scottish Mortgage Investment Trust	36	75	487
Fundsmith Equity	21	61	349
BMO Responsible Global Equity	34	68	277
Fidelity Global Special Situations	31	49	277
Baillie Gifford Global Alpha Growth	18	41	241
Rathbone Global Opportunities Fund	21	52	236
Alliance Trust	25	41	230
F&C Investment Trust	19	44	228

Table: Sharesmagazine.co.uk • Source: Fe Fundinfo, total return in GBP, funds/trusts over £1.5bn in size

DIVERSIFICATION & CONTRARIAN VALUE

Launched back in 1868, **F&C Investment Trust (FCIT)** has delivered its strong long-run returns through a very different approach to Scottish Mortgage. This multi-manager trust runs an ultra-diversified portfolio which gives investors exposure to most of the world markets; the fund is invested in more than 400 companies in 35 countries.

F&C Investment Trust's three biggest positions are **Microsoft (MSFT:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and **Apple (AAPL:NASDAQ)**, though they speak for just 2.5%, 2% and 1.9% of the portfolio respectively.

Other holdings span industries as diverse as electric vehicles in the form of Tesla, discount retail through **Dollar General (DG:NYSE),** social media and the metaverse through **Meta (META:NASDAQ)** and pharmaceuticals thanks to its exposure to **Merck (MRK:NYSE)**.

Fellow multi-manager vehicle **Alliance Trust (ATST)** is also highly diversified, offering exposure to 189 stocks in one product. Its investment manager, Willis Towers Watson, has appointed a number of stock pickers with different styles, who each ignore the benchmark and only buy a small number of stocks in which they have strong conviction, which gives the increased potential for outperformance versus the benchmark combined with manager diversification, which should reduce risk and volatility.

SOMETHING SPECIAL

A very different basket of underlying assets is on offer at **Fidelity Global Special Situations (B8HT715)**. A diversified fund managed by Jeremy Podger and Jamie Harvey, Fidelity Global Special Situations strikes a stylistic balance between growth and value so the portfolio hopefully delivers returns for investors even in a low growth environment.

Fidelity Global Special Situations' good long-term performance reflects a valuation-focused approach to identify companies with significant potential for share price appreciation.

This can be because the valuation is too low or because the market fails to recognise the company's future growth prospects, or both.

The portfolio is divided into three categories of 'special situations': corporate change, exceptional value and unique businesses. Corporate change candidates offer the potential for a fundamental shift in value, with catalysts linked to near-term restructuring, merger and acquisitions or spin-off activity.

Exceptional value companies that deliver earnings growth in excess of market expectations can see a dramatic re-rating, whereas unique businesses might be firms with a dominant industry position, strong growth, cash flow and pricing power.

The £3.3 billion fund had 119 long positions and 15 short positions as at the end of April. The US dominated the portfolio at 62% of the long exposure, with top net longs including tech titans Microsoft and Amazon as well as healthcare and insurance firm **UnitedHealth (UNH:NYSE)** and electronic payments group **Mastercard (MA:NYSE)**.

CONCENTRATING ON QUALITY

One of the most popular investments among UK retail investors, Fundsmith Equity's short-term performance is uncharacteristically disappointing. With its quality growth style of investing temporarily out of favour, the fund has slipped into negative total return territory over six month and one year periods, yet its long-term performance record under pugnacious stock picker Terry Smith is nothing less than terrific.

In stark contrast to the likes of F&C Investment Trust and Alliance Trust, Fundsmith is a highly concentrated portfolio of just 28 equity holdings as of the end of May, with big sector biases towards the consumer staples, technology and healthcare sectors where Smith can find long-established companies that generate high returns on capital.

High conviction investor Smith is sticking to his tried-and-tested formula of investing in a just a small number of top quality, resilient, global growth companies that he believes are good value and which he intends to hold for a long time.

Rathbone Global Opportunities (B7FQLN1), is a stock picking fund with 60 carefully-selected stocks at last count. Names passing muster with manager James Thomson span big box retailer **Costco (COST:NASDAQ)**, chipmaker **Nvidia (NVDA:NASDAQ)** and accounting software company **Intuit (INTU:NASDAQ)**.

Unlike global fund manager peers, Thomson avoids emerging markets, preferring to scour developed countries for innovative and scalable businesses that are growing fast and shaking up their industries.

'They must be easy to understand, different to their competitors, durable to change and difficult to imitate. Companies must have a plan to grow rapidly without running out of money or overstretching their resources,' says Rathbone.

'Our speciality is spotting these businesses before they are household names. We buy companies of all sizes, but our sweet spot is mid-sized growth companies in developed markets.'

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

50,000 buy a home with a Lifetime ISA and £1.1 billion tucked away for kids

Discover the latest on how we use the different types of ISAs

It's sad to admit, but there is a flutter of excitement that ripples through the personal finance industry when HMRC releases its ISA statistics every June. The figures reveal a host of interesting trends about what everyday savers are doing with their money, and the latest data dump was no exception.

Probably the biggest shift in consumer behaviour revealed by HMRC was a big move away from cash towards stock market ISAs. The numbers show that in the tax year ending 5 April 2021, a record £34 billion was invested in Stocks & Shares ISAs, which was £10 billion more than the previous year.

Clearly the arrival of successful Covid vaccines, combined with high levels of pandemic savings and ultra-low interest rates, gave investors both the means and motivation to put a huge wall of money to work in the stock market.

Cash ISAs didn't enjoy such a widespread boom in popularity though. HMRC data reveals that 1.6 million fewer people opened a Cash ISA than in the previous tax year, and total contributions fell by £12 billion to £36.9 billion.

POWER OF THE PERSONAL SAVINGS ALLOWANCE

A resurgent stock market stole the limelight from the paltry rates that were on offer from Cash ISAs, but more broadly Cash ISA subscriptions have been in decline since the personal savings allowance was introduced in 2016.

This allowance allows savers to receive up to £1,000 of interest tax-free, which undermines the need for many consumers to use a Cash ISA wrapper to protect their money from tax.

That's particularly the case when interest rates are low. At an interest rate of 1%, a basic rate taxpayer would need £100,000 in cash before they benefited from the Cash ISA wrapper, because of the personal savings allowance protecting that level of interest from tax.

But as interest rates rise, Cash ISAs will probably enjoy a bit of a popular recovery, both because the rates themselves will become more attractive, and more people will save tax by using the ISA wrapper.

At an interest rate of 3%, basic-rate taxpayers start being liable for tax once their cash savings outside of an ISA exceed £33,333. For higher-rate taxpayers it's half this level as they only receive a £500 annual allowance, and additional-rate taxpayers don't get any allowance at all.

SAVING FOR CHILDREN

Junior ISA subscriptions also hit a record level of £1.1 billion, the first time they have breached the £1 billion mark for the year to 5 April 2021.

But cash is still king in the land of the Junior ISA, accounting for over 57% of subscriptions in the tax year ending 2021. So, while parents seem to have shifted towards the stock market with their own ISAs, they have been more reluctant to do so with their children's savings.

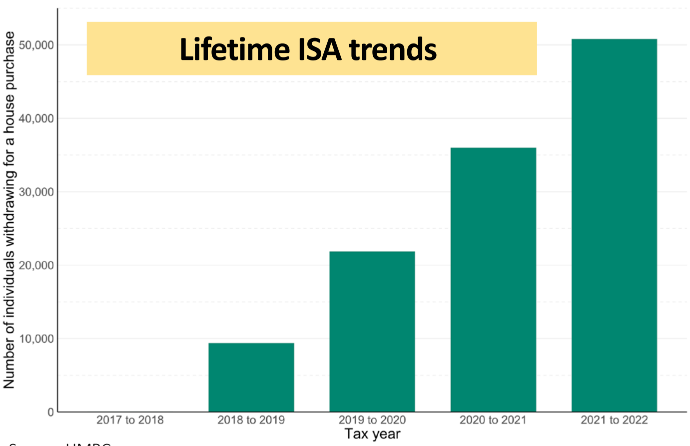
That doesn't make a huge amount of investment sense, given that children potentially have the longest savings horizon in which to ride out the ups and downs of the stock market.

However, some parents may be saving for a specific event at age 18 which truncates the investment period, such as a university fund, while others may simply be conditioned to dealing in cash when it comes to saving for children.

But for younger children especially, some parents may well be missing a trick by tuning away from the long-term growth potential offered by investing in the stock market.

GETTING ON THE PROPERTY LADDER

There is more up-to-date information on Lifetime ISAs. Over 50,000 people used a Lifetime ISA to buy their first house in year to 5 April 2022, which brings the total number of individuals who have used this scheme to purchase a property to 118,100.



Source: HMRC

On average withdrawals were £13,192, which means that the typical Lifetime ISA encasher benefited from around £2,600 of upfront government tax relief, including the growth on that money.

While some criticised the scheme when it was introduced in 2017, it has clearly helped lots of people to get on the housing ladder and will continue to do so as more accounts mature.

The government did temporarily reduce the early exit penalty charge during the pandemic from 25% to 20%, and they could look at this again to help with the cost-of-living crisis.

That would aid those who have done the right thing by saving for their future, but now find themselves in more difficult financial circumstances and in need of access to that money.

ISAS HAVE BEEN A SUCCESS

In total, £687 billion was held in adult ISAs as of 5 April 2021, which really is a mark of success of the ISA product in its 21st anniversary year.

There are 27 million adult ISA holders in the country, almost evenly split between genders, and the average ISA holder had an income of between £20,000 and £29,999, which all goes to show that the ISA is really a building block for pretty much anyone who wants to save money for their future.

By **Laith Khalaf**
AJ Bell Head of Investment Analysis

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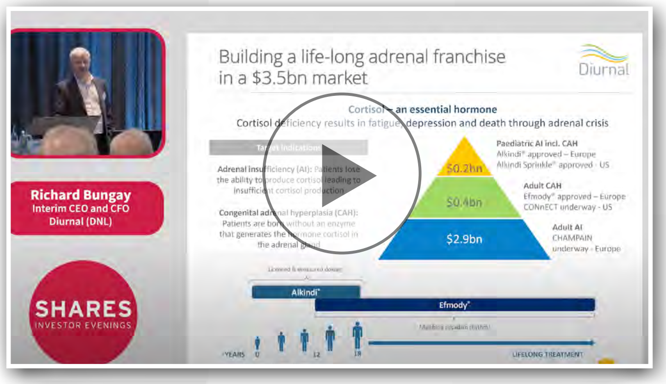
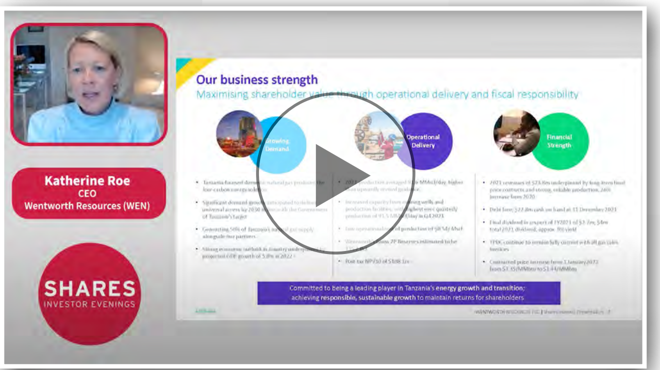


Diurnal
Richard Bungay, Interim CEO and CFO

Diurnal Group is a specialty pharmaceutical company developing hormone therapeutics to aid lifelong treatment for rare and chronic endocrine conditions, including Congenital Adrenal Hyperplasia, Adrenal Insufficiency, Hypogonadism and Hypothyroidism.

Tristel
Paul Swinney, CEO

Tristel is an infection prevention company whose purpose is to prevent the transmission of microbes from one object or person to another, by applying a very powerful biocidal chemistry – chlorine dioxide – to the target environmental surface or medical device. Its mission is most relevant to hospitals where the risks of infection to individuals are highest. Its surface disinfectants product range is branded Cache.



Wentworth Resources
Katherine Roe, CEO

Wentworth Resources (WEN) is an upstream oil and natural gas company. It is actively involved oil and gas exploration, development, and production operations.

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INDEX

Main Market	
AJ Bell	38
Ashtead	18, 20
Associated British Foods	8
B&M European Retail Value	8
Barclays	5
Chemring	14
Cranswick	20
EasyJet	9
HSBC	5
International Consolidated Airlines	9
Legal & General	38
Lloyds	5
OSB	38
Photo-Me	12
Premier Foods	30
Reckitt	5
Shell	5
SSE	5
Unilever	5

Watches of Switzerland	10
Wizz Air	9

AIM	
Focusrite	30
Fulham Shore	15
Jet2	9

Investment Trusts	
Alliance Trust	40
F&C Investment Trust	40
Industrials REIT	15
Ruffer Investment Company	6
Scottish Mortgage	6, 39

Overseas shares	
A.O. Smith	19
Alibaba	30, 39
Alphabet	7, 40
Amazon	39
Apple	7, 40
Cheniere Energy	14
Costco	41
Dollar General	40
Equinor	14
Intuit	41
MasterCard	41
Merck	40
Meta	7, 40
Microsoft	24, 40
Moderna	39

Netflix	17
Nvidia	41
PayPal	17
Ryanair	9
Snap	7

Target	24
Tencent	39
Tesla	39
Texas Instruments	21
Twitter	7
UnitedHealth	41

Funds	
BMO Responsible Global Equity	39
Fidelity Global Special Situations	40
Fundsmith Equity	39
L&G Future World Sustainable Equity Fund	11
Rathbone Global Opportunities	41
Royal London Sustainable Diversified Trust	35
Vanguard Lifestrategy	35
VT Momentum Diversified Income Fund	35

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

20 June: Sysgroup. **21 June:** James Cropper, Record, Telecom Plus, Trifast. **22 June:** Berkeley. **23 June:** Alpha Financial Markets Consulting, Deepverge, First Property, Volex. **24 June:** Manolete.

Half-year results:

21 June: Safestore. **23 June:** Oxford Metrics.

Trading Announcements

17 June: Tesco. **20 June:** Associated British Foods.

DISCLAIMER: AJ Bell referenced in this table is the owner and publisher of Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

COMPANIES EDITOR Ian Conway @SharesMagIan

EDUCATION EDITOR Martin Gamble @Chilligg

SENIOR REPORTER: Mark Gardner

CONTRIBUTORS Danni Hewson, Laith Khalaf, Russ Mould, Tom Selby, Laura Suter

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

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US: support@sharesmagazine.co.uk

Website: sharesmagazine.co.uk
Twitter: @sharesmag

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