STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

WORRIED ABOUT RECESSION?

These top tips should help keep your investments on track

EDUCATION How much risk are you prepared to take with investing?

Contents

Daniel **Coatsworth**

EDITOR'S VIEW

Falling commodity prices could mean the worst of rising inflation is nearly over

Reduced consumer spending and companies sitting on excess stock are also important signals

The excitement seems to be coming out of the commodities space judging by share prices in miners and oil and gas companies.

This suggests inflation could soon ease and/or investors are taking profits in stocks that have done well this year. Both factors imply a potential rotation into other parts of the market, which is something to watch in the coming weeks.

Miners and oil producers started the year in full force. Investors flocked to commodity producers in the hope they would benefit from inflation. Commodities such as oil and metals typically rise in value when inflation is accelerating.

The higher cost of making goods is often passed on to consumers, and that's why we've seen inflation hit household finances hard this year.

Russia's invasion of Ukraine exacerbated the rise in commodity prices as sanctions on the country disrupted its supply of energy and metal products. However, that driver has lost momentum of late.

Shares in diversified miner **Rio Tinto (RIO)** jumped by 42% in value between November 2021 and April 2022. While briefly dipping in May, by June they were nearly back to 12-month highs at £60.91. Since then, the shares have fallen by 22%.

Anglo American (AAL) has followed a similar trend with a share price rise between November and April, a blip in May, and then a 33% decline from its June peak.

These share price movements shouldn't have been a surprise given the big miners are highly leveraged to commodity price movements. Copper is trading 20% below its June peak while oil is down 15% over the same period.

Both declines are linked to market concerns about a global economic slowdown. At the same time, major commodities user China is still battling the pandemic and its zero-Covid policy threatens to disrupt economic activity in the country.

The fact commodity prices have weakened also explains why the natural resources-heavy FTSE 100 index of UK shares has pulled back since June. Over the past month and a half there has been a 'risk-off' mentality with defensive stocks across healthcare, telecoms, pharma and insurance being the best performers.

Investment bank Liberum believes the commodity sell-off can be traced back to 22 April which is when Fed chair Jerome Powell called for an accelerated rate hike cycle. It says: '2020-22 was never a "Super Cycle". It was a stimulus-fuelled reflation trade, intended to get us all out of lockdown. The Fed's now terminating the event.'

It will take time for lower commodity prices to work their work through the system, so don't expect to see inflationary pressures ease in the near-term. However, what's happening does provide some encouragement that the high cost of living may only be temporary.

There are other signs to watch. For example, many companies are sitting on too much stock so they may slash prices to move goods. Consumers cutting back on spending also effectively puts a lid on price hikes. These play to the phrase, 'The cure for high prices is high prices.'

The wheels are certainly in motion for inflation to ease, but how long it will take to play out is another matter.

The big US stocks reporting over the next week and what it could mean for the economy

With volatile macro data dominating the headlines, it's time to find out how firms have really been coping

The second quarter US earnings season kicks off today (14 July) with banks **JPMorgan (JPM:NYSE)** and **Morgan Stanley (MS:NYSE)** reporting before the market open.

This quarter takes on more significance than usual because of increasing concerns that rising interest rates and higher inflation caused by the war in Ukraine will tip the economy into recession.

While share prices have dropped meaningfully year-to-date, with the S&P 500 index down around a fifth and the technology-driven Nasdaq 100 down around a third, earnings expectations have remained firm.

Some strategists argue this doesn't tally with the Federal Reserve's desire to slow growth and bring down inflation.

One sector where analysts have recently taken a knife to forecasts is the banking sector, which may surprise some investors.

A flat yield curve makes it difficult for the banks to earn a positive interest rate spread while fewer initial public offerings and mergers and acquisitions have reduced fee income on corporate deals.

Analysts expect second quarter earnings for the banking sector to drop around 25% year-on-year according to Bloomberg-complied estimates. Banking shares are down around a third so far this year.

Lockdown favourite turned pariah, **Netflix (NFLX:NASDAQ)** reports on 19 July. Given the stock is down 74% since November 2021, the earnings bar is arguably set very low.

Since Covid-19 restrictions were lifted consumers have been more interested in spending on experiences rather than binge watching at home, resulting in disappointing subscriber figures for Netflix.

US broker Piper Sandler believes the number of

hours spent watching the top 10 movies or shows on Netflix fell 4% in the latest quarter, suggesting subscriber growth will remain subdued when it next reports.

Electric car maker **Tesla (TSLA:NASDAQ)** reports after the market close on 20 July and investors will be hoping for a brighter production outlook.

Tesla has already reported disappointing second quarter deliveries, down 18% on the prior quarter and the first fall in two years.

The company blamed supply chain issues at its Texan and German facilities and Chinese health restrictions on the drop.

Rising interest rates have had a dramatic impact on US mortgages with fixed-rate 30-year mortgage costs doubling to 5.7%. Investors will get a clearer picture of the impact on demand when housebuilder **D.R. Horton (DHI:NYSE)** reports on 21 July.

Year-to-date the shares have shed a third of their value, but 2022 earnings estimates have increased by around a fifth.

Another barometer of consumer strength is likely to be revealed when credit card provider **American Express (AXP:NYSE)** reports on 22 July.

In mid-June the company said the proportion of bad debts remained steady at 0.7% for the second consecutive month. [MGam]

Collapse of Elon Musk's Twitter deal could spark Tesla share price recovery

The billionaire's sale of shares in the electric car company have weighed on Tesla's market valuation

Elon Musk's decision to abandon his $44 billion takeover bid for **Twitter (TWTR:NYSE)** could potentially help **Tesla's (TSLA:NASDAQ)** share price recover from big losses this year.

Shares in the electric vehicle company have lost nearly 40% to $703 since Musk first pitched the idea of buying the micro-blogging platform in early April 2022.

The billionaire sold 9.6 million Tesla shares at an average price of around $885 per share to part-fund the buyout, while using his near-16% remaining Tesla stake as collateral for loans.

Tesla has also been hit by a wider market sell-off amid the worst opening half of the year for stocks since 1970, lockdowns affecting Tesla's Shanghai factory, and mounting competition from other car manufacturers going electric. However, in June Tesla more than doubled vehicle production in China compared with May.

Doubts remain over legal action being taken by Twitter to try and force through the $54.20 per share takeover deal. Since Musk said he was pulling out, Twitter's stock has slumped to $32.65.

If Musk loses his legal battle against Twitter and is forced to complete the acquisition or pay a stiff penalty, he could conceivably have to sell more Tesla shares, spooking investors and hurting the value of his remaining Tesla stake, says Guidehouse Insights analyst Sam Abuelsamid. [SF]

Kistos aims for £1 billion tie-up with Serica to create North Sea oil and gas champion

If they can agree terms, the combined group could become a FTSE 250 gas producer of strategic importance

A POTENTIAL MERGER between North Sea gas producers **Kistos (KIST:AIM)** and its larger peer **Serica Energy (SQZ:AIM)** could create a FTSE 250 outfit with wider strategic importance.

Russia's invasion of Ukraine and its recent renewed threat to cut off gas supplies to Europe, plus the role of gas as a bridge between more polluting fossil fuels and renewables as countries advance their net zero ambitions, means a combined Kistos/Serica would occupy a prominent industry position.

Kistos revealed on 12 July that it had first entered discussions with Serica over a merger in May – overtures which were rebuffed.

Serica accepted the strategic logic of the deal and came back with an offer of its own at the beginning of July which, in turn, was rejected by Kistos.

Kistos' latest cash and shares offer for Serica equates to £1 billion or 382p per share. This is only a 22% premium to Serica's six-month average share price prior to the announcement of an approach and may need to be sweetened if the deal is to get over the line.

If Kistos is successful it is plotting a move to the Main Market where, at current market valuations, the combined entity would comfortably qualify for the FTSE 250 index. [TS]

The 2022 AGM season is seeing shareholder rebellions on pay gather pace

Marks & Spencer, Sainsbury's and Informa are among the companies in focus

Shareholders are baring their teeth as the annual general meeting season progresses, as *Shares* predicted would be the case back in April.

Unsurprisingly, given many investors will have taken a fair amount of pain so far in 2022, much of the action has centred around pay for top executives.

Among the more recent high-profile rebellions was **Marks & Spencer (MKS)**, where investors accounting for nearly 30% of the company voted against a remuneration package which encompassed a £1.6 million bonus for outgoing chief executive Steve Rowe.

Shortly after seeing a 38% revolt against directors' pay, Alison Brittain stepped down from the top job at Premier Inn owner **Whitbread (WTB)**.

Information services and events firm **Informa (INF)** endured an even more bruising revolt on 16 June as more than 70% of shareholders voted against the £2.7 million pay package for chief executive Stephen Carter. The disquiet follows the suspension of dividends during the pandemic and a £1 billion discounted fundraise.

Sandra Novakov, head of investor relations at Citigate Dewe Rogerson, told a recent London Stock Exchange webinar: 'Some of the questions our clients faced were centred on the rigour of targets that pay was linked to, especially given that during the last two years during Covid times some of the targets were lowered given difficult market conditions. So, ensuring full transparency around how payouts were determined was critical to avoiding any surprises.'

Novakov added that as the cost-of-living crisis continues to bite, companies could face questions at next year's AGM season, particularly if the pay of their CEOs is 'wildly out of sync' with that of ordinary employees.

It's not just executive pay which has been in focus as ESG (environmental, social and governance) considerations have also been under the spotlight.

Lots of companies have been putting climate plans to a vote and, notably, **Sainsbury's (SBRY)** shareholders voted down a resolution which would have committed the company to extend the 'real living wage' to all its workers, not just those directly employed by the supermarket.

Sainsbury's had recommended voting against the change which had been submitted by a coalition made up of Legal & General Investment Management, Nest, Coutts and non-governmental organisation ShareAction.

Meanwhile, other firms are facing external pressure from activists to change strategy. At online estate agent **Purplebricks (PURP:AIM)**, activist investor Lecram Holdings is pushing for chairman Paul Pindar to go.

Shares in Purplebricks have fallen from a high of 514p in 2017 to less than 15p as plans for international expansion went up in smoke and the company faced claims linked to its treatment of tenants in its lettings arm. [TS]

Latest Fundsmith letter offers investors comfort despite tough market conditions

High-margin, well-capitalised companies should perform relatively well, says fund manager Terry Smith

In a six-month period which included a significant downturn in global stock markets, and during which long-dated assets like high-quality growth companies have underperformed short-dated, lower-quality companies, it's no surprise the **Fundsmith Equity Fund (B41YBW7)** trailed its benchmark.

For the first half of 2022, the fund lost 17.8% of its value compared with an 11.3% decline for the MSCI World index, net in sterling terms.

Interestingly, the absence of value stocks in Fundsmith's portfolio such as financials, miners and energy companies didn't make a big difference to the fund.

'The much talked about rotation from growth to value stocks during the first half of 2022 was rather underwhelming from the perspective of the latter,' says manager and Fundsmith founder Terry Smith.

While the S&P Value index fell less than the S&P Growth index, 'falling less than others when times are tough isn't a sufficient payback for the long preceding wait during which value stocks underperformed massively,' adds Smith.

The biggest drags on the Fundsmith portfolio during the first half were **Paypal (PYPL:NASDAQ)**, **Meta Platforms (META:NASDAQ)**, **IDEXX (IDXX:NASDAQ)**, **Intuit (INTU:NASDAQ)** and **Microsoft (MSFT:NASDAQ)**, which made negative contributions of between 1% and 3% each.

'Of these, PayPal and maybe Intuit, exacerbated their situation with self-inflicted wounds that negatively impacted their underlying performance,' observes Smith. 'IDEXX and Microsoft really didn't see any slowdown at all.'

On Meta Platforms, the fact it trades on a free cash flow yield of 8.7% means it's either cheap or a value trap. 'We will let you know which when we find out, but we are inclined to believe it is the former,' says Smith.

Positive contributions came from **Philip Morris (PM:NYSE)**, **Novo Nordisk (NOVO-B:CPH)**, **Brown-Forman (BF.A:NYSE)**, **PepsiCo (PEP:NASDAQ)** and **Waters (WAT:NYSE)**.

Fundamentally, the companies in the portfolio had a good half, with particularly strong revenue growth at firms like **Adobe (ADBE:NASDAQ)**, **Alphabet (GOOD:NASDAQ)**, Brown-Forman, Intuit, Microsoft, Paypal and Waters.

The weighted average free cash flow per share rose by 4% during the half, equivalent to an 8% annualised rate which is line with its historic average.

While it is too early to look through the current inflationary and interest rate rise cycle, the structure and profitability of the portfolio gives Smith and his team 'considerable comfort'.

'From a fundamental perspective, which is what we seek to focus on, we are confident that our portfolio companies will perform relatively well over an inflationary and recessionary cycle,' he says.

'Sooner or later share prices reflect fundamentals, not the other way around.' [IC]

DISCLAIMER: The author (Ian Conway) and editor (Daniel Coatsworth) own units in Fundsmith Equity Fund.

Discover why now is a great time to buy McDonald's shares again

The underlying strengths of the fast-food chain are impressive and should make it resilient to economic weakness

Investors might not have heard much about **McDonald's (MCD:NYSE)** of late. It's not as exciting as younger, faster-growing fast-food chains like **Shake Shack (SHAK:NYSE)**, **Tortilla Mexican Grill (MEX:AIM)** or even **Chipotle (CMG:NYSE)**. But McDonald's shares continue to consistently outpace the market while the company remains a reliable dividend grower.

In investment markets stressed by a biting cost-of-living crunch, there are few investments that provide investors with the sanctuary of reliability and safety offered by McDonald's.

LURING CUSTOMERS

The pandemic saw thousands of casual dining restaurants close, many never to reopen, and this created a reopening opportunity for McDonald's. With its powerful and pervasive global brand and infrastructure, McDonald's offers the cheap and convenient outlets to fill any gaps in the market as restaurant sales returned to pre-pandemic levels.

It has more than 38,000 outlets in 120 countries worldwide (less Russian closures) and it is said in some marketing circles that the chain's 'Golden Arches' are more widely recognised than the Christian cross.

MCDONALD'S

BUY

(MCD:NYSE) $253.24

Market cap: $187 billion

Last month, Kantar ranked McDonald's as the sixth most valuable corporate brand in the world, worth $196 billion, and top of the pile for non-technology businesses. McDonald's owns and runs around 2,600 outlets itself. The remainder are franchises, where the company licences its operating model to franchisees in a profit share arrangement.

In recent years, restaurants have been refitted, brightened up and dragged into the 21st Century, with free customer wi-fi, phone charging points, self-order kiosks, and curb-side pick-up through mobile app ordering. These are no longer the drab outlets they once were.

McDonald's has been providing home delivery in many markets for some time through deals with Uber Eats and **Just Eat**

Decade of growth in McDonald's dividends

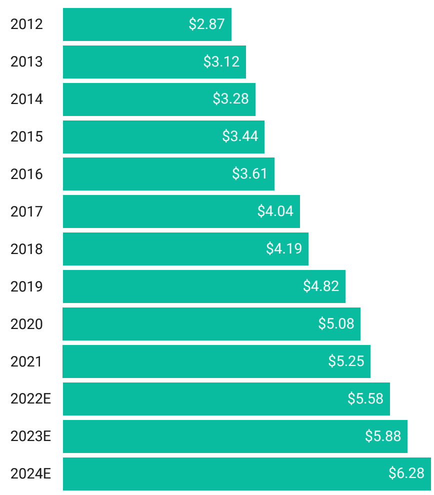
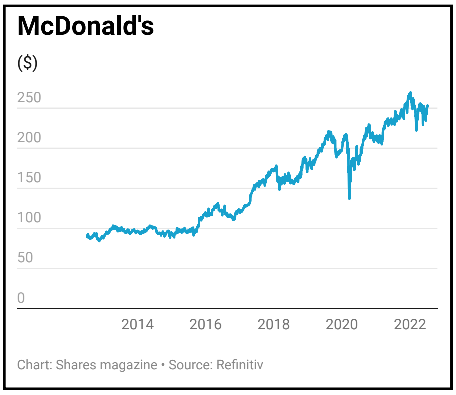


Chart: Shares magazine • Source: McDonald's, SharePad forecasts



Takeaway (JET) in the UK.

It has also launched a broader range of meat-free products, which should bolster its appeal with healthier-eating and ecology-mindful millennials, one of the chain's longer-run challenges, according to critics.

The business is also embracing technology and data analytics to improve efficiency and customer experience while lowering running costs using automation and robotics.

DISCRETIONARY THAT BEHAVES LIKE A STAPLE

McDonald's will report second-quarter earnings on 28 July. These are expected to show rough 8% growth on Q1 at $2.46 on low single-digit revenue expansion – decent given the slowing global economy. When it comes to consistency, this is a consumer discretionary stock that behaves like a consumer staple.

Despite the ugly performance of global stock markets in 2022, McDonald's share price has toughed it out losing less than 6% year-to-date, putting it close to the top quintile of S&P 500 performers this year. The S&P 500 is down 20%.

Now we are in the second half of 2022, analysts and investors will start to look beyond the current fiscal year (to 31 December) to 2023, when growth in revenues, profits and earnings are expected to pick-up.

McDonald's is forecast to see mid-to-high single-digit growth on all three metrics next year, growth that we believe will become increasingly attractive to investors looking for stability from their portfolios, yet the stock trades at a more than palatable 24.5 times forward earnings, according to Koyfin data, well below industry peer Chipotle's forward PE of 37 (Shake Shank remains unprofitable, so there's no PE to compare).

A DIVIDEND ARISTOCRAT

McDonald's remains a 'Dividend Aristocrat' which means more than 20 years of rising payouts. The company paid out $5.25 per share in 2021, up from $5.04 in 2020.

It's the 45th straight year the company has raised its dividend payout and the company is expected to pay $5.58 this year, implying a 2.2% yield at the current share price.

With one of the larger exposures to a Russian embargo, it's hardly surprising that the share price has seen some volatility during 2022. McDonald's anticipates a hit of between $1.2 billion and $1.4 billion after shutting up shop in Russia, although the company has now sold its Russian assets to a Siberian franchisee, providing a platform for recovery. The stock has already bounced nearly 15% since March lows.

Measured versus peers, McDonald's has industry-leading gross margins of 55%, giving it far better control over input costs, and operating profit margins in excess of 40%, more than four times the industry average, according to Investing.com data.

McDonald's stock isn't necessarily going to leap in the short-term but it could make reliable and attractive gains through the rest of 2022 and beyond regardless of whether we plunge into a recession, in our view. The rock-solid dividends will help build long-run wealth for longer-term investors. [SF]

Redde Northgate has it all: cheap valuation, 6.25% yield and growth

There is so much going for this company yet the market doesn't seem to notice

Darlington-based vehicle hire and accident management group **Redde Northgate (REDD)** has come a long way in the past few years.

From historically being a van sales and rental firm, the group now offers fleet management, vehicle repair, service and maintenance, claims management and even the installation of electric vehicle chargers.

By providing its customers, who include large public and private-sector operators, with a whole range of mobility services under one roof, the group is generating a network effect which is leading to more revenues and higher margins.

We think the market has yet to cotton onto just how big the upside could be for the business and the shares, making this a great time to buy.

Turnover for the year to April was up 12%, but a big drop in vehicle sales – which was deliberate given the strength of rental demand and the shortage of new vans – hides the fact underlying revenues (excluding vehicle sales) were up 24% thanks to higher prices, higher volumes and new customers.

More impressively, earnings before interest and tax jumped 80% thanks to higher margins and a leaner cost base, while cash generation rose 54% and return on capital employed leapt from 9.5% to 13.9%.

REDDE NORTHGATE
BUY
(REDD) 336p
Market value: £807 million

By being able to offer a single point of contact for end-to-end services, the group is winning multi-year contracts with customers such as **Tesco (TSCO)**, **Admiral (ADM)** and **Saga (SAGA)**, which will kick in next year.

While the hire business goes from strength to strength, with no sign of a drop in demand post-pandemic, the vehicle and accident management business is back to 90% of pre-pandemic activity levels and is also winning new customers.

Chief executive Martin Ward sees an increasing number of companies deciding to outsource their fleet management, moving from an owned model to a utilisation model, while taking advantage of the firm's managed solutions.

Meanwhile, in the accident management and repair sector, insurers looking to lower costs while improving responsiveness and the customer experience are attracted by the group's national coverage and in-house repairs.

At the current price, the stock trades on just eight times last year's reported earnings of 41p per share and seven times next year's estimate of 48p, making it one of the cheapest stocks in the FTSE 250 index.

The group looks financially sound, too. Even after investing heavily in new vehicles to grow its business, it launched a £30 million share buyback in March and is paying a 21p dividend per share – equating to a yield of 6.25% – which is twice covered by earnings. [IC]

Redde Northgate

Chart: Sharesmagazine.co.uk • Source: Refinitiv

Find out why demand for Watches of Switzerland's products remains undimmed

Shares in the Rolex retailer have fallen too far this year, making them a bargain

WATCHES OF SWITZERLAND

(WOSG) 758.5p

Loss to date: 4.3%

We said to buy **Watches of Switzerland (WOSG)** at 792.4p on 16 June 2022, arguing the luxury watches and jewellery seller's year-to-date share price plunge represented a compelling entry point for investors with time on their side as its 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 Rolex, Omega and Breitling brands purveyor 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.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

While the shares have ticked 4.3% below our entry price, we remain excited by the growth opportunities in the UK and US, while the company's entry into the European market brings further geographic diversification.

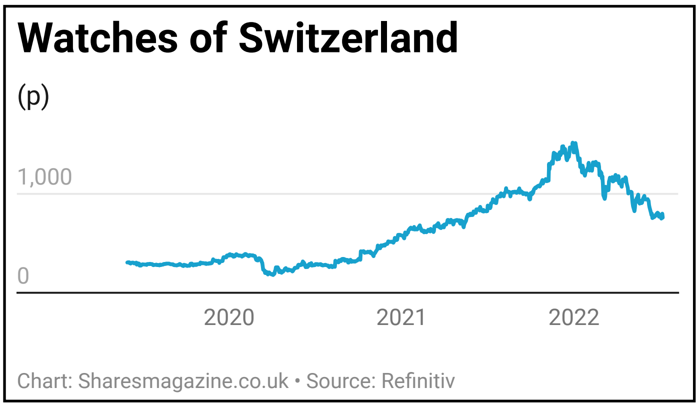
Watches of Switzerland reported record sales and profits for the year to 1 May and said it had started the new year with 'strong momentum', with waiting lists growing as demand continues to exceed supply. It also flagged the recovery of footfall and traffic at airports as a positive sign for sales growth this year.

Guidance is for sales of between £1.45 billion and £1.5 billion, an increase of 17% to 21% year-on-year, and adjusted earnings before interest and tax of between £157 million to £169 million.

WHAT SHOULD INVESTORS DO NEXT?

Keep buying the shares. With supply restricted by manufacturers, demand for luxury watches is only growing and Duffy informed *Shares* that the aspirational market for watches is much bigger than the company initially thought – he calls it 'rational indulgence' – and pointed out that watches are a liquid asset that also hold their value.

The company trades on 14 times forecast earnings for the year to May 2023, which is undemanding given the group's cash generation and big growth potential in the US and European markets. [JC]



WORRIED ABOUT RECESSION?

These top tips should help keep your investments on track

It is becoming increasingly likely that major economies around the globe will plunge into a full-blown recession this year, the UK included.

Analysts and economists fear the global economy's growth momentum will grind to a halt as central banks continue to raise interest rates in a desperate attempt to combat high inflation.

If the UK and other major economies do fall into recession, what can investors do to protect their investment portfolio and keep their wealth relatively intact?

In this article, *Shares* answers the key questions that investors may have; and offers common sense and practical actions.

By **The Shares team**

> ***"When we do finally fall into a recession, that's usually a good time to get back into the market"***
>
> **Sam Stovall, CFRA Research**

HOW SERIOUS COULD IT BE?

ARE WE FACING A GROWTH SLOWDOWN OR AN OUTRIGHT RECESSION?

A recession is widely defined as two successive quarters of negative GDP growth, and the current signs aren't great.

The latest data from the ONS (Office for National Statistics) reported the UK economy shrank by 0.3% in April, having declined 0.07% in March, amid soaring living costs and unprecedented fuel price rises.

The Bank of England warns the economic outlook for the UK and globally has deteriorated materially. It's the pace of inflation that makes recession an increasingly safe bet.

In May, UK inflation hit 9.1% and is forecast to soar beyond 10% by the end of the year, according to Trading Economics. In simple terms, real GDP growth must rise faster than this amount, which is a tough ask.

Things are heating up elsewhere, too. According to forecasts from Bloomberg Economics, the chances of a US recession have risen to 38% with the latest meeting minutes from the Federal Reserve showing the central bank will do whatever it takes to tame inflation. ING analysts say the long-awaited economic recovery of the eurozone has been 'cancelled' as the economic data worsens.

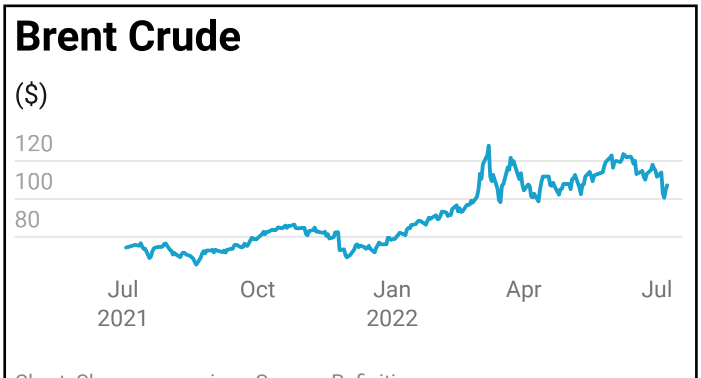
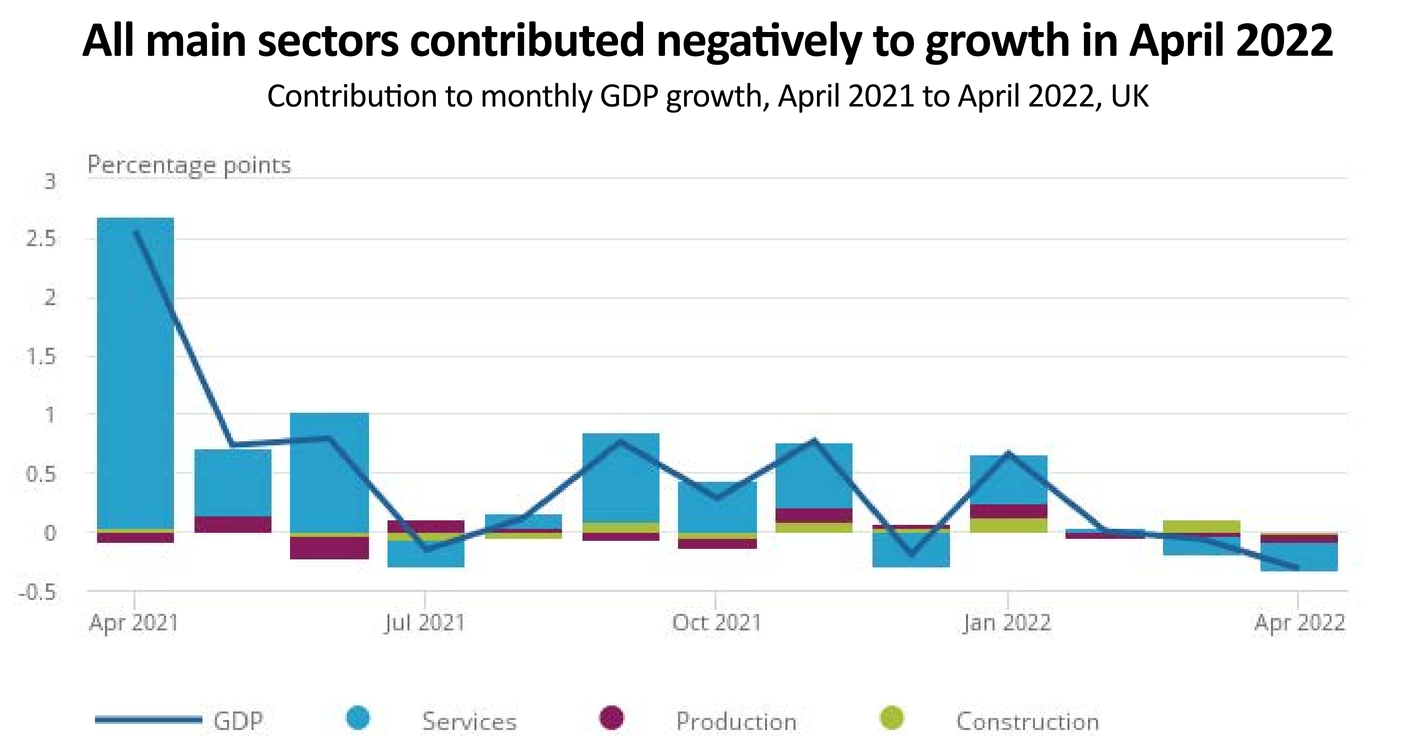


Chart: Shares magazine • Source: Refinitiv

Further evidence comes from oil prices, which correlate with economic prosperity. Having rallied hard earlier this year, Brent Crude prices have fallen 15% since the start of June.

HOW HAVE MARKETS PERFORMED DURING PREVIOUS RECESSIONS?

Using the S&P 500 as an illustration, equities have performed surprisingly well during recessions, rising an average of around 1% during all recession



Source: Office for National Statistics –GDP monthly estimate periods since 1945, according to CFRA Research.

This is because stock markets are forward-looking and tend to price in economic downturns long before they happen, and subsequently pricing recovery early.

During the last four recessions since 1990, the S&P 500 declined an average of 8.8%, says the CFRA study, yet in more than half of the 13 years with recessions since World War II, the S&P 500 has posted positive returns.

'When we do finally fall into a recession, that's usually a good time to get back into the market,' says Sam Stovall, chief investment strategist for CFRA Research.

Economic downturns do not last forever so if you have an investment horizon of five years or more, you should be able to benefit from market recovery by sitting tight and staying invested.

Share prices have delivered higher returns than cash deposits in over 76% of all the five-year periods since 1899, according to the Barclays Equity Gilt Study. [SF]

WHAT DO I DO WITH MY PORTFOLIO?

DON'T PANIC SELL

Markets are forward-looking and this year have been pricing in the risk of a recession long before we find out if it has happened.

Unless you desperately need the cash to pay essential bills, there is no merit in selling investments now. So much bad news is already in the price of stocks and funds.

If you are still in the wealth accumulation phase of your life, sit tight and ride out the bad patch.

For those already in retirement, it's important to review your portfolio and check you are happy with the risks being taken. If you don't already have a diversified portfolio, now is the time to build a plan.

You may want to take some profits in your best performing holdings and use the proceeds to build new positions elsewhere to help diversify.

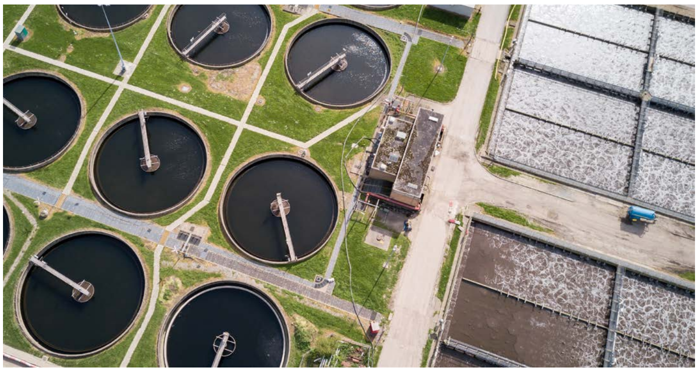
DRIP FEED MONEY INTO THE MARKETS

History suggests it is perfectly normal for recessions to happen – economies go through good and bad cycles, and the patient investor should simply sit tight and continue to feed their ISA or pension.

Putting money into your investment account each month means you pay a lower price to buy a share or fund unit when markets are down and a higher price when they're up. You're not trying to time the market.

Having a regular savings habit is one of the key stepping-stones to being financially fit later in life. Sort out a direct debit to fund your ISA or SIPP (self-invested personal pension) each month and then set up a regular investment into a broad investment fund. By doing so, you also take the hassle out of investing and having to remember to do it. [DC]

I'M HAPPY TO KEEP INVESTING. WHERE SHOULD I LOOK?



DEFENSIVE STOCKS: SURE-FIRE WINNERS? TOO LATE TO BUY? NOT AS SAFE AS YOU THINK?

An obvious place for people to invest against a difficult economic and market backdrop is in traditionally defensive sectors like utilities, tobacco, consumer staples and healthcare.

They sell products which people buy in both good and bad economic conditions, which makes their earnings less volatile. However, not all such investments have delivered in 2022.

Unilever (ULVR), for example, may sell household essentials but it has struggled to pass on rising input costs to customers and its shares were struggling before the recent intervention of activist investor Nelson Peltz.

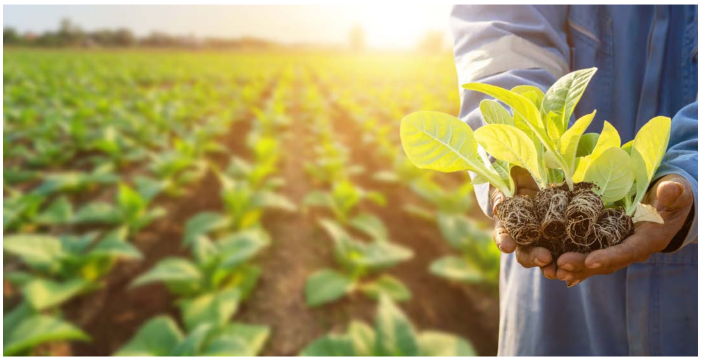
Other areas have already performed well, like electric utilities and tobacco stocks. The former have been supported by strong energy prices and share valuations now look more demanding.

Defensive Stocks

Year to date performance

British American Tobacco	23%
Vodafone	14%
BT	14%
Imperial Brands	11%
GSK	9%
SSE	3%
National Grid	1%
Reckitt Benckiser	−1%
Unilever	−3%
Severn Trent	−7%
United Utilities	−7%

Table: Shares magazine • Source: SharePad. Data to 11 July 2022



Tobacco stocks still look reasonably cheap and offer generous yields. Investors face a judgement call on whether their short-term attractions outweigh longer term risks. Because they are addictive, people tend to buy cigarettes even if prices rise materially, so companies like **British American Tobacco (BATS)** and **Imperial Brands (IMB)** are generating lots of cash.

However, longer term there is a threat from increased regulation in the tobacco sector.

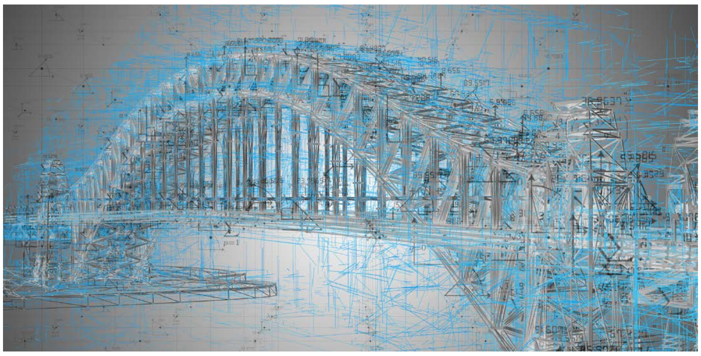
The healthcare sector is possibly the best place to look for a defensive investment at present. Valuations have, for the most part, not run away with themselves.

A sensible option for investors would be investment trust **Polar Capital Global Healthcare (PCGH)** which trades at a discount to net asset value of 7.8% and has an ongoing charge of 0.83%. Its portfolio includes stakes in such companies as **Johnson & Johnson (JNJ:NYSE)**, **Novartis (NOVN:SWX)**, **Boston Scientific (BSX:NYSE)** and **AstraZeneca (AZN)**.

Polar Capital Global Healthcare

(p)

Chart: Shares magazine • Source: Refinitiv



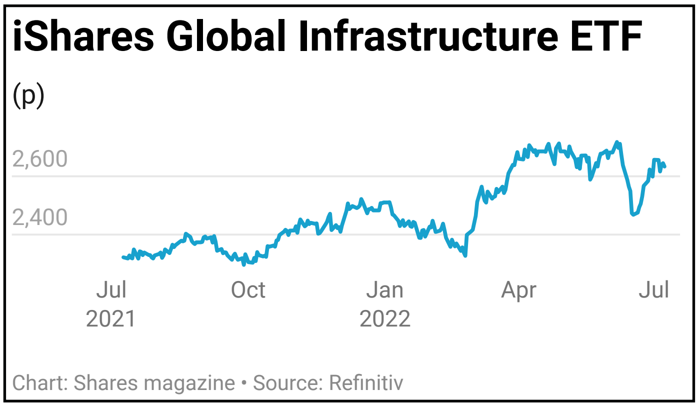
UNCORRELATED ASSETS: WHICH ONES LOOK GOOD?

In a world where both bonds and shares are performing poorly at the same time, investors may have to look outside these two mainstream asset classes if they want to protect their returns.

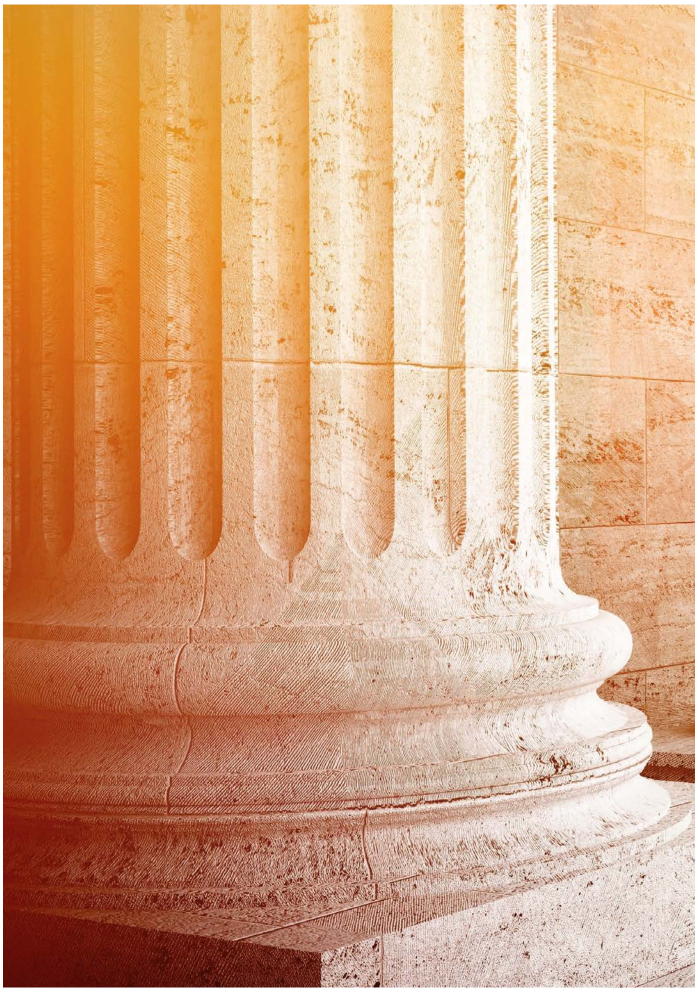
Uncorrelated assets such as infrastructure, real estate and even more esoteric options like music royalty funds are potential options for anyone looking to put money into an investment that should hopefully not move in line with stock markets. It's good to have some of these in your portfolio to make it truly diversified.

For example, infrastructure projects are very long term in nature. They often deliver income streams over many decades and short-term fluctuations in the wider market should have limited impact on valuations and returns.

A low-cost and straightforward way of gaining exposure to infrastructure is to buy shares in **iShares Global Infrastructure ETF (INFR)**. The exchange-traded fund, which has an ongoing charge of 0.65%, can be bought and sold in the same way as an ordinary share.



It pays a quarterly dividend and offers a modest yield of 2.3%. Performance over the last year has been impressive given the backdrop at 15.5% and on a 10-year view it has delivered an annualised return of 7%. [TS]



BONDS: GOOD OR BAD?

Bonds haven't provided their usual historical diversification benefit over the last year with government bond prices suffering some of their biggest falls in decades.

This is due to surging inflation and rising interest rates which have pushed US 10-year government bond yields up from 1.2% to over 3% over the last year. As bond yields go up, the price comes down.

Yields on corporate bonds have increased at an even faster rate.

If the US central bank causes a recession by pushing interest rates up too far in the face of a softening economy, prices of government bonds and high-quality corporate bonds should increase as yields fall.

This should allow bonds to re-establish their historical relationship with equities and provide stability to investor portfolios.

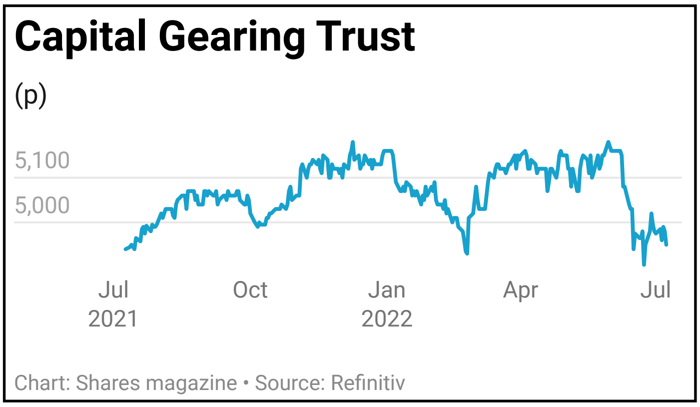
A good way to play a potential fall in bond yields is through the **Allianz Strategic Bond Fund (FUND:BYT2QW81)** which specifically targets a low correlation with equities. [MGam]

CAPITAL PRESERVATION FUNDS: ARE THEY SIMPLY ABOUT PROTECTION OR CAN I MAKE MONEY FROM THEM?

Yes, you can make money from them, with some of the most popular options with investors having historically delivered between 6% and 12% a year on average, well above trailing inflation.

Maintaining this performance in a much higher inflation environment might be a tall order and could see these typically conservative investment strategies embrace modestly higher risk in the short-term.

Capital preservation strategies have pulled in investors this year as major global stock markets have fallen, yet the likes of **Capital Gearing Trust (CGT)**, **Personal Assets Trust (PNL)** and **Ruffer Investment Company (RICA)** continue to trade within their typical share price to assets range, roughly a couple of percentage points either way.



On balance, Capital Gearing is our pick of the bunch, with a portfolio widely spread over property, infrastructure, bonds and equities. It sensibly uses low-cost ETFs to access overseas stocks, where it likes Japan and Europe right now.

Averaging a 7% annual return over the past decade, Capital Gearing has one of the sector's lowest charges at 0.5%. [SF]

HIGH YIELD STOCKS: WHICH ARE THE SAFEST AND WHY IS INCOME A SAVIOUR DURING A RECESSION?

In a recession, dividends are an important a source of positive returns for investors.

Unfortunately, dividends often get cut when times get tough and company revenues and cash flows fall. Therefore, it can be misleading to look at the highest yielding shares without also considering the financial strength of a company and if it is sensitive to the state of the economy.

A simple way to gauge the sustainability of the dividend is to see if earnings are much larger than dividends payments. A ratio greater than two implies a company is only paying less than half of its earnings as income to investors, which means the dividend should still be affordable even if earnings decline.

Companies which have more stable revenues, such as utilities, are not immune to recession. Yet their earnings are likely to hold up better in an economic downturn because they provide non-discretionary services.

A great way to achieve diversified exposure to high yield stocks and reduce the risk of picking the wrong shares is to invest in a high-yielding fund.

Shares believes **Merchants Trust (MRCH)** fits this objective very well. The investment trust offers a dividend yield of 5.1% and has delivered 40 consecutive years of rising dividends. It trades at a small premium (1.2%) to net asset value and has an ongoing charge of 0.55% a year. That's relatively low-cost for an actively managed fund. [MGam]

LOOK AT GOOD COMPANIES THAT ARE NOW A LOT CHEAPER

Bear markets have a habit of dragging nearly everything down in price. That provides an opportunity to buy shares in good companies at a cheaper level than last year.

Yes, near-term earnings might take a small hit, but investing is about focusing on the long-term opportunities and there are plenty of quality companies on the stock market which should bounce back quickly once recession plays out.

Supplying some of the slickest must-have tech gadgets on earth has allowed **Apple (AAPL:NASDAQ)** to build a walled garden ecosystem that millions of users find to be an absolute necessity in today's digital-first age. That means enormous cash flows and reliable growth for Apple which translates into growing dividends for its shareholders.

Two years ago, the stock traded on 36 times forward earnings. Today that price to earnings or PE ratio is now only 23.3, which is essentially like saying the company has a '35% off' sticker.

Some investors may argue it was previously overpriced and that might be a fair point. Yet the current valuation looks appetising given the company has all the right qualities to prosper over the long term.

Apple's shares are worth buying now and tucking away. However, there is a caveat. Prospective investors must recognise that market sentiment towards the stock could remain fragile in the short-term, particularly if there are signs that consumers are radically cutting back on spending. [SF]

WHY COMPLICATE THINGS? TAKE THIS SIMPLE INVESTMENT APPROACH

There's a lot to be said for keeping things simple in life and that extends to investing. Not everyone wants to spend hours looking at share price charts and financial reports, trying to work out what to buy and sell depending on the state of the economy.

If that resonates with you, there is a stress-free way of making sure money goes into your investment account and it only takes as long as boiling the kettle for a cuppa to set up. Once done, you can go and live your life and not worry each day about what's happening to your ISA or pension.

The trick is to invest in stocks and shares from around the world and a mixture of government and corporate bonds. To make life even simpler, you can buy a single investment product that has all those things under one roof such as Vanguard LifeStrategy.

There are five versions of this fund which come with different weightings of stocks and bonds. If you're saving for retirement and have at least five years left in full-time work, you may like **Vanguard LifeStrategy 80% (B4PQW15)**. The 80% refers to the weighting of assets in shares and the remaining 20% held in bonds. It comes with a low charge of 0.22% a year.

Set up a direct debit to feed your investment account with cash each month, then sort out a regular investment in the Vanguard fund. After that, all the investing is automated, so you don't have to do anything else. [DC]

DISCLAIMER: Editor Daniel Coatsworth owns shares in iShares Global Infrastructure ETF.

Finding opportunities amid mass uncertainty

Panic selling may provide opportunities to JAGI investors moving forward...

Inflationary fears, continual lockdowns in China, and the war in Ukraine have all led to more risk being taken off the table in 2022. Asia hasn't been immune from this, even if countries in the continent seem less likely to be impacted by war in Europe and, in many instances, appear to have a better handle on rising prices than their Western peers.

But just as irrational exuberance can mean share prices become so high they're no longer tied to company fundamentals, so too can the mixture of panicking and indiscriminate selling lead to investors becoming unduly pessimistic about the long-term prospects of a business.

The difference is that bubbles do not typically lead to great opportunities for active investors. When companies are overvalued, you can't do much apart from sit on the side-lines and wait for share prices to come down again. In contrast, indiscriminate selling and unwarranted pessimism can lead to a situation where businesses are undervalued and opportunities to buy arise.

JPMorgan Asia Growth & Income (JAGI) has been hit by these dynamics but has arguably also been able to take advantage of them. The trust, which invests in companies across Asia and pays a quarterly dividend, started the year trading at a small premium to NAV but that has since widened to an almost 11% discount as of 15/06/2022.

Trust managers Ayaz Ebrahim and Robert Lloyd were underweight to China and India at the start of the year. Both countries have seen major sell-offs in 2022, with government policy in China and inflationary fears over high valuations in India the likely causes. Sell-offs in JAGI shares would make more sense if the trust was overweight to the two countries but it wasn't, leaving you to wonder if investors weren't being particularly nuanced when selling shares.

Detractors to JAGI's relative performance more recently have been in areas like oil and gas. Failing to hold firms in the hydrocarbons sector is more a reflection of the long-term goals of the trust. If the managers had flipped into commodities businesses, it would've seemed more like they were chasing short-term performance, rather than focusing on the long-term returns they're supposed to deliver.

The trust's discount is now far wider than the peer group average and its own five year average historical discount of 5.5%. One can never say with certainty that a discount will tighten but prospective long-term investors may find this an interesting entry point to the trust, with the potential for an additional boost to capital if market conditions ease.

Of course, that's assuming the trust's holdings have managed to retain their long-term potential in the face of a volatile 2022. There are certainly indications the trust managers believe this is the case. Since the start of the year, they've added to existing holdings in manufacturer Han's Laser and the financial services group Singapore Exchange. Both companies have continued to produce solid earnings but saw drops in their share prices nonetheless.

It was a similar story with Infosys, an Indian IT consulting group. The company had not featured in the portfolio previously because it was trading at too great a premium valuation for the JAGI team. However, like lots of other high value tech businesses, it has seen a dramatic decline in its valuation this year, even as it continued to deliver respectable results. This allowed Robert and Ayaz to take a stake in the firm, as they believed its share price had fallen to such an extent that it warranted buying.

If further opportunities do arise then JAGI is also well positioned to take advantage of them. Despite being the best performer in its peer group over the past five years, JAGI used gearing sparingly in that time. Indeed, it wasn't using gearing at all when markets started to fall in the final quarter of 2021. Gearing is currently not being used, meaning the managers are sitting on a lot of dry powder if more opportunities do present themselves.

It's conceivable that will happen. Many of the pressures that have crimped share prices so far this year remain in play. As a result, it's hard to see a swift recovery in markets in the near future.

But JAGI has always sought to be a long-term core holding for Asia investors. That remains true today, despite macroeconomic headwinds. The difference is that the current period of volatility and uncertainty has potentially provided an opening that both prospective JAGI investors and the trust's managers can take advantage of.

Click **here** to read our latest research on JPMorgan Asia Growth & Income...

How much risk are you prepared to take with investing?

Risk is unavoidable in investing so understanding how much you can tolerate is key to long-term returns

Investing is about maximising returns for a given level of risk. The problem is each investor's risk appetite and circumstances will be slightly different and so getting the right balance is a key factor in setting up a sustainable investment strategy.

In this feature we look at what risk appetite means, the methods the wealth management industry has developed to measure risk attitude and how that drives asset allocation.

This author took an online risk appetite questionnaire developed by investment manager Royal London, and some of the key takeaways will be revealed later in the article.

WHAT IS RISK?

It is tempting to think of risk as negative, something that is undesirable, but the nature of investment risk is more nuanced. You might think it better to reduce risk to its lowest possible level, but that fails to account for the return part of the equation.

In a second quarter 2022 investment letter Jonathan Ruffer, founder and chairman of the investment firm which bears his name said: 'Our job is to put risk in portfolios and try (on a one-year rolling basis) not to lose money.'

US treasuries are widely considered to be the closest thing to a risk-free investment, but while allocating 100% of capital into them is relatively safe, their return potential is low compared with putting money into shares or property.

Every investor should strive to build a diversified portfolio of investments because that helps to smooth the natural ups and downs of investing. It then comes down to how much risk each investor can tolerate while staying the course.

After all, investing is a marathon, not a sprint. The longer you stay invested the better the chance of achieving your investment goals.

Individual temperament and psychological make-up will determine the right amount of variability suitable for every investor. There is a deep trove of academic research which underpins behavioural science.

VOLATILITY AS A MEASURE OF RISK

The investment industry defines risk as volatility which essentially measures how much the value of your portfolio moves around monthly or quarterly.

If you are a nervous type who prefers relatively steady returns, you might be categorised as a cautious investor.

The wealth management industry is required by the regulator to classify their clients into risk baskets and only provide suitable products for their individual needs.

Some investment managers have developed questionnaires designed to get into the head of the client to understand risk appetite.

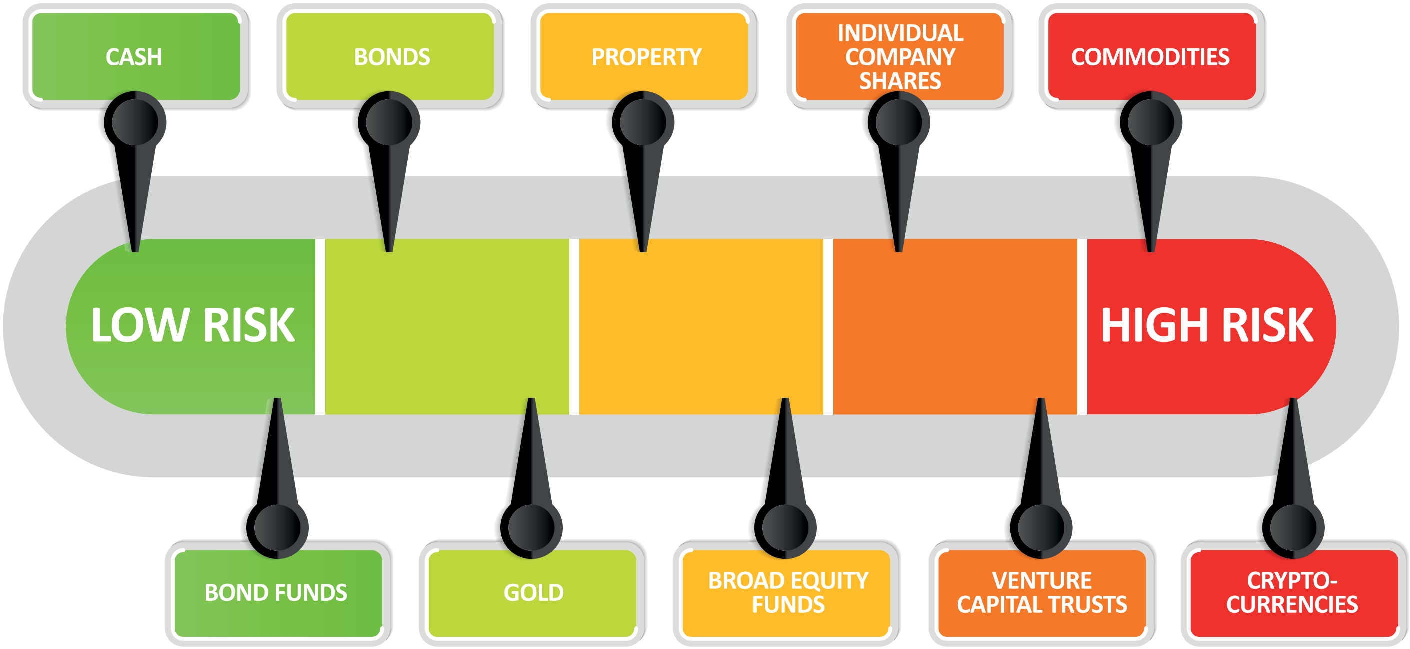
Questionnaires differ but they often take the form of several statements which invite possible responses.

One example is 'I associate the word risk with the idea of opportunity'. The client is given five responses, from 'strongly agree' at one end of the spectrum to 'no opinion' in the middle and 'strongly disagree' at the other end of the spectrum.

If a client chooses the first response, they will likely get a higher risk score. Another statement might be 'I generally look for safer investments even if that means lower returns.'

These attitudes to risk are scored from high (very adventurous) to low (very cautious). Personal information such as age, investment experience, the value of assets owned, and retirement date is also collected and affects the outcome.

Investors who show they are more comfortable



achieving stable returns which move around less, are considered by the industry to be at the cautious end of the risk spectrum.

In the aforementioned Royal London questionnaire, this author was categorised as a 'moderately adventurous' investor. This means a 'willingness' to take investment risk and an understanding that it is crucial to generating long-term returns.

It also implies an understanding that occasional poor outcomes are an unavoidable part of long-term investment.

FINDING THE RIGHT BALANCE

Long-term studies of different asset class returns show a close relationship between return and volatility (risk).

Shares have provided the highest historical returns but are the riskiest while cash and government bonds provide the lowest returns but are more stable.

This risk and return framework can be used by wealth managers to theoretically provide a personalised investment plan.

WHAT DOES IT MEAN FOR RETURNS?

You might be wondering what this means for asset allocation and potential returns. How much more return might be possible for an adventurous investor compared with other risk types?

Investors willing to accept more variability in annual returns (volatility) and deeper drawdowns (percentage loss from peak to trough) are typically allocated a higher proportion of shares.

Adventurous investors might end up with more capital than cautious investors over a 20-year timeframe. But adventurous types would also need the fortitude to accept the possibility of a bigger annual loss along the way.

Although only three risk types feature in the accompanying graphics, in practice there could be several layers of different risk profiles and appropriate asset allocations.

It is important to understand the projections

Typical adventurous investor asset allocation

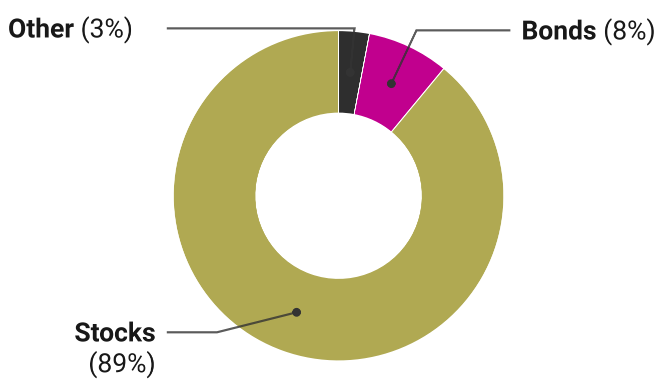
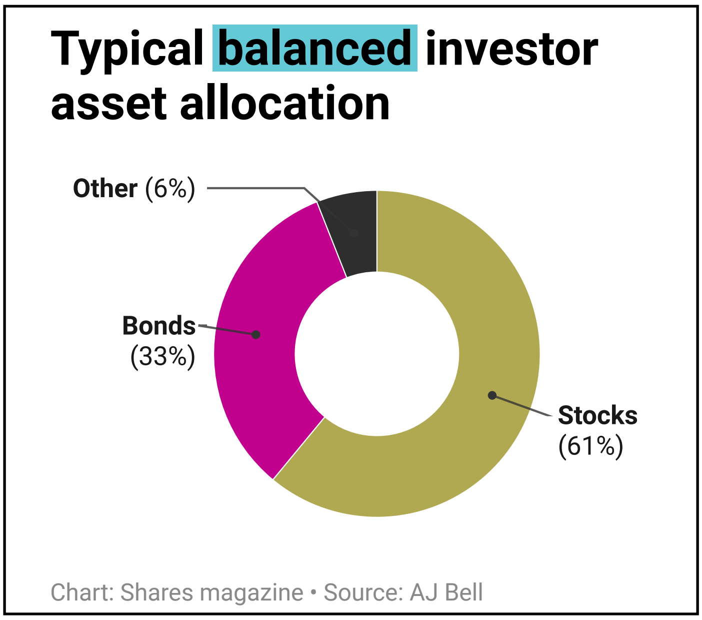
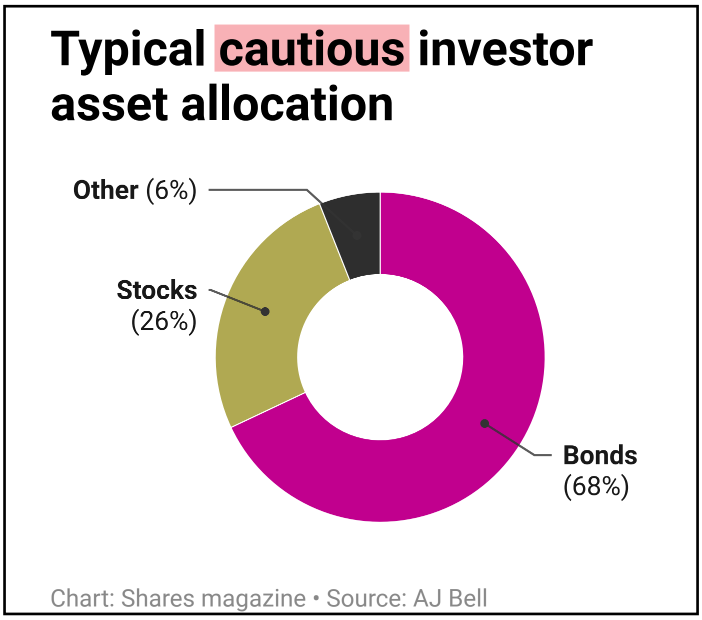


Chart: Shares magazine • Source: AJ Bell





are made based on past returns which may not be representative of future returns.

Over the past year bonds have not provided their traditional stable positive returns. The Bloomberg global aggregate bond index is down around 15% year-to-date.

Rising interest rates and surging inflation have had a punishing effect on bond prices. However, this must be seen in the context of the prior years of negative interest rates and low inflation.

With 10-year US government bond yields now close to 3%, up from around 1% a year ago, there has been a big price adjustment.

DISCLAIMER: Financial services company AJ Bell referenced in this article owns Shares magazine. This article was edited by Tom Sieber who owns shares in AJ Bell.

By **Martin Gamble** Education Editor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RUSS MOULD
AJ Bell Investment Director

What a new mid-term prime minister means for UK stocks

Looking at the performance of the FTSE All-Share when there's a change at the top outside a general election

In the end Boris Johnson might – just – outlast Theresa May as prime minister, but financial markets are already wondering who will come next and what policies they will bring with them.

So far, the UK's leading stock market indices and sterling are taking the latest ructions in Westminster in their stride.

They are doing so even if shareholders or stakeholders in any public or private company would never tolerate a company being run in such as an incompetent fashion as the current Government, where plotting and shimmying up the greasy pole seem to be more important than helping the population confront the twin threats of inflation and a possible recession. Any board member caught behaving in such a way would surely be publicly excoriated.

The FTSE All-Share is up, and the pound is making minor gains against the dollar and euro as investors consider who the next prime minister will be and hope for greater domestic political stability. However, history suggests it takes more than a new incumbent in 10 Downing Street to really get the stock market going.

MID-TERM SHUFFLE

Since the inception of the FTSE All-Share in 1964, five prime ministers have taken office mid-way during a parliament, following the departure of their predecessor – James Callaghan and Gordon Brown for Labour, in 1976 and 2007, and John Major, Theresa May and Boris Johnson for the Conservatives in 1990, 2016 and 2019 respectively.

On average, the FTSE All-Share made no progress

If he stays in office until autumn, Boris Johnson will (just) outlast Theresa May

Prime Minister	Tenure	Party	Days in office
Margaret Thatcher	1979-1990	Conservative	4,226
Tony Blair	1997-2007	Labour	3,708
John Major	1990-1997	Conservative	2,345
David Cameron	2010-2016	Conservative	2,258
Harold Wilson	1964-1970	Labour	2,071
Ted Heath	1970-1974	Conservative	1,350
James Callaghan	1976-1979	Conservative	1,122
Theresa May	2016-2019	Conservative	1,105
Boris Johnson*	2019-2022	Conservative	1,079
Gordon Brown	2007-2010	Labour	1,044
Harold Wilson	1974-1976	Labour	766

Table: Shares magazine • Source: www.britannica.com. * To 7 July 2022

RUSS MOULD
AJ Bell Investment Director

UK stock market initially seems indifferent to a change in PM

FTSE All-Share performance: after arrival of new, mid-term prime minister

Prime minister	Term	Party	3 months	6 months	12 months	Term 1
James Callaghan	1976-79	Labour	(3.3%)	(18.6%)	2.4%	71.8%
John Major	1990-97	Conservative	11.5%	15.9%	13.9%	107.7%
Gordon Brown	2007-10	Labour	(1.1%)	(1.8%)	(16.4%)	(18.2%)
Theresa May	2016-19	Conservative	4.3%	9.3%	11.8%	14.1%
Boris Johnson	2019-22	Conservative	(1.6%)	2.8%	(17.2%)	(4.6%)
Average			**1.9%**	**1.5%**	**(1.1%)**	**34.2%**

Table: Shares magazine • Source: Refinitiv data

at all under these individuals during their first 12 months in the hot-seat, rising on average by 1.9% over the first three months of the new prime minister's tenure, gaining 1.5% over six months and coming in slightly down over a year.

The past is no guarantee for the future yet this dataset, even if it is relatively narrow, seems to suggest that while political stability is welcome, there are other factors at work regarding stock market performance.

There is then a wide range of stock market returns during the tenures of those five mid-term prime ministers.

The FTSE All-Share galloped higher under John Major, as the UK came out of recession and the economy got a huge boost from 1992's devaluation of the pound and embarrassing ejection from the Exchange Rate Mechanism. It also gained under James Callaghan, as the FTSE All-Share continued to advance from its multi-year low of early 1974 and investors looked for some kind of protection from inflation, which continued to spiral, thanks to the oil price shocks of 1973 and 1979 and such questionable policies as windfall taxes, demand subsidies and price controls.

In contrast the index did little under Theresa May, as the nation wrestled with the implications of 2016's Brexit vote and share prices drew succour from weakness in the pound, while it lost ground under both Boris Johnson and Gordon Brown. Brexit uncertainty, Covid-19, the Russian invasion of Ukraine and a resurgence of inflation hardly helped Johnson's cause, while Gordon Brown found the Great Financial Crisis dropping into his lap, to confound his prior statement that the days of boom and bust were at an end, if nothing else.

POUNDS AND PENCE

The economy's performance will help to shape stock markets, but government and central bank policy and global events also matter.

And ultimately it is corporate profits and cash flows – and the price (or valuation) investors are prepared to pay to access them – that really dictate how the FTSE All-Share will perform.

With a dividend yield of around 4.2%, the FTSE All-Share can be seen as a 23.8-year duration bond (as this is how long it would take investors to make their money back, assuming no change in dividends or share prices).

This shows exactly why shares should be treated as a (very) long-term investment and why the role of short-term politics should not be overemphasised, as very few prime ministers have lasted for much more than one full term of office, at least since the inception of the FTSE All-Share in 1964, and their tenures, if anything, seem to be getting shorter and shorter.

Sell-off creates perfect opportunity to buy Japanese funds and trusts

There are many reasons to be optimistic on investments in this part of Asia

Long-term investors in Japanese shares have endured several false dawns since the country's Nikkei 225 stock index peaked at above 38,900 points in 1989.

At the time of writing, the Nikkei 225 sits at the 26,393 mark, about 15% off its autumn 2021 one-year peak of 30,670 and down 9.9% year-to-date.

Nikkei 225

Chart: Shares magazine • Source: Refinitiv

Yet this looks an exciting time to invest in Japan where shares are attractively valued relative to global peers and companies are paying more attention to improving shareholder returns and thinking harder about where they spend money.

Activist investors are pushing hard to accelerate positive corporate change through engagement with management, a strategy pursued by London-listed investment trusts such as **AVI Japan Opportunity (AJOT)** and **Nippon Active Value Fund (NAVF)**.

Japan is undergoing a major technological transformation that should deliver growth and substantial productivity gains over time, with automation among the themes exciting investors.

WHY IS THE CURRENCY SO WEAK?

Having fought a long battle against deflation, Japan is sticking by its ultra-easy monetary policies in a decision which has sent the yen plunging against the dollar, boosting prospects for exporters.

One reason why the Bank of Japan is maintaining a different path to other central banks is its belief that current inflationary pressures in Japan will be temporary.

So far, there are no signs of material inflation in Japan – the consumer prices index recorded 1.9% growth in May 2022 and Japanese wages have only risen by about 3% per year in nominal terms over the last 30 years.

James B. Rosenwald, portfolio manager of Nippon Active Value Fund, says now is a 'marvellous time' to invest in Japanese companies given the weak yen and a 30-plus year bear market in stocks. He adds: 'We could easily see equities providing a 100% return in the next five years.'

Why yen weakness is a double-edged sword

Many people assume weakness in Japan's currency is good for the country's exporters.

As China moves past current Covid issues and the government stimulates the world's second biggest economy, 2023 could well prove a good year for Japanese exporters. A cheaper yen also makes Japan a more affordable destination for overseas travellers, bringing in tourist cash for the hospitality sector.

However, many manufacturers have already moved production closer to end customers in foreign countries and so will not benefit as much as one might think from a weak yen.

The weak currency will not help the country meet its energy needs as Japan is a huge net importer of oil. Nor will increased imported costs help corporate profit margins either, while the average Japanese consumer is feeling the pinch from higher energy, food and fuel prices.

THIS TIME IT REALLY IS DIFFERENT

'There's a few misconceptions about the Japanese market that may be leading to the undervaluation,' explains Andy McCagg, senior client portfolio manager at Nomura Asset Management UK.

One of these is that the Japanese market is viewed as having a lower return on equity, and that's true. 'Overall, Japan's Topix index is pretty broad so there are lot of companies that have a return on equity lower than say 10%, some much lower than that even,' adds McCagg.

Carl Vine, manager of the **M&G Japan (B74CQP7)** fund, concedes Japan is a market where the hope of the past couple of decades has to some extent been dashed, so there is a fair amount of fatigue in hearing about Japan and how it might be different this time.

Nevertheless, Vine sees an overwhelming case to have exposure to Japanese equities right now. The M&G fund manager believes over the next five and 10 years that owners of Japanese equity as an asset class will be 'very well rewarded' relative to the returns that are available from other major equity markets.

Japanese stocks are cheap, but the real story is about earnings, explains Vine. 'In the last 10 years Japanese profits have compounded at about 10% growth per annum in local currency. That's better than the S&P 500 (US stock index), a phenomenal delivery of earnings growth from the Japanese corporate sector helped by Abenomics. And as each day goes by this wave of corporate self-help and reform is like a tsunami; it is undeniable at this point.'

Japanese companies still have a lot of what Vine describes as 'low hanging fruit' in terms of raising prices and boosting margins, optimising their cost structures and consolidating fragmented markets through a wave of mergers and acquisitions that is now underway.

'For me, the stars are aligned for meaningful earnings growth coming not from GDP growth, not from big revenue growth, but just ongoing self-help,' argues Vine.

His enthusiasm is shared by Tokyo-based Nicholas Weindling, portfolio manager of investment trust **JPMorgan Japanese (JFJ)**, who is also positive about Japan's longer-term outlook.

Weindling says there is 'a very strong reason' to invest in Japan right now on a multi-year basis.

Share buybacks in Japan, where a staggering 50% of companies have net cash on their balance sheets, rose 65% year-on-year in the first quarter of 2022, building on 2021's record year for repurchases as Japanese companies at long last strive to make use of very inefficient balance sheets.

'I feel like the tanker has changed direction', says Weindling, adding that activists are now 'starting to push on an open door, because companies want to do the right thing in terms of more diversity, more women on boards, more independent directors.'

James Carthew, head of investment companies at research group, QuotedData, says the real change in Japan, and one that has accelerated recently, has been in the pace of shareholder-friendly actions.

Companies in every sector are buying back stock – between 2% and 5% is common – as they begin to optimise their cash-heavy balance sheets.

Carthew believes the point at which it looks like US interest rates are going to stop rising could be the catalyst to narrow the valuation gap between Japanese equities and other markets.

JPMorgan's Weindling doesn't see any signs of 'sticky inflation' in Japan, where the inflation rate in Japan is currently just over 2%.

M&G's Vine says that 'if ever there is an economy or a stock market that needs some inflation it would be Japan', which appears to have exited deflation. Some inflation should pave the way for a normalisation of interest rates and Vine believes that would be positive for Japanese stocks.

THREE GOOD WAYS TO INVEST IN JAPAN

SPDR MSCI Japan UCITS ETF (JPJP) £36.53
Ongoing charge: 0.12%

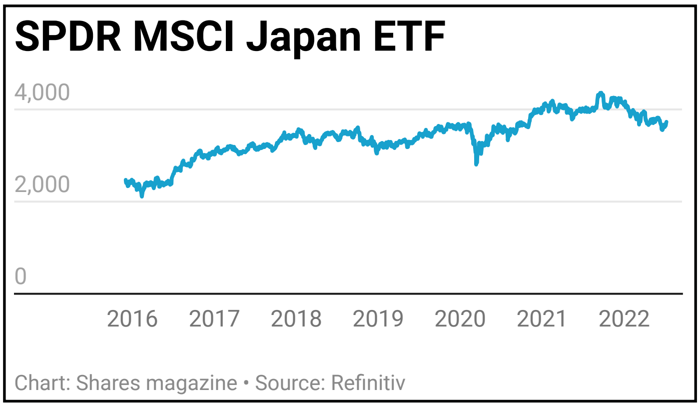


Chart: Shares magazine • Source: Refinitiv

Investors seeking a low-cost, east play on the sumo-sized re-rating potential of the Japanese equity market might consider tracker fund **SPDR MSCI Japan UCITS ETF (JPJP)**.

It is designed to mirror the performance of the MSCI Japan index for a low ongoing charge of just 0.12% a year.

The MSCI Japan index is designed to measure the performance of the large and mid-cap segments of the Japanese market.

With approximately 240 holdings, the exchange-traded fund's biggest positions include car company **Toyota (7203:TYO)** and tech/media conglomerate **Sony (6758:TYO)**.

According to website JustETF, the fund has delivered a total return of 12.1% over three years, but the drawdown in the Japanese equity market means it is down 9.2% over one year and 13.3% year-to-date.

JPMorgan Japanese Investment Trust (JFJ) 436p
Ongoing charge: 0.6%

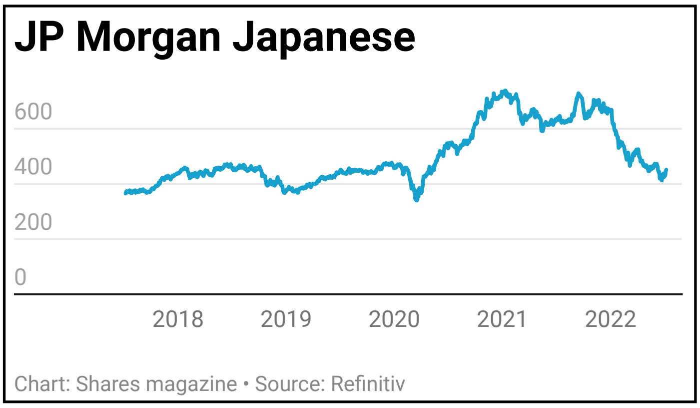
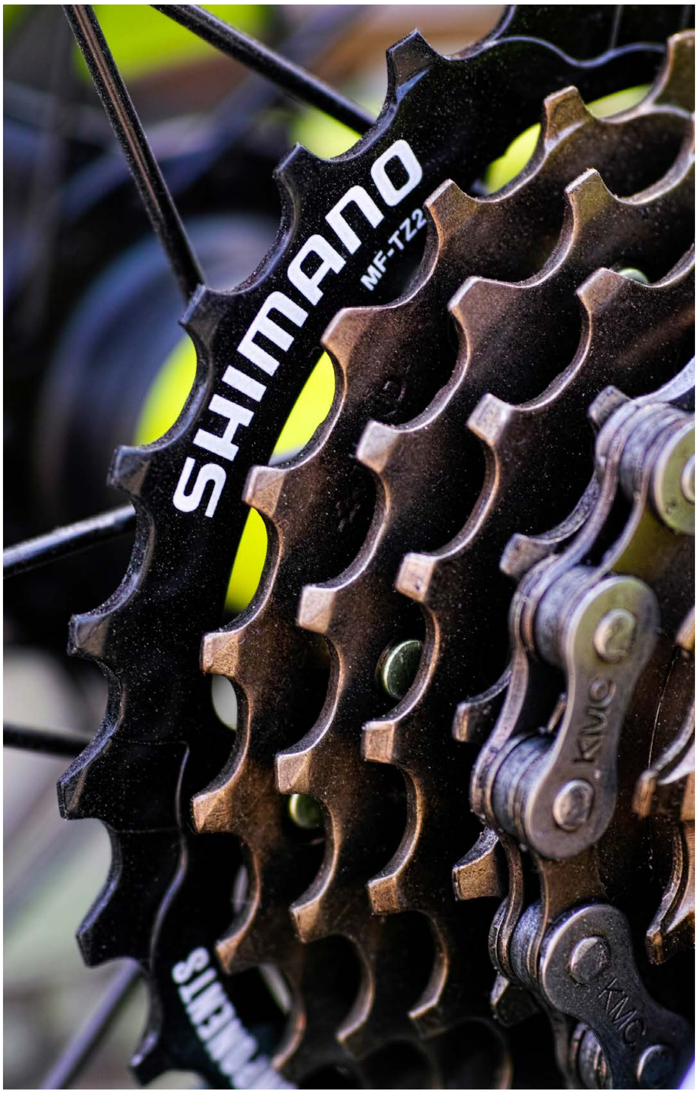


Chart: Shares magazine • Source: Refinitiv

Investment trust JPMorgan Japanese invests in great companies 'that happen to be listed in Japan' according to manager Nicholas Weindling. He



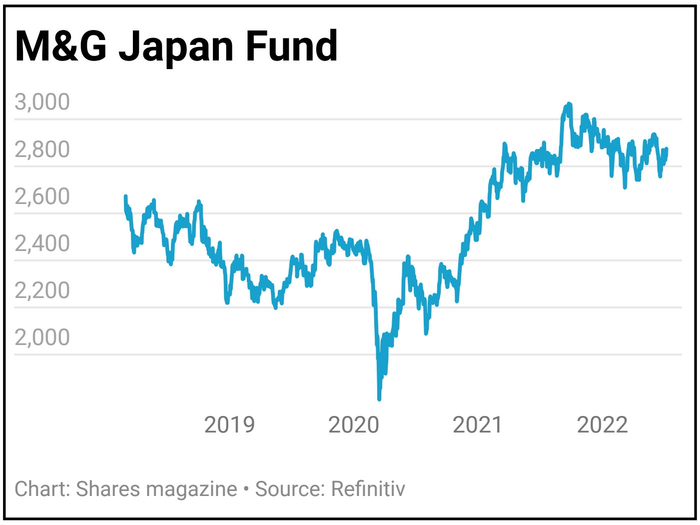
seeks firms with extremely high market shares and margins, very good free cash flow and strong pricing power.

The biggest positions include optical products maker **Hoya (7741:TYO)**, automation sensors leader **Keyence (6861:TYO)** and bicycle gears-to-fishing tackle maker **Shimano (7309:TYO)**.

JPMorgan Japanese recently invested in **Nippon Paint (4612:TYO)**, the number one paint company in Japan and China, which Weindling believes has the pricing power to cope with a rise in oil prices.

The investment trust has generated 11.6% annualised returns over the past 10 years, according to Morningstar. More recent returns have been muted, yet investors interested in Japan should view share price weakness as an opportunity to buy into a well-run investment vehicle with scope to deliver outsized returns in time. It trades at a 7.1% discount to the value of its underlying assets.

M&G Japan Fund (B74CQP7)
Ongoing charge: 0.55%



Capital growth and income-focused M&G Japan is ranked top quartile for performance in the IA Japan sector over one, three and five years and has delivered a 10-year annualised return of 10.6%, according to Morningstar.

M&G Japan straddles the growth and value camps. While the Japanese market still favours value stocks, the M&G fund has a concentrated portfolio of 44 holdings and is positioned to benefit once the pendulum swings to growth again.

Manager Carl Vine believes there is a good chance that Japanese listed companies will deliver another decade of double-digit growth in earnings.

As at 31 May 2022, the top 10 positions included automaker Toyota, Kyoto-based video games giant **Nintendo (7974:TYO),** as well as **Nippon Telegraph and Telephone Corporation (9432:TYO)**, the Japan telco that has compounded returns over time by raising its margins while buying back its own shares.

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

Want a global tracker fund but not sure how they differ? Read this

We compare the MSCI World, MSCI ACWI and FTSE Global All Cap indices

Thousands of investors are looking for easy options to get exposure to stocks around the world. One route is to buy a tracker fund or an exchange-traded fund that mirrors the performance of a global index.

Two of the most popular indices used by global tracker funds are MSCI World and MSCI All Countries World (also known as ACWI), yet interestingly neither feature in a product by Vanguard, which has been growing in popularity in recent years.

Vanguard FTSE Global All Cap Index Fund (BD3RZ58) aims to replicate the performance of the FTSE Global All Cap index, which differs to the two MSCI global indices by providing exposure to smaller companies as well as large and mid-cap stocks.

MSCI World tracks the performance of approximately 1,500 large and mid-cap companies across 23 developed market countries. MSCI All Countries World does the same and adds 24 emerging market countries, resulting in coverage of nearly 3,000 companies.

FTSE Global All Cap goes even further and tracks a basket of approximately 9,400 companies. This is a market capitalisation weighted index which means companies with the largest market value will have a higher allocation than those with a smaller market value. As a result, larger companies still dominate its performance.

Exposure to more companies doesn't necessarily lead to greater returns. Over five years to 7 July 2022, total return in sterling for the MSCI World was 57.7%. The FTSE Global All Cap returned 54% while the MSCI All Countries World was 52.5%.

On a 10-year basis, there is more of a difference, with the MSCI World again on top by delivering a 226.5% return. The FTSE Global All Cap was second with a 216.9% return and the MSCI All Countries World was third with 203.3%.

Ultimately, all three indices provide exposure to a large bucket of companies around the world, providing diversification in terms of geographies, sectors and economies. Any one of them should do the job for an investor seeking a simple way of tracking global stock market activity.

If you want to go down that route, it's worth comparing the charges for each relevant tracker fund or exchange-traded fund as these can vary between fund providers.

For example, Vanguard FTSE Global All Cap Index Fund charges 0.23% a year versus 0.2% from **iShares Core MSCI World ETF (SWDA)** and 0.4% from **SPDR MSCI ACWI ETF (ACWI)**.

By **Mark Gardner** Senior Reporter

Comparing returns for global market indices

Index	1 year	3 years	5 years	10 years
MSCI World	−1.4%	27.8%	57.7%	226.5%
FTSE Global All Cap	−3.0%	25.6%	54.0%	216.9%
MSCI All Countries World	−2.9%	24.7%	52.5%	203.3%

Table: Shares magazine • Source: FE Analytics. Total return in GB. Data to 7 July 2022

WATCH RECENT PRESENTATION WEBINARS

Henderson Diversified Income Trust

Nick Ware, Portfolio Manager

Henderson Diversified Income Trust seeks a sustainable level of annual income and capital gains consistent with seeking to reduce the risk of capital losses, by investing in a diversified portfolio of global fixed income and floating rate asset classes.

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Sachin Oza, Co Chief Executive &
Stephen Williams, Co Chief Executive

Reabold Resources is an investment company in the natural resources sector. The principal activity of the company is an investment in pre-cash flow upstream oil and gas projects, primarily as significant minority interests in unlisted oil and gas companies or majority interests in unlisted oil and gas companies with non-operating positions on licenses.

Luis Puerto, VP of Corporate Administration

Royal Road Minerals

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How to find the important information on US shares

The forms you need to look at, where to find them and why they matter

Anyone interested in US-listed stocks might find themselves confused when trying to read the latest company announcements. Unless you know the difference between an 8-K and a 10-Q form, trying to fathom what each announcement means is a nightmare.

In the UK, most stock exchange announcements have titles which summarise their content, such as annual report, trading update or director dealings.

In the US, you're just presented with a list of codes. For example, banking provider **Citigroup (C:NYSE)** issued five announcements in May all with the title '2022 8-K'. That's gobbledygook to most people. Even when you click on the announcements it takes ages to find out the important pieces of information.

The blame can be laid on the US stock market regulator, the SEC (Security and Exchange Commission). Its forms read more like legal documents than information that is crucial to investors.

Most useful US SEC forms

10-K	Annual report
10-Q	Quarterly report
8-K	Material event
S-4	Merger or acquisition
13-F	Quarterly fund holdings
DEF 14A	Shareholder vote
SC-13D	5% ownership threshold crossed
S-1	Initial public offering

Table: Shares magazine • Source: Shares, SEC

THE FORMS THAT MATTER

To help you better understand the different forms we will now go through the important ones.

The key forms to spot are the 10-K which is the annual report, the 10-Q which is a quarterly earnings report and the 8-K which is a material event report which companies must file if they have something very important to tell shareholders.

Another useful form is the 13-F which mutual funds and hedge funds must file at the end of each quarter with a list of their holdings.

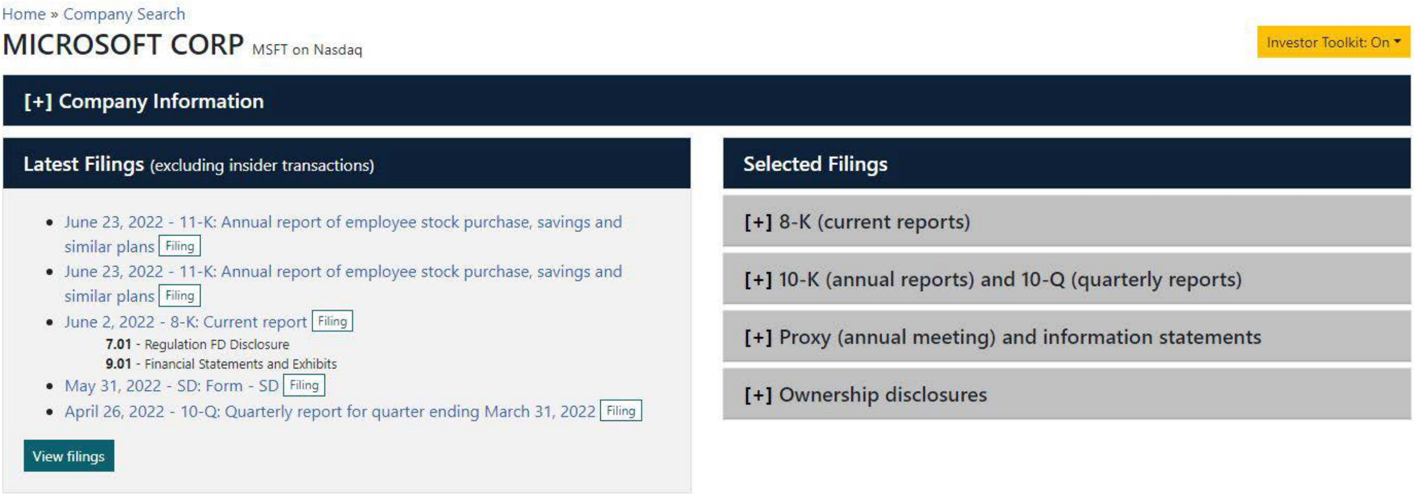
WHERE DO I START?

The first place to look for documents is the SEC's website where you can find the EDGAR (Electronic Data Gathering, Analysis and Retrieval) system and search for reports.

EDGAR contains millions of company filings and is free to access, you simply go to the search page and type in the name of the firm

If we look up tech giant **Microsoft (MSFT:NASDAQ)**, for example, the site brings up a list of the latest filings and a list of selected filings.

As the image overleaf shows, the firm released an 8-K report last month and its last quarterly 10-Q report was filed in April. Clicking on the box marked 'Filing' brings up the relevant document.



Source: SEC

If you want to sift through all of Microsoft's 10-Q quarterly filings or 10-K annual filings, you can bring them up by clicking on the relevant box to the right.

Reading the 8-K filing is also important as in the case of Microsoft it reveals the company recently cut its revenue and earnings guidance for the full year due to unfavourable exchange rates in the final quarter to May, and the filing includes a slide deck explaining the revised forecast.

KEEPING UP WITH THE EXPERTS

One of the other most widely watched filings each quarter is the 13-F form which all US-domiciled funds with $100 million or more in assets under management must publish.

The quarterly filing by **Berkshire Hathaway (BRK.B:NYSE)** is one of the most popular documents as it gives followers of legendary investor Warren Buffett a chance to see what the great man has been buying and selling.

The simplest way to access the 13-F filings is to go to the website 13f.info and enter the name of the manager or the fund you want to look up.

For Berkshire Hathaway, you can find all the 13-F filings dating back to the third quarter of 2013 including separate filings each time the fund added a new stock or multiple stocks.

By comparing the quarterly filings, you can build up a picture of what changes have been made to the portfolio and how the weightings within the portfolio have changed over time.

Unsurprisingly, given the level of interest in Buffett's investing habits, there are also various websites such as Gurufocus and Whale Wisdom which regularly scrutinise Berkshire's 13-F filings.

Even ratings agency Morningstar analyses Berkshire's 13-F filings and flags the latest buys and sells.

Other big-name investors whose 13-F filings are closely watched in case they throw up some unknown gems include Ray Dalio of Bridgewater, Seth Klarman of Baupost Group and Howard Marks of Oaktree Capital.

Hedge fund managers like David Tepper of Appaloosa Management, Ken Griffin of Citadel, Steven Cohen of Point72 and Chris Hohn of TCI also have a large number of followers who are eager to know which stocks they are backing and which ones they are shorting.

By **Ian Conway** Companies Editor

Pension vs ISA: choosing between the two when it comes to saving for kids

The key differences between the two savings vehicles

Lots of parents want to start a savings account for their child but are put off by the array of accounts on the market. From cash to investing, from Premium Bonds to regular savers, or an ISA versus a pension, there are lots of options.

For the purposes of this article we'll assume that you want to invest for your child, rather than save in cash.

The majority of money put away into savings accounts for children sits in cash, which flies in the face of logic when you think that for many of those accounts there will be 18 years until the child is an adult and able to access them (although cash has a place for some families).

If you want to invest for your child you have two main options: use a Junior ISA or opt for a Junior SIPP (self-invested personal pension).

HOW DO THE ACCOUNTS DIFFER?

Both a Junior ISA and Junior SIPP are tax-efficient accounts, which means any gains generated on the investment are protected from tax, as well as any income. Considering the money could be invested for up to 18 years, you'd hope it will make decent gains during this time, so you're protecting those from tax.

One of the main differences between the two is the age at which you can access the money. For a Junior ISA the money is locked away until the child reaches their 18th birthday, at which point it's theirs to manage. It can be rolled over into an adult ISA or they can cash in the money. If they decide to cash in the money any withdrawals will be tax-free.

For a Junior SIPP the money can't be accessed until the child reaches their retirement age. At the moment this is the age of 55, but is rising to 57 and is likely to be even higher by the time the children of today come to retire. When they do come to withdraw the money only 25% of it will be tax-free, with the rest charged at their marginal income tax rate. Although these rules could well change between now and your child reaching retirement age.

The other difference is that with a pension you get the benefit of tax relief, even if your child isn't a taxpayer (which most children aren't). This means you get a 20% top-up on any money you put in, which is a good incentive to save.

HOW MUCH CAN I PAY INTO EACH?

The allowance on a Junior ISA is a very generous £9,000 a year per child. For a Junior SIPP the annual allowance is £2,880 per child, which is then topped up to £3,600 thanks to the Government adding tax relief. With AJ Bell, for example, you can start from as little as £25 a month with either account.

On thing to note is that a Junior ISA account must be set up by the parent or guardian of the child, but after that anyone can pay into it. For a Junior SIPP, anyone can set up the account, so it might be a good option for grandparents who want to put cash away for their grandkids without having to involve parents.

WHAT CAN I INVEST IN WITH EITHER ACCOUNT?

With most providers you can make exactly the same investments in either account, including funds, shares and investment trusts. You might decide to make riskier investments if you opted for a pension, to reflect the fact that the money could be locked up for almost 60 years, but you can put money in all the same investments with either account.

HOW MUCH COULD MY CHILD END UP WITH?

Let's take the Junior ISA first. If you start early and start small you can still build up a significant pot. If you put £20 a month away from birth and it was invested, generating 5% a year, your child would have a pot worth just over £7,000 by their 18th birthday, excluding any fees.

If you increased that amount to £100 a month you'd be handing your child an 18th birthday present of almost £35,500, assuming that same 5% a year growth. And if you're fortunate enough to be able to put away the full £9,000 a year limit, they'd have £267,000 by the time

£100 per month
in a Junior ISA from birth could translate into an 18th birthday present of
more than £35,000*
*(assuming 5% annual growth)

they are 18 – likely making you the most popular parent in the UK.

With a Junior SIPP the annual limit is smaller, but the top-up from the tax relief and the much longer timeframe means the money has a bigger chance to grow.

If you put that same £100 a month in as the example above, from birth to age 18 growing at 5% a year and then just left it to grow with no further contributions, the pot would be worth £238,000 by the age of 57. Even a smaller contribution of £50 a month from birth to the age of 18 would amount to £119,000 by the age of 57.

For lump sum savers, who have got a windfall and want to save it for their children, a £1,000 investment when the child is born that grows by 5% a year and where no further additions are made will equal £2,400 at the age of 18 and just over £16,000 at the age of 57.

DISCLAIMER: Financial services company AJ Bell referenced in this article owns Shares magazine. The author of this article (Laura Suter) and the editor (Tom Sieber) own shares in AJ Bell.

By **Laura Suter**
AJ Bell Head of Personal Finance

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

21 July: The Fulham Shore, Redcentric.
22 July: FRP Advisory.

Half-year results:

18 July: Audioboom. **19 July:** Photo-Me International. **20 July:** Centamin. **21 July:** Howden Joinery. **22 July:** Beazley.

Trading updates

15 July: Burberry, Rio Tinto. **18 July:** Tristel.
19 July: BHP, City of London, Integrafin, Luceco, Wise. **20 July:** Royal Mail. **21 July:** AJ Bell, Brewin Dolphin, Close Brothers, Diploma, Dunelm, Frasers, PensionBee, QinetiQ, Workspace.

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