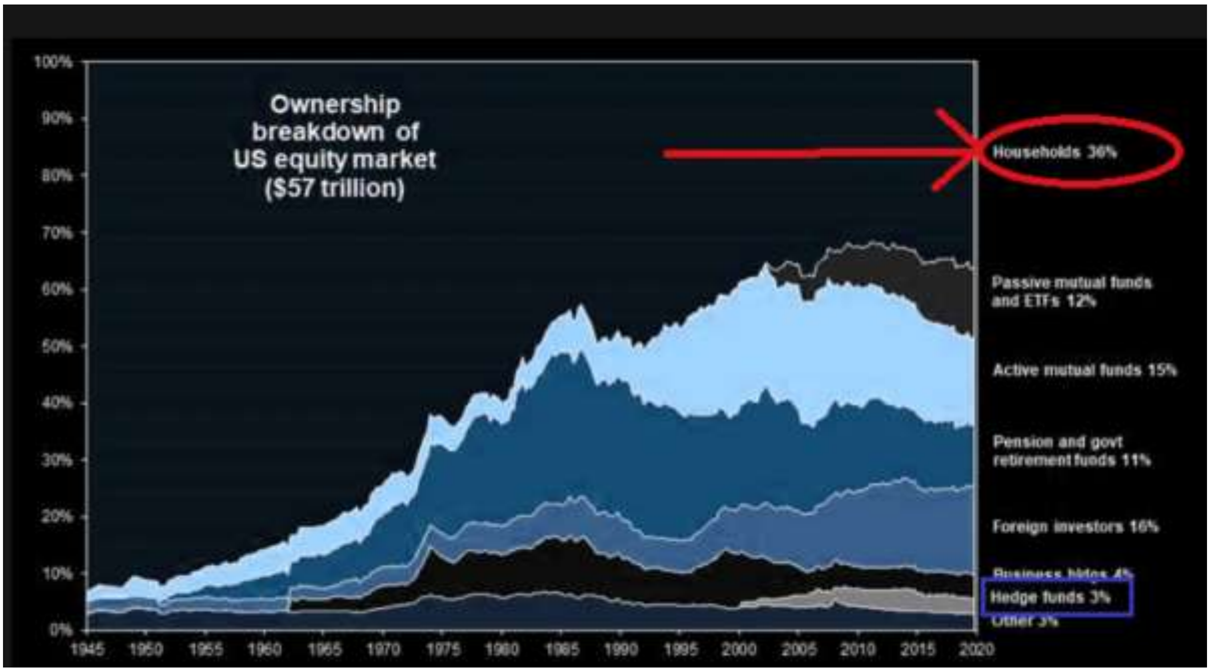
Alpesh Patel's Newsletter

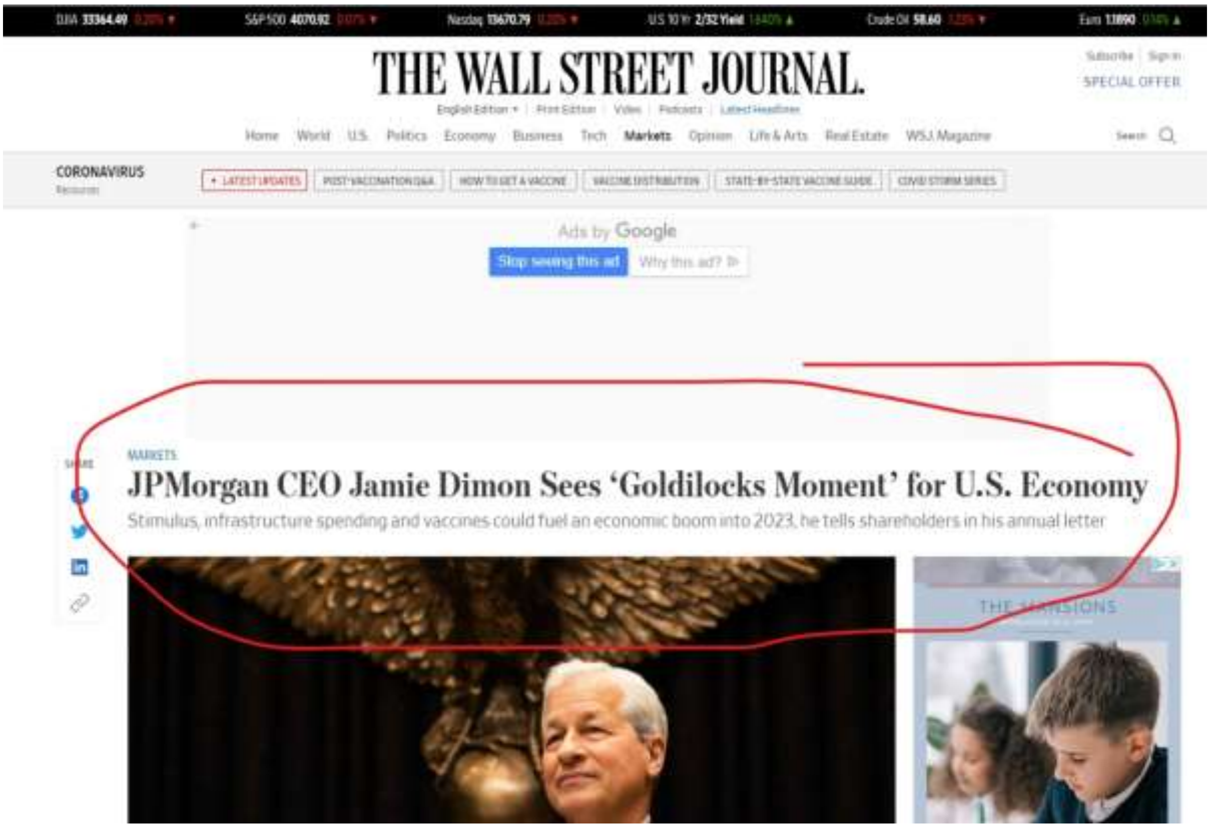
Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

23 April 2021

Overview

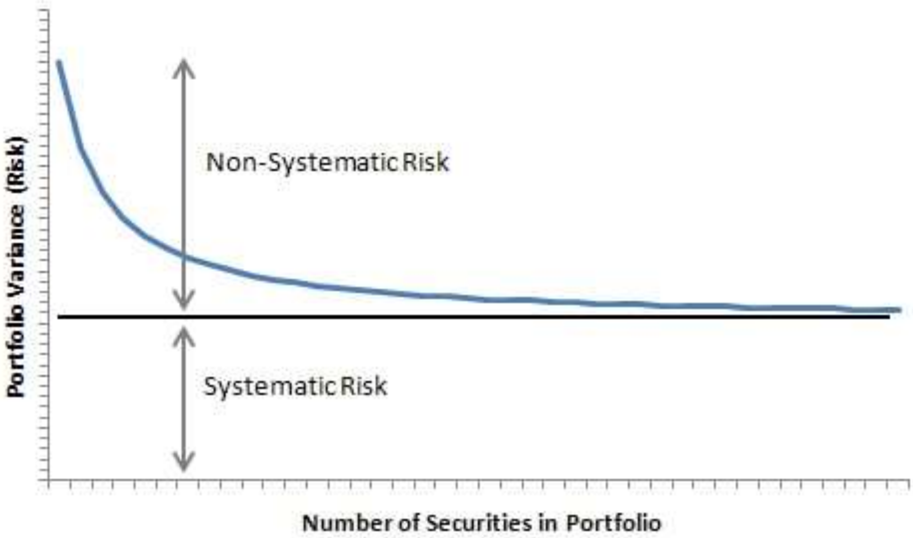
Fascinating how private investors have realised that wealth creation increasingly relies on investing.





How Many Stocks Should You Own?

Look at this image. What do you think the number is where the arrow is? Generally, unless you put everything into lock-step stocks like BP and Shell, the number is 15. Surprised?



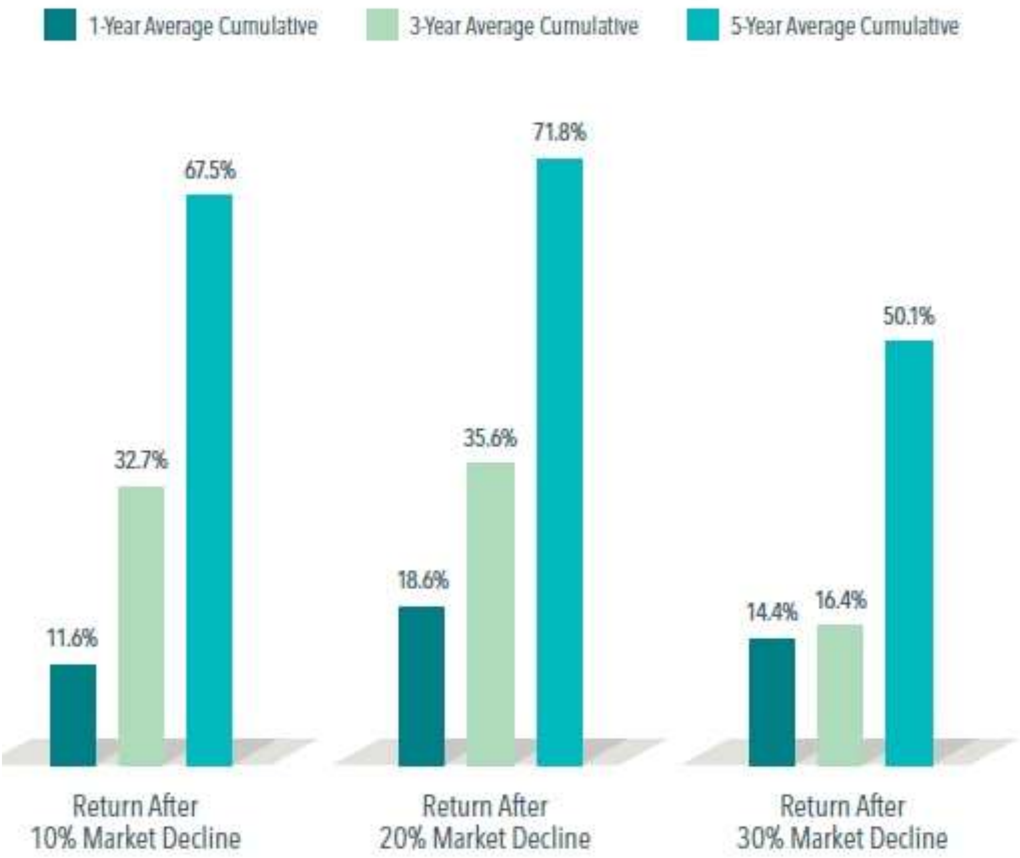
HEDGE FUND OWNERSHIP REPORT – Q4 2020

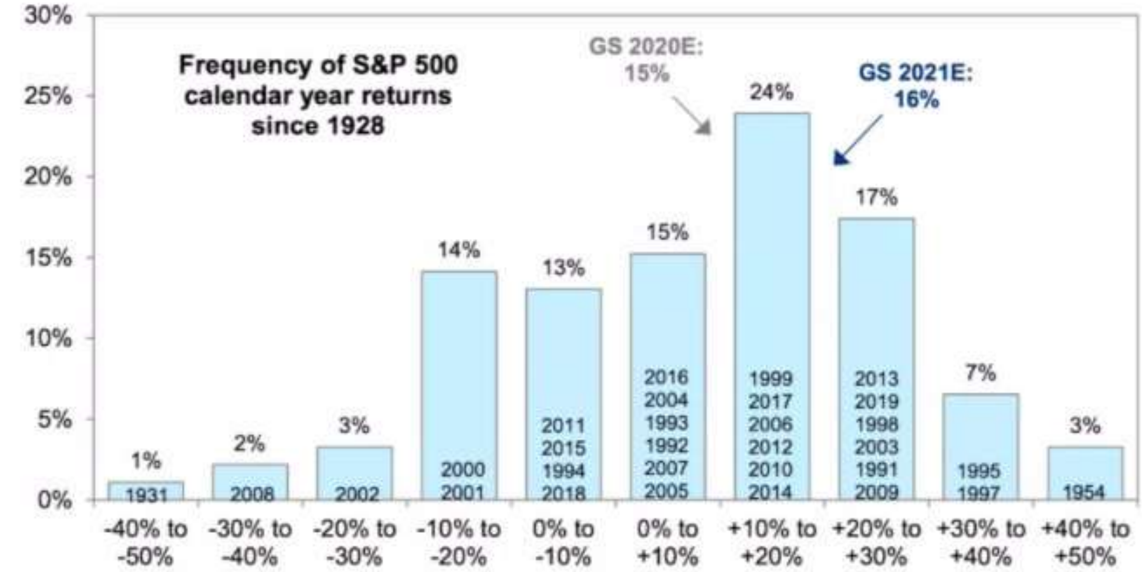
A REPORT COVERING HEDGE FUND STOCK OWNERSHIP TRENDS AND INDIVIDUAL MANAGER PORTFOLIOS

Rank	Security Name	Symbol
1	Amazon.com Inc	AMZN
2	Facebook Inc	FB
3	Microsoft Corp	MSFT
4	Alphabet Inc. Class A	GOOGL
5	Alibaba Group Holding Ltd ADR	BABA
6	VISA Inc	V
7	Mastercard Inc	MA
8	Alphabet Inc. Class C	GOOG
9	PayPal Holdings Inc	PYPL
10	Apple Inc	AAPL
11	Uber Technologies Inc	UBER
12	Square Inc	SQ
13	Netflix Inc	NFLX
14	Adobe Systems, Inc	ADBE
15	Crowdstrike Holdings Inc	CRWD
16	Salesforce.com Inc	CRM
17	Peloton Interactive Inc	PTON
18	Shopify Inc	SHOP
19	ServiceNow Inc	NOW
20	Sea Ltd ADR	SE
21	Smartsheet Inc	SMAR
22	Twilio Inc	TWLO
23	Airbnb, Inc	ABNB
24	TransDigm Group Inc	TDG
25	Coupa Software Inc	COUP

Rank	Security Name	Symbol
26	Workday Inc	WDAY
27	MercadoLibre Inc	MELI
28	Atlassian Corp Plc	TEAM
29	Cloudflare Inc	NET
30	Johnson & Johnson Co	JNJ
31	Okta Inc	OKTA
32	DocuSign Inc	DOCU
33	Pinterest Inc	PINS
34	Avalara Inc	AVLR
35	Roku Inc	ROKU
36	Intuit, Inc.	INTU
37	Autodesk, Inc	ADSK
38	Charter Communications Inc	CHTR
39	Zoom Video Communications Inc	ZM
40	JD.com Inc ADR	JD
41	Zillow Group Inc Class C	Z
42	Datadog Inc	DDOG
43	Moodys Corp	MCO
44	QUALCOMM Inc	QCOM
45	Booking Holdings Inc. (Priceline)	BKNG
46	NVIDIA Corp	NVDA
47	Tesla Inc	TSLA
48	Wix.com Ltd	WIX
49	Abbott Laboratories	ABT
50	AbbVie Inc	ABBV

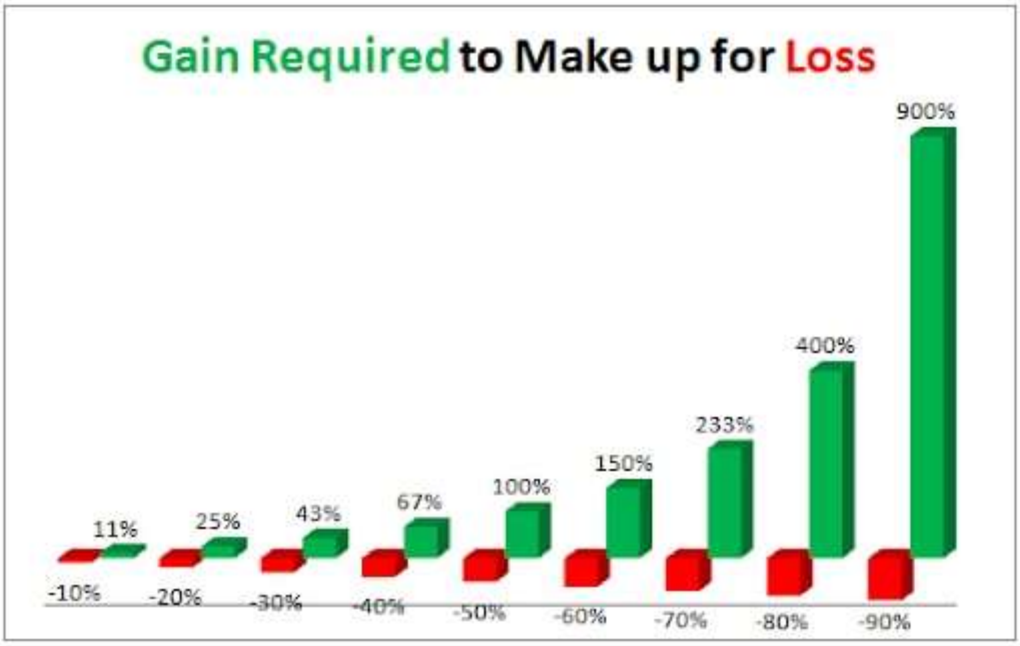
FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX RETURNS,
July 1, 1926–December 31, 2019





2020E return assumes S&P 500 index ends the year at 3700. The current level is 3551.

Source: Goldman Sachs Global Investment Research



Time to Get Out of Tech Stocks? If So, Into What for Returns?

Tech stocks were strong performers last year. The pandemic meant that providers of remote services like Zoom Video Communications or Peloton Interactive experienced massive sales growths, while a whole host of cybersecurity and cloud hosting companies did well alongside the usual big players like Microsoft, Apple and Amazon. However, as the economy bounces back from the disruption of COVID-19, tech stocks have slumped.

What this sell-off means is a big question for investors. Is it time to get out of Tech stocks? And if so, what sectors are a safer bet for 2021?

Why Are Tech Stocks Losing Value?

Several factors have contributed to Tech stocks decline in 2021. Bond yields, considered poor performers for a long time, have begun to improve. This has made them a more attractive destination for investment at the expense of tech stocks.

Another significant factor connected to bond yields is rising interest rates. Speculative, high-growth tech companies are reliant on future cash flow rises, so any sharp inclines in interest rates affect their future value, lowering their investment appeal.

Additionally, as COVID-19 vaccines roll out and the economy powers back, many investors are exiting Tech positions that performed well in 2020 and investing back into areas that should grow over the next year. Stocks that are linked to an economic comeback are looking more favourable.

CORRELATION PLOT TABLE X

		AAPL	MSFT	FB	AMZN	GOOGL	NFLX
AAPL	Apple Inc.	1.000	-	-	-	-	-
MSFT	Microsoft Corporation	0.655	1.000	-	-	-	-
FB	Facebook, Inc.	0.576	0.641	1.000	-	-	-
AMZN	Amazon.com, Inc.	0.625	0.803	0.572	1.000	-	-
GOOGL	Alphabet Inc.	0.441	0.664	0.687	0.555	1.000	-
NFLX	Netflix, Inc.	0.446	0.680	0.430	0.836	0.422	1.000

Is It Time To Buy Cyclical Stocks?

If tech stocks are looking a little shaky, is it time to move into cyclical stocks? If the economy roars back, these stocks could be some of the biggest beneficiaries. JPMorgan’s Mislav Matejka certainly thinks so, and he suggested while some cyclical stocks values looked a bit “toppy” after a strong 2020, he wouldn’t recommend anyone to cash out just yet. Matejka went on to suggest that until bond yields came down, cyclical stocks should perform well.

Which Type of Cyclical Stocks Are Good Alternatives to Tech?

Right now, Industrials, Energy and Communications stock all stand to benefit from the economic recovery and Joe Biden’s $1.9tn stimulus package. Banks and automotive stocks also look attractive. While the road to recovery is not clear yet, there is a good argument for investing in solid cyclicals with a good track record within specific sectors as the vaccine rollout continues.

Additionally, there are plenty of cyclical hospitality stocks that could be of interest to investors too. Travel and leisure companies like cruise lines have seen their valuations rise in recent weeks as the market speculates on the end of the pandemic. While these could turn out to be a good bet, there is too much uncertainty around travel and tourism to make this anything except a risky, speculative play. Caution is advised.

Should I Stick With Tech Stocks?

For some tech stocks, like Tesla and Invesco, this market correction was severe. Many US tech stocks had been aggressively priced and were reaching bubble territory. However, while bond-yields are high, it's still not time to write off tech stocks. There are too much innovative and potentially market-disrupting technologies to believe this downturn will continue across the board.

Apple, Microsoft and DocuSign should all expect a reasonable 2021. Interestingly, stocks like Uber and Lyft — which both had disappointing sales growth in 2020 — should bounce back as global lockdowns recede.

Again, resilient stocks with good fundamentals are here for the long haul. While some pretenders will come and go, strong performers like Netflix, Apple, and Amazon will weather the storm.

Conclusion

Ultimately, while tech stocks have taken something of a dip lately, they aren't going anywhere. Individual stocks will come and go, but the broader tech market will continue to show strength. It would be wise for investors to keep some tech stocks in the portfolio, with assets like Microsoft, Apple and Amazon good bets to ride volatility over the long term.

As tempting as it is, now is not the time to chase quick returns by gambling on news and fads. Investors should Look to have resilient holdings across a few different sectors, including, but not limited to, tech.

Poor Performing Funds

It has been a difficult few years for UK investment fund managers. Between the debacle of the Woodford Equity Income Fund and the COVID-19 pandemic, "star" funds that promised so much have led only to disappointment for investors. Investors looking to find the right home for their pension, SIPP, or ISA, have a decision to make: lose money due to UK investment fund manager's underperformance or learn more about investing themselves.

MENU

THE SUNDAY TIMES
SUNDAY APRIL 11 2021

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Fund fees that are three times more than you think

David Brenchley

Sunday April 11 2021, 12.01am, The Sunday Times

Investors are asked to pay on average almost twice as much in fees as the "at a glance" costs shown on the websites of the largest investment platforms. In some cases the full cost of buying and holding a fund is almost three times as much as the charge advertised on the fund overview page, according to research from SCM Direct, the wealth manager run by Alan and Gina Miller, who campaign for greater transparency in the investment industry.

Two decades on from research by the City regulator — the Financial Services Authority at the time — showing that up to 50 per cent of fees were hidden, little has been done to rectify the problem, Alan Miller said.

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WEDNESDAY APRIL 7 2021
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JAMES CONEY

Why did my pension lose 24% in a year?

James Coney

Saturday April 03 2021, 12.01am, The Times

'What? 24 per cent. How does a pension lose 24 per cent in a year when global stock markets rose?"

I wasn't alone in this minor outburst, sparked by a letter that arrived at the end of February from Fidelity containing my annual statement for an old company pension.

The State of Play

Everywhere you look, you can find evidence of UK fund managers terrible performance. The S&P Global's Indices Versus Active (SPIVA) scorecard is a measure of how fund managers perform against their benchmark. In 2018, they reported that almost three out of every four active fund managers had underperformed against the market. More recently, in the tumultuous economic conditions that are touted as the most favourable for fund managers, only around 70% beat the benchmark.

While this would be concerning alone, it's only one part of a larger picture. The performance of some of the UK's largest funds is shocking. Over the last three years, the Invesco UK Equity High Income Fund had a three-year underperformance of 21%. This fund — in the UK All Companies sector — holds over £3.2b, much of it pension and savings funds.

Two other funds of similar size with a lousy performance are JP Morgan's US Equity Income Fund which holds over £3.2b and has badly underperformed against the resurgent US stock market by around 27%. Another behemoth fund that can't keep up with its benchmark is Schroders Personal Wealth Multi-Manager International Equity X. While it is up overall, it lags the market by 11%.

2019 Winner's Luck Transforms

Sadly, this pattern continues throughout the investment fund industry. Witan (WTAN) chief executive Andrew Bell has recently apologised to investors after what he termed a lamentable performance during the covid crisis. They trailed the market by a shocking 12%, which Bell explained, was due to inactivity in cutting the fund's exposure to UK stocks affected during the pandemic and the resulting lockdowns.

The fund had performed strongly in 2019, but that progress was wiped out by dithering for too long during the crisis, eventually leading to the losses.

Ninety-One Problems

Ninety One, the self-styled sustainable active investors, have admitted that about a third of its funds are underperforming against the market. With a total value of close to £2b, three of their funds had all suffered low returns for investors.

The Cautious Managed — a £1.2b total fund — is down about 11% over three years and trailing the industry average by around 17%. While things weren't looking too good for two of its other funds, the UK Special Situations (down 18%, 15% against the market) and the UK Total Returns have returned a staggering -23%, well behind the market average of 3%.

The FTSE 100 Is No Longer A Safe Haven

For those who invest in their pensions in index funds, 2020 was a bad year. The FTSE 100 fell by around 14.3%, which was its worst year since the global financial crisis of 2008. While some of these problems were due to Brexit and a larger market recession, these mitigating circumstances will be of scant consolation to anyone who has lost a large chunk of their retirement fund. This exposure, of course, is the long-stated issue with index funds and underlines the importance of diversifying into different types of bonds or other investments.

Huge Fees

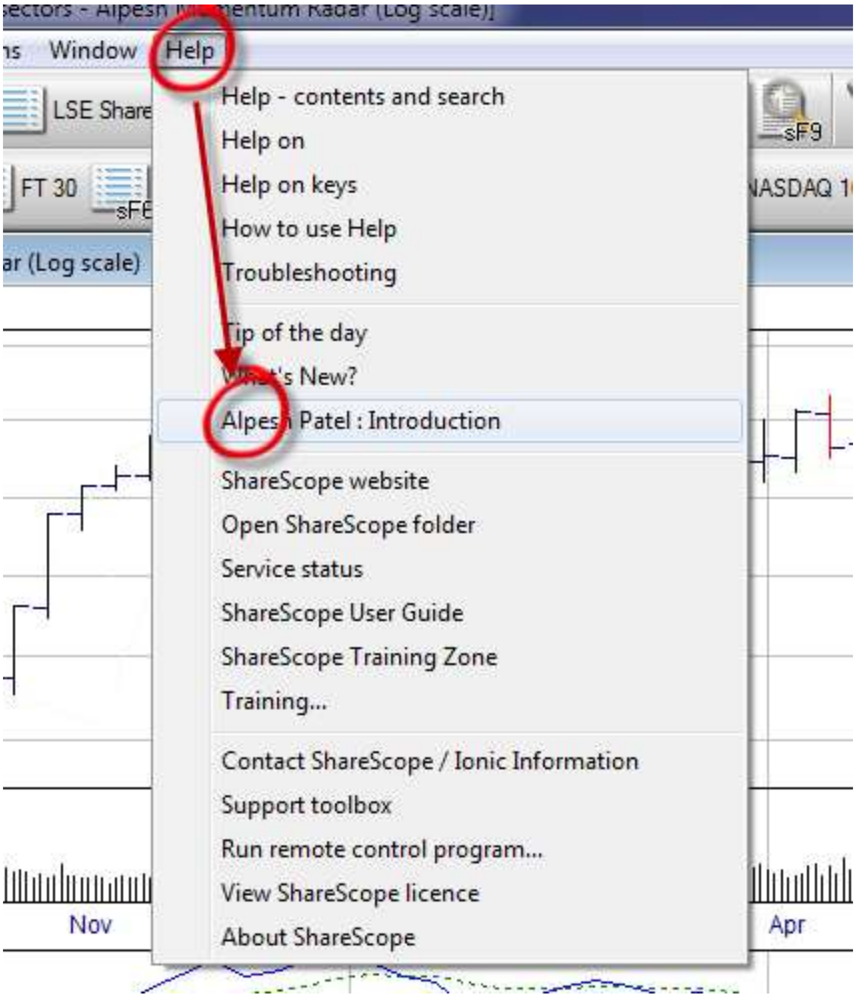
One of the most striking aspects of UK funds chronic underperformance is the high fees charged to have a seat at the table. It is estimated that underperforming funds have charged their investors around £1/2bn over the last years. Seventeen significant funds lagged behind the market over the previous three years, with funds like Investco's UK Equity Income and High-Income funds drawing over £70m in fees.

Paying huge fees to underperform the market is scandalous. Jupiter Asset Management also has three funds on the list of companies charging exorbitant fees for terrible returns: Income Trust, Absolute Return and the Uk Growth.[Prices for these funds are around £35m combined.]

Conclusion

For UK investors looking to grow their pension pot, none of this is good news. UK funds operate in a very efficient marketplace where small margins decide who the occasional victor is. Unfortunately for the investor, picking one of the handfuls of firms who make good on their promised returns isn't always easy. It is for this reason that UK investors should consider reducing the fees and learning to invest themselves. With the right guidance and some research, they can hardly do worse than some of these funds.

Help Page



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HRH The Prince of Wales
Royal Founding Patron
Session 14:
Exclusive insights with Ashok Vaswani - Chief Executive Officer of Consumer Banking and Payments at Barclays
Tuesday 20 April 2021 at 11:30 am
In this session, we will gain Ashok's expert insight on how economies might behave over the next 12 months. He will highlight the adaptability of businesses during COVID-19 and what they can expect following the withdrawal from the EU. This discussion will be facilitated by Alpesh Patel OBE, Founder of Praefinium Partners Ltd and Campaignforamillion.org.
We will also invite you to submit questions and discussion points upon registration.
Ashok Vaswani
Chief Executive Officer of Consumer Banking and Payments at Barclays
Alpesh Patel OBE
Founding Principal of Praefinium Partners Ltd