Alpesh Patel's Newsletter

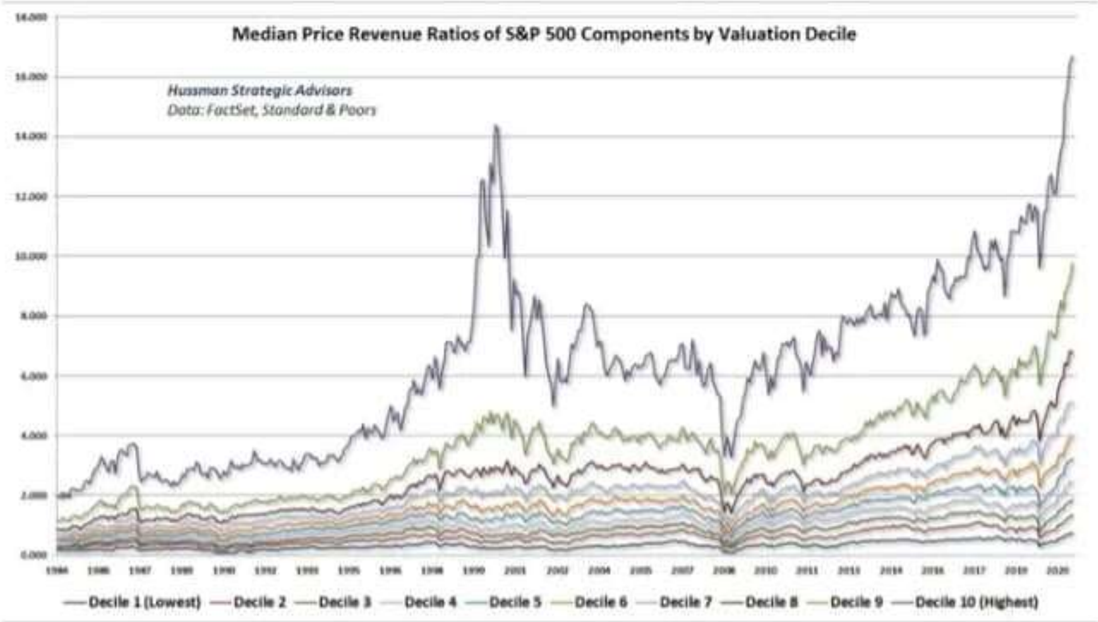
Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

10 August 2021

Overview

The market continues higher as we still all worry about valuations. These were the best images to capture what is going on…

6. Median Price To Revenue Ratio Per S&P 500 Decile

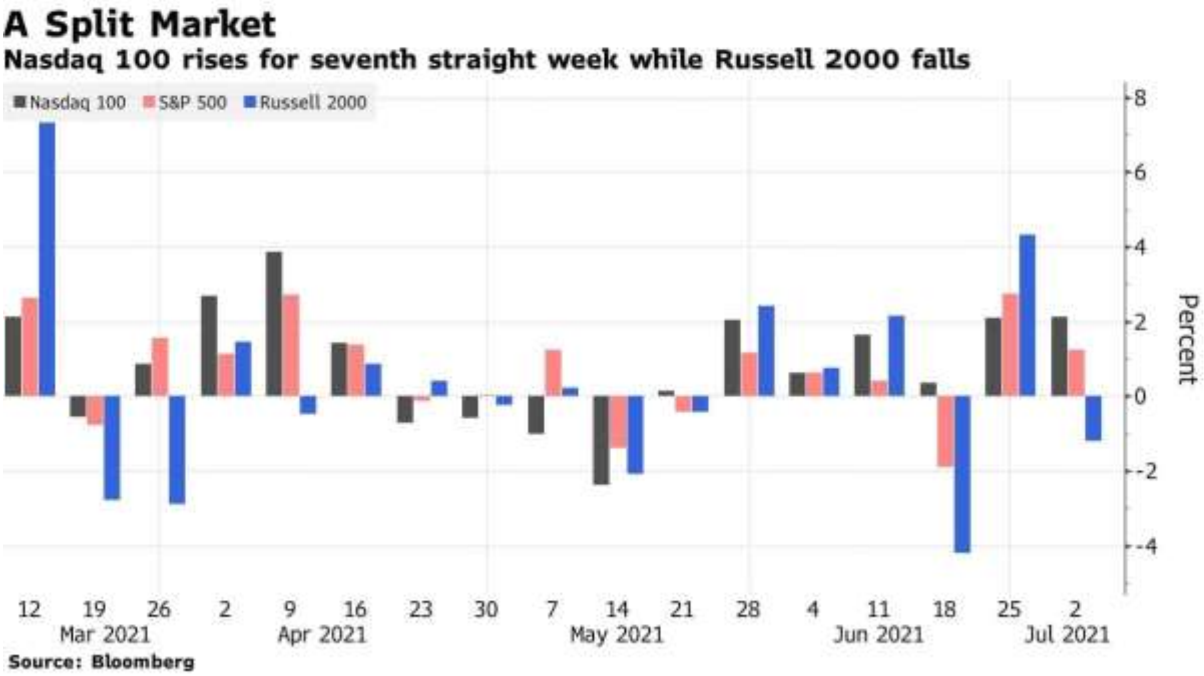


Hussman Funds

3. Irrational Exuberance Indicator

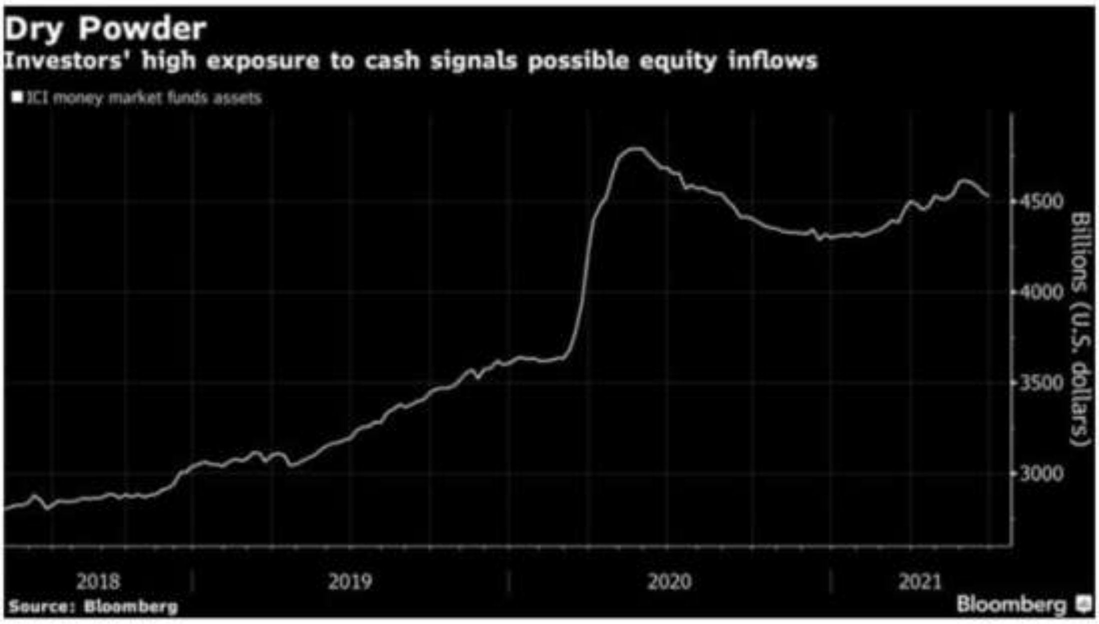
The great 2021 profit rebound
Year on year change in S&P 500 earnings per share (%)
Estimate
150
100
50
0
-50
-100
Financial crisis
Coronavirus
2008
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Source: FactSet
© FT

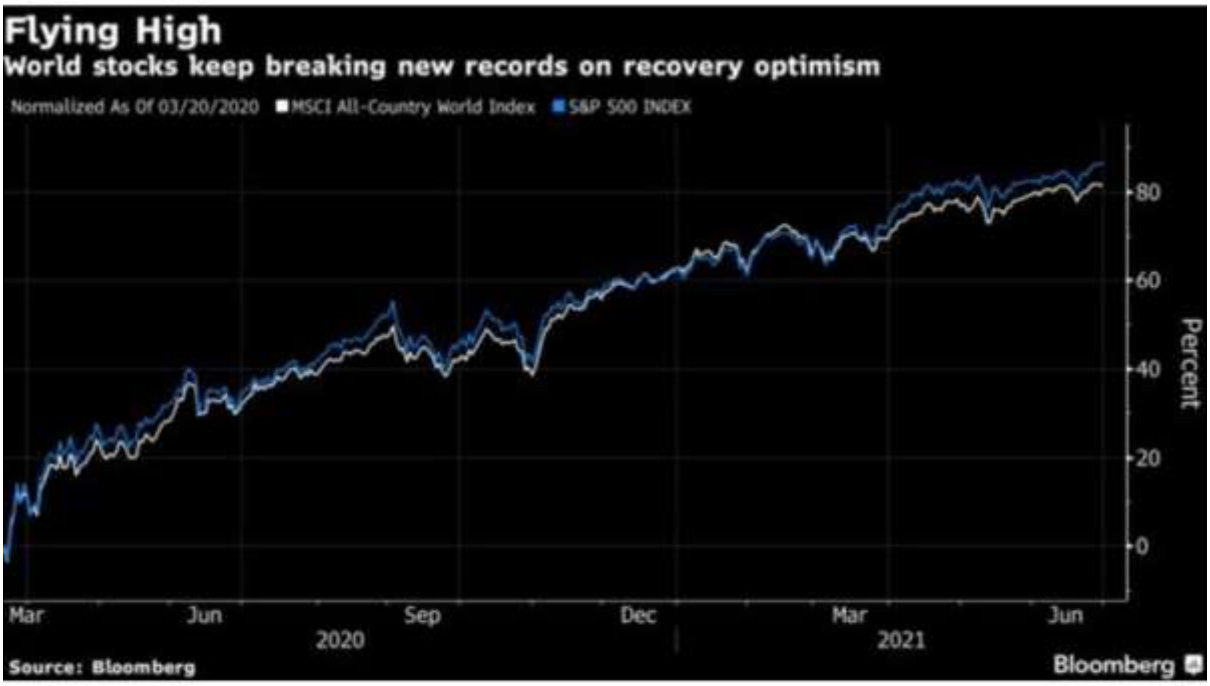
S&P500 P/E Ratio vs Historical Ave Since 1950
with +/- 2 standard deviations
www.currentmarketvaluation.com
Internet Bubble
132%
Aug 6, 2021
94% above ave
+2 Std Dev
+1 Std Dev
Historic Average
Bottom of Fin Crisis
-34%
-1 Std Dev
-2 Std Dev
150%
100%
50%
0%
-50%
-100%
1950
1960
1970
1980
1990
2000
2010
2020



My focus remains on US stocks as has been the case for over 20 years now.


Looking for Alternatives
With U.S. stocks at record highs, investors turn to laggard markets
Normalized As Of 03/23/2020
S&P 500 INDEX
Tokyo Stock Exchange Tokyo Price Index TOPIX
EURO STOXX 50 Price EUR
100
80
60
40
20
0
Percent
Mar
Jun
Sep
Dec
Mar
Jun
2020
2021
Source: Bloomberg
Bloomberg


Dry Powder
Investors' high exposure to cash signals possible equity inflows
ICI money market funds assets
4500
4000
3500
3000
Billions (U.S. dollars)
2018
2019
2020
2021
Source: Bloomberg
Bloomberg



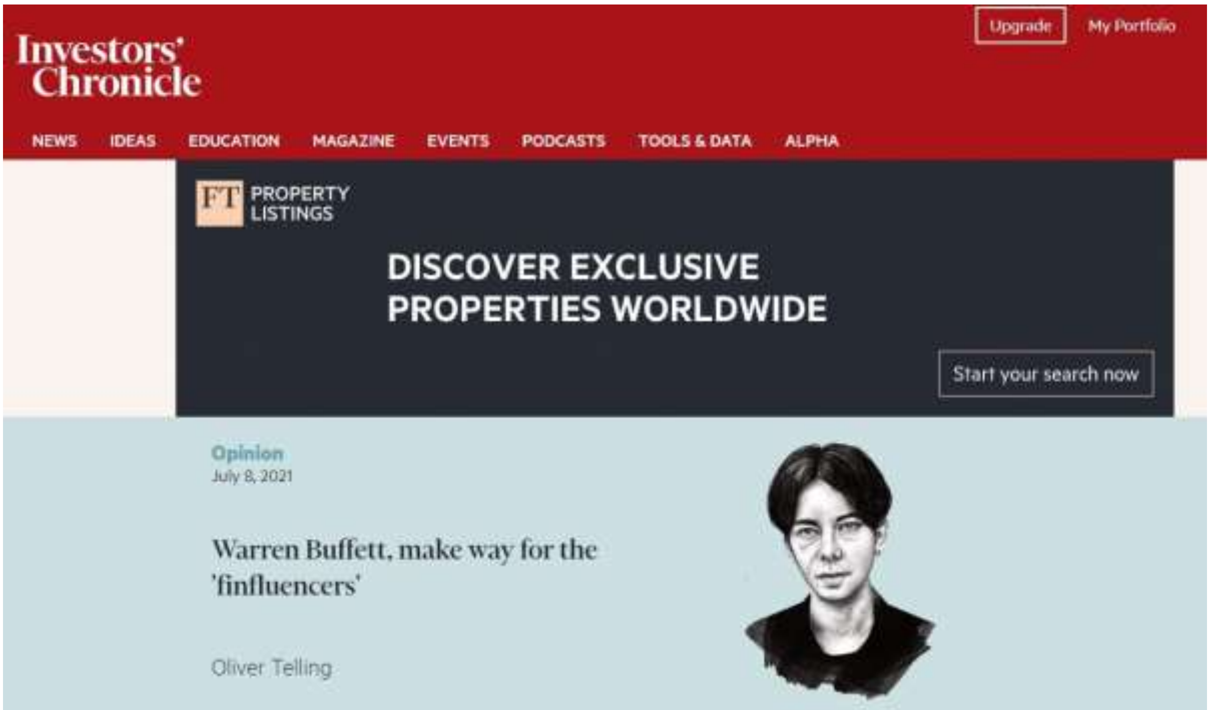
I trust you're enjoying these markets!

These markets are getting some people to think about taking greater risk with the markets and I've tried my best to satisfy their requests. These ideas are too risky for my tastes though. You can see where I think things may go.

Special Strategy. HIGH RISK. Could go up 50% in next 2 years. You can see downside risk.

Special Strategy: HIGH RISK. One of the few down > 30% from it's 2 year ago price and moving up with some good financials.

Pleased to be in this article!



Investors' Chronicle

Upgrade | My Portfolio

NEWS IDEAS EDUCATION MAGAZINE EVENTS PODCASTS TOOLS & DATA ALPHA

FT PROPERTY LISTINGS

DISCOVER EXCLUSIVE PROPERTIES WORLDWIDE

Start your search now

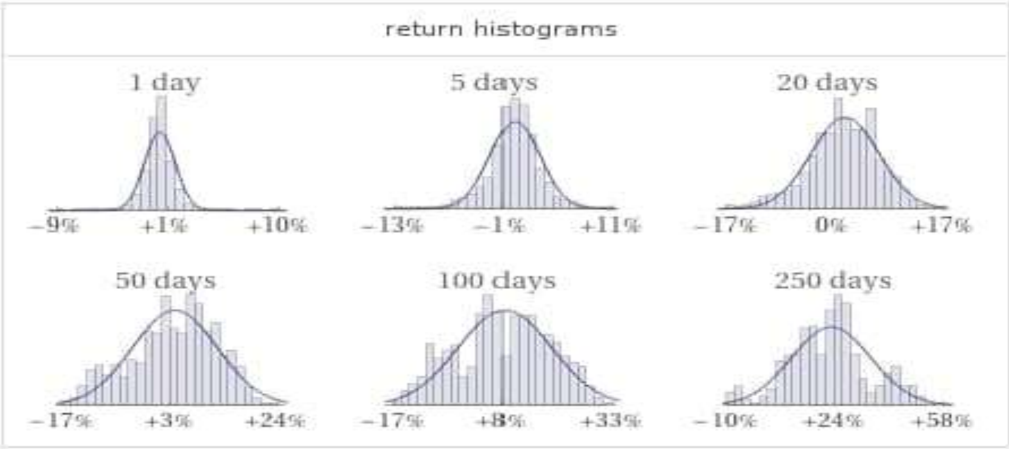
Opinion

July 8, 2021

Warren Buffett, make way for the 'finfluencers'

Oliver Telling

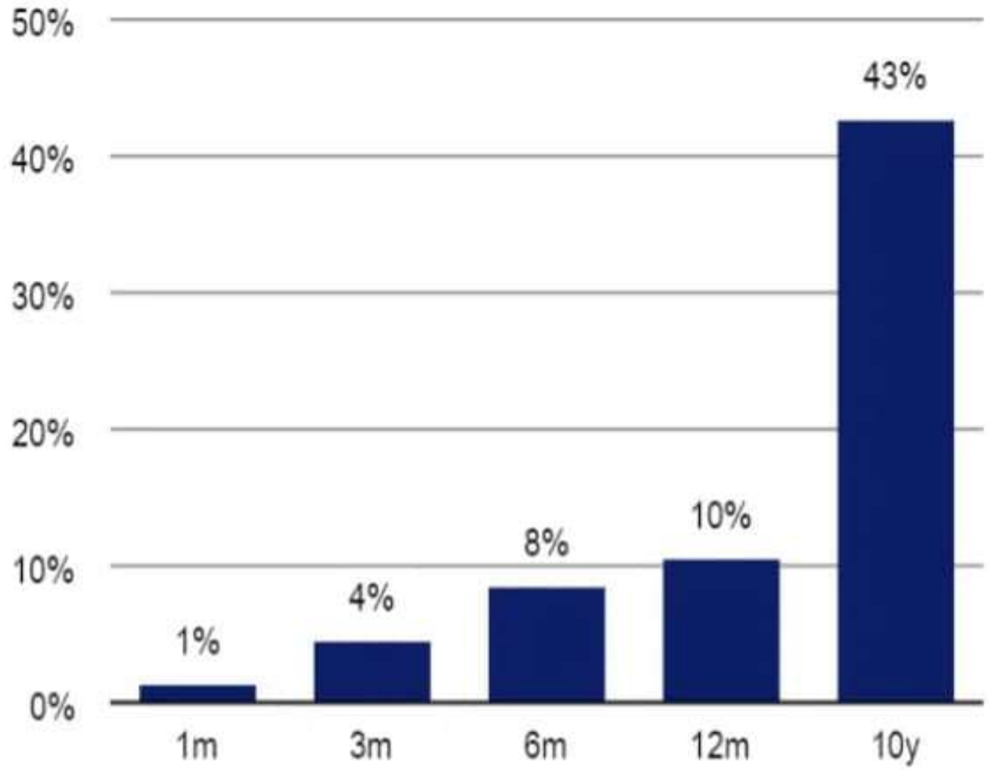
Some in the city appear to be taking note. Fund manager Alpesh Patel, a regular talking head on the BBC, started posting lighthearted quicktakes on TikTok last year and has since picked up nearly 37,000 followers.



This is Costco. It is part of my Strategy to use double leverage using CFDs for a 12 month holding.

Chart 8: Valuations have the highest explanatory power over the long-term returns (10yr)

R2 of relative forward P/E vs. subsequent return spread over various time horizons (since 1979): Russell 2000 vs. Russell 1000, as of 6/30/2021



Note: Represents the relationship between the relative forward PE for the Russell 2000 vs the Russell 1000 (since 1979) and subsequent rolling returns differential

Source: Russell Investment Group, FactSet, BofA US Equity & Quant Strategy

Going Back to Higher Risk Investments

Risk HIGH: Potential Upside 100%. Downside: 50%. Time: Could be upto 2years.

RISK HIGH: BOTB. Upside 100%, Downside 33%. Could Take 2 years.

Risk: High. Upside 50%. Downside: 25%. Time: 1 year. Risk: High.

Do not think the market only ever goes up and we are trying to time the days it goes up. It doesn't and we don't. We drive through short term noise. Don't ask me ask the billionaires like Buffet and Gates why they hold through the noise.

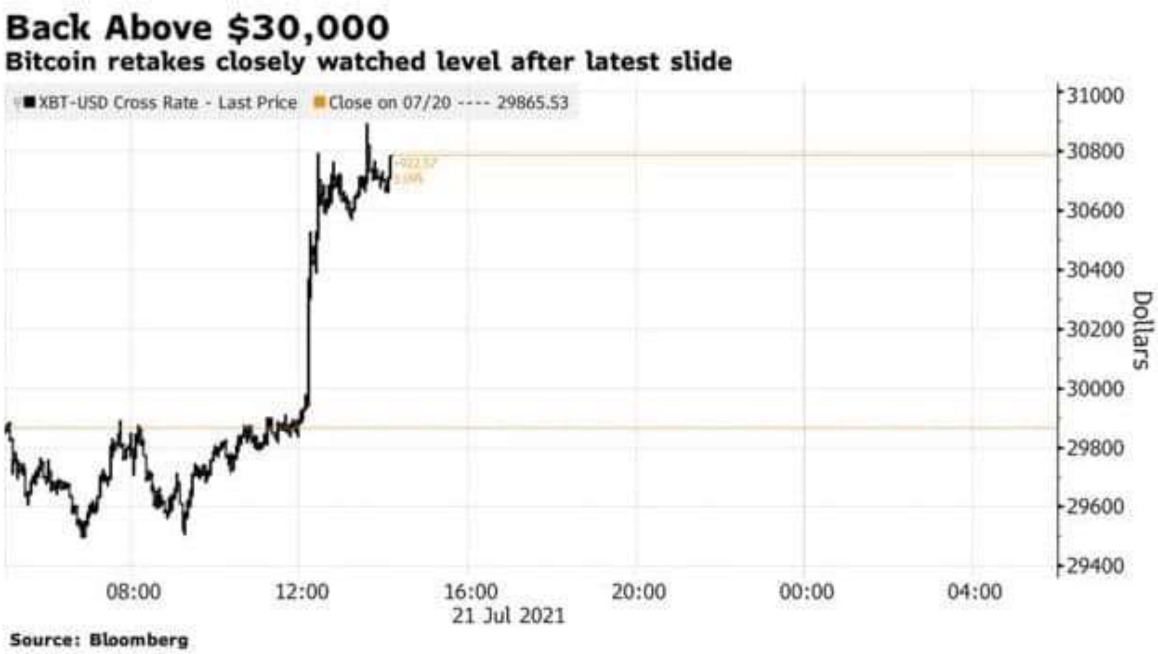
Our job is not weekly stock tipping. "This week this will go up". I can do that. But it would be time consuming and not provide enough advantage over time cost to justify doing it. Yes I'd like a time machine. And you'll know when I or the billionaires have one as they'll have just one stock.

One thing to note is that as shown above any falls are short. I barely after a fall noted my forecasts in red and they already came to pass.

But not all returns are created equal as you can see below.

Bitcoin

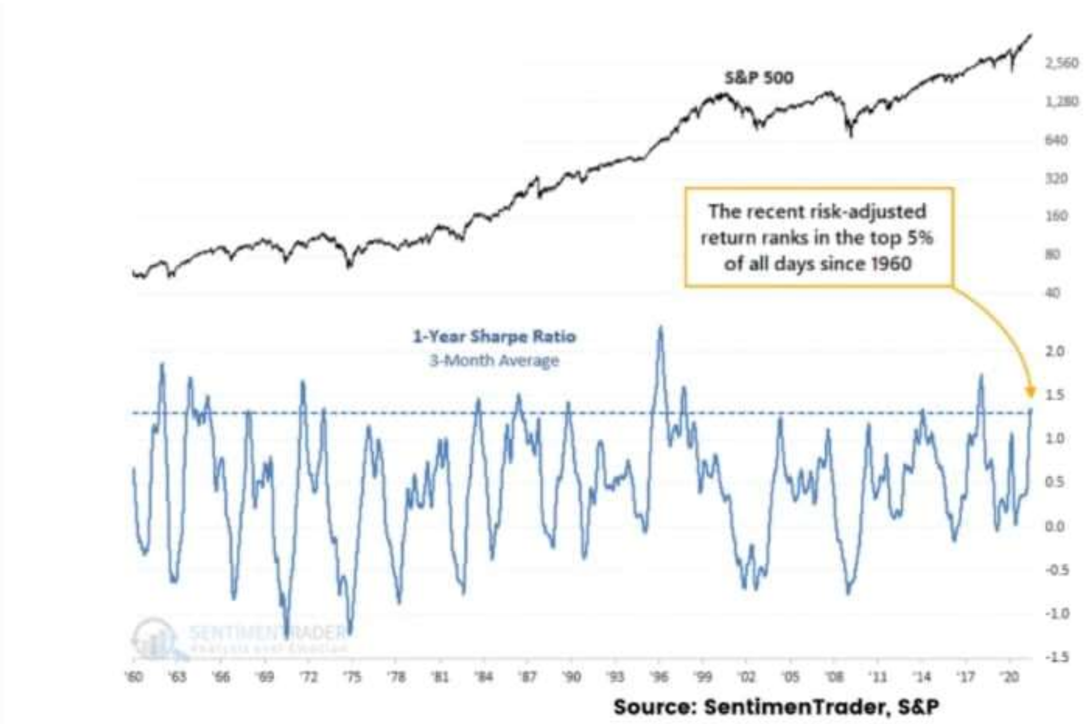
Bitcoin is like modern art – you know what I mean!



Equality in Finance

SECTORS, SELECTED	ESTIMATED YEAR OF GENDER PARITY ON EXECUTIVE COMMITTEES
Hedge funds	2109
Challenger bank	2073
Private equity	2043
Investment banks	2037
Asset managers	2031
Fintech	2030
Banking, insurance	2026

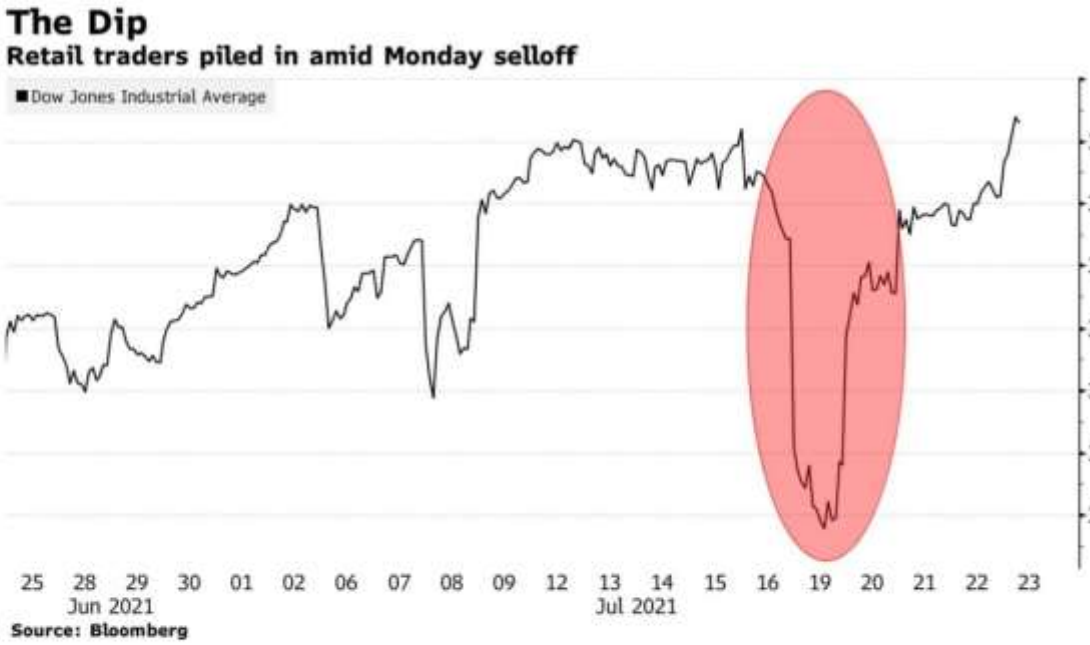
What Keeps Propping Up Market?

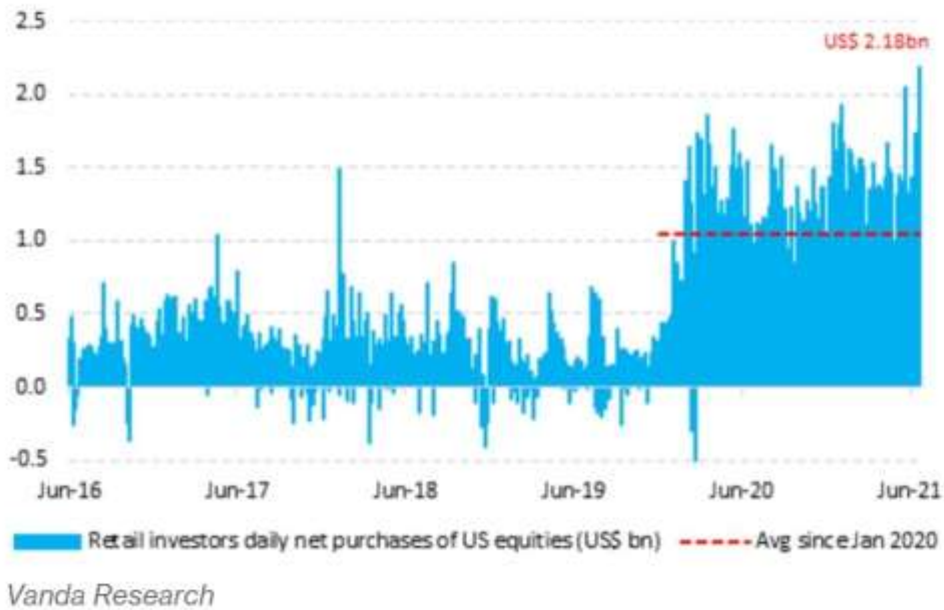


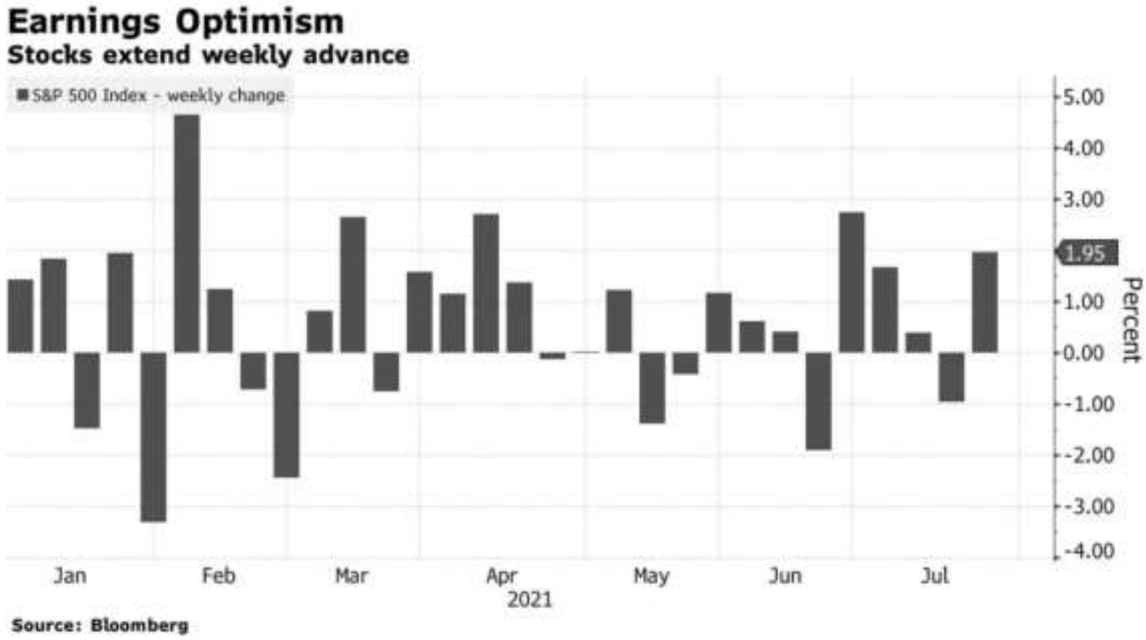
Bloomberg

Markets

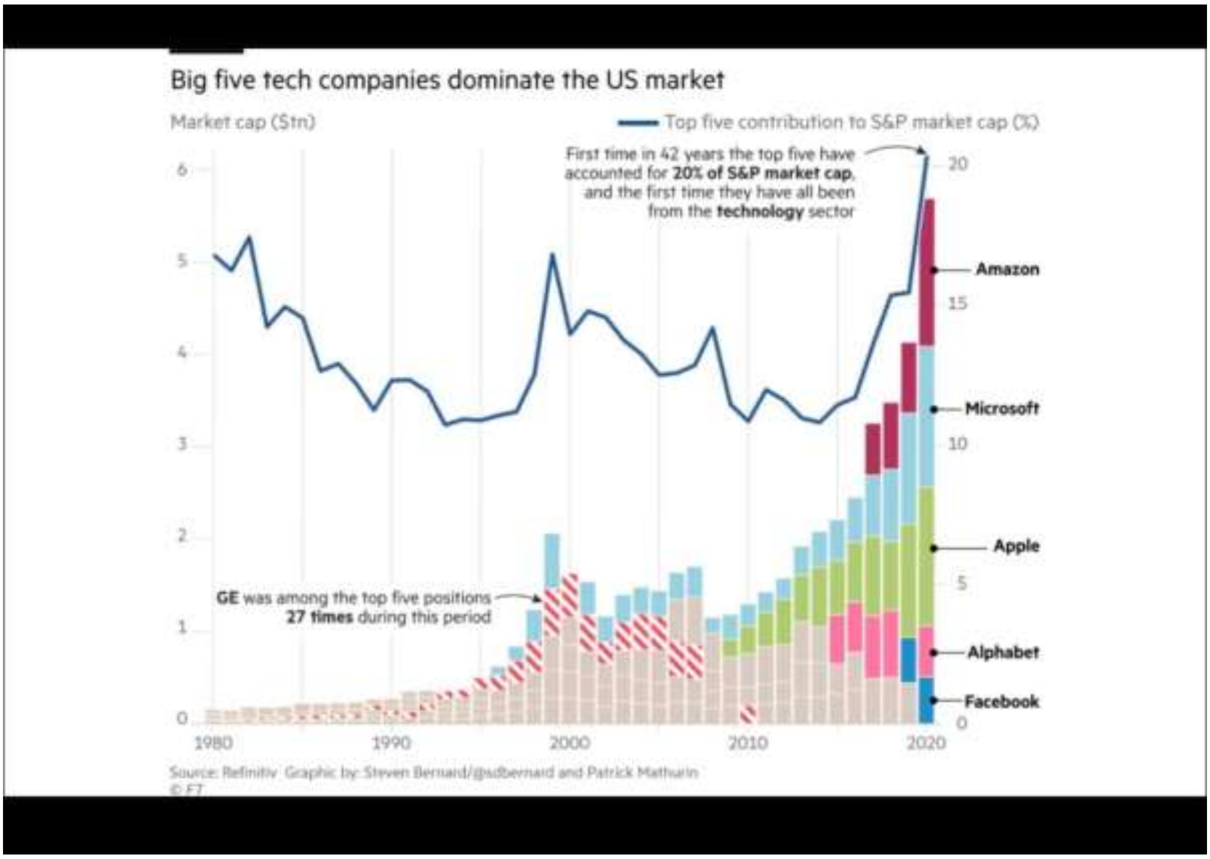
Day Traders Take Wall Street by Storm Again in Record Dip Buying

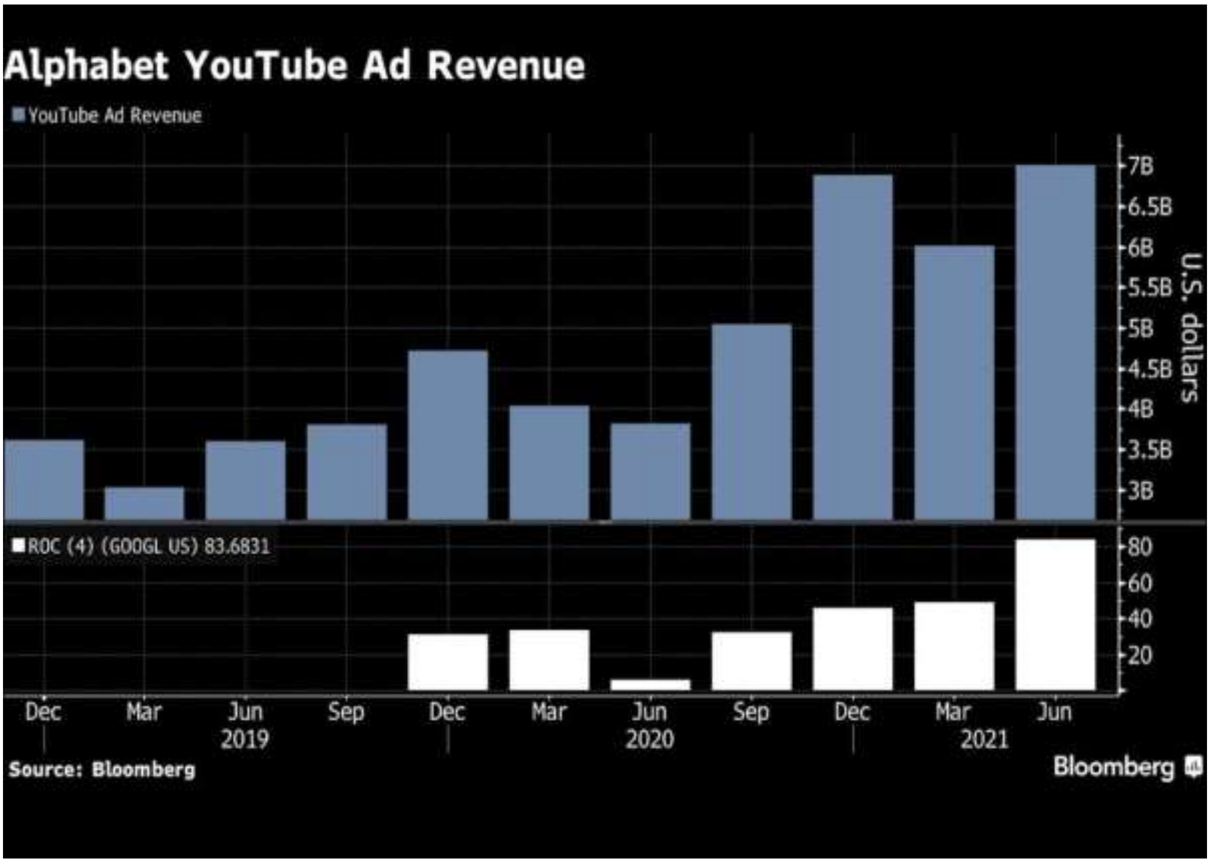

The Dip
Retail traders piled in amid Monday selloff
Dow Jones Industrial Average
35000
34800
34600
34400
34200
34000
33800
25 28 29 30 01 02 06 07 08 09 12 13 14 15 16 19 20 21 22 23
Jun 2021
Jul 2021
Source: Bloomberg


2.5
2.0
1.5
1.0
0.5
0.0
-0.5
US$ 2.18bn
Jun-16
Jun-17
Jun-18
Jun-19
Jun-20
Jun-21
Retail investors daily net purchases of US equities (US$ bn)
Avg since Jan 2020
Vanda Research



It’s retail investors and earnings which are key. And a few companies.





What's Driving The Retail Investor Boom

According to Vanda Research, retail investors have bought $400bn in stocks since January 2020. This figure is twice the number of equities they purchased in recent years.

This growth has been a notable trend in recent years for several reasons. Firstly, the internet has allowed a free flow of information. Secondly, apps like Robinhood allow straightforward fee-free trading.

But the big question is if this retail investor boom will survive a market dip?

At the start of 2021, Wall Street wasn't taking retail investors seriously. Reddit and Twitter buzzed with optimistic wannabe traders who were buoyed by the post-pandemic crash recovery. As the market rebounded strongly, most of their picks performed well. But it was meme stocks that made people sit up and take notice.

In January, lots of day traders congregated on Reddit's WallStreetBets subreddit. Between them, they drove the shares in GameStop up, forcing short-sellers to lose millions of dollars. Soon enough, the pattern was repeated with investments in other ailing companies like BlackBerry and AMC Entertainment. And so, the success of meme stocks was born.

Cryptocurrency

A similar situation has been happening with cryptocurrency over recent years. Bitcoin and the other digital currencies are some of the least regulated investments in the financial markets. But many Reddit and Telegram groups have sprung up, with users orchestrating the pump of coin prices to make quick profits.

However, this frenzy has increased with the likes of Dogecoin, a cryptocurrency created as a joke. And this is a pattern with meme stocks. These investments aren't about fundamentals and a belief in the value of a company. They are all about thousands of users congregating together and manipulating the price of stocks.

But to suggest that cryptocurrency trading is all just reckless gambling would be inaccurate. The crypto options market has been growing exponentially. $1.4 billion in notional amounts was traded each day in May.

Should Day Traders Be Protected From Themselves?

All this activity has led to calls for regulatory bodies to intervene. While there are profits to be made in these situations, highly volatile stocks that are not backed by fundamentals can lead to huge losses. In fact, most day traders lose money.

The new SEC chair Gary Gensler plans to investigate trading apps. To many, apps like Robinhood encourage day traders to invest more than can be wise. On a recent appearance of CNBC, Gensler drew attention to the business model of these apps, suggesting that they weren't exactly fee-free.

He highlighted the fact that market-makers like Virtua and Citadel Securities pay Robinhood to process trades. From here, they make money off the spread. Secondly, your data is being harvested. Data, as we all know, is a precious commodity.

Is the Retail Investor Boom a Revolution For Ordinary Investors?

A significant driver of the GameStop phenomena in January 2021 was the opportunity for the little guy to triumph over the market. By noticing that GameStop was shorted by over 100%, retail investors saw a chance to hit back at a system that had shut them out.

Most retail investors lack the knowledge, infrastructure, and access to information to beat the market consistently. But by going against the 100% short, daytraders attempted one of the most notable short-squeezes in memory. By banding together, investors on the appropriately named RobinHood app cost hedge funds around $5bn.

In turn, Robinhood froze trading on GameStop on January 28. For many retail traders, this was an outrage. Many felt that this allowed hedge funds an advantage to save their shorts.

Conclusion

Investments like GameStop and Dogecoin are the extreme end of a trend that has seen retail investors flock to trading apps. In late January, Robinhood incredibly topped the download charts. The worry is that gamification of trading encourages gambling and reckless investment.

However, amidst the concerns that retail investors will lose money are some green shoots of hope. Increased interest in the markets should drive financial literacy among everyday investors. While this may attract many investors to the dizzying highs and lows of GameStop or crypto, others will realise that a more slow and steady approach can deliver success.

Understanding and investing in a diverse range of resilient stocks has been a winning play over recent years. As the booming retail market matures, a focus on fundamentals — rather than short squeezes — could lead to more sustainable results. Large communities of retail investors sharing and analysing information could turn out to be a positive thing.

Record Money Going Into Funds. What Does It Mean For Stocks?

Investors have been pumping money into funds at an unprecedented rate. According to data provider EPFR, during the first half of 2021, $580bn has been added to the equity fund sector. Strategists say that if this rate continues for the rest of the year, it will mean that inflows in 2021 will be higher than the combined totals of the last 20 years.

What Does This Mean For The Stock Market?

Equity funds, flush with cash, have been putting this money in the one place that is producing excellent returns: the stock market. The markets have continued to rise as the pandemic recovery plan continues. Markets are at record highs and are outperforming the expectations of several analysts and big-name institutions.

The S&P 500 is up almost 15%, and the FTSE All-World Index is up by 12%. Even the UK markets, slower to recover from the pandemic crash than the US, are beginning to move north — up about 5% this year.

What Has Caused This Record Fund Investment?

One of the most significant factors in these record numbers is bond yields. Compared to the equity markets, bond yields are producing relatively low returns.

More than $12tn-worth of debt is trading with yields of below zero. With US inflation rates at around 5% for June and UK inflation at 2.1%, bond yields have struggled to keep up. For many investors, this left them with a stark choice: Accept negative real returns on bonds or enter the booming equity market.

Why Are Bond Yields So Low?

On March 31, Treasury yields hit a high of 1.749%. Market optimism was high with the vaccine rollout and pandemic recovery going to plan. Cut to July, and the 10-year Treasury yield is at 1.251%.

The US job market is recovering slower than expected, but overall the economy is recovering faster than the 2008 financial crisis. So why are bond yields so low?

Michael Darda, a strategist at MKM Financial Partners, suggests two reasons. Firstly, the bond market is pricing in a recession during 2022. Current predictions indicate growth of around 4%. However, earning estimates would have to come down if he is correct, meaning the market would take a tumble.

Darda's second reason is also bad news for the market. He believes that the Fed's bond-buying and returning money to the Treasury are pulling down rates.

Where is the Bond Yield Money Flowing?

So far, the flows out of bond yields have been directed to global funds and funds that buy American, European, and Japanese stocks. These funds have been pouring into the growth and tech sectors. While inflation is something of concern, this pattern is expected to continue.

Another fact is low-interest rates. The cost of cash is decreasing, and investors are looking for places to use it, and they are choosing broader asset markets.

Value stocks, whose prices are tied to the economic cycle, performed well in recent months. But since inflation expectations increased in May, market rotation has seen the tech sector surge once again. Stock like Apple is up 13% this month.

Retail Investors

Another stream that is flowing into funds is from retail investors. Data from Vanda Research's VandaTrack suggests that first-time traders are active in the market and have invested $28 billion in stocks and exchange-traded funds.

Recent market volatility and significant price rises continue to attract investors who are sure the market will continue to rise.

Where Will The Equity Market Go?

Retail investors' market optimism is shared by larger institutions like UBS Asset Management, JPMorgan Asset Management, and BlackRock. They all suggest that the equity market will continue to grow throughout the second half of 2021.

As long as bond yields remain low and credit spreads stay at a tight level, the stock market is the most attractive place for investors.

Analysts at Goldman Sachs have suggested that $5.5 trillion is sitting on the sidelines due to the pandemic. They believe that this pent-up demand will further swell the equities market.

As long as interest rates stay low and earnings growth stays positive; the market should remain healthy.

Conclusion

With bond yields failing to beat inflation and the pent-up demand of cash saved during the pandemic being used by institutions and retail investors, funds have seen a record inflow of money.

These investment funds are likely to target high-growth opportunities, in particular, large-cap US companies. As this money flows in, expect the markets to continue their upwards trajectory.

Financial Literacy Is A Magic Bullet to Social Justice

The data shows that women and ethnic minorities are paid less, are broadly less well off financially, and are also less financially literate. Relative financial illiteracy compounds social and structural biases and historical hardships. This implies financial literacy is even more important than we may have realised for social justice and social mobility.

How Covid Affected Personal Finances

These realities were exacerbated during the COVID-19 pandemic, with disproportionate outcomes for minorities and women. People who were struggling on the margins already have felt the pain of further exclusion.

As the world grapples with complex issues surrounding social injustice, it's clear that we need to find new, more creative solutions to these longstanding issues.

Financial literacy needs to be prioritized as many families and businesses were plunged into further debt and uncertainty during the pandemic. In some US states, this is becoming a reality.

Can Schools Help?

Twenty-four state legislatures are considering bills on financial literacy. There are several factors at play here, with social justice just one. Student debt is another concern, with many in the workforce struggling to obtain homeownership due to mountains of debt.

In 2020, high school students across 21 states were obliged to take a course in personal finance as part of their studies. Indeed, programs like this have gained favour over recent years, with 65% of American's believing that schools should provide financial education. Teaching the next generation about saving, investing, and financial security could close the wide margins of inequality throughout the West.

Indeed, the same study by the Charles Schwab Corporation suggests that almost 9 in 10 Americans indicate that a lack of financial literacy skills contributes to wealth inequality. With the average millennial having a credit card debt of $4000, it's clear that this problem extends beyond the classroom.

Common Misconceptions About Financial Education

These figures counter the common misconception that financial literacy is only required for children. While education for kids will bear fruit in the long run, there are problems here, which can now be addressed. Starting financial education early is excellent, but the learning doesn't end at school.

Regardless of race, sex, or educational background, all adults need to learn about money management. Being responsible, independent adults means that we can budget, save, and even learn to invest. And it's never too early to start — just out of college when you're starting a family or even when you are preparing for retirement.

As mentioned earlier, this need is even more acute for those who have been disproportionately affected by the pandemic and historical injustices. For women and minorities, getting access to financial literacy programs can transform their lives in the short and long term. Savings can help start a business, support a family, and increase career options in several ways. These benefits can then contribute to economic mobility and shrink the wealth gaps present in our societies.

The Limits of Financial Literacy

For some, however, education is just the start. Writing in the Washington Post, Helaine Olen suggests that people's finances were not in distress because they lacked financial knowledge and a lack of money. She cites the pre-pandemic savings rates of 7-8% and post-pandemic rates of 27% as proof that people know how to manage their income — if they have enough.

In addition to savings going up, credit card and overdraft debt went down. Olen's thesis is that government stimulus packages helped people act as they might if they had more disposable income and government assistance.

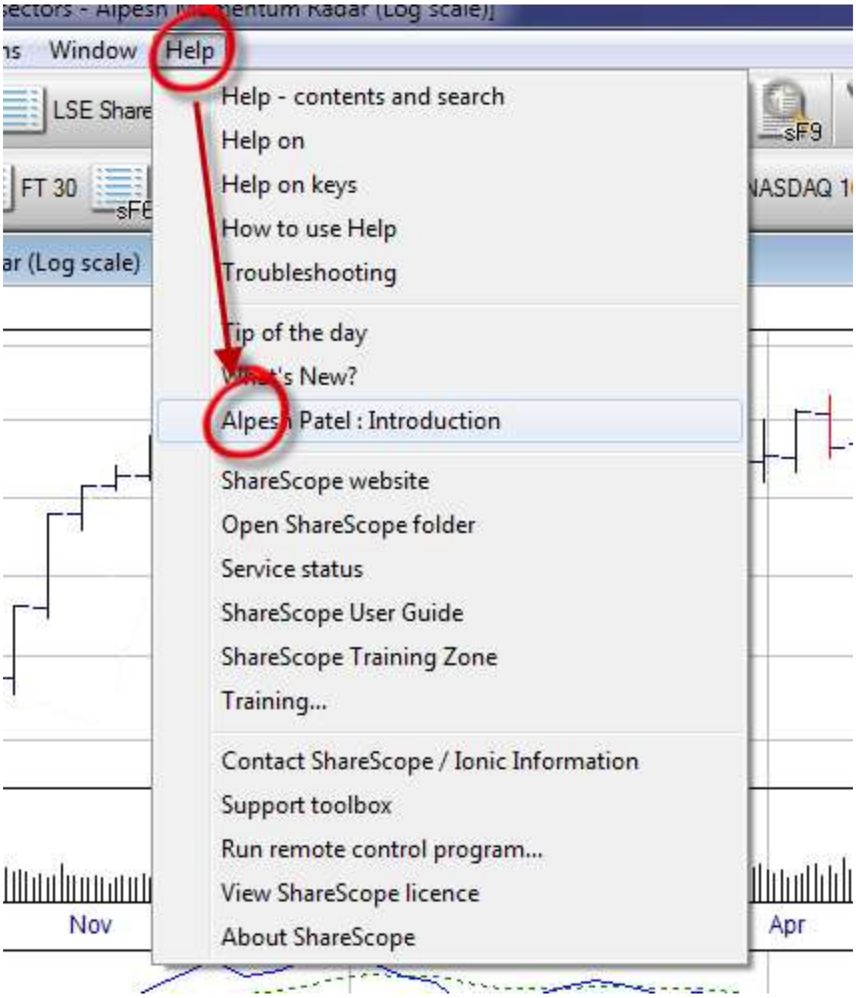
Of course, while the pandemic was an opportunity for some to slow down, reduce their spending and pay off some debt, it still furthered the wealth gap between the rich and the poor. While financial literacy won't solve all our problems, neither will indiscriminate public spending.

While government programs can help, parents have a responsibility too. As Jason Young, co-founder of MindBlown Labs, suggests, giving children a small allowance and encouraging them to save for toys teaches delayed gratification.

Conclusion

Social problems and inequality are complex issues with many facets. But the one thing that we do know is that women and ethnic minorities are struggling to close the wealth gap in many cases. Even in difficult social situations, financial management is a vital tool in the battle against inequality and the goal towards financial independence.

Help Page



Personal

Download a free copy from www.campaignforamillion.com