

Alpesh Patel's December Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

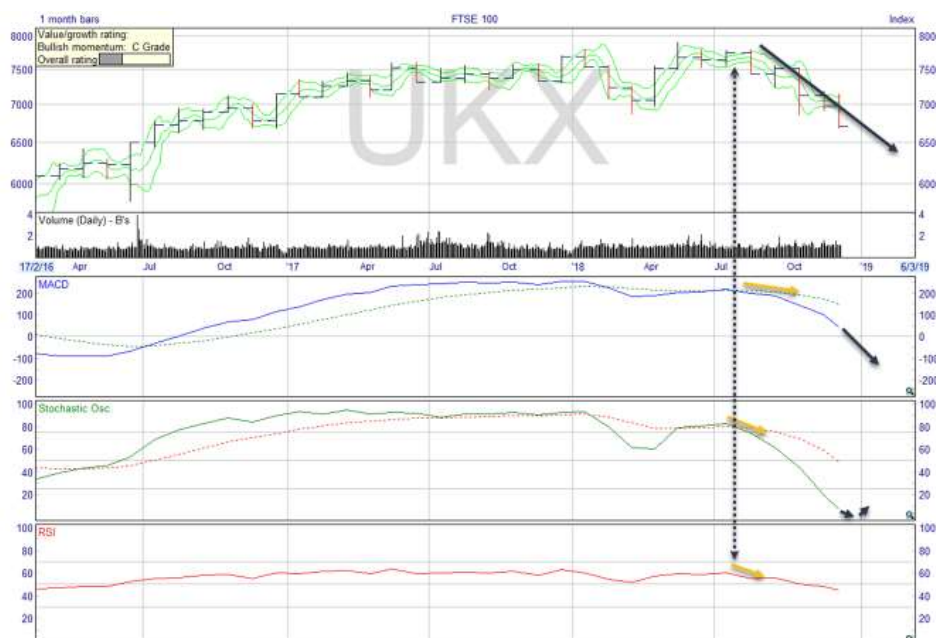


12 December 2018

My view on the markets

So, what do you do when stocks that rated highly at a 9 or 8 fall? Does that mean you're rubbish? Or they're rubbish? Or Warren Buffett is rubbish?

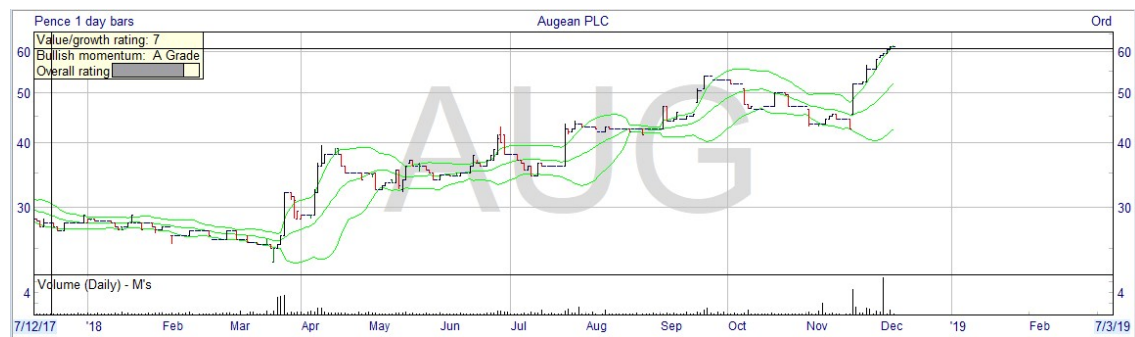
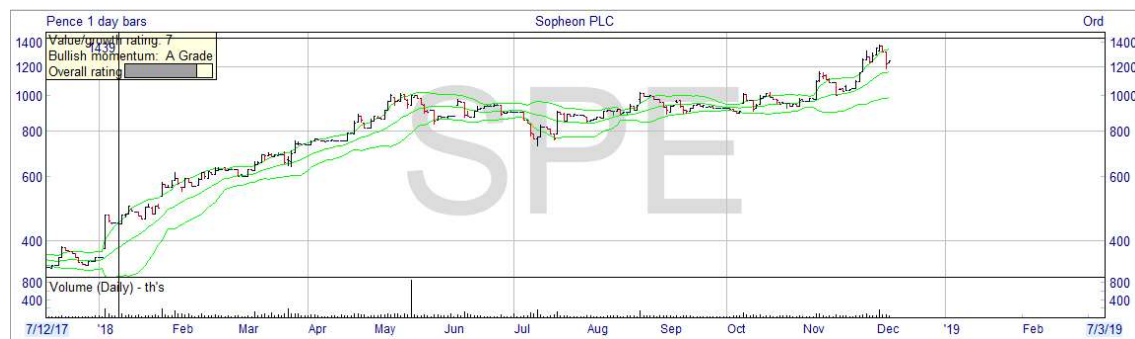
In this issue we answer this question plus – what do the recent falls mean? Which stocks are surviving the falls and may be safe havens, even risers? And which stocks do I wish we picked – the best of 2018 and some of the best analysis of the year we can use for 2018.

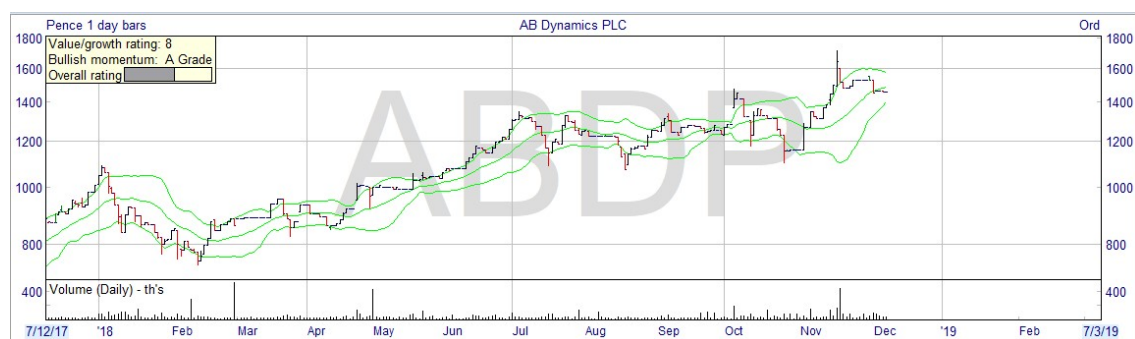
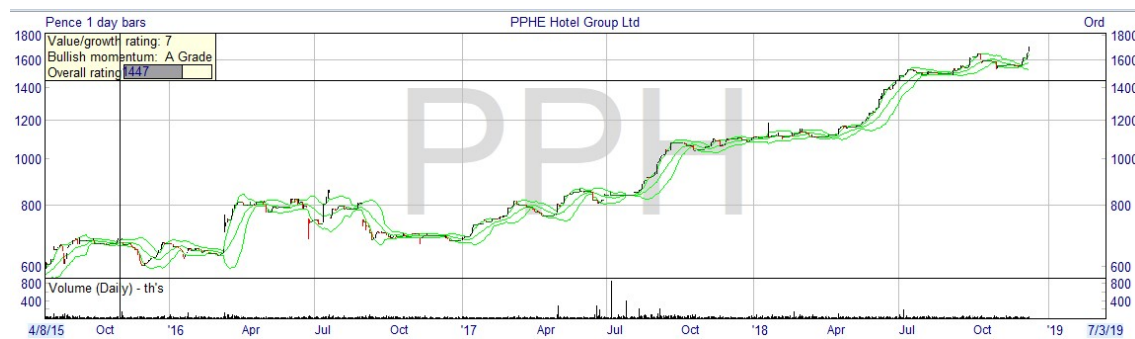
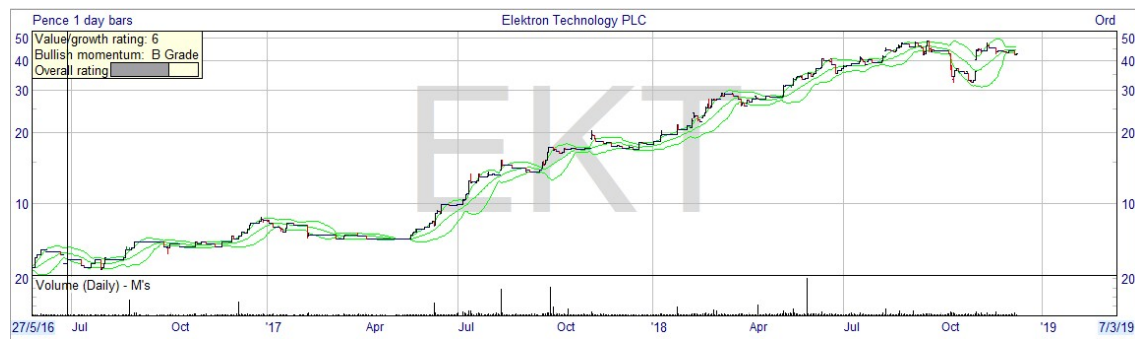


When I select for 12 month holdings with the highest 9 or 10 ratings, these sometimes don't get the kind of returns we are looking for and have generated since 2004 beating the market and every UK companies fund manager. What then?

1. You end up accepting a smaller gain or loss
2. You exit at the failsafe 25% drop – e.g. in 2008 we had a few of those!
3. You get some sharp risers e.g. Plus500 picked in January which looks like it will close the 12 months up around 60-70% and these compensate. Otherwise known as diversification.
4. You never ever expect everything to always rise all the time under all market conditions. If you are looking for a crystal ball, it's the circus you need.

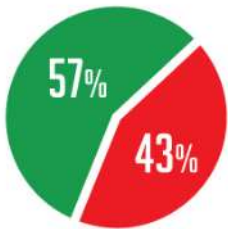
What's rising whilst the market falls?



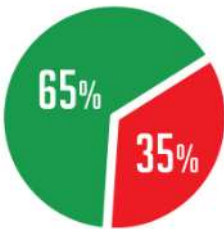


My Top Images of the Year

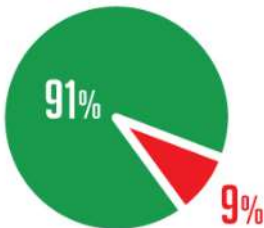
Percentage of positive vs. negative returns
in each year of presidency



FIRST YEAR



SECOND YEAR



THIRD YEAR



FOURTH YEAR



Top insights from the City

Peaks and troughs: how the British economy has grown



Global growth is expected to be supported:



Additional fiscal stimulus during the next two years from the passage of the Bipartisan Budget Act of 2018 as well as from the 2017 US Tax Reform.



Domestic oriented sectors outperforming and economic activity expanding to narrow output gap.



Uptrend in exports, continued recovery in business investment and 2020 Tokyo Olympics.



China's trade connections to the world and domestic economic strength suggest it could endure through US trade threats. The government has expressed commitment to open markets.



Strengthening EM macro fundamentals and solid domestic economic growth.





While US valuations still look expensive compared to other markets, Citi Analysts believe that earnings momentum has been boosted by tax cuts and expect S&P 500 EPS to grow 19.7% in 2018. Risks of rising inflation and interest rates as well as potential trade friction could restrain PE. Given these potential risks, Citi Analysts are neutral on the US.



Citi Analysts expect above-trend regional and synchronised global growth to support 10% EPS growth in 2018, but upside looks less likely now as European earnings have disappointed over the last five years with key headwinds from regional growth, banks and commodities.



Citi Analysts are moderately positive on Japanese equities and in line with the 7% consensus 2018 EPS growth given profit margins have reached their highest level since 1995 despite a strong yen.

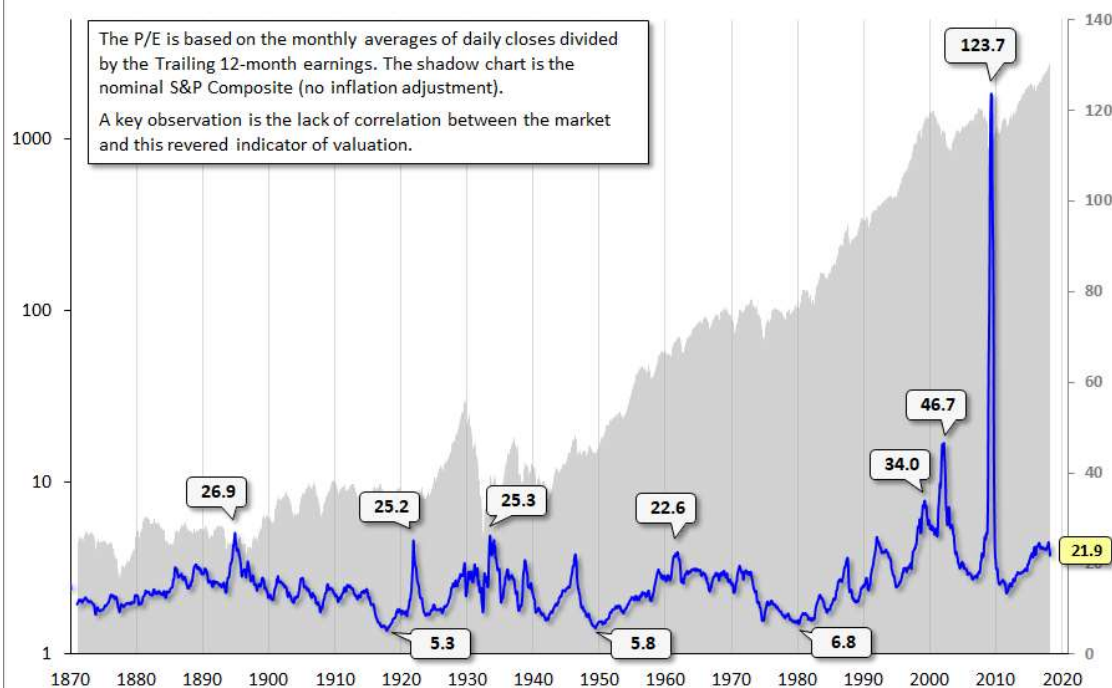


Citi Analysts positive outlook for EM equities is supported by robust earnings momentum and attractive valuations. Further weakness in USD would also be helpful. For the 2017 full-year earnings season, more EM companies reported earnings in line with expectations and China had more companies beating expectations than missing.

S&P Composite: 1871-Present

Nominal Price with the Trailing 12-Month P/E Ratio

dshort.com
May 2018
As of April



Equities

Bonds

Foreign exchange

We like...

- Global equities
- Eurozone equities
- Eurozone value opportunities
- Emerging market equities
- Sustainable value creation in EM
- "Buy write" strategy on US equities (↗)
- US smart beta
- Some protection via equity put options

- Corporate hybrids
- US leveraged loans
- EM sovereign bonds in USD
- Selected EM bonds (↗)
- 10-year US Treasuries vs. USD cash

- EUR
- CAD (↘)
- EM FX (BRL, INR, RUB, TRY)
- GBP
- JPY

We don't like...

- UK equities
- Australian equities

- Developed market high grade bonds
- "Well-worn" bonds
- Euro high yield
- 10-year Japanese gvt bonds vs. JPY cash

- USD
- USD (↗)
- DM FX (AUD, HUF, NOK, TWD)
- CHF
- NZD

Exhibit 9: Valuations look very stretched in the US ...

S&P 500 valuation summary, data since 1976 for all metrics other than PEG ratio (1982) and free cash flow yield (1990)

S&P 500 valuation summary				
Valuation Metrics	Aggregate Index		Median stock	
	Current	Historical	Current	Historical
		%ile		%ile
P/E to growth (PEG)	1.4	88%	1.9	100%
EV / Sales	2.3	95%	2.8	99%
EV / EBITDA	11.6	88%	11.9	99%
Price / Book	3.2	86%	3.4	99%
Forward P/E	18.0	89%	18.3	97%
Free cash flow yield	4.3	46%	4.3	53%
Cyclically adjusted P/E *	25.8	87%	NA	NA
Median		88%		99%

* Based on operating earnings

Source: Goldman Sachs Global Investment Research

My favourite Value/Growth picks this month

Using the APSE Value Growth data mining filter for the LSE shares list.

Look at the 9s – they are my most highly rated for a 12-month hold, for those who like buy and hold.

But given what I've said about the markets usual caveats apply of course.

No.	Name	Alpesh value/ growth rating
1	Micro Focus International PLC	9
2	Amigo Holdings PLC	8
3	BCA Marketplace PLC	8
4	Cineworld Group PLC	8
5	Dunelm Group PLC	8
6	EI Group PLC	8
7	esure Group PLC	8
8	KAZ Minerals PLC	8
9	Polymetal International PLC	8
10	Telecom plus PLC	8
11	Unilever PLC	8

Forex

Brexit! But there is a possibility of a GBP rise!



ETF

You can see some of the best of the year:

13 List: UK exchange traded funds (ETFs) - All sectors - Alpesh Table (Linked)

No.	Name	Alpesh value/ growth rating	Price% 2/1/18
1	ETFS Carbon	▲	155.93
2	ETFS Carbon	▲	152.83
3	Boost EuroSTOXX Banks 3x Short Daily	▲	103.27
4	Boost Natural Gas 3x Leverage Daily	▲	99.38
5	SG Silver X5 Daily Short £	▲	95.99
6	Boost Natural Gas 3x Leverage Daily ETP	▲	86.85
7	ETFS 3X Daily Short Coffee	▲	83.47
8	Boost Natural Gas 2x Leverage Daily ETP	▲	83.39
9	ETFS Leveraged Natural Gas	▲	70.12
10	Leverage Shares 2X Amazon ETP	▲	69.79
11	ETFS 3X Daily Long Natural Gas	▲	69.32
12	DB ETC PLC X-trackers Physical Rhodium ETC	▲	58.19
13	Boost Silver 3x Short Daily ETP	▲	55.78
14	ETFS Natural Gas	▲	52.96
15	Leverage Shares 2X Salesforce.com ETP	▲	52.20
16	Lyxor UCITS ETF DJ Global Titans 50 - D-£	▲	48.92
17	Boost Natural Gas ETC	▲	48.85
18	SG Gold X5 Daily Short £	▲	48.79
19	Boost Copper 3x Short Daily ETP	▲	48.27
20	ETFS 3X Daily Short Copper	▲	47.51

Shorting banks – the trend continues, as does shorting emerging markets.

Personal Activities

A speech at the London Stock Exchange:



Whitewater rafting in Borneo



Major fintech conference in Singapore:



Fintech meetings in Malaysia where the Xmas lights are up:



My annual lecture at Oxford University, this time with my mum in attendance.



Drapers Hall in City hosting a charity dinner with my co-host:



