Alpesh Patel's January Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

22 January 2018

A very happy new year everyone. As always, my newsletter will help you invest and trade successfully through 2018. This issue includes my Value/Growth picks for 2018, my views on equity markets and currencies, plus my views on cryptocurrencies and more top trader tips. But first let's look back at 2017.

How did our 2017 Value/Growth porfolio do?

Last January, I listed my favourite stocks for a 12 month hold. In the table below, you can see that they returned 32.8% versus the FTSE All-Share which returned 8.7% over the same period (20/01/17 – 17/01/18). That's another successful year for the Value/Growth strategy.

Name	%Chg
IMPAX Asset Management Group PLC	186.13
Watkin Jones PLC	56.95
McColl's Retail Group Ltd	44.63
Conviviality Retail PLC	44.09
Arrow Global Group PLC	42.83
Liontrust Asset Management PLC	39.09
CareTech Holdings PLC	24.34
Severfield PLC	6.96
Vp PLC	6.71
Alumasc Group PLC	0
Plastics Capital PLC	-4.9
Mears Group PLC	-9.73
Galliford Try PLC	-11.01
Overall	32.8

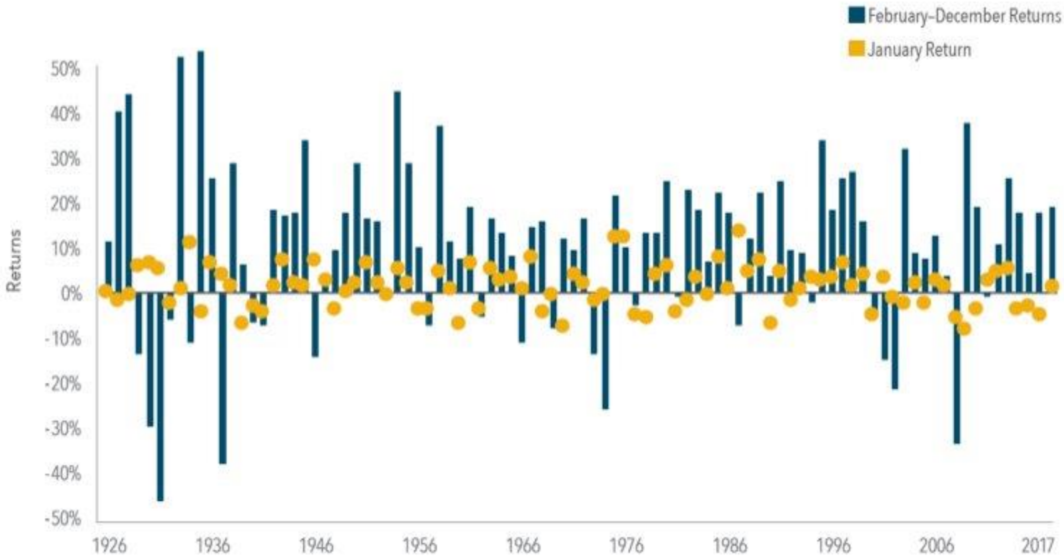
You can see previous results here - https://www.sharescope.co.uk/alpeshpatel.jsp

Later, I'll look at 12 month picks for 2018.

Will it be a good year for stock markets?

Well, as you can see from the chart overleaf, there isn't really much evidence for saying "As goes January, so goes the rest of the year".

Exhibit 1: January Return vs. Subsequent 11-Month Return of the S&P 500 Index
1926–2017

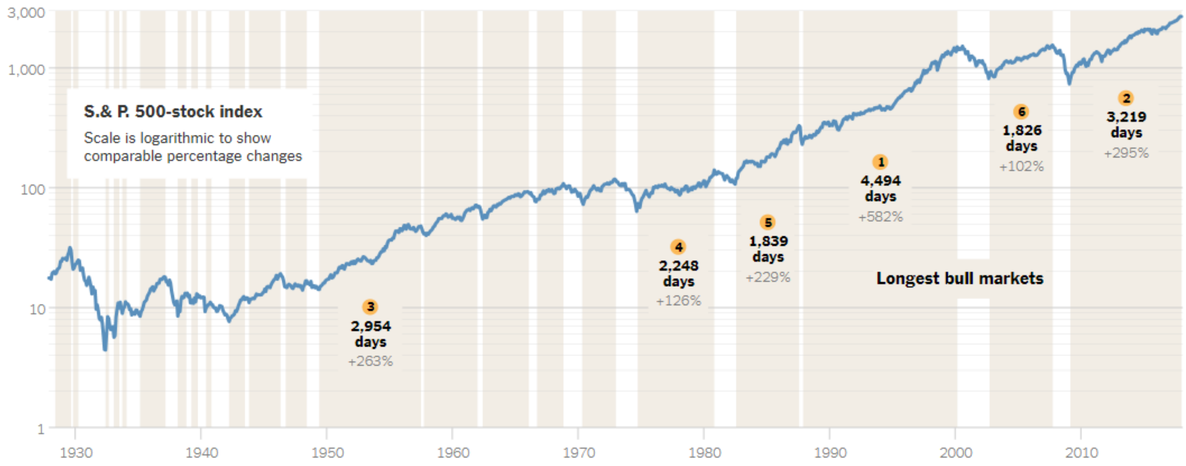


In US dollars. S&P 500 Index data provided by Standard & Poor's Index Services Group.

Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

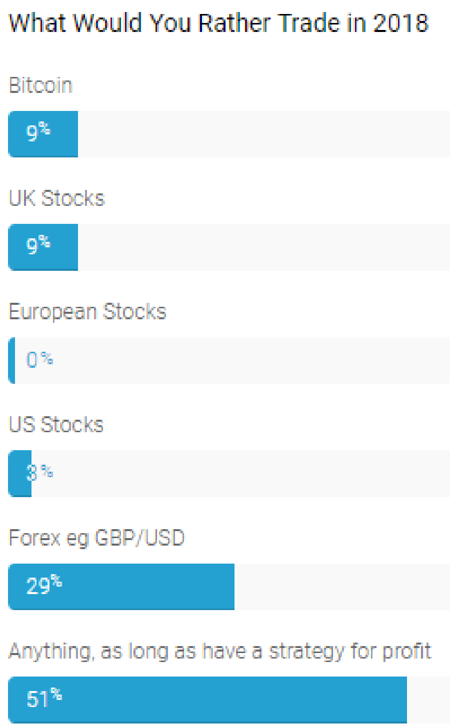
I do think with the US fiscal loosening we will have a good year, despite UK, European and US monetary tightening. As I used to say in my Economics degree – it all works through to the same end result eventually – pressing the break and accelerator at the same time is all they are doing, and the important thing is someone is pushing the accelerator.

I think the bull still has some way to go yet!



Sources: Yardeni Research; Thomson Reuters

What do people want to trade based on my webinar surveys?



I will make sure I keep you all happy in this newsletter.

New Year's Resolutions

Okay, not quite resolutions but beliefs for 2018:

Value Growth Rating

You can use either the Value/Growth data mining filter, or the Value/Growth rating in the Alpesh table. My strategy is to hold the stocks for 12 months but sell any which drop 25%.

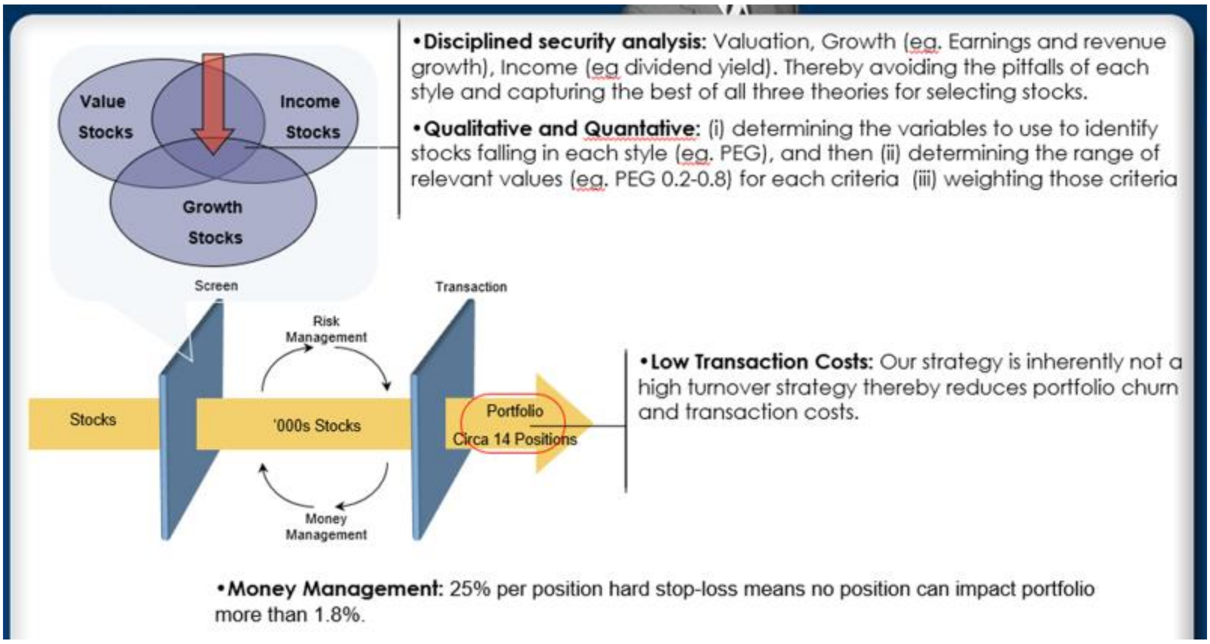
If there are a lot of qualifying stocks, how do I choose? I only want around 14 stocks in my portfolio. More and I am too diversified; less and I am too concentrated.

So I focus on a Value/Growth rating of 9 with ideally an A Grade Bullish Momentum rating but sometimes B Grade. I might also pick a stock with V/G rating of 8 if it has an A Grade Bullish Momentum rating.

So, using the Alpesh Table as my guide this year, here are my picks for 2018:

ADES
Ferguson
Inspired Energy
Keller
MacFarlane
Morgan Advanced Materials
Plus500
Premier Asset Management
Ramsdens
Severfield
Telford Homes
Tyman
Abcam

A reminder of my methodology:

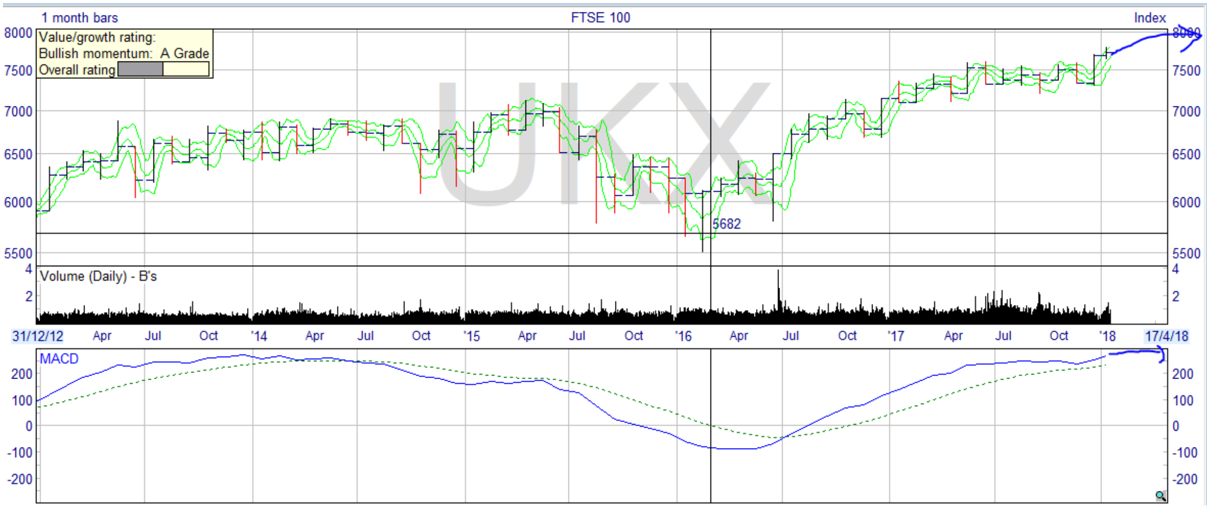


The Best of the Rest

Let me rate some of the FTSE 350 for you:

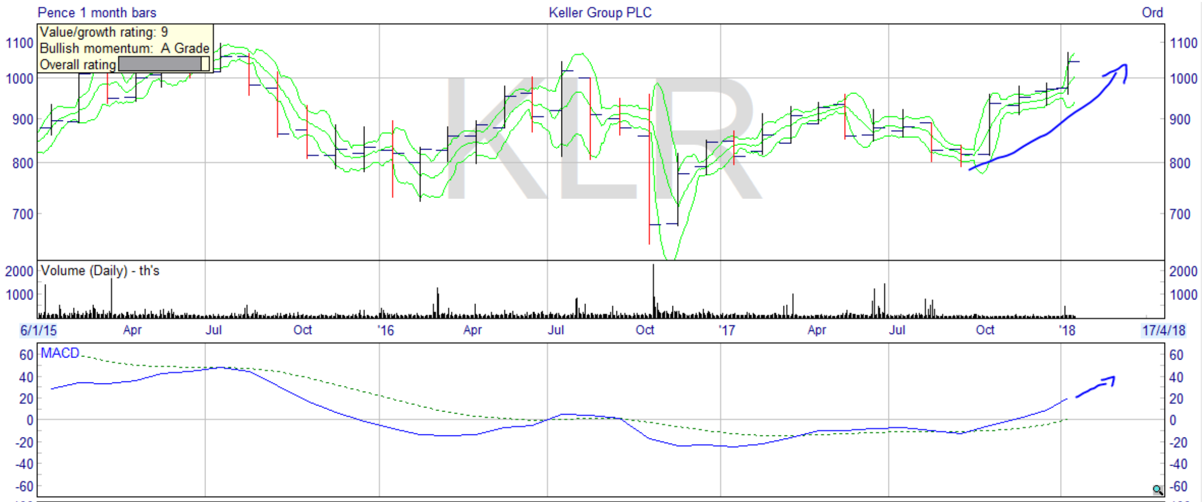
No.	Alpesh value/ growth rating	Name	Price% 6 months ago	CROCI (%)
1	9	888 Holdings PLC	15.73	30.2
2	9	Ferguson PLC	21.97	10.9
3	9	GKN PLC	35.55	4.1
4	9	Ibstock PLC	6.44	6.4
5	9	KAZ Minerals PLC	51.42	-5.6
6	9	Kingfisher PLC	14.52	5.1
7	9	Morgan Advanced Materials PLC	22.68	8.1
8	9	Old Mutual PLC	18.95	4.6
9	9	PageGroup PLC	12.90	26.2
10	9	Redrow PLC	15.21	8.6
11	9	Smurfit Kappa Group PLC	9.74	6.6

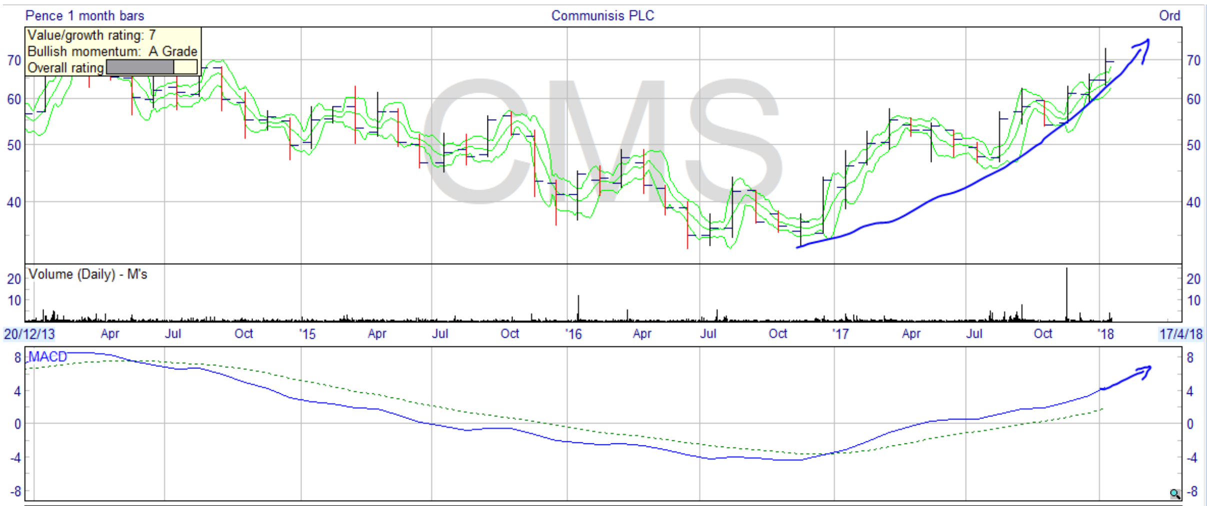
The FTSE is toppy. This worries me and is why I like picking quality stocks.



Speculative Big Moves

These are the high risk, potential high return plays I have come across:





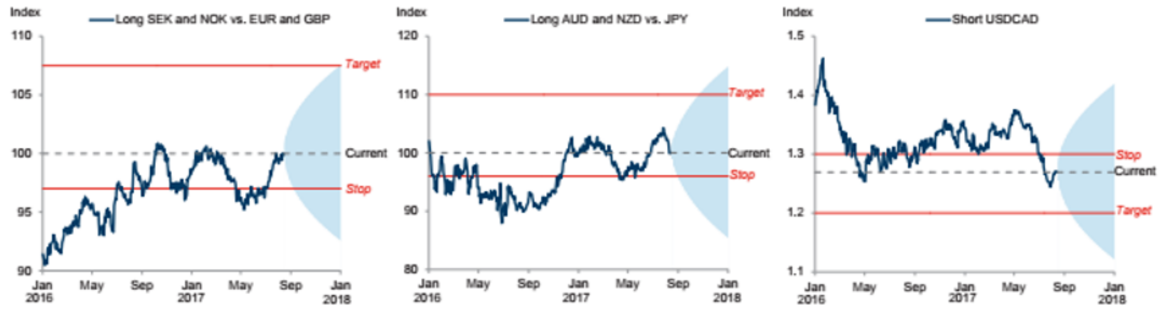
Forex

This is what Goldman Sachs and Deutsche Bank think:

Goldman Sachs | Economics Research

Global Markets Daily: New G10 FX Top Trades:

Exhibit 1: New G10 FX Top Trade Recommendations



Source: Bloomberg, Goldman Sachs Global Investment Research

Deutsche Bank
Research

Global

Foreign Exchange
FX Blueprint

Don't stop me now

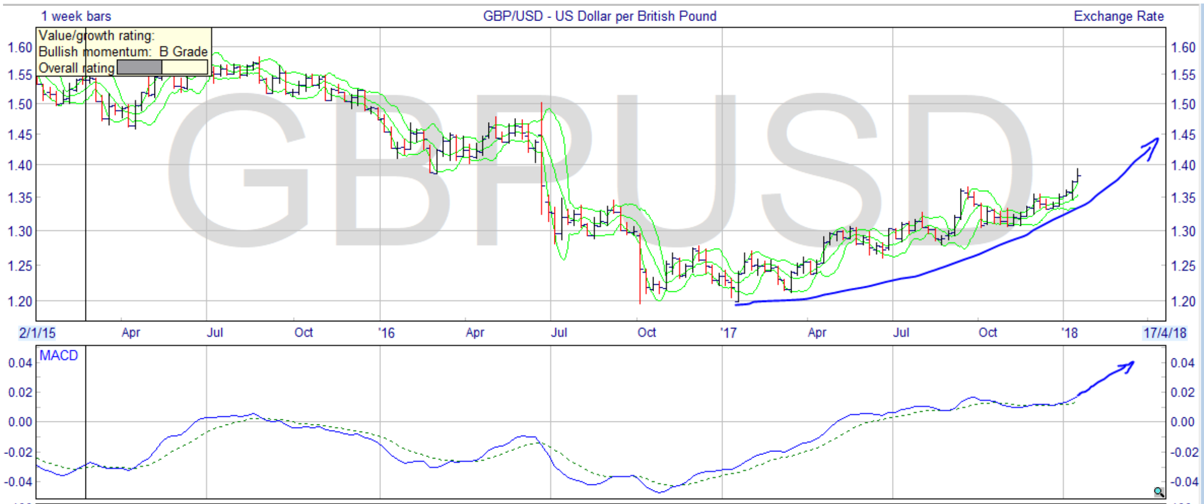
Theme #1: Euro star – buy EUR/USD
Theme #2: Yenywhere but here – buy USD/JPY vol via strangles and FVAs
Theme #3: Sinothetimes – sell 6m USD/CNH DF
Theme #4: Won direction – sell 3m USD/KRW, buy 6m PHP vs THB and SGD
Theme #5: Bern out – sell CHF versus EUR and JPY
Theme #6: Hot Gnocci – buy NOK versus EUR, SEK and CAD
Theme #7: Pick Norway option – sell GBP/NOK
Theme #8: Niagara falls – buy USD/CAD
Theme #9: Tasman rift – sell AUD/NZD
Theme #10: Harmonious lyra – buy 3m USD/TRY digi put, sell USD/ZAR
Theme #11: HUF unshekeled – sell EUR/HUF, buy EUR/ILS
Theme #12: Tequila sunset – buy USD/MXN, buy BRL/CLP
Theme #13: Breakdown cover – buy EUR/USD up & XAU/USD down dual digital; US 10yr yield up & USD/JPY dual digital

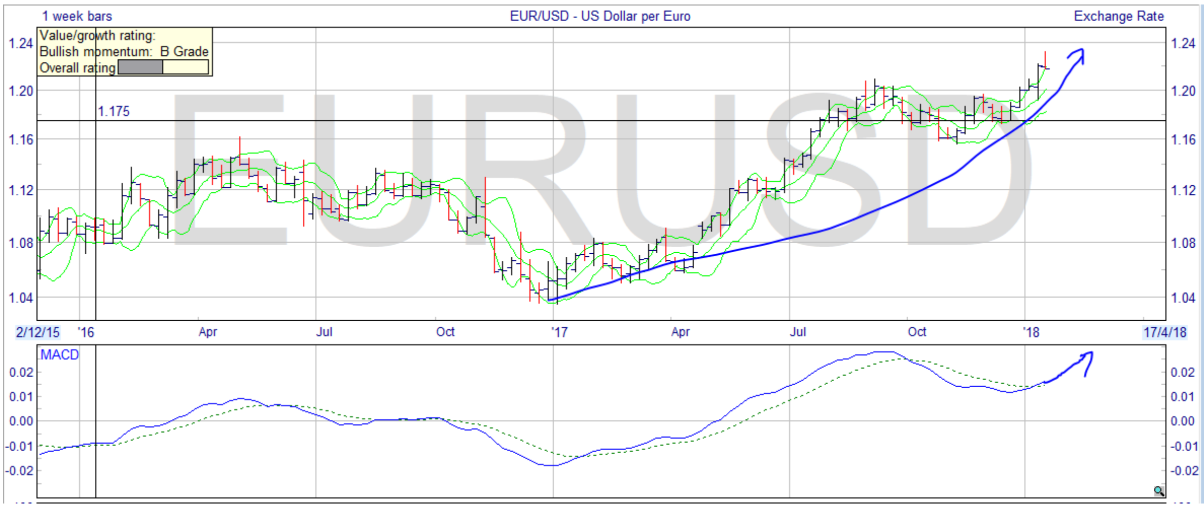
Why buy Britain?
One reason for weak inflows is that UK assets aren't very attractive. As shown by figure 3, UK bonds are very expensive (measured by term premia). Stock valuations (measured by PE ratios) are not cheap and the UK continues to significantly underperform growth in the rest of the world. If divergence continues, the pound should lose out on an asset allocation basis, with EUR/GBP neatly tracking relative consumer confidence over time (figure 3).

Dollar Troubled
We believe the dollar has marked a medium-term peak and should struggle again in 2018. Interest rate differentials don't always drive currencies and Fed rate hikes will continue to be of lesser importance for the USD this year. Deteriorating flows will matter more instead. The US basic balance has started trending lower and with asset valuations close to record highs it will be difficult to find the marginal buyer of US assets in 2018. A potential shift in focus to protectionist trade policy from the Trump administration as well as rising twin deficits won't help either. On

My take? I am bullish GBP for the year and the US markets. Simple.

The charts below show how I think GBP and the Euro will pan out:





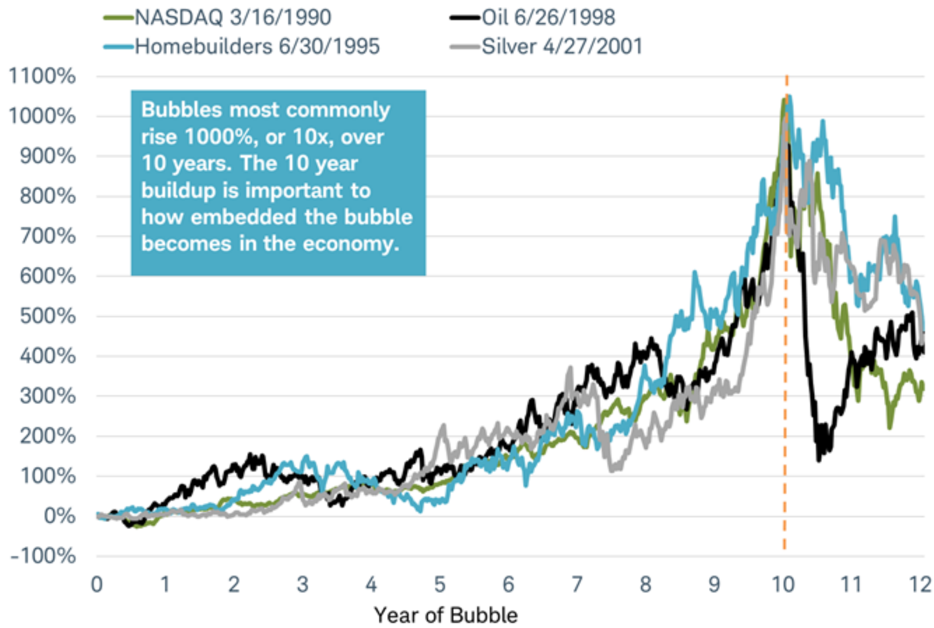
CryptoCurrencies

We've been here before, with the "Dot-com bubble"

People who were born in the 80s will know about the *dot com* crash that occurred in the late 90s and was characterized by a rapid rise in equity markets driven by investments primarily in Internet-based companies. The markets that featured the Internet-based companies such as **Webvan** and **Pets.com** had grown exponentially, with the technology-dominated **NASDAQ** index leading the way, rising from under 1,000 to more than 5,000 in the space of 5 years.

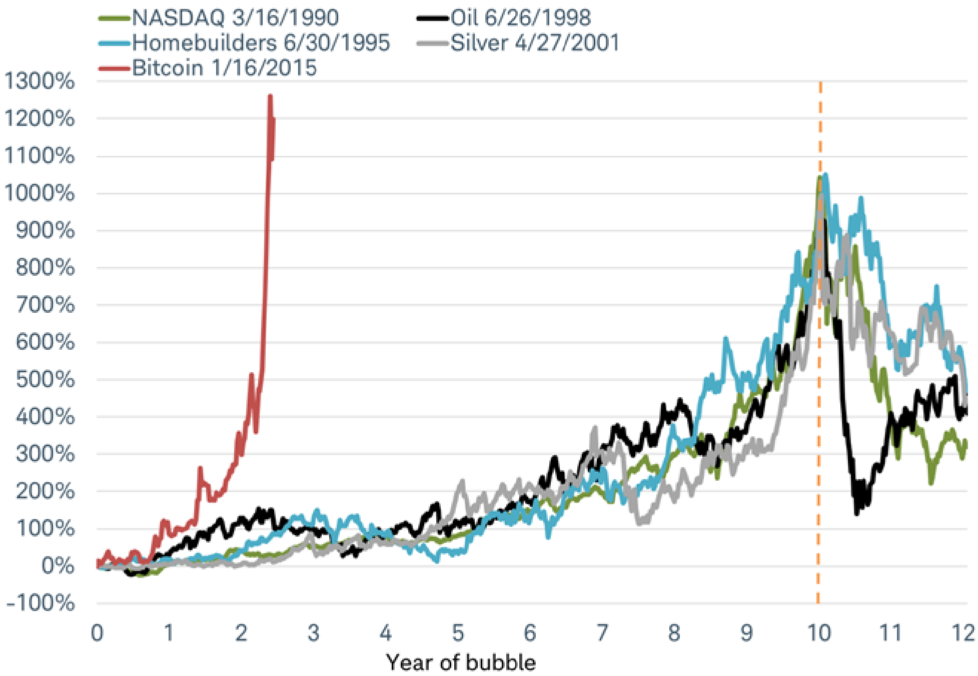
From what we know, the dot com bubble emanated from highly speculative investing based on incomplete data provided by these Internet companies. Not only was it full of speculative investing, with no real evidence, but the over abundance of venture capital funding for startups was rife, turning a company with almost nothing of value into a highly sought out investment. Naive investors would go on to pour piles of cash into these startup companies during the 1990s, with the hopes that those companies would become profitable at some point in the future. Many of these investors and venture capitalists had abandoned the standard approach of investing, and by that I mean taking a cautious path by researching details about various companies. Instead, they feared they would miss out on the opportunities to capitalise on this ever growing market of tech stocks, and in doing so, they left common sense at the door and let their emotions take hold.

There is a rule when it comes to defining a bubble, which you may not have heard of before, and that is the 1000%/10 year rule. This rule states that if an asset appreciates in value by 1000% in the space of 10 years, the likelihood of the asset becoming a bubble is true.



If you analyse the graph above, you will see a number of assets that have fallen into the *bubble* category, and have followed the same pattern. As mentioned above "*Bubbles most commonly rise 1000%, over 10x, over 10 years. The 10 year buildup is important to how embedded the bubble becomes in the economy*".

When it comes to cryptocurrencies however, it is a different kettle of fish. These digital assets haven't followed the same path as other assets, which you will notice below.



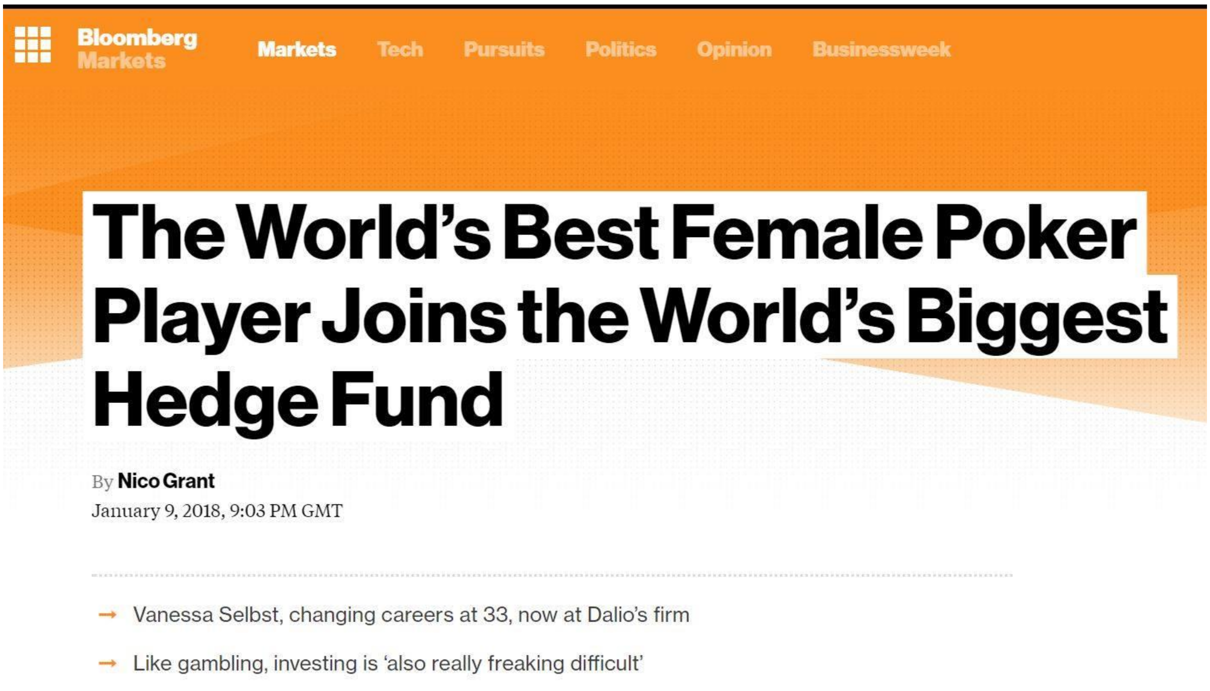
It is pretty hard to miss the elephant in the room (or on the graph) when it comes spotting what's wrong with this graph. Where typical assets like commodities and the NASDAQ have taken 10 years to become embedded in the economy, Bitcoin on the other hand has taken approximately 2 years to reach an evaluation of over 1200%! So what does this mean? Is Bitcoin a massive bubble waiting to burst? Bitcoin could very well be in a bubble, judging from the image above, but that doesn't mean we are going to see its collapse any time soon.

Allow me to draw your attention to this chart of the NASDAQ, which shows the period of the Dot com crash, but what we also see is the recovery of the asset. After the crash you can see there is a period of recovery during the years after, and then the housing crisis of 2008 took place, which caused it fall yet again, and from that point on, there has been a period of growth from 2008 to 2018. What this shows, is that an asset could potentially burst, but it always has the chance to recover and grow at an exponential rate and recover any of its losses it suffered in the first place.

If the likes of Bitcoin do crash, then I don't think it would be the end of the cryptocurrency market for good, because there are some real world uses for the technology behind it. It would be a matter of time and interest before it picks up again and recovers from its loss, and becomes even stronger

Top Trader Skills

Why is trading and investing like gambling for so many people?


Bloomberg Markets | Markets | Tech | Pursuits | Politics | Opinion | Businessweek

The World's Best Female Poker Player Joins the World's Biggest Hedge Fund

By Nico Grant
January 9, 2018, 9:03 PM GMT

- Vanessa Selbst, changing careers at 33, now at Dalio's firm
- Like gambling, investing is 'also really freaking difficult'

That there are similarities is clear – look at the language used by even Nomura:


NOMURA

FX Insights

FOREIGN EXCHANGE

How to trade "deal or no deal"

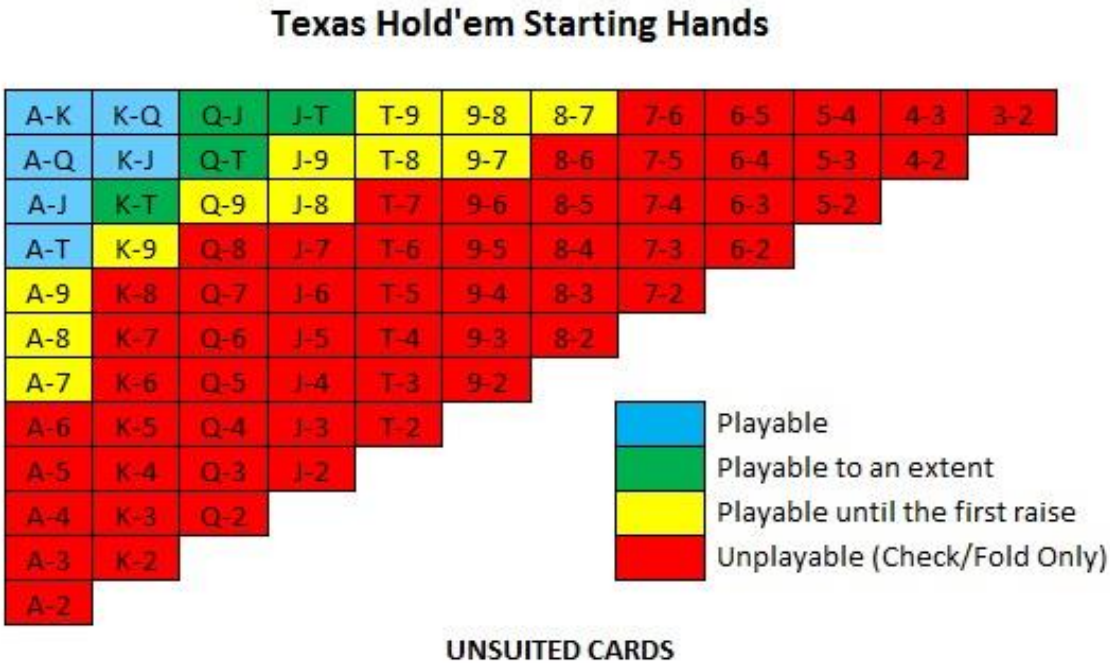
It will be very difficult for the UK to resolve the border issue in a matter of days because of the political posturing likely to be involved, but we think there is enough political will so it is likely (70% probability). We did not expect a full and comprehensive answer to the

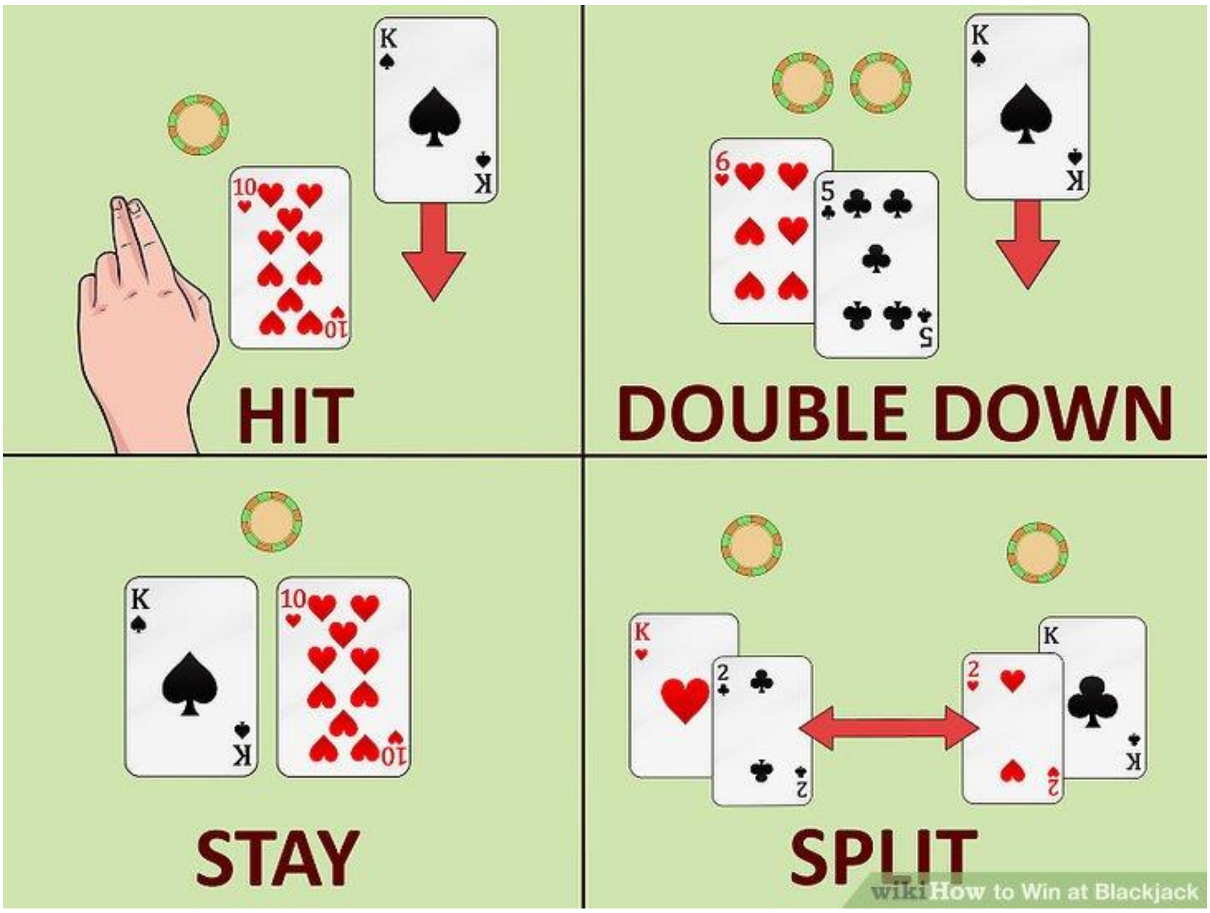
Global Markets Research

5 December 2017

Visit Themes and Trades website for strategic cross asset ideas.

But, as with games of chance, you can use skill and strategy. We know people do this in poker and blackjack after all.


Texas Hold'em Starting Hands
A-K K-Q Q-J J-T T-9 9-8 8-7 7-6 6-5 5-4 4-3 3-2
A-Q K-J Q-T J-9 T-8 9-7 8-6 7-5 6-4 5-3 4-2
A-J K-T Q-9 J-8 T-7 9-6 8-5 7-4 6-3 5-2
A-T K-9 Q-8 J-7 T-6 9-5 8-4 7-3 6-2
A-9 K-8 Q-7 J-6 T-5 9-4 8-3 7-2
A-8 K-7 Q-6 J-5 T-4 9-3 8-2
A-7 K-6 Q-5 J-4 T-3 9-2
A-6 K-5 Q-4 J-3 T-2
A-5 K-4 Q-3 J-2
A-4 K-3 Q-2
A-3 K-2
A-2
Playable
Playable to an extent
Playable until the first raise
Unplayable (Check/Fold Only)
UNSUITED CARDS

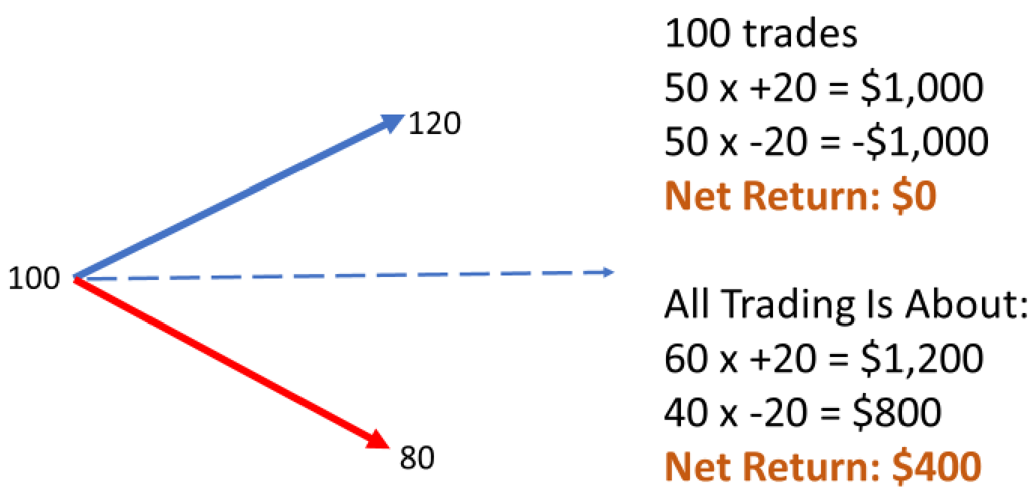

HIT
DOUBLE DOWN
STAY
SPLIT
wikiHow to Win at Blackjack

Trader/investor	Gambler
Trades small position relative to capital	Trades big money relative to capital
Does a lot of small trades	Does a few big trades
Follows the trends established in the market	Steps in front of market reaction by guessing the news
Never adds to a losing position	Adds to a losing position
Starts small size in a trade and adds to it if trend makes it more profitable	Starts big, takes small profit
Places a stop loss just outside range of market noise, so clearly knows when strategy not working	No stop loss or very far away
A strong of losing trades would not impact the account much	A string of even 3 losses would see account down 10-50%

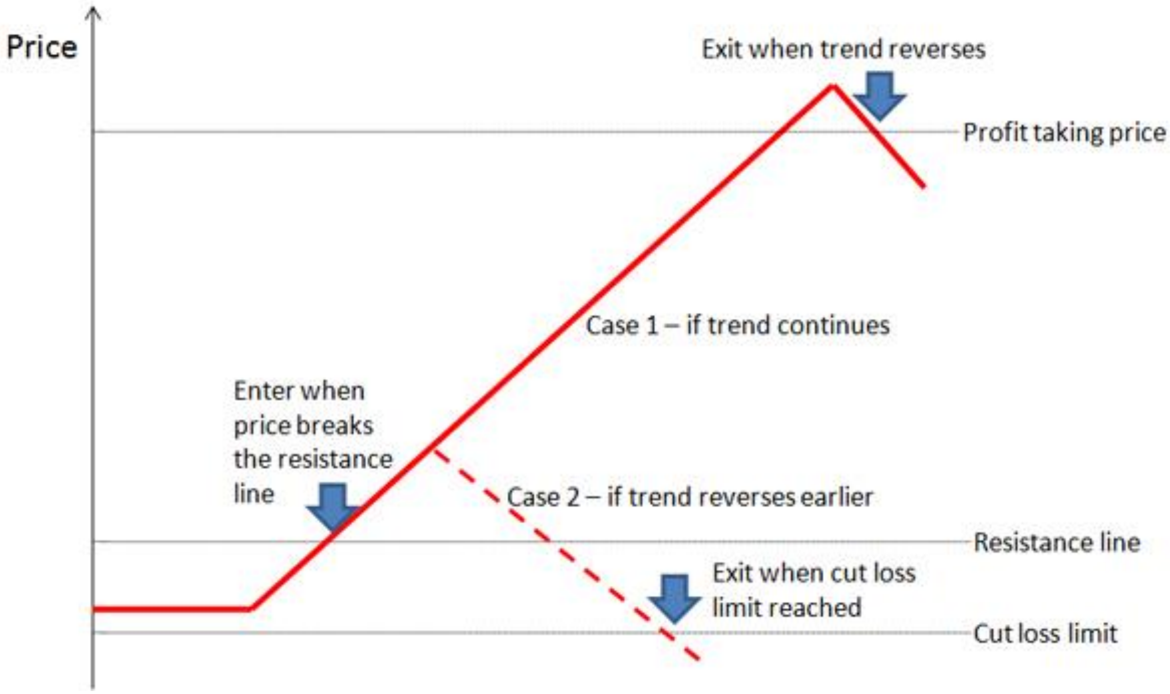
After all prices can only do one of two things. The problem is people try to do too much.

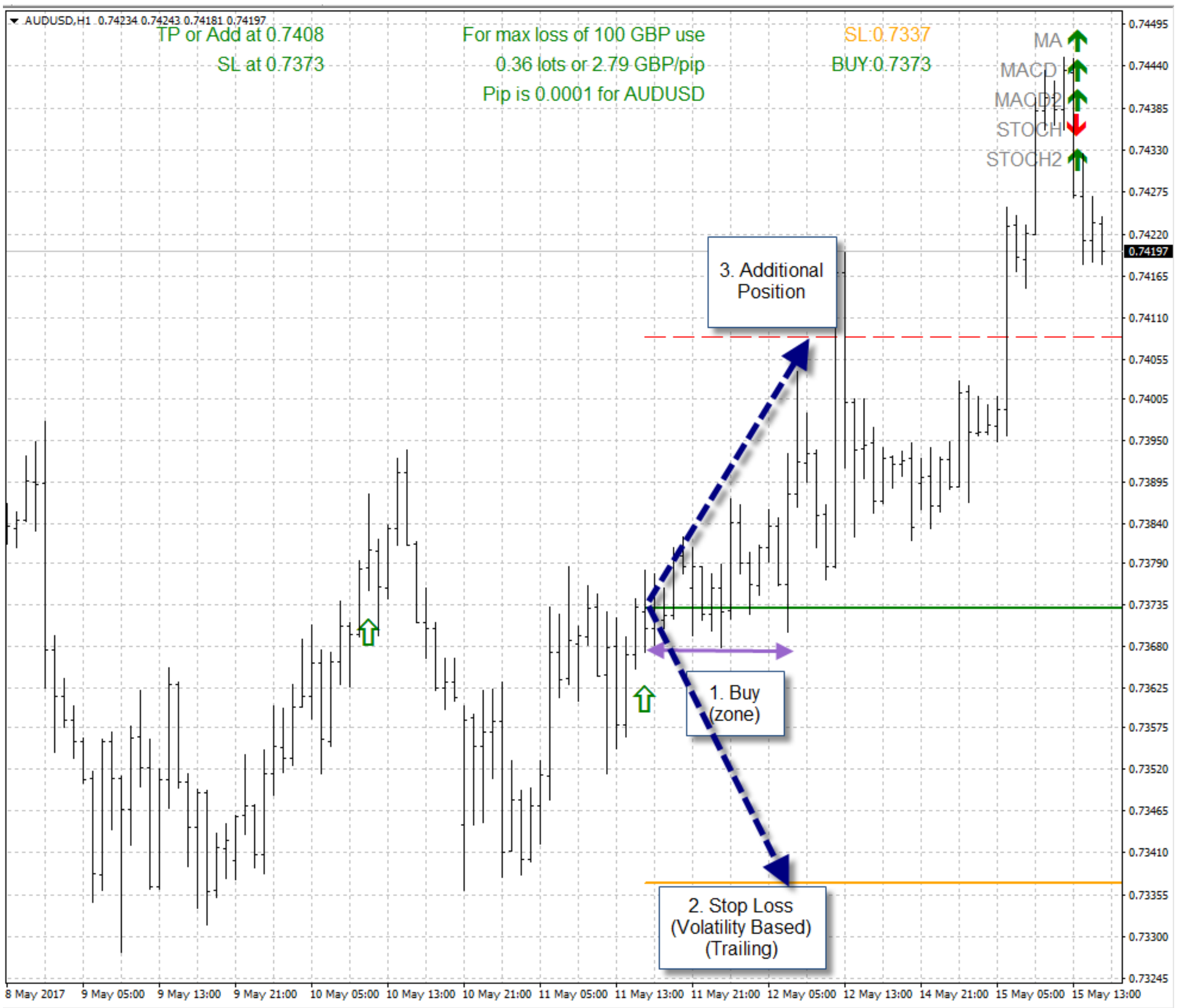
For example, they try to make too much so bet too big – that's a gamble.

They try to set a reward way beyond their risk, so don't use volatility to their advantage but basically are asking a 2 foot dwarf to make a 10 foot basketball shot. Or in their fear, they try to be right all the time and so never take a loss and end up taking an even bigger one.



In trading, we too understand it is about probabilities and strategies. Our strategies can be summarised by these images:


Price
Exit when trend reverses
Profit taking price
Case 1 – if trend continues
Enter when price breaks the resistance line
Case 2 – if trend reverses earlier
Resistance line
Exit when cut loss limit reached
Cut loss limit

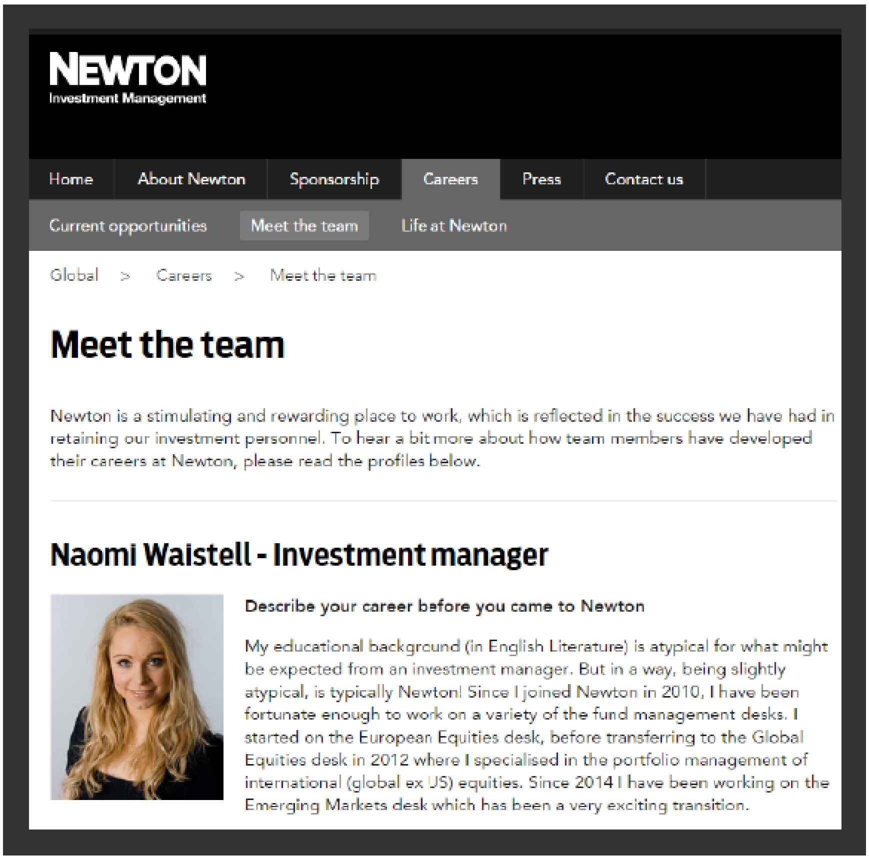

AUDUSD,H1 0.74234 0.74243 0.74181 0.74197
TP or Add at 0.7408
SL at 0.7373
For max loss of 100 GBP use
0.36 lots or 2.79 GBP/pip
Pip is 0.0001 for AUDUSD
SL:0.7337
BUY:0.7373
MA
MACD
MACD2
STOCH
STOCH2
3. Additional Position
1. Buy (zone)
2. Stop Loss (Volatility Based) (Trailing)

You Too Can Beat Fund Managers

Sharescope is amazing because it empowers you to beat fund managers. Want some New Year inspiration that you can trounce them? Yes you can:

My Best Student

Naomi joined my firm as my assistant, straight out of University. For five years she worked for me, and then joined Newton where she manages billions.



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Investment Management

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Global > Careers > Meet the team

Meet the team

Newton is a stimulating and rewarding place to work, which is reflected in the success we have had in retaining our investment personnel. To hear a bit more about how team members have developed their careers at Newton, please read the profiles below.

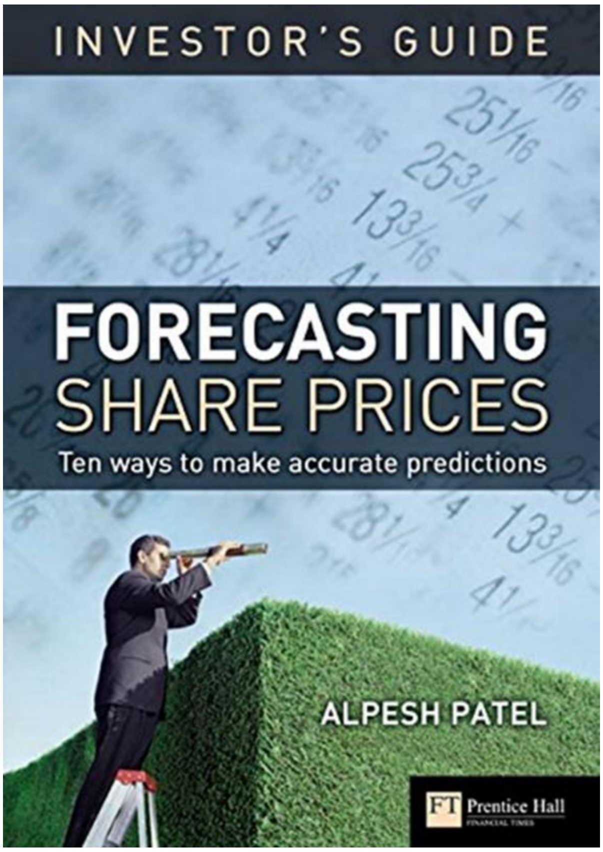
Naomi Waistell - Investment manager

Describe your career before you came to Newton

My educational background (in English Literature) is atypical for what might be expected from an investment manager. But in a way, being slightly atypical, is typically Newton! Since I joined Newton in 2010, I have been fortunate enough to work on a variety of the fund management desks. I started on the European Equities desk, before transferring to the Global Equities desk in 2012 where I specialised in the portfolio management of international (global ex US) equities. Since 2014 I have been working on the Emerging Markets desk which has been a very exciting transition.

Personal Activities:

I plan to get this book out in 2018:



My Dalek inpersonation at Bangalore Airport:

Got a great private tour of Bloomberg's new HQ: