

## **Alpesh Patel's** January Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers



14 January 2019

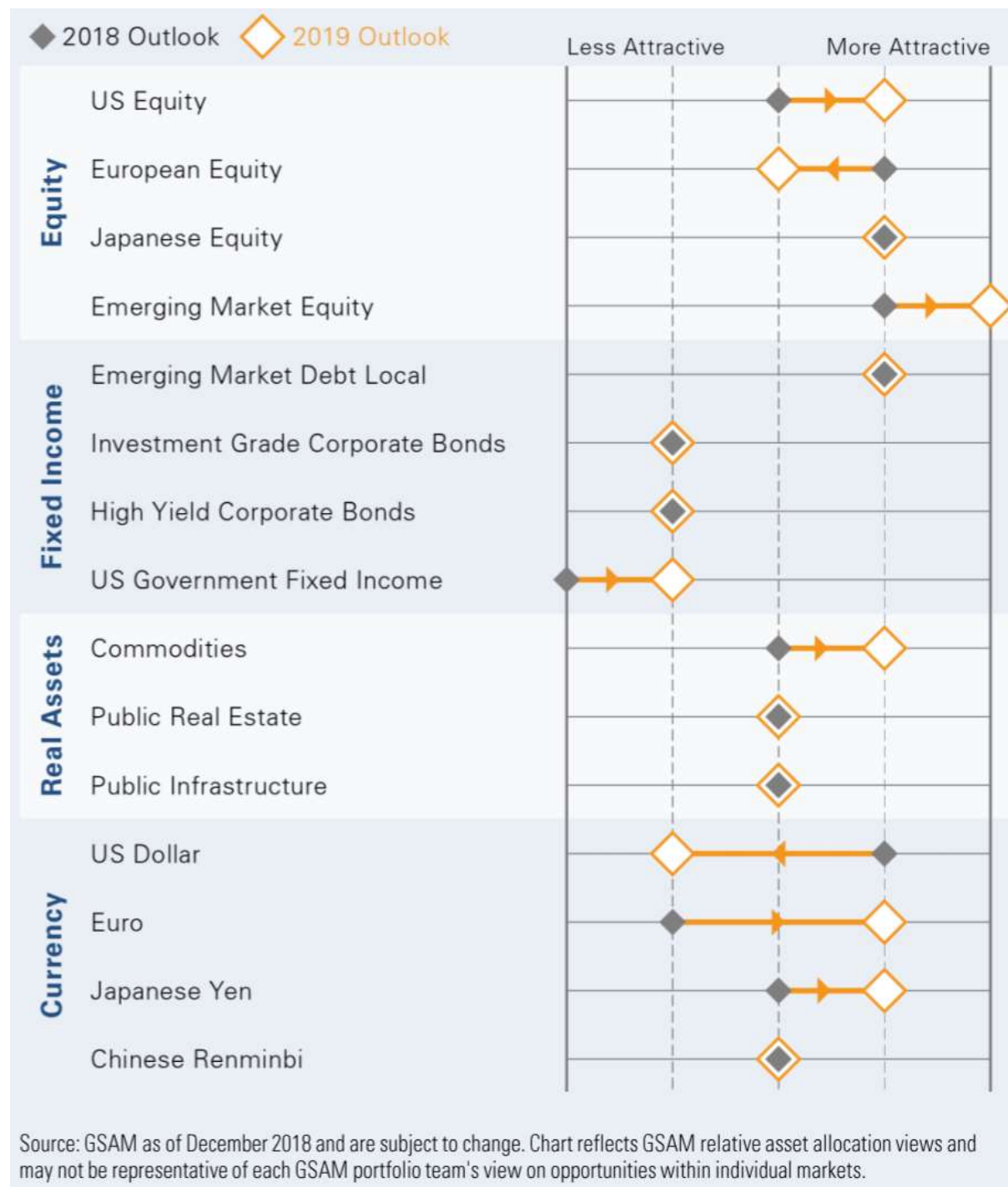
### **My view on the markets**

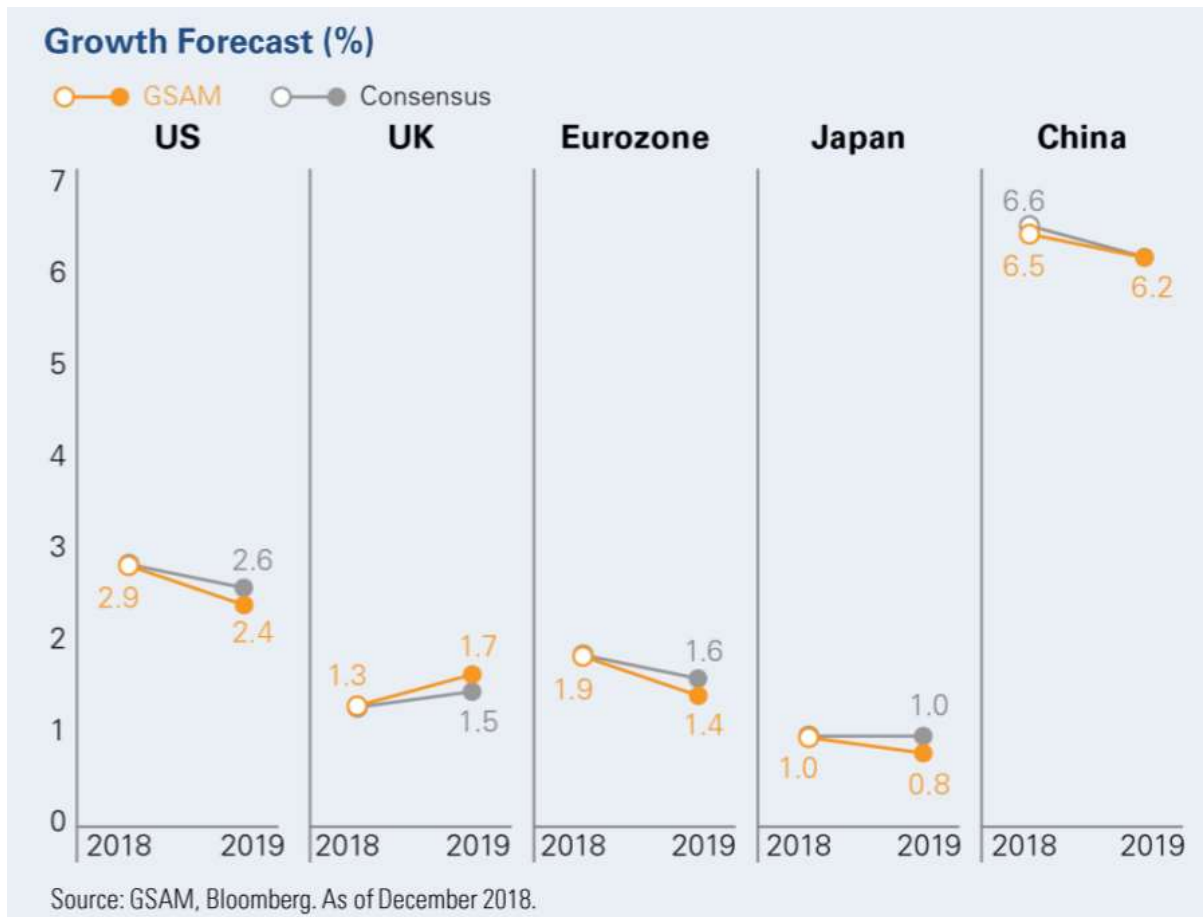
Well here we are at the start of a new year! So, this is the issue where I examine how I performed in last year's Value Growth Income (VGI picks) and give you the ones for the year ahead.

Before I do that, let me tell you that as a hedge fund manager, I get a bunch of analysts reports crossing my desk. They of course want us to trade their ideas. I have spent hours distilling these and, in this newsletter, I will give you the best with comments from me.

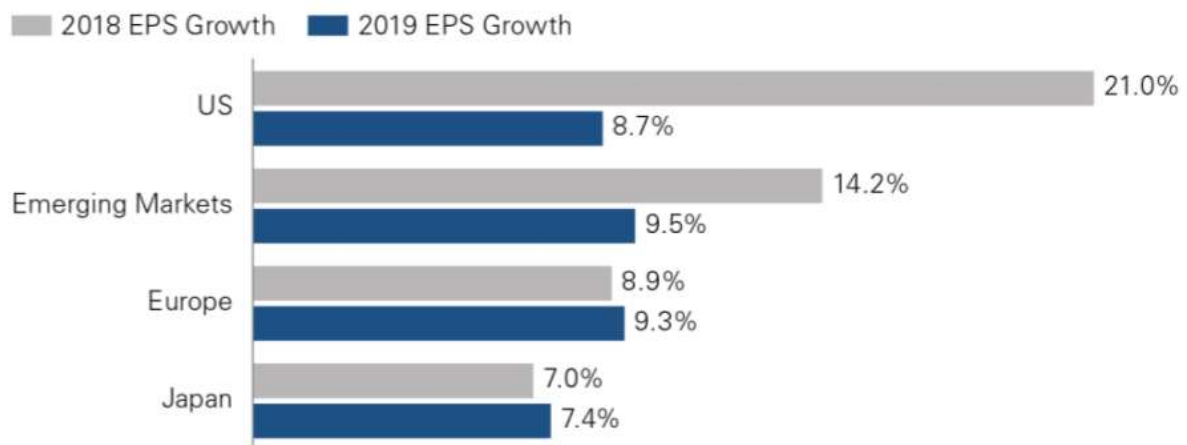
## Top insights from the City

This is from Goldman Sachs Asset Management:



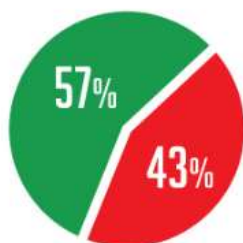


Equities will be supported by continued earnings growth

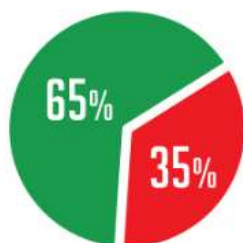


Source: Factset. As of November 24, 2018. Calculated using S&P 500 index for US, MSCI EM index for Emerging Markets, MSCI Europe index for Europe and TOPIX index for Japan.

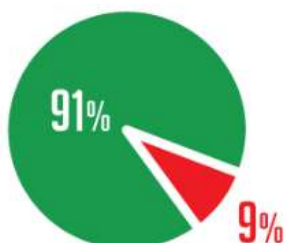
Percentage of positive vs. negative returns  
in each year of presidency



FIRST YEAR



SECOND YEAR



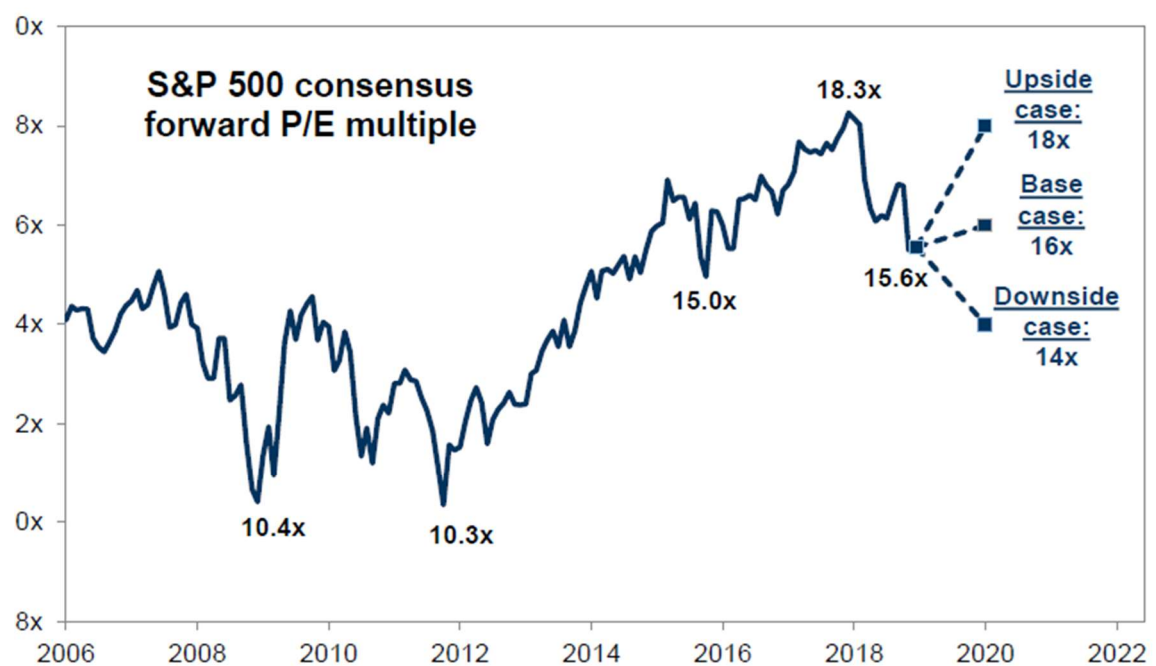
THIRD YEAR



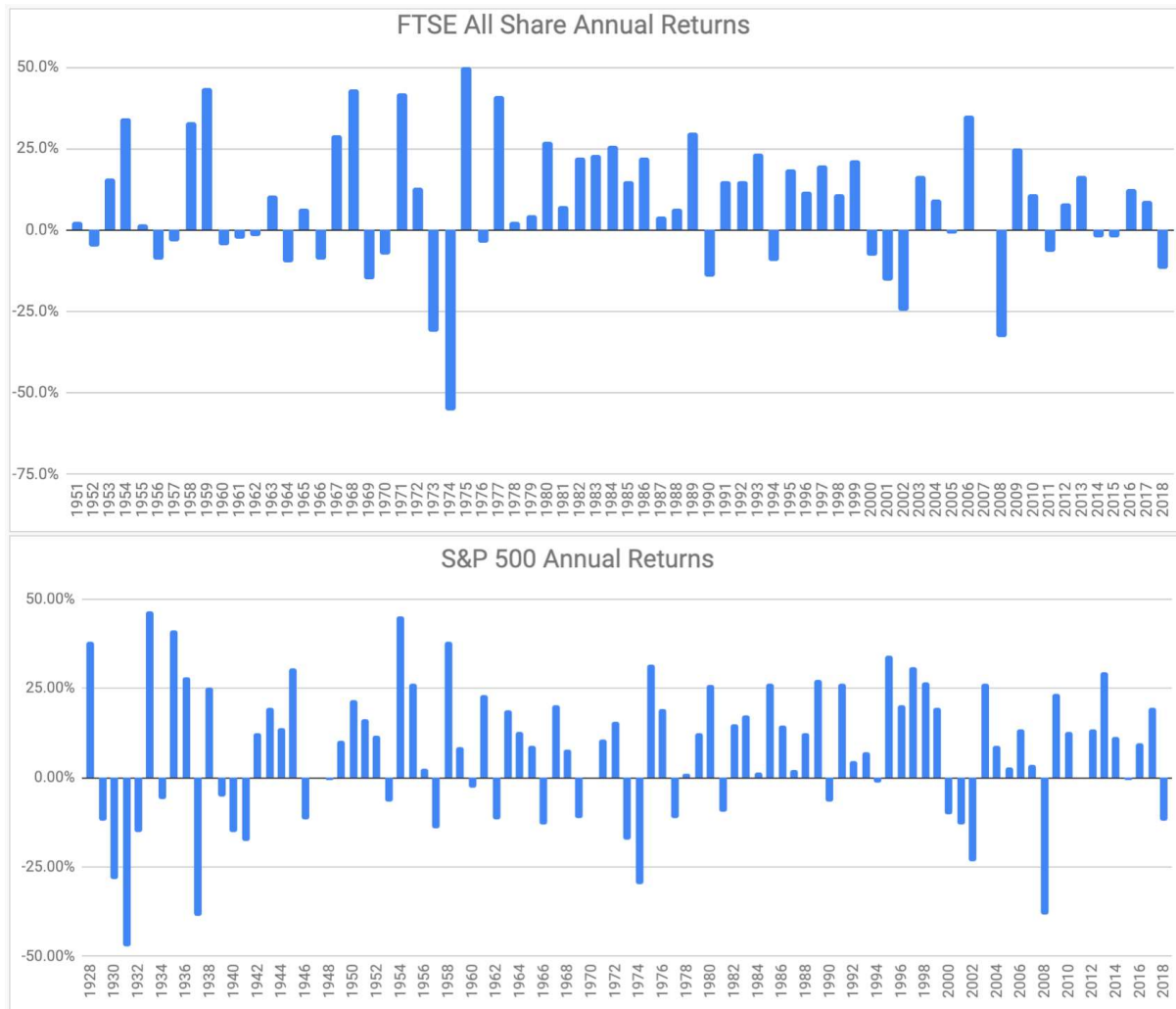
FOURTH YEAR

## Exhibit 1: S&P 500 valuation under our 3 scenarios for 2019

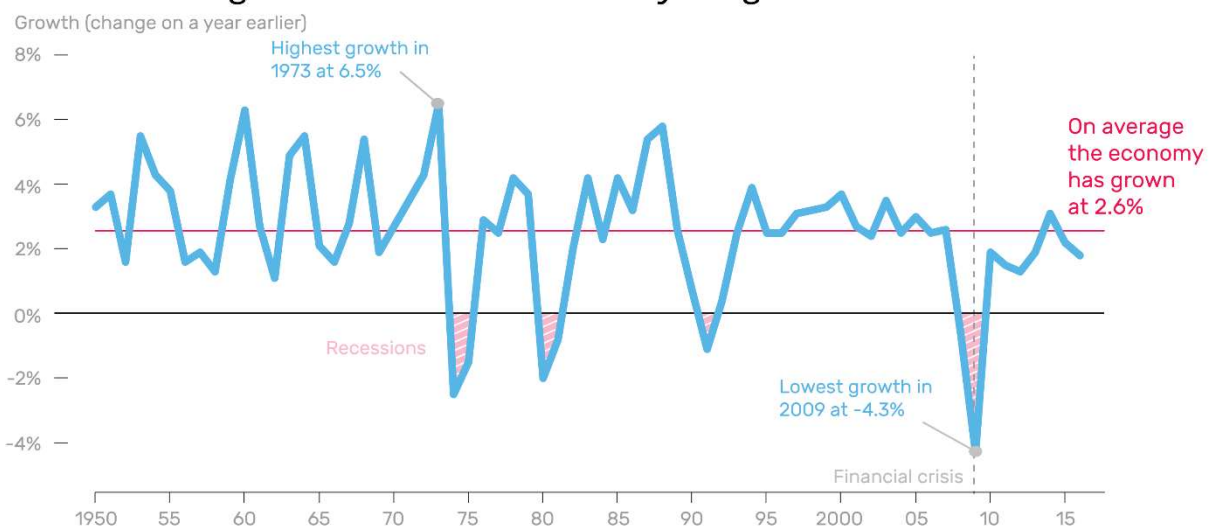
as of December 13, 2018



Source: Compustat, Goldman Sachs Global Investment Research



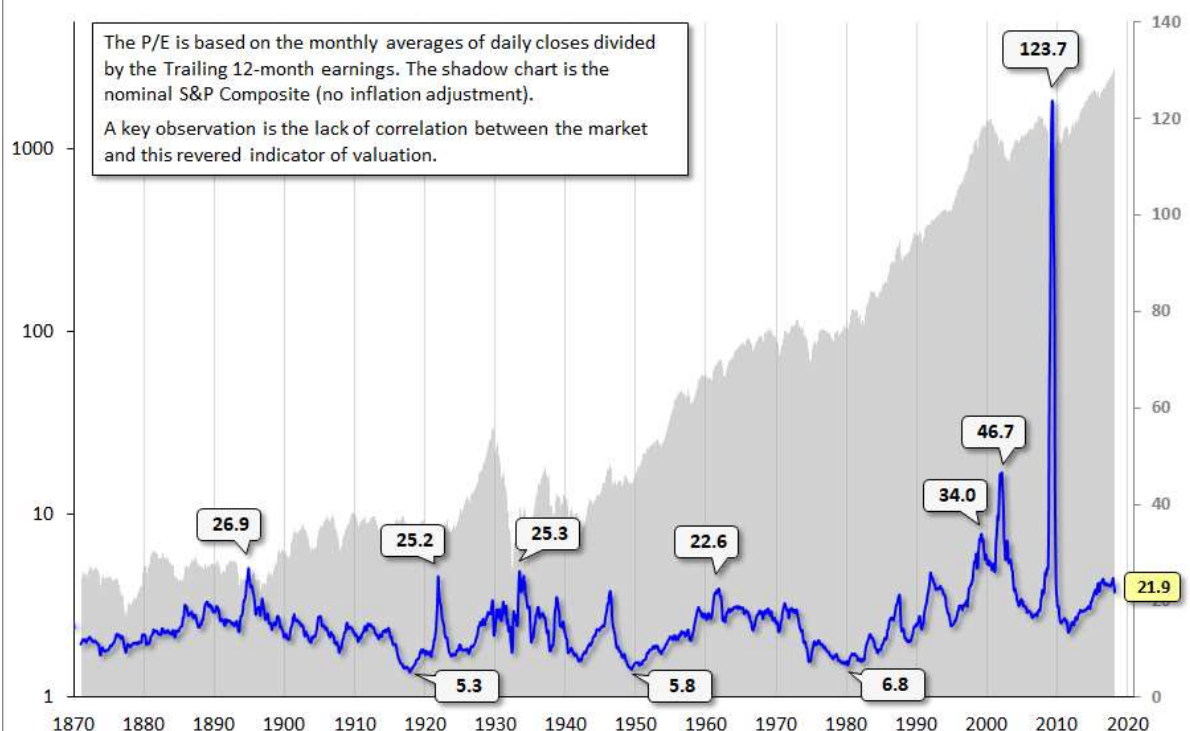
## Peaks and troughs: how the British economy has grown



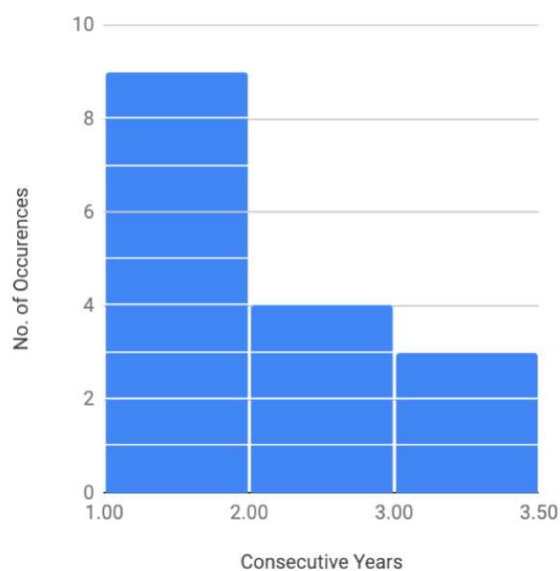
## S&P Composite: 1871-Present

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

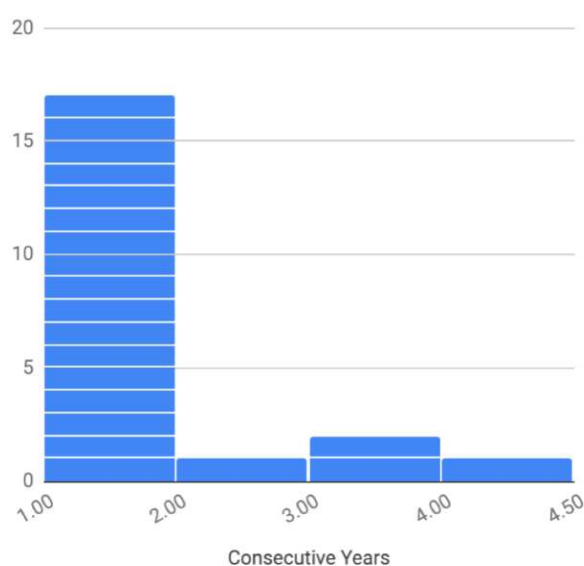
dshort.com  
May 2018  
As of April



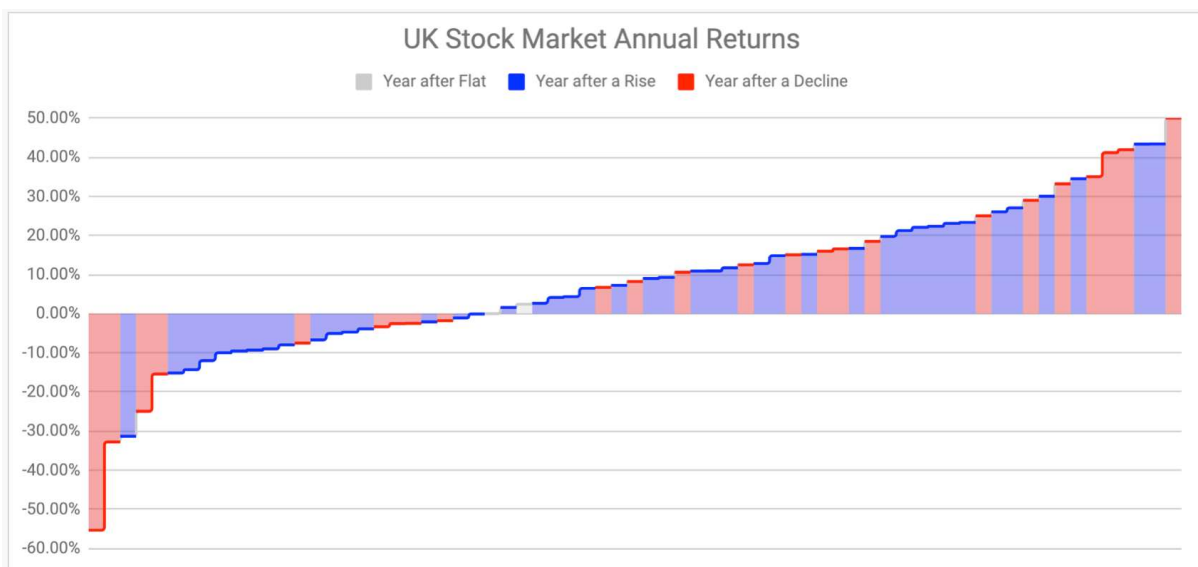
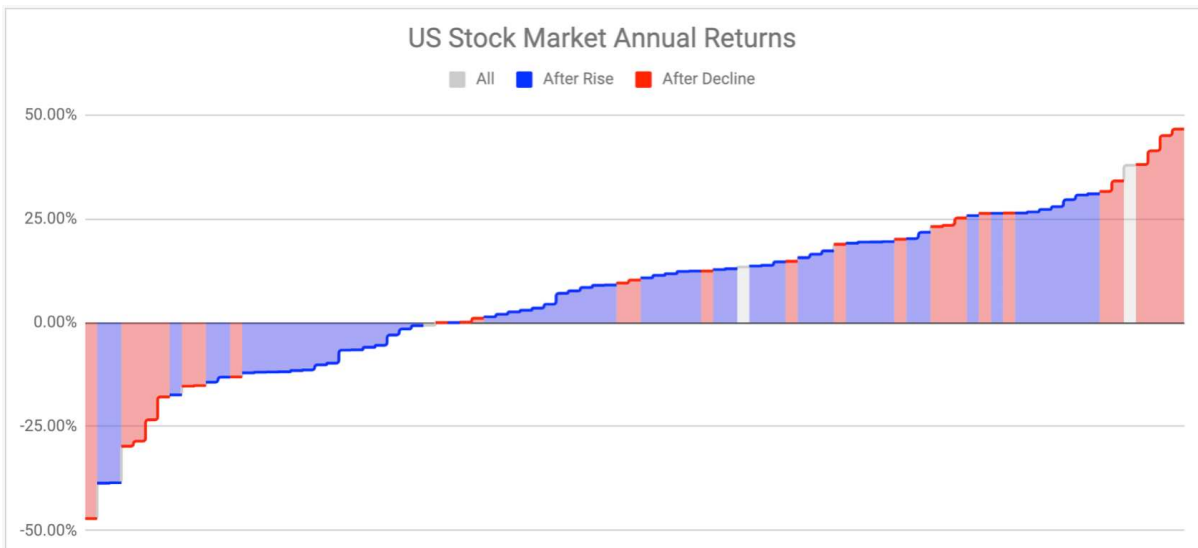
### UK - Consecutive Years of Declines



### US - Consecutive Years of Decline



UK	Average Return
All years	7.9%
<b>Year after a fall</b>	<b>8.9%</b>
Year after a rise	7.7%
USA	Average Return
All years	7.4%
<b>Year after a fall</b>	<b>9.2%</b>
Year after a rise	6.1%





## My favourite Value/Growth picks this Year

### VGI Annual Picks – How Did We Do?

1. You exit at the failsafe 25% drop – eg in 2008 we had a few of those!
2. 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.
3. 12-month hold based on our algorithm which examines company valuations, growth and dividend yields.

This is how we've done so far...

	<b>Alpesh Patel Special Edition</b>	<b>FTSE All-Share</b>
<b>2004 performance</b>	+ 34.9%	+ 9.2%
<b>2005 performance</b>	+ 44.2 %	+ 18.1%
<b>2006 performance</b>	+ 40.6%	+ 10.8%
<b>2007 performance</b>	- 2.3%	+ 2.3%
<b>2008 performance</b>	- 18.4%	- 32.4%
<b>2009 performance</b>	+ 17.4%	+ 28.0%
<b>2010 performance</b>	+ 16.1%	+ 9.1%
<b>2011 performance</b>	- 4.4%	- 6.5%
<b>2012 performance</b>	+ 18.9%	+ 7.4%
<b>2013 performance</b>	+ 33.5%	+ 12.9%
<b>2014 performance</b>	- 4.3%	- 2.4%
<b>2015 performance</b>	+ 23.3%	- 6.6%
<b>2016 performance</b>	+ 19.4%	+ 20.0%
<b>2017 performance</b>	+ 32.8%	+ 8.7%
<b>Average</b>	<b>+ 18%</b>	<b>+ 5.6%</b>
<b>Average (last 5 years)</b>	<b>+ 20.9%</b>	<b>+ 6.5%</b>

This was the 2018 performance – our worst year since the credit crunch!

Our picks in the January newsletter of 22<sup>nd</sup> December to 31<sup>st</sup> December for our picks:

<b>ADES</b>	-6.5%
<b>Ferguson</b>	-10%
<b>Inspired Energy</b>	-22.5%
<b>Keller</b>	-25% (stop loss)
<b>Macfarlane</b>	-10.3%
<b>Morgan Advanced Materials</b>	-25% (stop loss)
<b>Plus500</b>	+28.9%
<b>Premier Asset Management</b>	-25% (stop loss)
<b>Ramsdens</b>	-16.3%
<b>Severfield</b>	-15.3%
<b>Telford Homes</b>	-25% (stop loss)
<b>Tyman</b>	-25% (stop loss)
<b>Abcam</b>	-8.1%
<b>AVERAGE</b>	-14.2%

FTSE All Share: -13.2%

Our Average over the last 6 Years:

Alpesh Patel Special Edition VGI Picks: +15.2%

FTSE All Share: +3.2%

Our Average since 2004 when we launched APSE:

Alpesh Patel Special Edition VGI Picks: +15.8%

FTSE All Share: +4.3%

So, on to my picks for 2019:

**Gordon Dadds**

**Polymetal**

**Britvic**

**Cineworld**

**Dunelm**

**El Group**

**Marshalls**

**Telecom plus**

**Cosan (US)**

**Pointer Telocation (US)**



**Walgreens Boots (US)**

**D4t4 Solutions**

**James Halstead**

## Forex

**Sensitivity of 2019 S&P 500 EPS to USD**  
(10% change  $\approx$  \$4 of EPS)

	Trade-weighted	EPS	
	US dollar	Level	Growth
<b>Stronger</b> 	20 %	\$162	2 %
	15	164	3
	10	166	5
	5	168	6
	<b>0</b>	<b>170</b>	<b>7</b>
 <b>Weaker</b>	(5)	172	8
	(10)	174	10
	(15)	176	11
	(20)	178	12

Source: Goldman Sachs Global Investment Research

## What of Brexit?

### Is EU the Winner from Tariffs, Brexit, Russia Triple Threat?

The Russia crisis is likely to lead to EU diplomatic sanctions according to experts.<sup>1</sup> With Trump also likely to expel diplomats<sup>2</sup> and EU avoiding serious tariffs from Trump<sup>3</sup> but instead likely to work with him on tackling China<sup>4</sup> and a hard Brexit likely to be avoided<sup>5</sup> still according to some, one could see how the EU is the key beneficiary between the UK, EU, US, China in the world economic picture.<sup>6</sup>

<sup>1</sup> <https://www.bloomberg.com/news/articles/2018-03-22/eu-warns-of-retaliation-spiral-with-trump-eu-summit-update>

<sup>2</sup> <http://www.euronews.com/2018/03/25/trump-to-expel-russian-diplomats-in-solidarity-with-uk->

<sup>3</sup> <https://www.bloomberg.com/news/articles/2018-03-23/eu-u-s-should-tackle-china-together-on-trade-merkel-ally>

<sup>4</sup> <https://www.bloomberg.com/news/articles/2018-03-23/eu-u-s-should-tackle-china-together-on-trade-merkel-ally>

<sup>5</sup> <https://globalriskinsights.com/2017/10/brexit-stronger-europe/>

<https://www.businesslive.co.za/bd/markets/2017-11-28-european-shares-take-heart-from-brexit-bank-verdict/>

<https://www.theguardian.com/politics/2018/jan/15/no-deal-brexit-would-cost-eu-economy-100bn-report-claims>

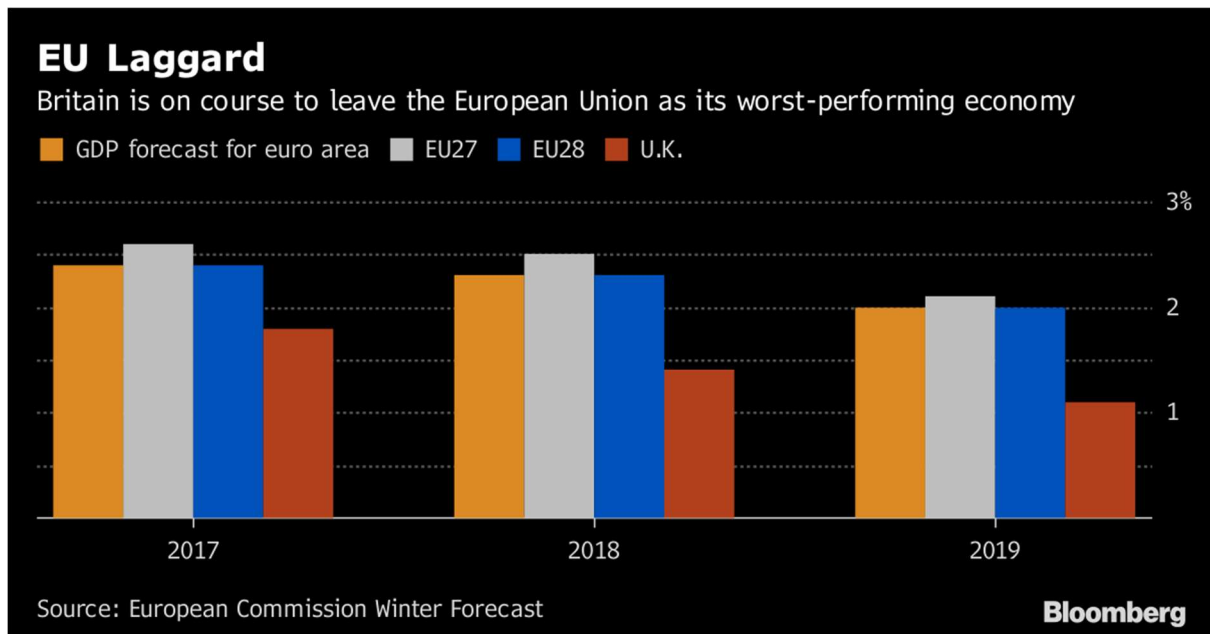
<https://www.fxcm.com/insights/economic-impact-hard-brexit-vs-soft-brexit/>

<http://www.independent.co.uk/news/business/news/hard-brexit-city-of-london-cost-jobs-70000-employment-leave-eu-single-market-european-union-uk-a7839231.html>

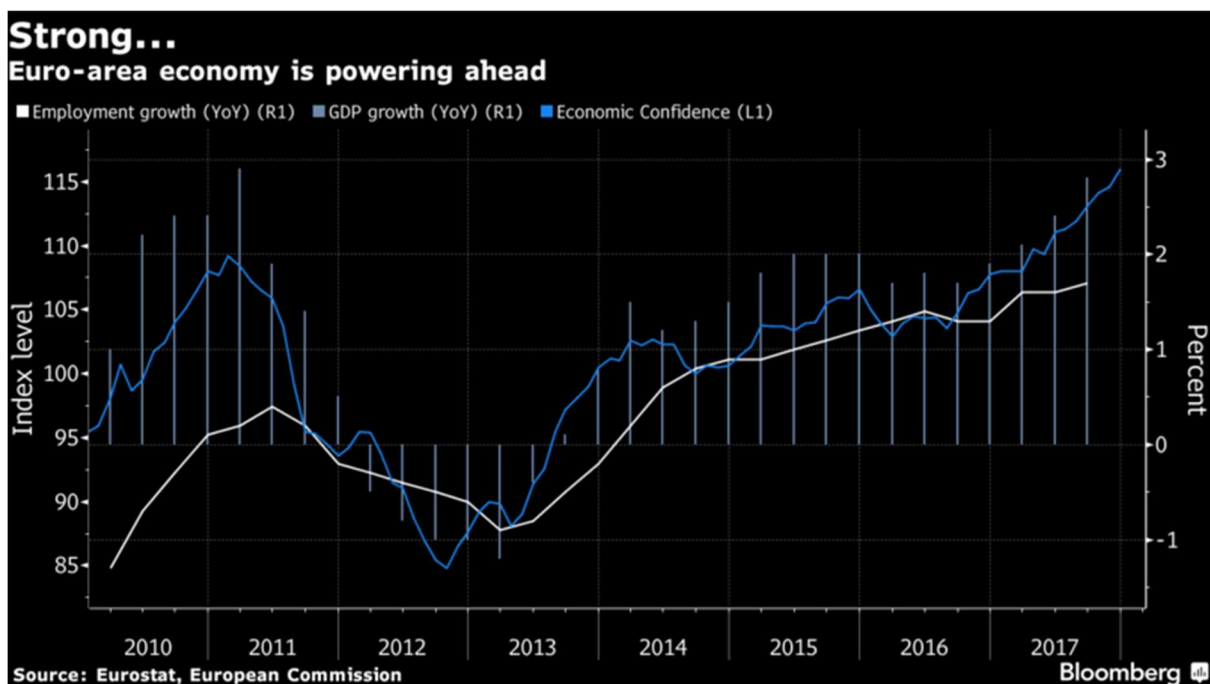
<sup>6</sup> <https://finance.yahoo.com/news/trump-putin-role-eu-now-162330684.html>

<https://www.euractiv.com/section/economy-jobs/opinion/as-trump-plays-with-fire-eu-should-lead-on-global-trade/>

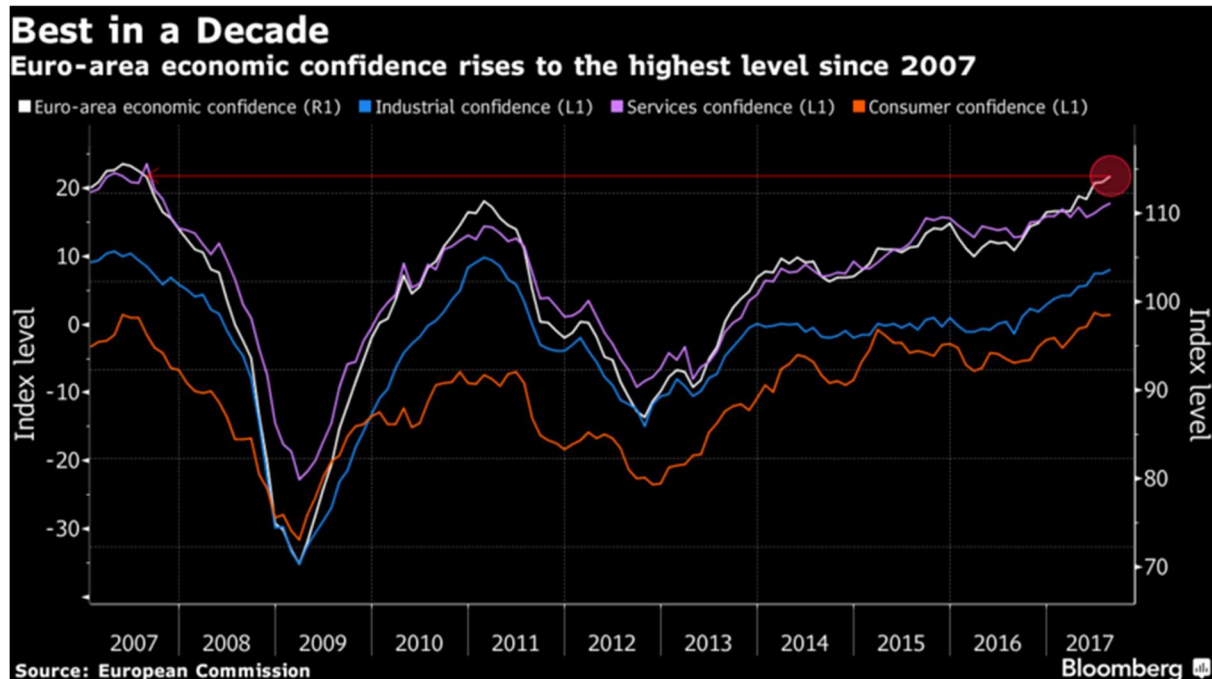
And given that data supports the UK may leave the EU as its weakest major economy, the Europeans may well not be losers after all (see image):



And all the while as the next image shows, Europe is powering ahead:



It is little wonder that Euro-area confidence was so high even post the Brexit vote in 2016 (see image below):



Brexit has shown the instant negative impact on economic growth of EU and UK as well for short term. But the expert arguments show that if we observe the long-term impact of Brexit it may enhance the economic growth to a large extent.<sup>7</sup>

Experts reveal that there are more risks for the UK with Hard Brexit. The recent predictions about Hard Brexit say that if we analyze the short to medium term impact of this deal, GDP of UK will fall by great extent as compared to EU. However, the report of Bertelsmann Foundation shows that Hard Brexit will cost somewhere around 0.1 to 0.36% for EU's GDP by the year 2030. The impact continues to other platforms as well where Ireland will be losing by 2.66%, Germany will decline by 0.33%, Sweden by 0.48% and Belgium will lose by 0.99%.<sup>8</sup>

We have a perfect storm where the EU may be in the peaceful eye; Brexit (the UK suffers more), trade wars (the EU is largely exempted so US and China fight it out), Russia (the EU is protected by its scale and size).

<sup>7</sup> <https://globalriskinsights.com/2017/10/brexit-stronger-europe/>

<sup>8</sup> <http://www.independent.co.uk/news/business/news/hard-brexit-city-of-london-cost-jobs-70000-employment-leave-eu-single-market-european-union-uk-a7839231.html>

## References:

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4. <https://www.theguardian.com/politics/2018/jan/15/no-deal-brexit-would-cost-eu-economy-100bn-report-claims>
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8. <https://www.fxcm.com/insights/economic-impact-hard-brexit-vs-soft-brexit/>
9. <http://www.independent.co.uk/news/business/news/hard-brexit-city-of-london-cost-jobs-70000-employment-leave-eu-single-market-european-union-uk-a7839231.html>

## ETF

Interesting how ETFs have short and leveraged shorts too and which have soared. Warning short and leveraged ETFs are high risk!

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

No.	Price% 6 months ago	Name	EPIC
1	▲ 83.05	Boost Palladium 2x Leverage Daily ETP	2PAL
2	▲ 72.19	Boost WTI Oil 3x Short Daily ETP	3SOI
3	▲ 72.17	ETFS 3X Daily Short Nickel	3NIS
4	▲ 65.60	Boost WTI Oil 3x Short Daily ETP	3OIS
5	▲ 64.91	ETFS 3X Daily Short WTI Crude Oil	3CRS
6	▲ 63.92	Leverage Shares PLC 2x Starbucks ETP	2SBU
7	▲ 60.66	Boost EuroSTOXX Banks 3x Short Daily	3BAS
8	▲ 57.74	Leverage Shares 2X Starbucks ETP	SBU2
9	▲ 56.58	Boost WTI Oil 2x Short Daily ETP	2OSI
10	▲ 50.58	Boost WTI Oil 2x Short Daily ETP	2OIS



## Personal Activities



Let's hope in 2019 we are not up the creek, without a paddle.

My global political analysis on BBC:

