Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

14 January 2022

Overview

Well 2021 ended on a massive high as this picture shows. My investiture for my OBE for services to the Economy and International Trade.

So how did my 2021 picks do? As you know each January I pick for the year ahead. Most recently, instead of UK only, I now pick globally.

These were 2021 picks and performance from 23rd Jan Newsletter to year end.

My Picks for the Year Ahead:

1. eQ Oyj
2. Volex
3. Aerojet
4. BTS
5. Digia Oyj
6. Haemonetics
7. Hapag
8. Ienergizer
9. Moncler
10. Oxford Instruments
11. Perficient
12. Progressive Corp
13. Somfy
14. Vipshop
15. AlphaFX
16. CMC Markets
17. Edwards Lifesciences
18. Gentherm
19. Great Lakes Dredge and Dock
20. Hermes
21. HMS Holdings
22. JD Sports
23. Learning Technologies
24. RealPage
25. Softcat
26. Sylvania Platinum
27. Teledyne Tech

And this was the performance of those picks:

Name	EPIC		Performance from Newsletter to year end with stop loss 25%	
eQ Oyj	EQV1VH		44.4	
Volex Group PLC	VLX		-1	
Aerojet Rocketdyne Holdings Inc	AJRD		-10.9	
Somfy SA	SOP		16.5	
Digia Oyj	DIGIAH		-5	
Haemonetics Corp	HAE		-25	
Hapag-Lloyd AG	HLAGD		157.8	
Ienergizer Ltd	IBPO		-3.6	
Progressive Corp	PGR		11.3	
Oxford Instruments PLC	OXIG		36.6	
Moncler SpA	MONCM		31.5	
BTS Group AB	BTSBS		59	
Vipshop Holdings Ltd	VIPS		-25	
Alpha FX Group PLC	AFX		52.8	
CMC Markets PLC	CMCX		-25	
Edwards Lifesciences Corp	EW		51.5	
Gentherm Inc	THRM		27.1	
Great Lakes Dredge & Dock Corp	GLDD		7.7	
Hermes International	RMSP		75.8	
JD Sports Fashion PLC	JD.		31.4	
Learning Technologies Group PLC	LTG		-1	
Softcat PLC	SCT		17	

Sylvania Platinum Ltd	SLP		-21.3	
Teledyne Technologies Inc	TDY		12.2	
Perficient Inc	PRFT		144.3	
RealPage	RP		1	acquired
HMS Holdings	HMSY		1	acquired
Total Return			24.50%	
FTSE Allshare			11.15%	

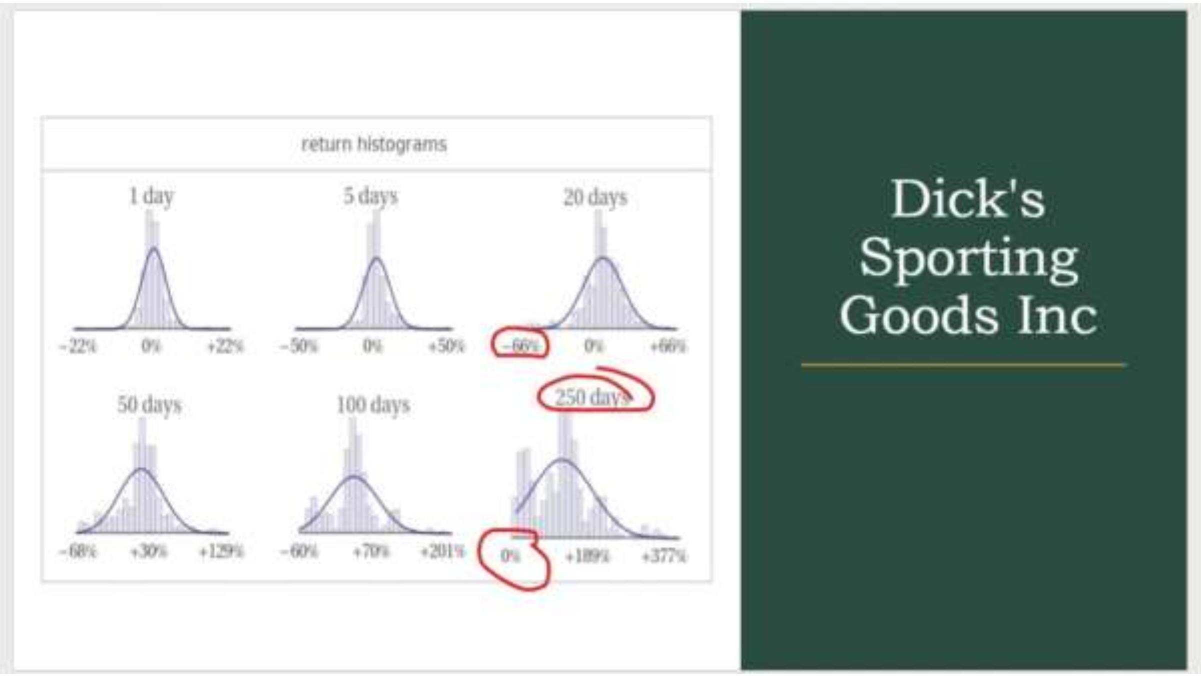
And these are picks from date of this Newsletter to 31st Dec 2022.

West Pharmaceutical Services Inc	WST
Sureserve Group PLC	SUR
Microsoft Corp	MSFT
Lotus Bakeries NV	LOTBB
Getinge AB	GETIBS
Instem Life Science Systems PLC	INS
Arjo AB	ARJOBS
YouGov PLC	YOU
ASML Holding NV	ASML
Brown & Brown Inc	BRO
EPAM Systems Inc	EPAM
ID Logistics Group	IDLP
Costco Wholesale Corp	COST
Nova Ltd	NVMI
Tyler Technologies Inc	TYL
ASML Holding NV	ASMLA
Synopsys Inc	SNPS
KLA-Tencor Corp	KLAC
Vitec Software Group AB	VITBS
Medpace Holdings Inc	MEDP
Eurofins Scientific SE	ERFP
Camtek Ltd	CAMT
Novo Nordisk A/S	NOVOBC
Nibe Industrier AB	NIBEBS
Apple Inc	AAPL
Somfy SA	SOP
Lam Research Corp	LRCX
Pool Corp	POOL
ServiceNow Inc	NOW
Tecan Group AG	TECNZ
Ultra Electronics Holdings PLC	ULE
Recordati Industria Chimica e Farmaceutica SpA	RECM

AddNode Group AB	ANODBS
Zoetis Inc	ZTS
Fortinet Inc	FTNT
Keysight Technologies Inc	KEYS
Kongsberg Gruppen ASA	KOGO
Thermo Fisher Scientific Inc	TMO
Balchem Corp	BCPC
S&P Global Inc	SPGI
Nexus AG	NXUD
Coloplast A/S	COLOBC
BJ's Wholesale Club Holdings Inc	BJ
Indutrade AB	INDTS
Sherwin-Williams Co	SHW
Givaudan SA	GIVNZ
Oracle Corp	ORCL
Accenture Ltd	ACN
Home Depot Inc (The)	HD

Statistics

I do like statistics – ask my A’Level maths teacher. Companies like this hit the mark for me but also show you in one image the kinds of companies I look for on APSE.



Past 6 months S&P 500. What about 2022?

I will share any public talks in the future when I can invite Global Investments Programme users

Ticker		1D Flow (M USD)	1W Flow (M USD)	YTD Flow ↓
Sum		+82.06	+966.73	+35,536.51
1) TIP	US	+13.00	+399.91	+9,895.26
2) VTIP	US	+84.61	+136.81	+8,029.62
3) SCHP	US	.00	+306.16	+7,329.97
4) STIP	US	+26.54	+132.40	+4,642.71
5) IVOL	US	-45.42	-46.68	+2,699.23
6) SPIP	US	.00	+3.15	+1,122.68
7) INFL	US	.00	+13.37	+835.45
8) TIPX	US	.00	+10.58	+440.26
9) GTIP	US	.00	.00	+131.17
10) WIP	US	.00	.00	+85.63
11) MUSI	US	.00	.00	+80.10
12) FCPI	US	+3.34	+5.00	+73.84
13) LQDI	US	.00	+3.04	+52.50
14) PBTP	US	.00	.00	+41.71
15) RINF	US	.00	+2.98	+34.04
16) VBND	US	.00	.00	+30.93
17) RAAX	US	.00	.00	+8.35
18) THY	US	.00	.00	+3.06

These ETFs have 'inflation' in their names and money is flowing into them. Might be smart money. Might not!

Some of you have asked me about PayPal. It's one of those that due to it's volatility yet strong financials, I have no problems extending stop loss to 30%. To be honest, whilst it is not 'Quality' I treat it like that and still hold it and would be buying more at 30% drop. Very few stocks as you know I do this with.

Special Situation 100% return at some point in 24 months.

Here is a summary of some analysts' forecast for the index at the end of 2022:

BROKERAGE NAME S&P500 TARGET

@ END 2022

Morgan Stanley (NYSE:MS) 4,400

Wells Fargo (NYSE:WFC) 5,100-5,300

Goldman Sachs (NYSE:GS) 5,100

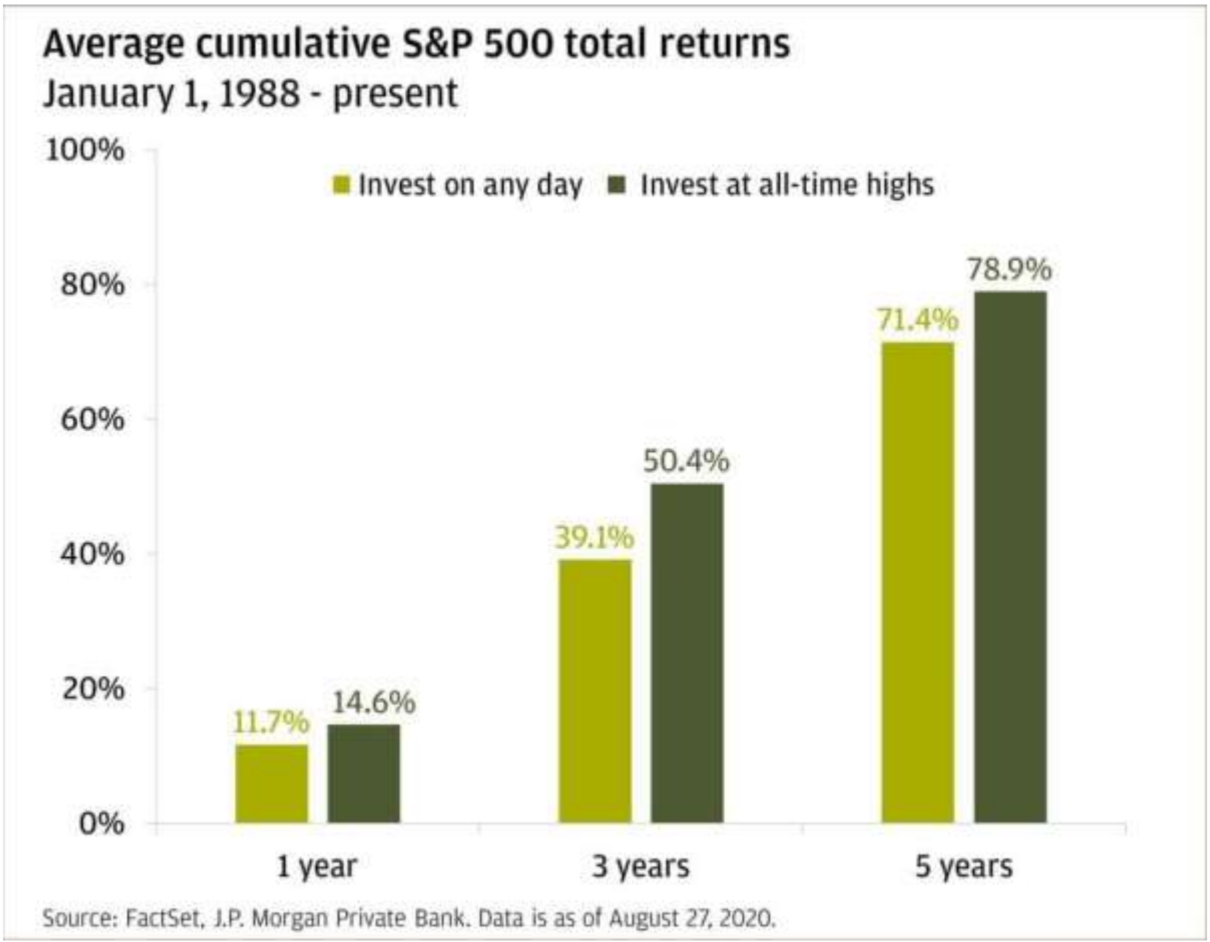
* Morgan Stanley: "While earnings for the overall index remain durable, there will be greater dispersion of winners and losers and growth rates will slow materially... 2022 will be more about stocks than sectors or styles, in our view."

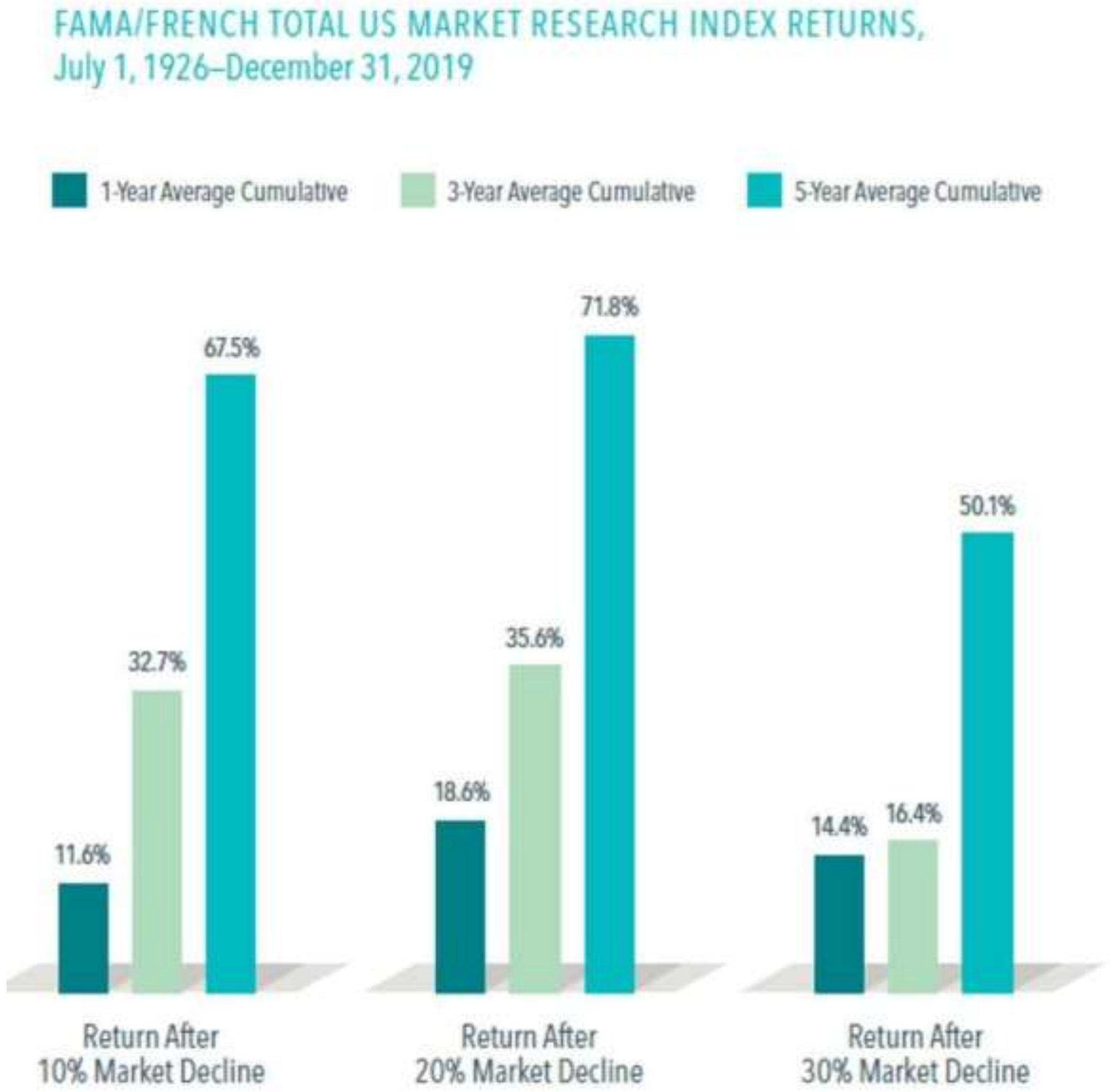
* Wells Fargo: "Persistent supply shortages and inflation pressures lead us to adjust the magnitudes of some 2022 targets, but we believe the global economy should still mark an above-average pace next year. More importantly, our tactical preferences for the next 6 to 18 months are nearly all unchanged."

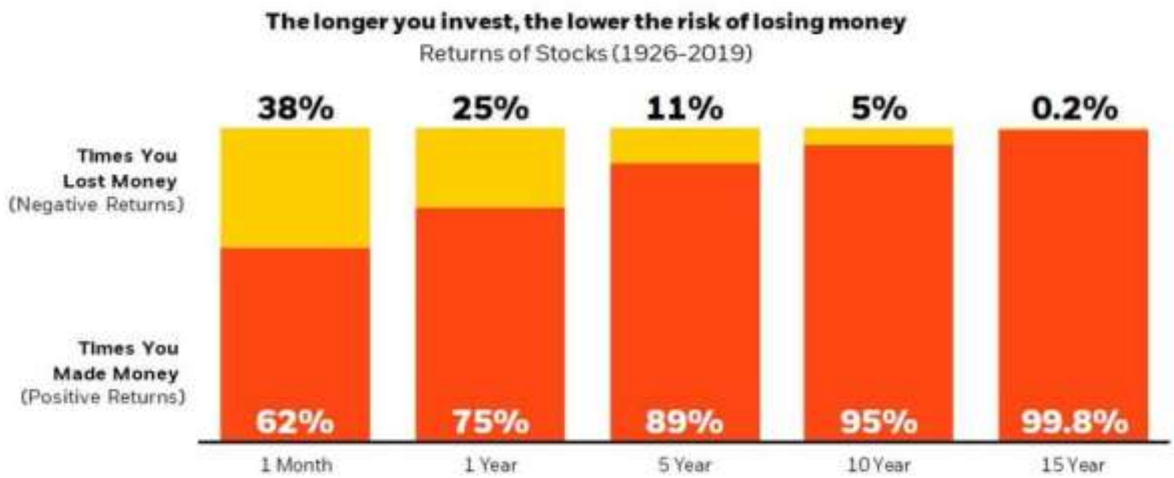
Goldman Sachs: "Decelerating economic growth, a tightening Fed, and rising real yields suggest investors should expect modestly below-average returns next year."

"In contrast with our expectation during the past year, corporate tax rates will likely remain unchanged in 2022 and rise in 2023. Corporate earnings will grow and lift share prices. The equity bull market will continue."

The factors above contribute to lofty equity valuations. The forward price-to-earnings ratio for the S&P 500 is 21.71.[2] This is up from the 16.81 average over the last 25 years. Current valuations are a factor in future returns. Based on the forward P/E ratio and historical data, J.P. Morgan estimates average annualized returns for the S&P 500 could be flat over the next 5 years.


Average cumulative S&P 500 total returns
January 1, 1988 - present
100%
80%
60%
40%
20%
0%
Invest on any day
Invest at all-time highs
11.7%
14.6%
39.1%
50.4%
71.4%
78.9%
1 year
3 years
5 years
Source: FactSet, J.P. Morgan Private Bank. Data is as of August 27, 2020.


FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX RETURNS,
July 1, 1926–December 31, 2019
1-Year Average Cumulative
3-Year Average Cumulative
5-Year Average Cumulative
11.6%
32.7%
67.5%
18.6%
35.6%
71.8%
14.4%
16.4%
50.1%
Return After 10% Market Decline
Return After 20% Market Decline
Return After 30% Market Decline

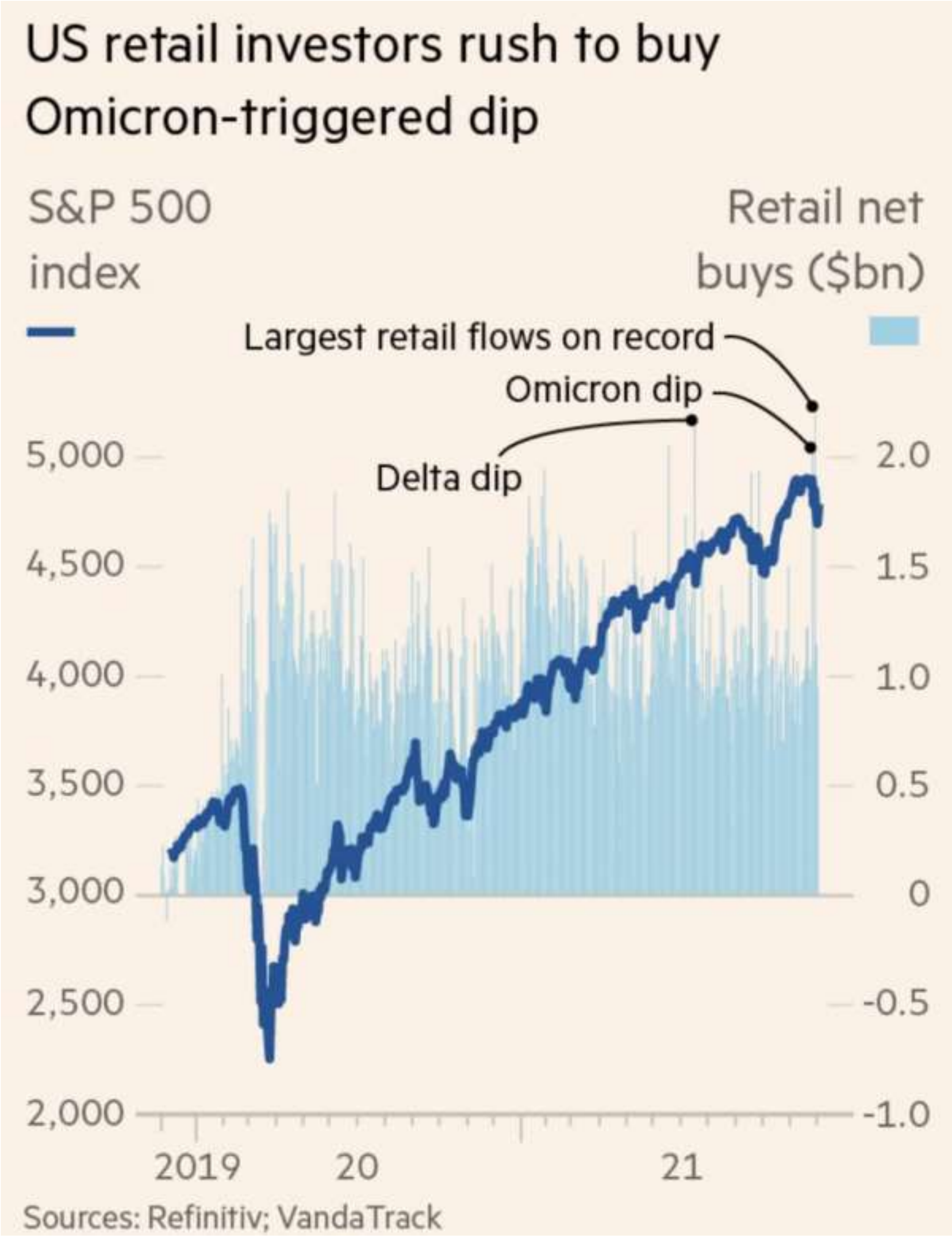

The longer you invest, the lower the risk of losing money
Returns of Stocks (1926-2019)
Times You Lost Money (Negative Returns)
Times You Made Money (Positive Returns)
38%
25%
11%
5%
0.2%
62%
75%
89%
95%
99.8%
1 Month
1 Year
5 Year
10 Year
15 Year

Which Countries Stock Markets Are Rocking It?

SEASONAL PERFORMANCE

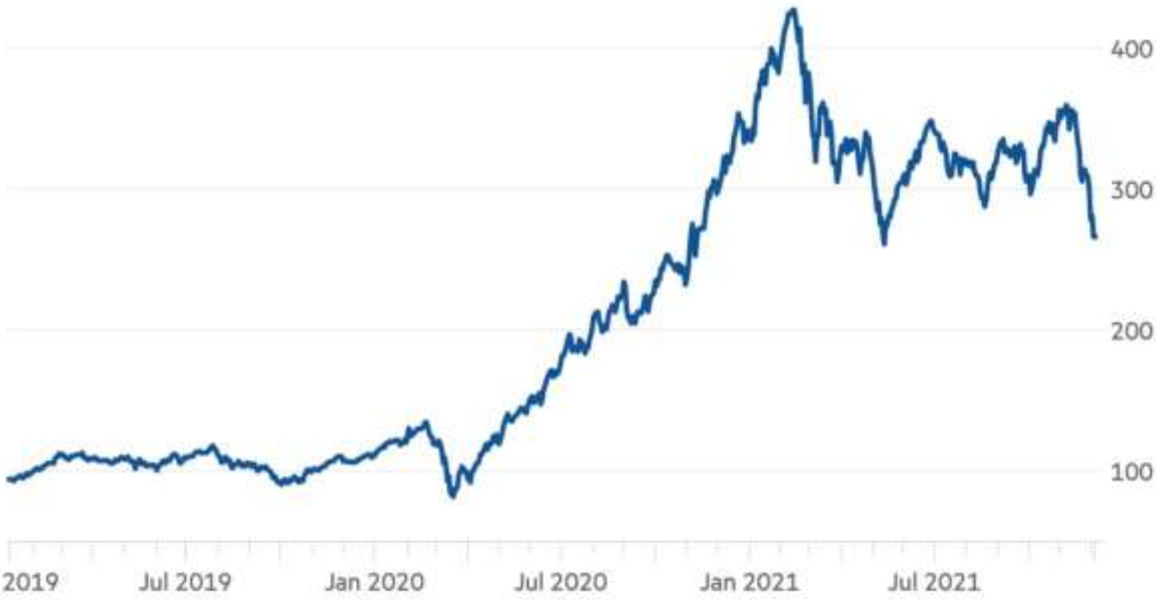
Dow Jones Industrial Average

	'17	'18	'19	'20	'21	Avg
Jan	0.51	5.79	7.17	-0.99	-2.04	1.40
Feb	4.77	-4.28	3.67	-10.07	3.17	-1.12
Mar	-0.72	-3.70	0.05	-13.74	6.62	-2.21
Apr	1.34	0.25	2.56	11.08	2.71	3.15
May	0.33	1.05	-6.69	4.26	1.93	-0.20
Jun	1.62	-0.59	7.19	1.69	-0.08	2.14
Jul	2.54	4.71	0.99	2.38	1.25	2.69
Aug	0.26	2.16	-1.72	7.57	1.22	1.62
Sep	2.08	1.90	1.95	-2.28	-4.29	0.63
Oct	4.34	-5.07	0.48	-4.61	5.84	-1.15
Nov	3.83	1.68	3.72	11.84	-3.73	5.29
Dec	1.84	-8.66	1.74	3.27	0.28	0.31
Yearly	25.08	-5.63	22.34	7.25	12.98	


US retail investors rush to buy Omicron-triggered dip
S&P 500 index
Retail net buys ($bn)
Largest retail flows on record
Omicron dip
Delta dip
5,000
4,500
4,000
3,500
3,000
2,500
2,000
2.0
1.5
1.0
0.5
0
-0.5
-1.0
2019
20
21
Sources: Refinitiv; VandaTrack

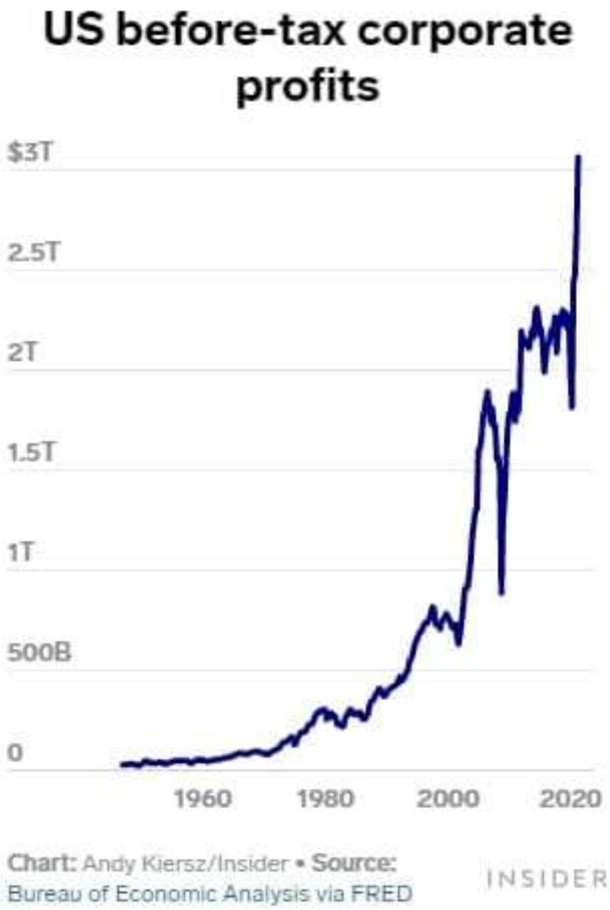
No profits; no problem - until now

Goldman Sachs' non-profitable technology index (points)



Source: Goldman Sachs

Was reminded of this today.


US before-tax corporate profits
$3T
2.5T
2T
1.5T
1T
500B
0
1960
1980
2000
2020
Chart: Andy Kiersz/Insider • Source: Bureau of Economic Analysis via FRED
INSIDER

Before-tax corporate profits as share of GDP

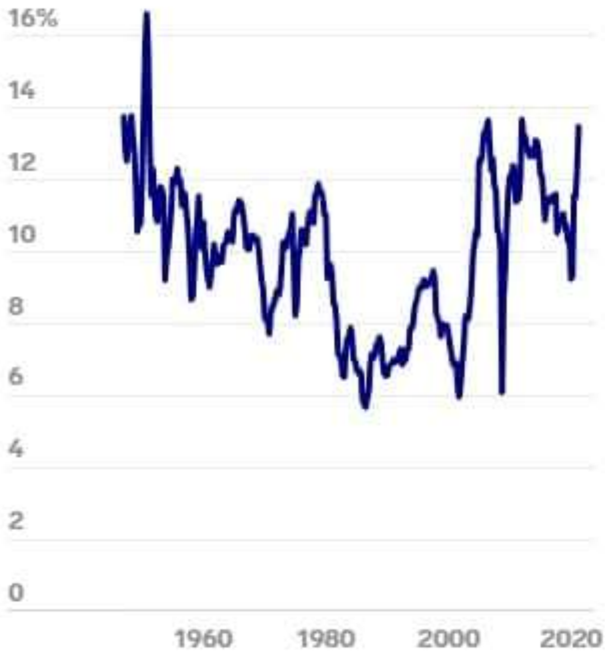


Chart: Andy Kiersz/Insider • Source: Insider calculations with data from Bureau of Economic Analysis via FRED

INSIDER

Consumer price index inflation

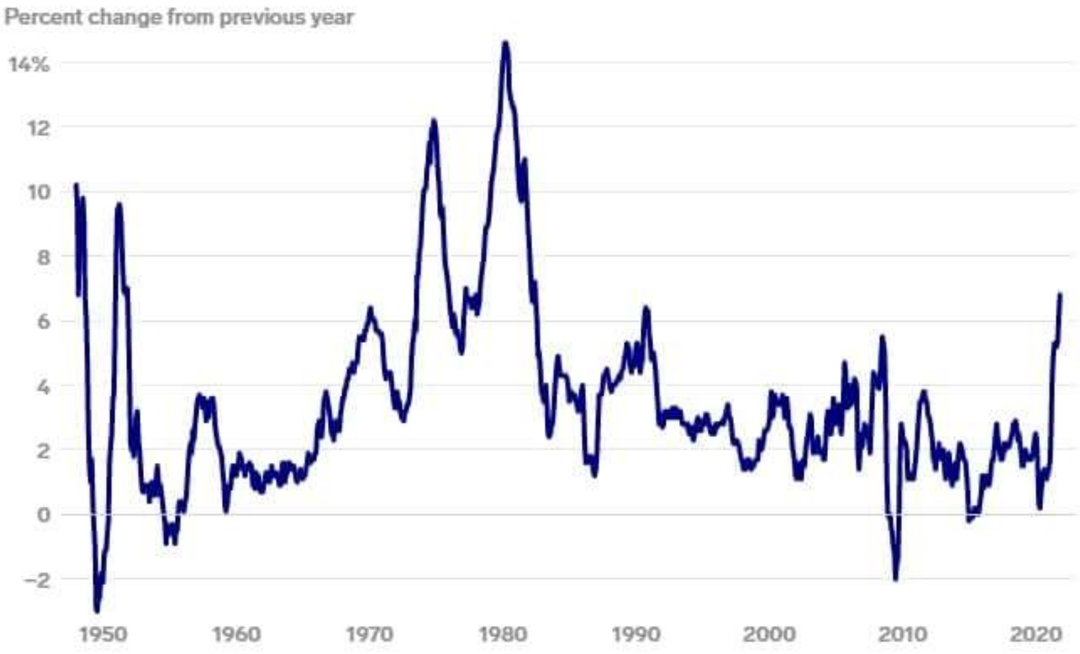


Chart: Andy Kiersz/Insider • Source: Bureau of Labor Statistics via FRED INSIDER

Exhibit 1: Mid Cycle Normalization of P/Es Is Resuming Lower with Fed Tapering Faster

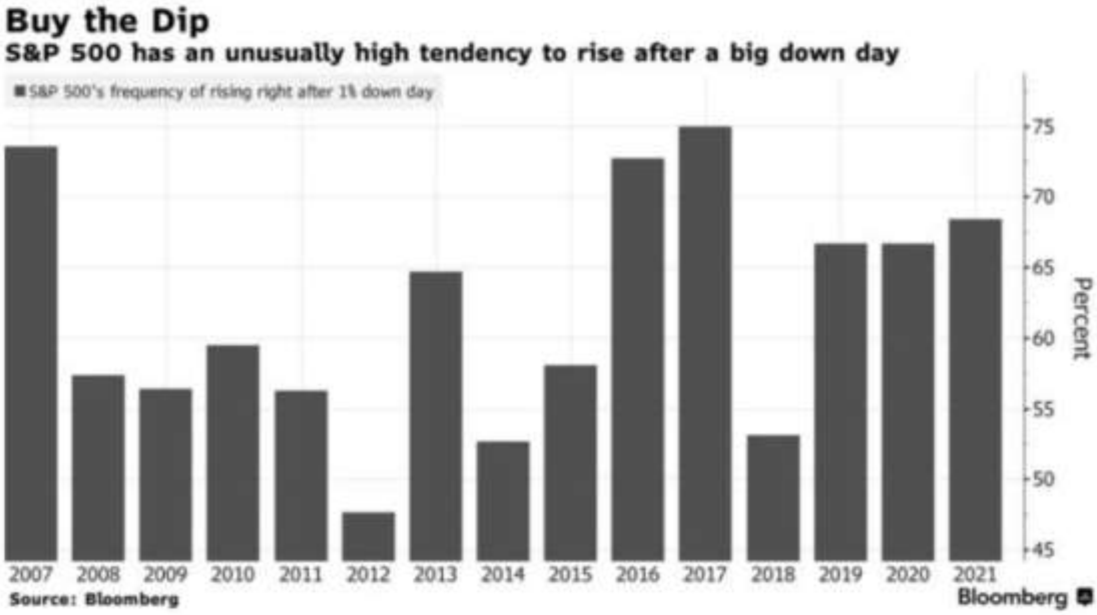
Source: Bloomberg, Morgan Stanley Research

Morgan Stanley

Exhibit 4: SPX P/E Still Has 12% to Fall, We Think...

Source: Bloomberg, Morgan Stanley Research

Morgan Stanley




% change 1 day candles
NASDAQ 100
Index
IXND
Volume (Bars) - M's
13, 26 MACD (9 sig) - Bars


% change 1 day candles
Dow Jones Industrial Average
Index
DJI
Volume (Bars) - M's
13, 26 MACD (9 sig) - Bars


% change 1 day candles
FTSE 100
Index
UKX
Volume (Bars) - M's
13, 26 MACD (9 sig) - Bars


% change 1 day candles
NASDAQ 100
Index
IXND
Volume (Bars) - M's
13, 26 MACD (9 sig) - Bars


% change 1 day candles
Dow Jones Industrial Average
Index
DJI
Volume (Bars) - M's
13, 26 MACD (9 sig) - Bars


% change 1 day candles
FTSE 100
Index
UKX
Volume (Bars) - M's
13, 26 MACD (9 sig) - Bars

Learn The Truth About How U.S. Debt Impacts US Stocks?

On October 12th, the U.S. House of Representatives approved legislation that temporarily raised government borrowing limits to $28.9 trillion. This action has staved off the prospect of debt default until December.

President Joe Biden will sign the measure into law before October 18th, which is the day the Treasury Department calculated it would no longer be able to pay U.S. debts without congressional action.

But how did it get to this? And what does this mean for the broader economy and U.S. stocks?

What is the U.S. Debt Ceiling?

Late September and early October 2021 have been anxious times for the U.S. economy. Congress faced a tricky task: reach a deal on the U.S. national debt ceiling, or the government would run out of money to pay its bills. Failure to do so could lead the U.S. to default on its debt, which has never happened before.

While this prospect has been put off until December, a solution needs to be found. So far, Republican and Democratic lawmakers have been at odds over raising federal borrowing limits, also called the debt ceiling.

Before the temporary agreement, the debt ceiling stood at $28.4 trillion. However, the national debt, which is the total that the government owes creditors, was $28.43 trillion.

With the October 18th deadline looming, a stopgap bill was required to prevent the first default. Failure to reach an agreement would have meant that the federal government would default on its obligations, including Social Security and payments to veterans.

The debt crisis was causing some nervousness in the U.S. markets. Republicans had been expected to block a third attempt to raise the debt ceiling. However, fears eased slightly once Mitch McConnell, the Senate Minority Leader, indicated his party would support the debt ceiling extension into December. Additionally, McConnell's announcement caused yields on one-month Treasury bills to drop.

What Would Happen If the U.S. Defaulted?

Congress may have kicked the debt ceiling down the road for now, but an agreement still needs to be found. Otherwise, the U.S. faces the prospect of a government shutdown.

Stock investors won't be delighted about this prospect. Several headwinds are swirling at the moment, like Federal Reserve tapering. Analysts at Goldman Sachs have suggested that shutdowns don't necessarily spell bad news for the market. However, several other factors could affect stocks.

Goldman's analysis shows that government shutdowns have historically failed to have a meaningful impact on equity returns. There have been 14 government shutdowns since 1980. During

these shutdowns, the S&P 500's median returns were:
– -0.1% on the day of the shutdown
– 0.1% during the shutdown
– 0.3% on the day of the resolution.

The only exception was the most recent shutdown during December 2018. During this time, the S&P 500 dropped by 2%. However, as Goldman notes, this decline was more likely driven by investors' fears about Fed tightening.

While budget expiry doesn't have a considerable effect, debt limit deadlines do affect some parts of the market. Government revenue exposed stocks — like industrials and health stocks — underperformed the market during the 2011 and 2013 debt limit deadlines.

If the government can't find a debt ceiling solution by December, these stocks could be affected again.

What Else Could Rattle Equities?

Goldman strategists suggested that the macroeconomic picture is a better predictor of how the equity markets would respond. During the 2011 and 2013 debt limit shutdowns, the S&P fell in 2011 but rallied in 2013.

The big difference between these two was the broader economic situation. In 2011, there was declining economic growth, the S&P had downgraded U.S. sovereign debt, and the European debt crisis. By contrast, the conditions in 2013 were more favorable.

The macro picture is causing some concern heading towards the fall. Global markets rose last week as the U.S. waited for Labor Department data. However, it don't can't doesn't investors '500's Goldman's here is hope for the broader economy.

Conclusion

Historically, debt limit deadlines don't have a significant impact on the S&P 500. However, some caution is the market should be expected if Congress struggles to reach a more permanent solution to the borrowing limits problems. For now, though, the biggest fears for equities come in the form of the energy crisis, Fed tapering, and concerns about GDP.

Why The Younger You Start Investing, the Better — and It's Never Too Late Either

When is the best time to start investing money? Typically, as early as possible. Whether it is saving for a pension or trying to accumulate wealth, the earlier you start, the more time you have to take advantage of compound growth.

Additionally, if you're in your 40s or 50s and haven't started, don't worry. It's not too late. If you invest smartly — and don't make any mistakes — you can still build a nice nest egg.

Early Investors

It's never too early to start investing or learning about investment. If you're a parent, you can do your kids a favour by teaching them about saving and financial discipline.

And when they are a little older, you can even help them invest early with an eye toward a housing deposit or teach them to start making small, regular monthly contributions.

Many young adults are intimidated by investing. But they shouldn't be. If you are young, you've got lots of time for your investments to compound. Additionally, you can afford to take long-term positions in emerging industries.

With a bit of education and awareness, investing can be an excellent option for younger people.

Advantages of Early Investment

Early investment has several advantages. As we mentioned earlier, compound investment is a great way to grow a lump sum. Over 30 or 40 years, this effect can become very dramatic. Additionally, investing promotes good financial habits, like saving and discipline.

Many young people are in the habit of saving, but with interest rates around 0.1% and inflation on the rise, they need to seek alternatives.

How Much of Your Income Should You Invest?

Many beginner investors aren't sure how much they should be investing. While a lot depends on personal goals and spare capital, there are some helpful general guides. One such guide is the 50/15/5 rule.

The 50/15/5 rule suggests that 50% of earnings go towards essentials like rent, mortgage, transportation, foods, etc., 30% towards entertainment or discretionary spending, and 5% for short-term savings. That leaves 15% that the rule suggests should go toward long-term investment.

For younger workers, 15% won't always be possible. However, even starting with a lower percentage is a great way to build good habits. Then, when earnings increase, you can allocate more money toward investments.

Tips for New Investors

Investing doesn't have to be complicated. Here are some tips for anyone at the start of their investment journey.

Be Serious About Investment:

Many younger investors think that the stock market is about quick returns and high-risk gambles. In fact, a recent survey suggests that 61% of young investors are in it for the thrill. Which is a risky strategy that can lead to heavy losses.

Reddit stocks like Gamestop and thinly regulated markets like cryptocurrency are attracting young investors. Additionally, "gamified" investment apps are also proving popular. While the appeal is obvious, some of these high-risk products aren't suitable for beginner investors.

Consider ETFs and Tracker Funds:

Passive funds which track indices like the S&P 500 or FTSE 100 are a good option for inexperienced investors. These investments are straightforward, have low fees, and generally produce good annual returns.

Making regular contributions to a diversified portfolio is a great strategy for beginner investors. However, finding a little variety is advised if you are more interested in investing in individual stocks or industries. Other avenues to look at are commodities, venture capital, real estate, or precious metals.

Embrace Down Markets:

If you're a new investor, your first down market can be scary. However, bear markets are an opportunity to buy great stocks at a discount. New investors should learn to appreciate the benefits these circumstances can bring.

Growth Stocks:

Growth stocks are an obvious choice when you start your investment journey. Remember, you are in it for the long haul, so stocks with the potential to deliver sustained returns will help you compound your investments.

Learn From the Mistakes of Others:

Some mistakes are inevitable. But repeating the mistakes of others can be avoided. So when other investors talk about their biggest mistakes, try to listen. Some of the most valuable things you can learn are what not to do.

Summary

Investing as early as possible is the best way to maximize returns. Compounding the returns from an index like the S&P 500 can turn small, regular investments into a considerable retirement fund.

While younger investors will get an early advantage, don't worry if you're only getting started in your 40s and 50s. With the right strategy and a disciplined approach, you can still put together a big pot.

How Much Money Do You Need For Retirement?

Retirement is a dream for almost everyone. Relaxing, traveling, enjoying family — they should be the best years of our lives. But how much money do you need for retirement?

Working out how much money you need for retirement depends on a variety of factors. One of the most important considerations is your standard of living. The Pensions & Lifetime Savings Association (PLSA) suggests that a retired couple's minimum is around 17K a year. For a single person, they recommend 11K.

For a more comfortable retirement, the costs shoot up. The PLSA proposes something in the region of 30K for a couple who want to holiday a few times a year and enjoy other luxuries. The typical convention holds that retirees need around £1million. The 4% rule suggests an annual income of £40,000. However, retirees will need to factor in tax on their pensions.

Do I Need £1m for Retirement?

But do you really need a pension that large for retirement? A lot depends on your future expenses, like healthcare or holidays. One of the other significant factors that affect how long a pension lasts is location. Choosing the correct city to retire in can make a considerable difference. Either way, many suggest that the general rule is that you'll require about 60-70% of your pre-retirement income.

Of course, not everyone will have the luxury of a million-pound pension pot. Many retirees will need to get by on half that amount. It's never too early to start thinking about retirement — even if you're in your 20s.

The Importance of Saving and Investing

The UK state pension is less than £10K per year. While this sum is not insignificant, it falls short of the amount required for a comfortable retirement. Most people will struggle to live on that budget, which underlines the importance of saving and investing.

Saving is a good step, but low bank saving interest rates barely keep up with inflation. As a result, investment should form a vital part of your retirement strategy. The S&P 500 regular returns around 8-10% on investment. A 35-year plan with monthly investments of just £483.60 could make you a millionaire.

The S&P 500s performance in recent years has been incredible. £500 per month invested in the index over the last 40 years would be worth a staggering £3.3 million today. Purchasing exchange-traded funds, also known as ETFs, is a great way to track an index like the S&P 500. Additionally, you could potentially gain market-beating returns with some savvy stock picking and a bit of research.

Of course, not everyone has a spare £500 per month. However, experts suggest that investors abide by the 50-15-5 rule. In short, that means investing about 15% of your earnings each year.

Summary

Retirement is full of many surprises; not all of them are pleasant. Increased life expectancy, taxes, and inflation are all factors that can chip away at a pension. Retiring with a comfortable amount takes discipline and some good choices. No matter your age, investing with an eye on retirement is a smart move. Retiring with a million is more than possible.

The Importance of Cash Flow In Stock Picking

There are several relevant metrics that we can use when evaluating stocks. But one of the best measures is also one of the most frequently overlooked. Below, we'll look at the importance of cash flow in stock picking and see what the data says.

Cash flow is a superb indicator of the financial health of a business. A company can have huge revenues, but they aren't profitable if even more significant outgoings exceed them.

Pulling together operation, investment, and financing cash flows into a net cash flow tells us a lot about a company's health. Crucially, unlike profits, cash flows are seen as incredibly difficult to manipulate.

Cash Flow Basics

If you want to do a cash flow analysis, you need a company to generate three cash statements on:

A) Operating cash flow

Operating cash flow is cash received from customers minus operating expenses like salaries, supplies, rent, etc.

B) Investing cash flow

Investing cash flow is cash spent on financial instruments of fixed assets, like machinery, stocks, or securities in other businesses, property, etc.

C) Financing cash flow

Financing cash flow is funds from owners, creditors, investors. These inputs are classified as either debt, equity, or dividend transactions on a cash flow statement.

The Importance of Cash Flow

Aside from detailing the cash-generation ability of a company, cash flow is vital in other ways. For example, investors can use historical cash flows to predict future cash flows. Additionally, it can give investors an insight into the solvency and liquidity of a firm.

Dividend Growth Strategy

In 2006, then industry veteran Richard Dahlberg shared his technique for stock picking. Dahlberg stated that companies who regularly increased dividends tended to use capital more responsibly. He liked to use cash flow yields to screen stocks.

Free cash flow can be calculated by taking a (businesses earning + depreciation & other cash charges) minus capital expenses.

To get a free cash flow yield, you take its free cash flow per share and divide it by its stock price. Companies that generate good free cash flows can often increase dividends.

Low price to cash flow ratios is a proven metric. In a 1991 paper in the Journal of Portfolio Management titled "Further Evidence on the Predictability of International Equity Returns," between 1970 and 1990, stocks in a Morgan Stanley index with a low price to cash flow ratio produced a market-beating 20% compound annual return.

Part of why cash flow makes such a good metric can be found in how the business invests profits. In an interview with Epoch Partners, the two CIOs suggest that earnings growth and dividends drive shareholder returns. Both come from the same source: cash flow.

Indeed, "disciplined and efficient use of free cash flow" is also cited by Morgan Stanley as a great way to identify "compounders," i.e., resilient, durable stocks that return wealth over the long term.

In a similar study, Aberdeen Investment Group also suggests that free cash flow is a quality-value metric tied to premium, long-term returns.

Finally, Schroders has pointed to cash flow as one of the characteristics for evaluating "quality stocks."

They suggest that because high-quality businesses tend to be "more cash generative," they can also sustain higher dividend growth and more efficient services debts.

These qualities, Schroders goes on to suggest, persist over the long term, allowing these businesses to grow sustainably.

Cash Flow vs. P/E

Price to earnings (P/E) tends to grab a lot of the investment headlines. However, this metric doesn't always give a concrete picture of a company's ability to generate cash. Cash flows help investors understand how much cash a business can generate.

What Investors Should Pay Attention to Cash Flows?

Free cash flow is an essential metric for dividend investors and total returns investors.

For **dividend investors**, it's more important than earnings because accrual-based accounting can give an inaccurate representation of a company's ability to pay dividends.

For **total returns investors**, cash flow is a great predictor of stock returns.

How To Action This Information?

The pandemic has pulled into focus the difference between profits and cash flow. Understanding what cash flow is and how to use it to pick stocks is an essential tool for evaluating a company's financial health. The bigger picture is crucial, but a cash flow ratio can give you an excellent insight into a business's sustainability and future dividends.

Why Maybe Tech Stocks Are Not Overvalued at All

Tech stocks have delivered incredible returns over the last decade. However, there has been a chorus of analysts and experts warning us that they were overvalued during this run. As ever, things are a little more complex. Is there data to support the view that technology stocks aren't overvalued?

Upward Trend in Tech

The pandemic accelerated the upwards trend for tech. As remote working became the norm, cloud-based SaaS, cyber security, and eCommerce demands grew sharply. While skeptics suggest the reopening of offices will signal a downturn for tech stocks, they might not be factoring in the government's $2trillion digital transformation aimed at consumers and enterprise. These programs represent a fantastic opportunity for tech companies.

Indeed, one of the more exciting beneficiaries of this development program could be AT&T AT&T. The telecoms giant has been down 20% over the last three years after attempting to transform itself into a media conglomerate. But a pivot back towards its core telecoms business is happening. By 2023, it's projected to have an annual free cash flow of $20 billion. AT&T is currently valued at $180 billion, so that's only x9 of the projected cash flow. If anything, AT&T looks undervalued.

Risks Involved

One of the risks with pure technology stocks that isn't talked about enough is the impact of future innovations. Tech stocks that are sitting pretty now could be disrupted by tech advances that no one sees coming.

A Goldman Sachs study showed that Facebook, Amazon, Alphabet, and Google have been in the top 5 hedge fund positions for the last 15 quarters.

BofA Global Research showed that 40% of fund managers said that tech was the most crowded trade over recent months. Indeed, tech stocks — and adjacent tech stocks like Alphabet, Amazon, Facebook, and Netflix — account for almost 40% of the S&P 500's weight.

Additionally, valuations are trading at 26 times forward their 12-month earnings, which is significantly higher than the X20 of the rest of the S&P 500. As retail investors continue to pile into these stocks, at some point, these forward earnings could lose touch with reality.

Stocks To Watch Out For

Adam Parker's Centre Lake Capital suggests Adobe is one tech stock to watch out for. Their subscription model brought in $13 billion in 2020. They have a suite of photo and video editing tools that constantly push the boundaries of home and enterprise use.

Parts and components for computers have had a challenging year. COVID-19 related shipping problems have disrupted business significantly. However, there are a few innovative factors manufacturing companies whose price looks good compared to future earnings.

Micron makes memory semiconductor chips. The stock peaked at around $90 in April but is now down to around $70. Demand is high; the company is profitable. Once shipping returns, it could go past $100.

What To Watch Out For

Of course, the tech boom frequently draws parallels with the dot-com boom of the late 90s. Tech innovation and green energy ETFs are heavy, with firms currently losing money but having high valuations. Some analysts suggest history will repeat itself when these stocks don't live up to expectations.

Another issue to beware of is bond prices. Last month, a sharp rise in Treasury yields sent shockwaves throughout the market. As the Fed tempers its asset purchases and inflation grows, it could mean bad news for tech stocks' future earnings.

But the picture isn't entirely bleak. With Alphabet, Apple, and Facebook expected to post 30% increases in revenue, that should be enough to keep the train rolling no matter what happens with bonds.

Hedge fund favorite Match Group, Inc holds over 45 internet dating sites, like Match, Tinder, OK Cupid, and so on. They have more than 50% market share in an industry growing steadily over the last two decades. Post-COVID, they are expected to aggressively target the 600m + global singles.

On the more pessimistic side, Ark Innovation sat at $158 in February. It's now down to $124. The FAANGs have had a rocky ride since mid-September, and Zoom has lost 50% of its share price. Amazon still looks like a good pick because of its move into other areas, like cloud computing. Currently hovering below $3500, RBC Capital recently rated it as around $4,100.

New FAANGs?

But what about the new FAANGs? Are there companies that could deliver returns? Two great picks are Spotify and Uber, according to legendary investor Mark Mahaney. Spotify, because of its good market share and customer retention. Uber, for its resilience throughout COVID and its room to push up prices.

2021 Stock Market: The Year in Review

The stock market has had an incredible year, rising by 25%. However, that number only tells part of the story. A blistering first six months gave way to a more uneven following six, as concerns about inflation, new coronavirus variants, and economic uncertainty took hold.

Coming into 2021, bears sounded a note of caution: equities were overvalued, new coronavirus strains would appear, and the Fed would surely hike interest rates. As it turns out, many of these pessimistic calls were accurate but still couldn't manage to slow the stock market down.

After the disruption on COVID-19, many experts warned that the road to recovery would be long and winding. However, while that may be true for the economy at large, generous stimulus packages and successful vaccine rollouts meant the stock market bounced back quickly.

Meme stocks, Cryptos, and IPOs

2021 will be memorable for some non-traditional success stories. Reddit "Meme stocks" like AMC and Gamestop grabbed headlines, as retail investors sought to band together and punish hedge funds' short positions.

On top of that, cryptocurrencies had an incredible year, with Bitcoin gaining over 100% and Ethereum up a staggering 513% at the time of writing. NFTs (like digital art) was one of the other big stories of 2021, sparking considerable debate.

World Equity Markets

In H1, The world equity markets were up 11% on average. However, US and German bonds had their worst first half of the year since 2013. By the end of 2021, the MSCI price share index stood at 12.6% globally. Emerging markets were done 6%, with the US (up 20%) and the UK (9.1%) the best performers.

The momentum gained from a successful vaccine rollout continued into the first half of 2021 before being dragged back by supply chain and inflation worries.

Inflation and Omicron

Towards the back end of 2021, two significant factors caused investors some sleepless nights. A new variant of coronavirus, Omnicron, caused a dip in November. However, the market quickly shrugged it off and recovered.

Inflation was a more persistent worry. Supply chains, a labor shortage, and the price of oil and raw materials contributed to a rise from 1.7% in March to 5% in May. This figure kept rising, closing the year at around 6.5%.

While most managed to weather the storm, inflation slowed down the booming Tech sector, which is so reliant on projected future earnings, which look a lot less appealing in times of high inflation.

IPOs and SPACs

IPOs had a strong 2021, raising over $330 billion across all markets. The US ($133 billion) was the busiest, with Asia ($106 billion) and Europe ($74 billion) close behind.

SPAC deals had a solid start to 2021 before slowing down as the year wore on. Interestingly, almost half the acquisitions that raised $1 billion or more are trading below their listing price.

Summary

The stock market had its second-best first six months in 23 years. However, fears over inflation, new coronavirus variants, and supply chain issues dragged on that growth. Considering the variety of negative factors, it's been a strong year that has defied the bears once again.

Risk Appetite: What Young And Old Investors Are Doing

The recent "Schroders Global Investor Study 2021" has highlighted some interesting differences between the risk appetite of younger and older investors.

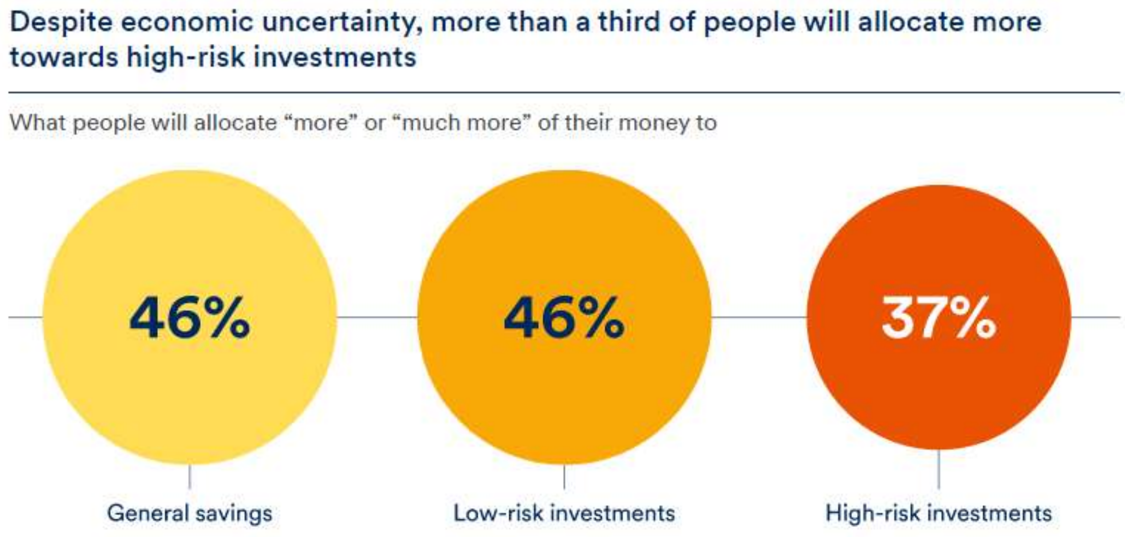
Schroders Global Investor Study 2021: Investors turn to riskier investments amid pandemic uncertainty

Over a third of people will allocate more towards high-risk investments, even if most will allocate more to savings or low-risk investments

Schroders Global Investor Study 2021 has demonstrated the effects of the pandemic on investing. The most eye-catching finding suggests that 37% of investors are willing to allocate more capital to high-risk investments to beat inflation and COVID uncertainty. This number goes up to 44% for younger investors.

The report also looks at which high-risk asset classes people are investing in. Some of these sectors include cryptocurrency, electric vehicles, and biotech. Worryingly, many of these investors have no experience with these volatile assets.

The survey asked what people would allocate "more" or "much more" of their capital towards in the wake of COVID-19. The answers were:

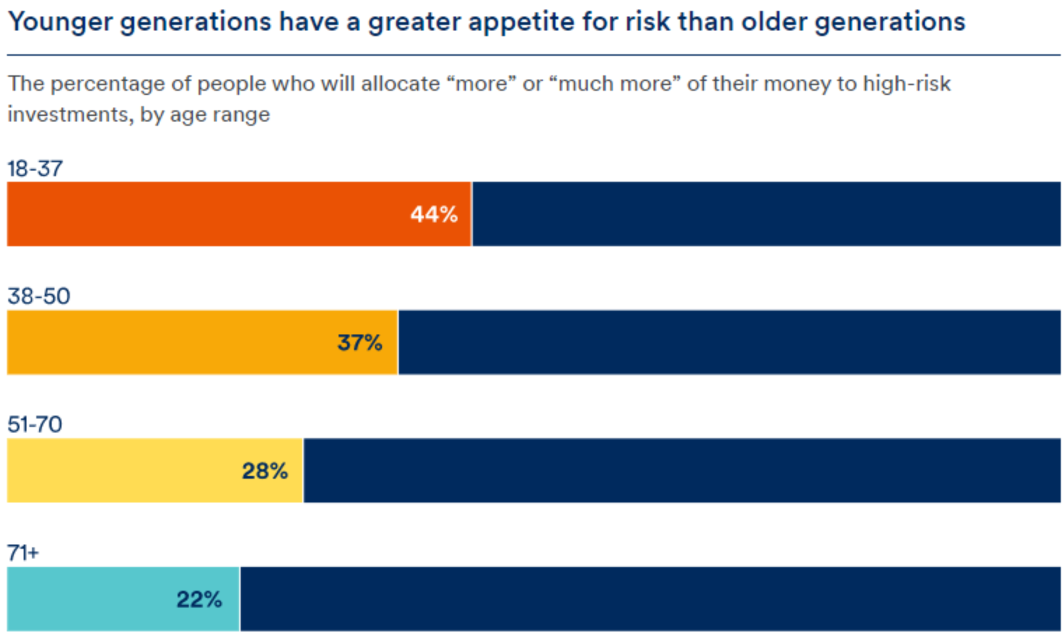


- 46% on general savings

● 46% of low-risk investment

● 37% on high-risk investment

These numbers were interesting when broken down by demographics.



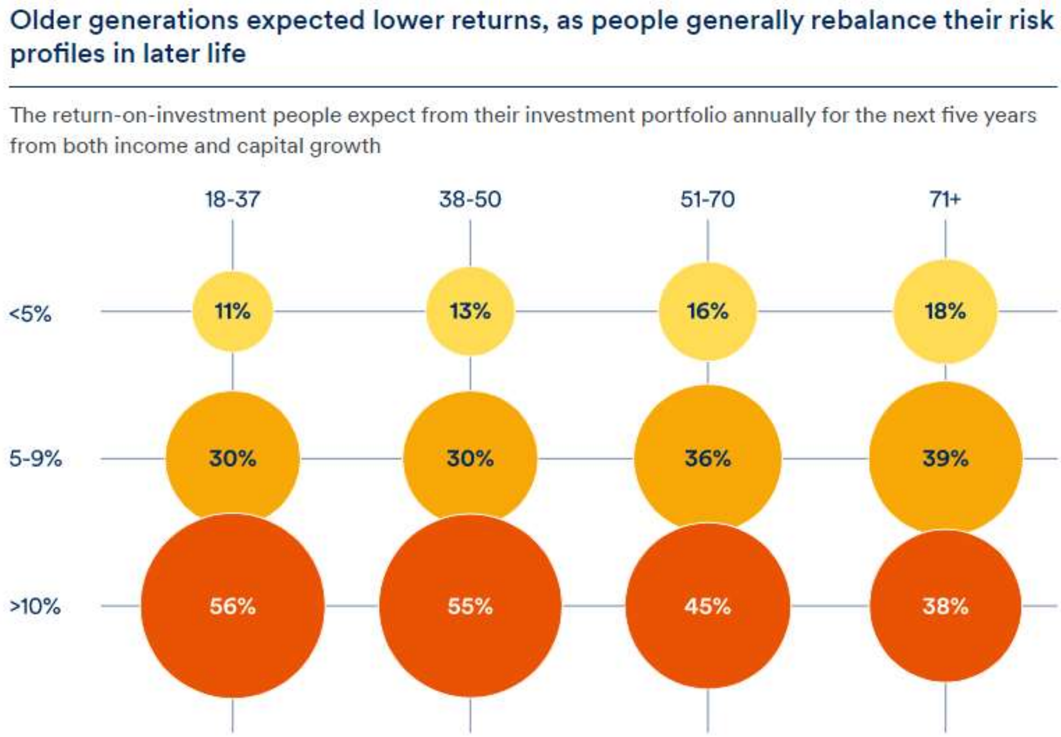
The percentage of investors who are taking on high-risk assets were:

- **Age 18-37:** 44%
- **Age 38-50:** 37%
- **Age 51-70:** 28%
- **Age 71+:** 22%

The data shows that younger investors are taking on more risks. However, what is less talked about is that older generations may not be taking on enough risk. The S&P 500 has rebounded almost 100% since the March 2020 crash. Much of these gains were in what would be categorised as high-risk equities, like Tech.

High Expectations

The report shows disparities between young and older investors' expectations.



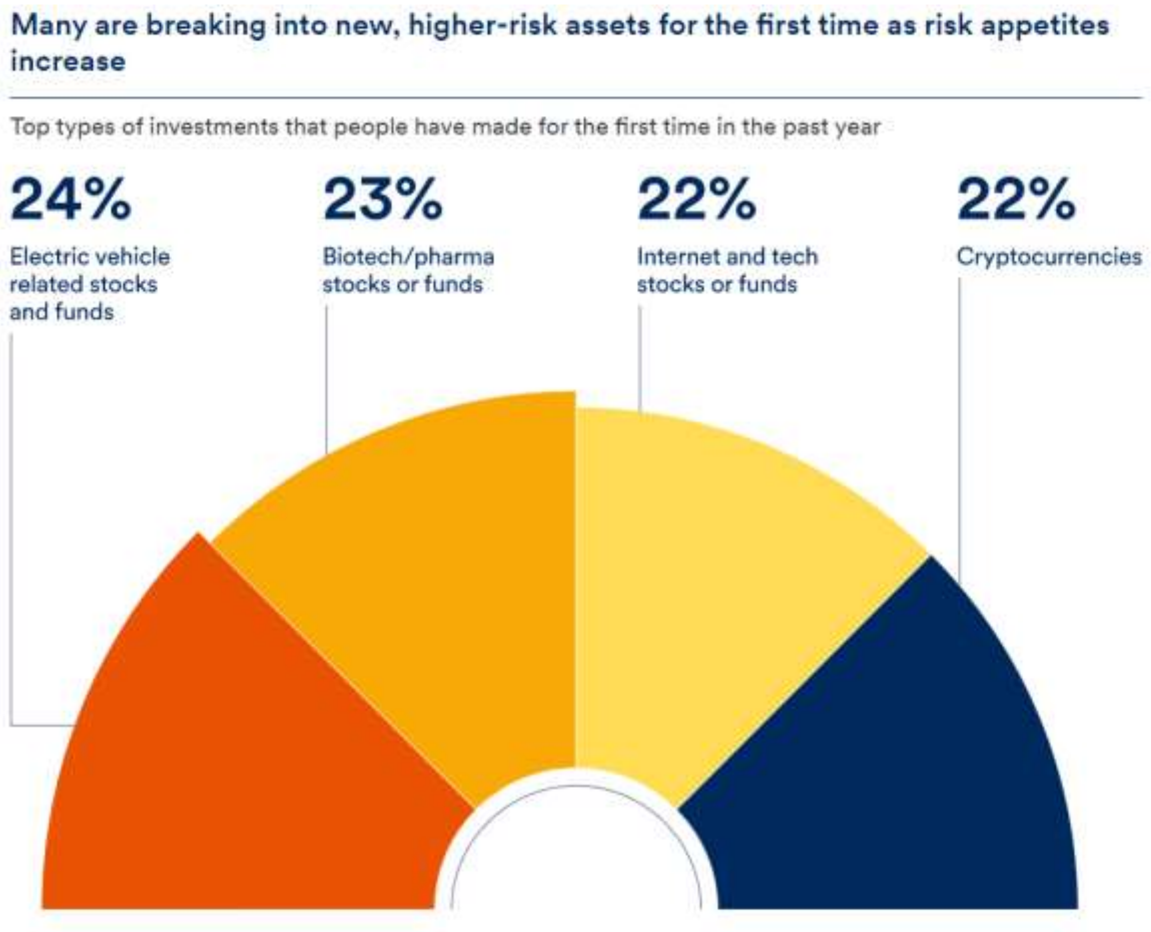
Interestingly, 56% of 18-37-year-olds expect their portfolios to return an annual rate of more than 10% over the next five years. This number is roughly similar among the 38-50 bracket.

However, the picture is different for the 51-70 and the 71+ groups. Only 45% and 38% respectively expect 10%+ returns in the same period.

Which Risky Assets are Investors Choosing?

Zero or negative interest rates seem to be forcing younger investors to make riskier plays. Additionally, an uncertain economic outlook appears to be causing some investors to seek out higher returns.

As a result, many investors are entering into sectors for the first time.

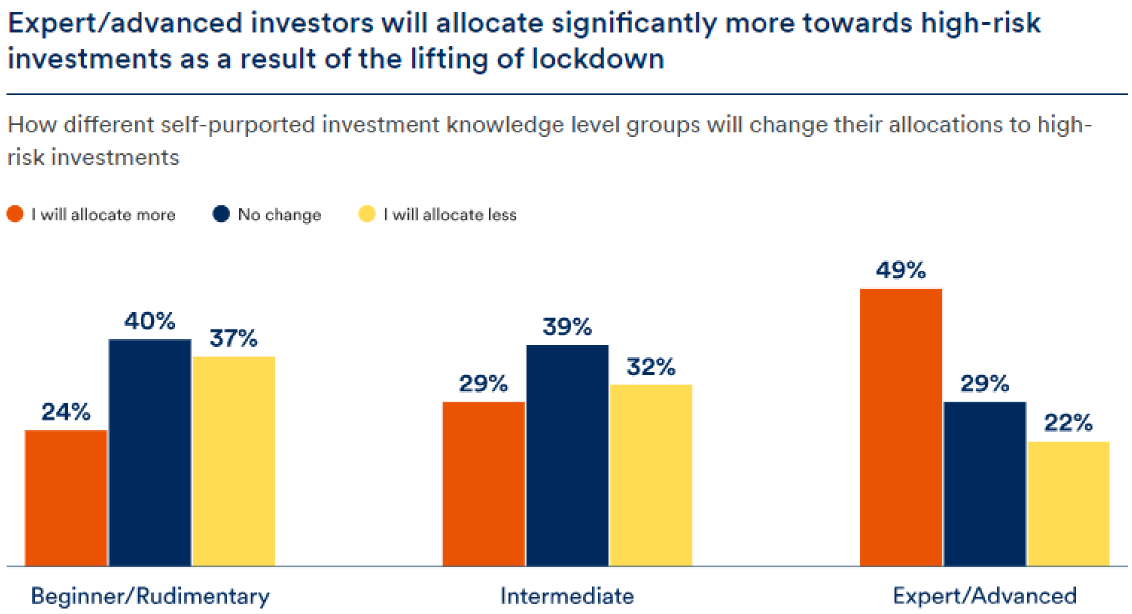


The most popular first-time investments are:

- **Electric vehicle funds and stocks:** 24%
- **Bitcoin or Pharmaceuticals stocks or funds:** 23%
- **Tech or Internet stocks or funds:** 22%
- **Cryptocurrencies:** 22%

Investors by Experience

Other interesting findings from the report were the difference between Beginner, Intermediate, and Expert investors. Incidentally, these categories were self-assigned.



Expert investors put capital into a far more comprehensive range of assets. Across all categories, they were far ahead. On the other hand, beginner investors had far less diversified portfolios. Perhaps this is a sign that they are sticking to investing in what they know? However, a concentrated portfolio with high-risk assets will leave some investors exposed and vulnerable to market swings.

Summary

So, what does all this mean?

Firstly, these findings aren't exactly shocking. Anyone who has been paying attention over the last few years will have noticed an influx of new investors. Apps like Robinhood and eToro have gamified trading and attracted a new generation of investors.

While much of the media coverage has been relatively negative and played on the inexperience of Reddit and Crypto investors, these criticisms can somewhat miss the point. Yes, the risk is high, but young people must start learning and investing somehow.

Secondly, a sizable majority of people over 50 were happy with yields of 9% or less. Almost 1 in 5 predicted that their investments would earn less than 5%. While older investors can't often afford to ride out recessions or market pullbacks, the reality is that they are leaving money on the table.

Impact Of Omicron on Stocks: Disaster or Pointless Panic?

Fears about Omicron sent shockwaves through the market in late November. Will this new variant lead to a disastrous market crash, or is it all a pointless panic?

The Omicron variant, combined with news that the Fed would tighten monetary policy, caused the S&P 500 to drop 2% in late November. Successful vaccine rollout and a loosening of stay-at-home orders and restrictions suggested that the significant pandemic fears were over. But this was a stark reminder that we are not entirely out of the woods just yet.

Omicron could alter the landscape and bring vaccine effectiveness into focus. There is a lot of guesswork happening with this new strain. Many analysts are confident the virus won't be too infectious or severe. Others suggest a new wave could lead to opportunities, with Oil, Healthcare, Gold, and Stay-at-Home stocks set to benefit.

Market Recovery

Despite the drop in late November, the markets bounced back. Nikkei futures, particularly Oil stocks, traded well. This recovery indicates how serious Wall Street sees this variant, with early indications suggesting the S&P 500 will take these concerns in its stride.

Tech stocks rallied after the slump, repeating a pattern observed during the original lockdown. Indeed, many analysts are bullish in the long term. A recent JP Morgan note suggested that Omicron was just one "sporadic setback" on the march towards a 2022 target of 5000+.

Indeed, some analysts are already considering ways to take advantage of any slumps caused by Omicron. According to SpringOwl Asset Management, casino stocks in Macao look cheap. Additionally, Pfizer won't know how effective their vaccine is against this strain until mid-December. If it proves effective, expect Pharma stocks to push upward.

What to Do if Omicron Gets Bad?

If the variant proves to be worse than feared, consumer stocks like Amazon and Walmart could present value.

Airlines were one area that was affected by the late November sell-off and the original COVID-19 market crash. The U.S. Global Jets ETF, American Airlines Group Inc., and Delta Air Lines Inc took a big dip when Omicron fears were announced. It's hard to see how further travel restrictions wouldn't damage the sector.

Of course, anyone holding reopening stocks will be looking nervously over their shoulder if lockdowns are reinstated. Uber is down almost 10%, Lyft 22%, while Expedia and Booking Holding shed approximately 10%.

Summary

Many analysts highlighted potential new variants as a hazard for the stock markets. The appearance of Omicron, a new strain, initially spooked the market. However, with early reports suggesting the variant caused 'mild to moderate symptoms, the market has bounced back.

With ten esteemed strategists suggesting the market turmoil is over, it seems that we may be in the clear. Furthermore, it could be time to consider retail, hotel, and restaurant equities as potential big performers in 2022.

Of course, one lesson that investors should learn from the Thanksgiving week drop is that stocks are vulnerable to bad news. Omicron won't be the only variant that emerges, so expect a few surprises next year.

Winning and Losing Stocks To Watch Out For If Covid Returns

The COVID-19 pandemic never entirely went away. However, many countries loosened travel bans and work from home orders across the globe and set off on a path toward recovery. The new Omicron variant threatens this return to normal, with experts suggesting it could plunge world economies back into chaos.

If COVID-19 returns, which stocks will win and which stocks will lose?

WINNERS:

Stay At Home Stocks

While the pandemic hit world economies hard, plenty of stocks were well-positioned to take advantage of this new normal. So, we should see a repeat of this if there are further lockdowns. Two companies that could benefit from the return of COVID-19 are Peloton and Zoom.

Peloton, the home exercise bike, saw a spike in late November, while video-conferencing app Zoom also gained traction during the same time.

Other stay-at-home equities that could benefit from brick-and-mortar business closures are Deliveroo and Just Eat. Likewise, streaming services like Netflix could gain more subscriptions if everyone is locked indoors.

Tech Stocks

Last time around, tech stocks were the big winners of the pandemic. Remote working became the norm in many industries, and the tools that made it possible triumphed. Cloud computing, video conferencing, SaaS, and cybersecurity were just some of the big winners. History is likely to repeat itself.

Consumer Discretionary

Consumer discretionary services were another big winner during the last lockdown. Amazon has had a bumpy year, but it's still up 8% year to date. eCommerce and clothing shops like Footlocker and eBay also look possible.

Intangible Assets

Intangible assets — like patents, technology, research, and copyrights — all performed well during the last lockdown. Indeed, the research is reasonably compelling. With supply chain issues haunting the production of physical goods, more abstract services seemed to have an edge throughout 2020.

Pharmaceuticals

If the world shifts back to dealing with a public health crisis, it can only be good news for pharmaceutical companies. Pfizer's free cash flow doubled to $29 billion on the back of its COVID-19 vaccine. Expect a strong performance if new variants rear their head. Moderna is another equity that will go the same way.

LOSERS:

When lockdowns were announced in Austria recently, the international community took notice. Indeed, some of the equities that had benefited most from reopening took a tumble. Travel bans and stay-at-home orders would hit an already ailing hospitality sector.

At the end of November, the stock market dip foreshadowed what could happen if a new strain broke out once more.

Hospitality & Airline Stocks

Airlines & hospitality sector have dipped after the Omicron news

After the Austria announcement, airlines were the first to dip. Boeing dropped 5.7%, with United Airlines (2.7%) and Delta (1%) falling too. All this came only a week after the US announced a loosening of travel restrictions into the country.

The picture was just as bleak for the FTSE 100. IAG, who own British Airlines, and cruise line Carnival were both down over 10%. Tui, EasyJet, and Wizz Air also suffered significant losses.

Omicron is terrible news for the hospitality sector too. Airbnb shares shed 3.8%, while Expedia lost almost 10% of its value. The biggest losers were Royal Caribbean Cruises, with a drop of 13.2%.

Ride-sharing Apps

More lockdown orders could harm tourism, nightlife, and office work. These three areas are important revenue sources for many popular ride-sharing apps. Indeed, shares in Lyft and Uber dropped 3% as the market felt the tremors of a new variant.

Energy

Last time out, the Energy sector was hit hard by COVID-19, with shares dropping by 20%. The pandemic's travel restrictions reduced oil demand, which had a knock-on effect on production, refining, and other businesses that supply equipment to industry.

November's big sell-off saw several S&P 500 Energy companies suffer. Laredo Petroleum and Callon Petroleum, alongside the industrial Triumph, all shed 10% of their value.

Summary

Pandemic fears in late November hit the stock markets hard. The Dow Jones Industrial Average dropped by 900 points as investors had COVID-19 deja vu. However, it seemed like a short-term shock. The green shoots of recovery soon emerged, with sentiment in London and Europe turning positive.

If this was a dress rehearsal for a future COVID scare, the last few weeks might have demonstrated the resilience and quick recovery of the market. With vaccines available and business continuity in place, the markets seem to suggest that they could take another pandemic in their stride.

The last time out was unprecedented, and no one was prepared. If COVID-19 returns, global economies should be ready.

What To Do When Kids Gamble On The Stock Market

I got a very touching email a couple of days ago from a secondary school teacher, and I'm going to read it out to you, and then I'm going to give you some pieces of experience and advice based upon it.

Dear Alpesh Patel,
I'm writing to you as a secondary school teacher of economics and mathematics who formally worked in finance. The older pupils are running investment lessons for the younger pupils to help them understand about financial literacy.
One problem which we face is helping all young people engage in financial planning and speculation responsibly so that their purchasing of financial assets does not lead to a deterioration of their mental health, gambling, and addiction.
We were wondering if you would be willing to speak for one or two minutes on the dangers of speculating and red flags to watch out for and how to do it safely. It would be very helpful if this was targeted at younger participants if you might be willing to post a short video on your YouTube channel. I hope this request aligns with your vision and values.

One of my very close friends has experienced a meaningful improvement in his mental health from adopting your framework. We would really appreciate your help, and currently arrange virtual talks with a number of local schools with speakers across from many disciplines. Any help you could offer would also align with the government requirement to teach personal, social and health education to all pupils in the UK.

Absolutely, I am more than happy to do this, and I hope this will be shared widely amongst other schools as well. I started investing when I was 12 years old, so I was very much at school. The reason I did it is because I wanted to try and improve my family's financial situation; you might argue you're somewhat naïve at 12 and over-ambitious. So be it.

Importance of Responsible Investing

Let's talk about those issues of responsibility, addiction, and gambling, Currently; if you look on TikTok or the internet, you see stories of people, thanks to crypto, to bragging about how much they've made. Okay. So it makes young people think, "Well listen, mate, I'm not going to take your boring advice about pensions and saving for the future and how much I could have when I retire in 50 years. My generation wants our money now, and we can get it. And old people like you, Mr. Patel, are stopping us from getting it."

Well, not so. Okay. And then you've got a whole bunch of people, and by the way, it's always a different thing at different times, today it's crypto, ten years ago it was spread betting and CFDs, the same story, "Look how I made millions," and ten years before that it was penny shares and so on.

Pitfalls of Speculation and Gambling

So trust me, every generation has its sort of magic wand. And of course, every Saturday on TV, you see the lottery, and you see somebody say, "Oh look, I won 14 million." Does that make you all want to do it? Well, that's quick money, go away and do the lottery: same thing, big gains, minuscule probability. So the first thing I want to say about this whole gambling issue that happens and differentiate it from investing is this. If you've got risk capital, casino money, or throw away money that you might use when you go to Vegas, feel free but at least know that that's what you're doing, that you are getting ready to throw it away.

Let me give you the other extreme of what happens when somebody does that. I was asked several years ago to be an expert witness in a court case where a man was being prosecuted. Prosecuted because he had made himself bankrupt through trading, and you might not know this, but it's a criminal offense to become bankrupt recklessly.

So the court had asked me as an expert witness, "Did this man actually have a strategy which just happened to go wrong? Or was he being reckless?" Because being reckless and going bankrupt, that's a criminal offense, and he could have gone to prison. Got it? And you might say, "Oh, but stop trying to… You're boring. Stop trying to scare us with that extreme." Mental health, addiction, gambling. Okay. I've lost a little bit; I'm going to try and make it back from that.

Mental Health and Investing

Those books, the very first one was called Mind of a Trader, my very first book published by the Financial Times. It wasn't called How to Make Lots of Money Trading; it wasn't called Get Rich Quick: Trade. It was about the mind, the psychology. So I'm afraid it is linked, and we realize more and more, our financial wellbeing is linked to our mental health.

There are statistics out there thanks to a broker called Brewin Dolphin; I'm not affiliated to them, who said the number of people who now have sleepless nights because of financial concerns. You might say, "Well, but surely then the answer is to gamble and speculate." No, if you want to gamble and speculate, go Ladbrokes; at least you'll know I'm gambling and speculating. The stock market's not the place to do it; crypto's not the place to do it.

Now I've done experiments where I randomly picked some crypto coins, and lo and behold, some of them went up, some of them went down, but it was with risk capital I could throw away if you've got my kind of money to throw away good luck. I suspect if you're at school, you don't. What will hold you in far, far, far better stead as it did me, and I'm a hedge fund manager, now is learning well actually let's get rid of the trading and the gambling part?

What is Investing?

Let's look at what investing is. What makes a good company and a good business? The great thing about that education is, as Bill Ackman, the multi-billion dollar hedge fund manager, said is, "You'll learn business."

So whether you go into business yourself or work for an employer, you'll be more valuable because you'll understand business. You're going to do one of two things – either you're going to work for an employer, or you're going to be in business yourself.

More importantly, it'll teach you how to be a better investor, make more of your pensions. So you'll learn about valuation, cash flow, profitability, sales growth, those kinds of things you hear about occasionally on Dragons Den, and laugh at the people because they haven't even worked out how to do it properly. Those things will be invaluable.

And then you might say, "Well, okay, Alpesh fine. Isn't all investing speculative and gambling?" Yes, compared to a bank account, all investing is risky. All investing is risky, full stop. A bank account is safe.

Do Your Research and Keep Learning

So what's the safest stock that I can think of? You might argue the toss on this, but let's say Microsoft is the safest company I can think of in the world, in the sense I'm going to go bankrupt on it, it's fairly growing at the moment and so on, and you might argue "No, no, no, no. Something else is safer." I'm talking about volatility, and I'm talking about just what they do and all the rest of it. And so assume for a moment it's the safest, I want you to look on the internet at their share price.

Okay yes. You'll all focus on how it's doubled and tripled over several years. I don't want you to look at that. I want you to look at how it's fallen and when it fell. So during COVID within a month it fell about 20%. If that's going to cause you to panic, it teaches you something about yourself, which is what investing is about. Teach you about yourself, how much risk you're willing to take? Whether that's right for you? So that's an important lesson, look at that and see, okay, that's worse.

Look at The Upside and Downside While Investing

So all these terms people talk about, about risk, volatility, investing, learn what they mean by looking at things and saying, “Well actually that means if it drops I’m going to be potentially in trouble. But then again, if I hold onto it because it was a good quality company, I see how I get out of that, and that’s not too bad, but am I willing to hold over that period? Could I take that roller coaster ride?”

Don’t just look at the upside; look at the downside, look at whether or not it’s suitable to your circumstances to take that risk. Like I said, if your mom and dad are billionaires and they tell you, “Little Johnny, little Jane, here’s a load of money just throw it away, go burn it.” I suggest you might want to do some social impacts. Give it to homeless people rather than try and give it to rich fund managers and stockbrokers on the internet in any event. Because if you’ve got that kind of throwaway money, you’re set for life anyway.

So don’t gamble. It’s just rude; basically, it’s immoral when you’ve got that kind of money just to gamble. But if you haven’t got that kind of crazy throwaway money, then you don’t want to gamble either because you haven’t got throw away money.

Things To Look At While Investing

You’d want to look at what does investing mean?
What does it mean to buy?
Which are the quality companies?
What does valuation, growth, cash flow mean?
How long should your holding period be?
Why might I not want to give it to a fund manager?
Why might I want to give it to a fund manager?
What are the pros and cons?

All of these life skills will hold you for the rest of your life. If in the first blushes of youth you’ve got the arrogance and confidence to say, “Nah, it’s just an old bloke trying to make me not get rich. I can go into any crypto.” Let’s work out how that story ends then. Let’s say you throw some money at crypto or a penny stock or Swedish kronor against the Australian dollar. There are lots of things out there.

Let’s say one of two things happens. You make some money because you can only either make or lose. You make some money, then what do you do? Do you stop? No, of course, you don’t. Then you think to yourself, “Oh, I might be good at this.” So you do it again. You’ve got to keep getting that right. Do you know when that game stops? When you don’t get it right. So you had a bit of beginner’s luck; it’s like tossing a coin. You can go up heads or tails 50-50; you get a string of heads, so you start thinking you’re the world’s greatest coin tosser. So learn about that. Learn about the fact that there’s a difference between consistency, and quality, and skill, and randomness, and the ability to be fooled by randomness is quite a common problem. So there’s a lot of things to learn about.

Life Skills You Can Learn

Here you’re going to be learning about statistics, business, entrepreneurship when you’re investing, great life skills. You’re going to be learning about logic, about rationality, about how people are so easily fooled by chance. So you’re going to have to learn critical thinking skills, all amazing, all from looking at what it is to invest.

So I'm all for financial literacy because people so often get it wrong, and it costs them money. Either they get it wrong, they invest, and it costs them money, or they don't invest where they should have done, and they think they're going to be the hare that's going to win the race. I tell you in my life of experience in this industry, and I've got 18 books to prove it, and I've got an asset management company to prove it, and I've got some letters after my name to prove it as well, it's always the tortoise that wins the hare looks like they're getting ahead.

Be Sensible

The sexy thing moving ahead, giving those great returns and they love bragging about it, so don't forget hares are loud, right? It's the quiet tortoise that ends up winning over the long term. That just put a little bit away and went into what people thought were boring companies; they just made it. Yeah, you'll hear about the lottery winner on a Saturday night on BBC TV as they talk about the next person who's won 14 million to try and get you to play the lottery, of course, you will. Of course, you'll keep hearing about that. Don't be fooled.

If everybody could make money playing the lottery, everybody would be playing the lottery and have gotten rich by now. It doesn't happen, does it? Do you know any lottery winners? I don't. They've been doing it for about 25 years; you would've thought the same with crypto, okay.

There's a lot of people talking and bragging about a lot of stuff that aren't making it. Anyway, hopefully, some of that was very, very useful. And to all of you, bottom line, listen, play the sensible long game. The world needs more people who can add value rather than ones who just want to speculate and be risky gamblers and are dangerous to themselves and eventually to society.

Who Makes Money in High Inflation Periods?

Inflation has been steadily growing since April 2021. In October, the Consumer Price Index jumped 6.2%. This figure represented the highest year-over-year jump since 1990. It's safe to say we're in a period of high inflation, so which stocks tend to do well in these times?

How Long Will Inflation Last?

Bank of England Governor Andrew Bailey has suggested that inflation risks were "two-sided" in the UK.

He believes that the tight labour market will push up wage demands and that monetary policy will be ineffectual at solving another inflation driver supply.

Across the pond, inflation is higher than in other developed countries like Australia, Canada, and Great Britain. For some, this is the result of giant COVID relief packages.

However, President Biden has made some hotly debated claims that his Build Back Better program will drive down inflation. As he might, because historically, inflation has been a considerable problem for many presidents.

Right now, it looks likely that inflation will continue well into 2022. So, what investments should you hold to do well in this climate?

Inflation-Protected Safe Havens

When inflation rises, investment returns take a hit. With the consumer price index at around 6.2%, even well-performing dividends lose their purchasing power.

Cash and bonds can become a liability during inflation. However, property investments can benefit from rising consumer incomes. Still, the housing market can stall if inflation gets too high. On the other hand, equities can be the safest bet — provided you choose the right sectors.

Which Sectors Are Best Placed During High-Inflation?

Energy Sector

Since 1973, the energy sector has beaten inflation 70% of the time. The pattern has continued this time around, with oil and fuel prices shooting up dramatically. In 2021, S&P 500 Energy stocks have risen more than 53%. Over the same period, the S&P 500 has returned a little less than half of those returns (25%).

Equity REITs

Real estate investment trusts (REITs) are another equity that can beat inflation. Real estate investment can provide a good hedge against investment because it benefits from the attendant property price and rental cost increases.

Financials

Financials present an attractive hedge against inflation. Tech stock performance has been solid over the last decade because they promise excellent future earnings.

However, high inflation makes these future earnings look far less appealing. On the other hand, financials tend to concentrate their cash flows in the short term.

Of course, inflation can hurt banks too by lowering the value of existing loans.

Consumer Staples

Some of the best stocks to invest in during periods of high inflation are consumer staples. Essentially, these types of businesses can pass their higher production costs onto consumers. People need to eat, and they are tolerant of a certain price elasticity in food goods.

Materials

Much of our recent inflation is caused by supply issues. COVID has hit production and shipping, leading to raw material shortages. For savvy investors, this presents an opportunity. If raw materials shortages are causing a rise in prices, buy price-sensitive metals like copper.

Additionally, copper is used in a variety of technologies like IT and electric cars. As a result, we can expect it to benefit from long-term demand.

Industrials

Industrials like capital goods and transport and logistics offer some exciting opportunities. Fuel costs and supply chain issues are two negatives; however, these can be offset against increased demand like online shopping and global trade.

Additionally, rising earnings estimates across most sectors have kept S&P 500 prices high. Many Industrials have solid fundamentals, which is vital in this context.

Summary

Equities have stayed strong despite inflation worries, while analysts remain convinced that current levels will drop. This confidence is reflected in high asset prices, which according to Nicholas Colas, co-founder of DataTrek Research, would be much higher if there was a strong belief that inflation would stay at current rates.

For stock pickers, inflation could present an opportunity. The price of goods and services isn't correlated to the headline inflation rate. Sectors that historically outperform inflation are a good bet. However, it's worth considering that per the Shiller index, many equities are overvalued and may produce depressed returns over the next decade.

Indeed, while rising inflation isn't good news for equities, it's not all bad news. Several sectors will absorb rising costs, with others set to benefit from price increases. Understanding which sectors have held firm in the past should be part of any solid investment strategy.

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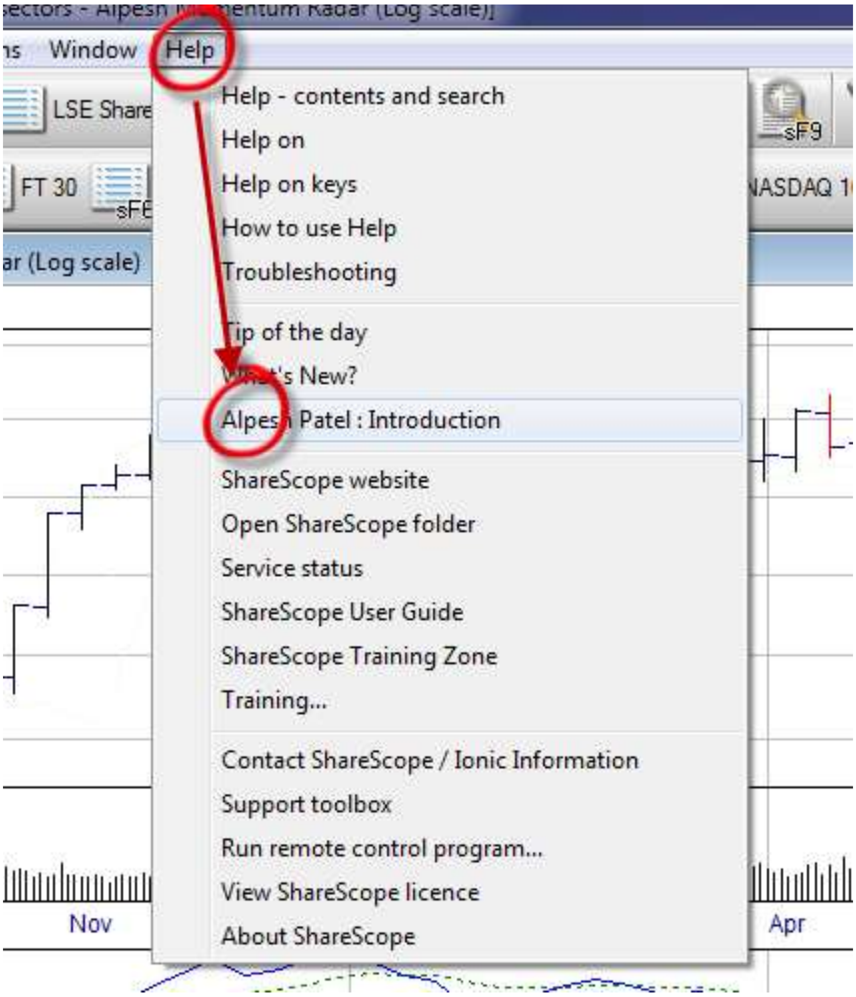
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