Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

10 November 2021

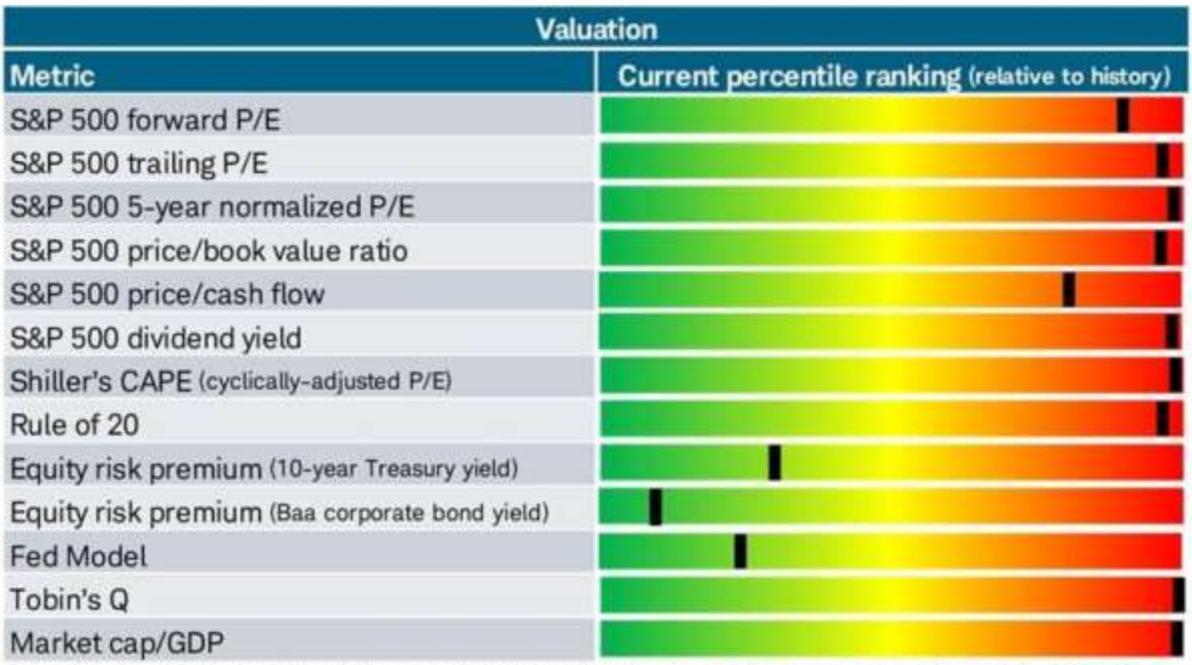
Overview

I love breathless headlines. Don't you? Look at some of these. More on that later.

Investors should hold onto their high-growth tech stocks even as interest rate volatility batters the sector, Goldman Sachs says

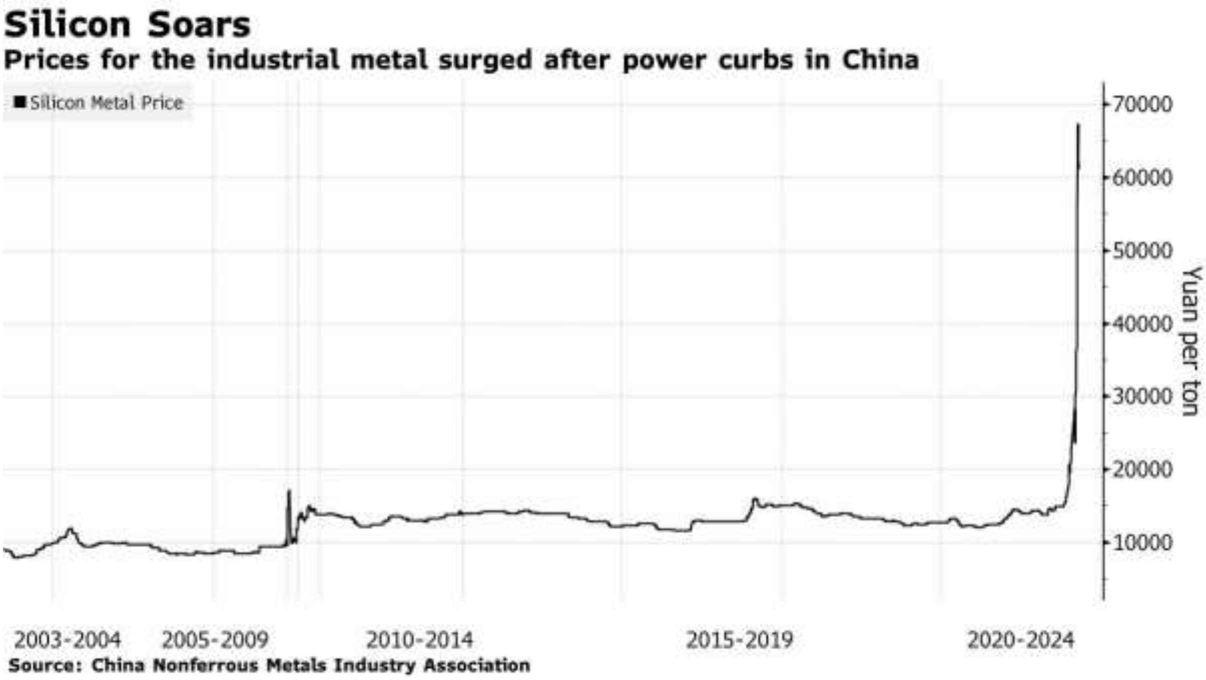
Buying the latest dip in stocks is a mistake as the risk of further losses outweighs the potential rewards, Morgan Stanley warns — but these 3 trades should weather what could be a 'trap' for investors

There are so many wonderful ways to monitor valuation. Of course, we know, however you measure it, the market is overvalued.

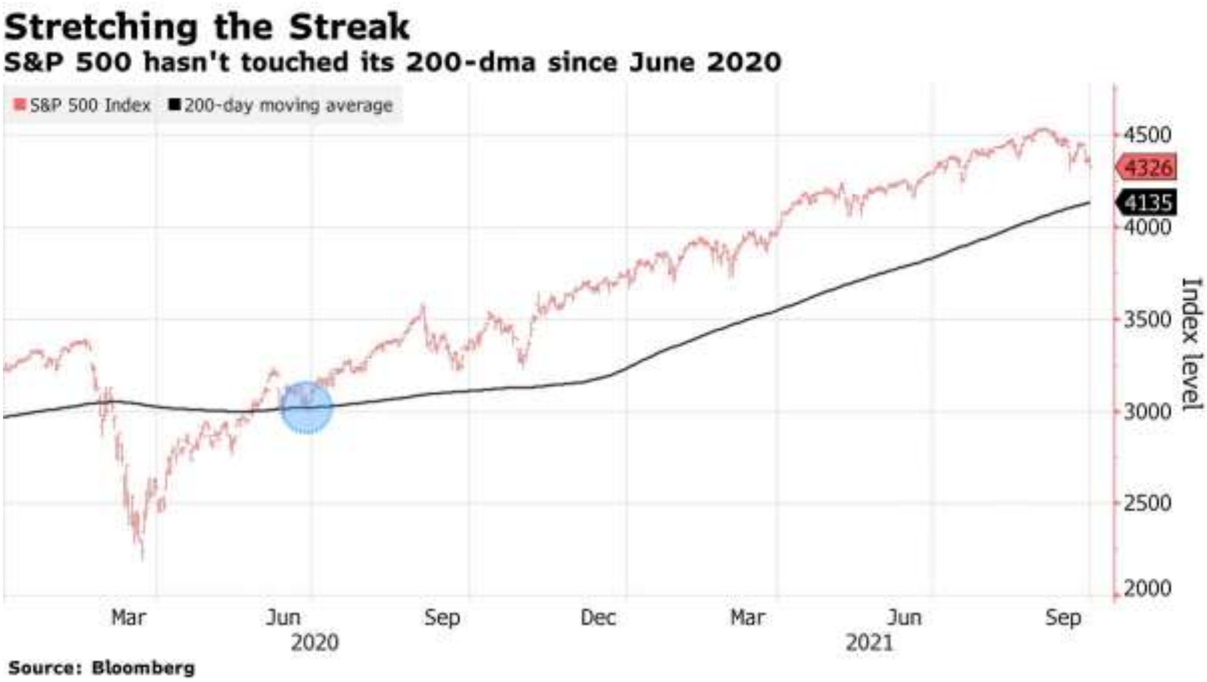


Source: Charles Schwab, Bloomberg, The Leuthold Group, as of 9/10/2021. Due to data limitations, start dates for each metric vary and are as follows: CAPE: 1900; Dividend yield: 1928; Normalized P/E: 1946; Market cap/GDP, Tobin's Q: 1952; Trailing P/E: 1960; Fed Model: 1965; Equity risk premium, forward P/E, price/book, price/cash flow, rule of 20: 1990. Percentile ranking is shown from lowest in green to highest in red. A higher percentage indicates a higher rank/valuation relative to history.

And if you want to know the ‘perfect storm’ adding to supply chain miseries and inflation – this image shows it clearly.



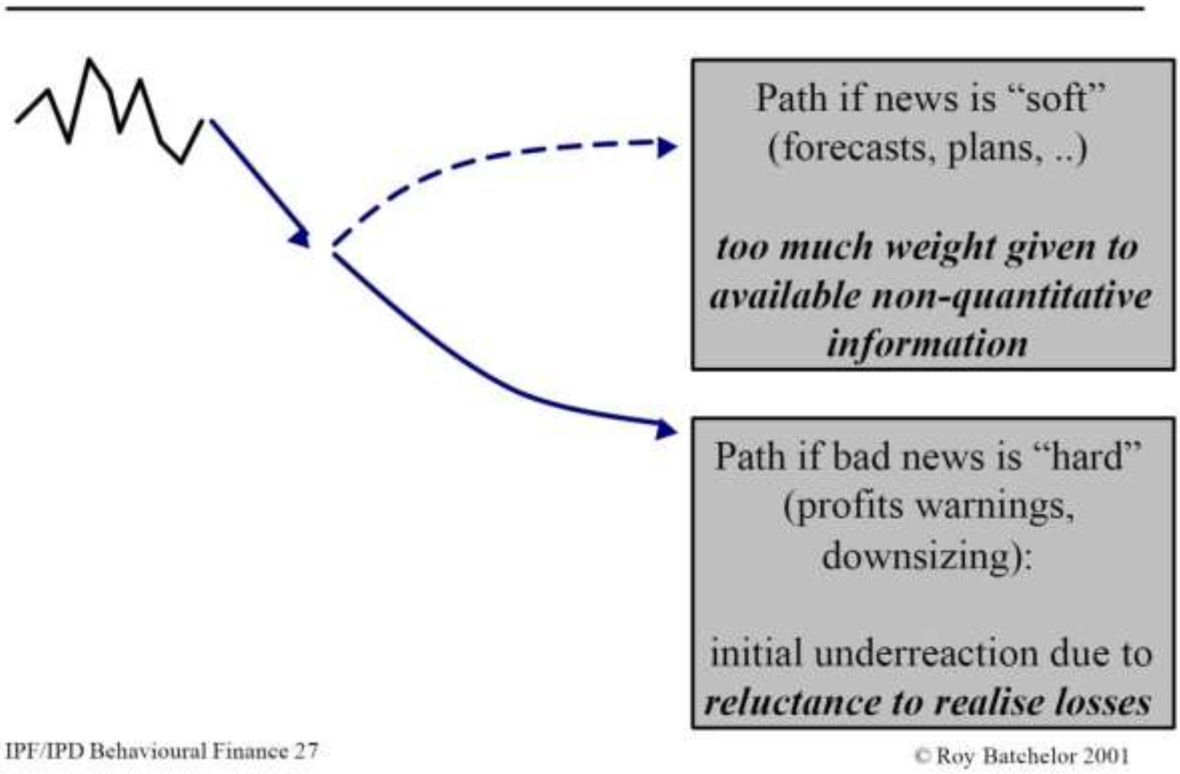
Yet, we go on, every upwards.




Big Hedge
A traders use options to guard against deep losses in S&P 500
S&P 500 INDEX - Last Price
Call strike
Top put strike
Bottom put strike
4600
4400
4200
4000
3800
3600
3400
3200
Level
Oct
Nov
2020
Dec
Jan
Feb
Mar
Apr
May
2021
Jun
Jul
Aug
Sep
Source: Bloomberg

We continue to worry about inflation, but not too much clearly.

A reminder of some research on how prices move on hard and soft news. It’s a useful guide.



- Behavioural model(s):
  - ***Prospect Theory***:
    - if market falls, investor takes more risk to recoup losses
    - if market rises, investor takes less risk to preserve gains

  or

  - ***House Money theory***:
    - if market rises, investor takes more risk since is now playing with the "house money"

CITY *Prospect Theory explains anomalies*

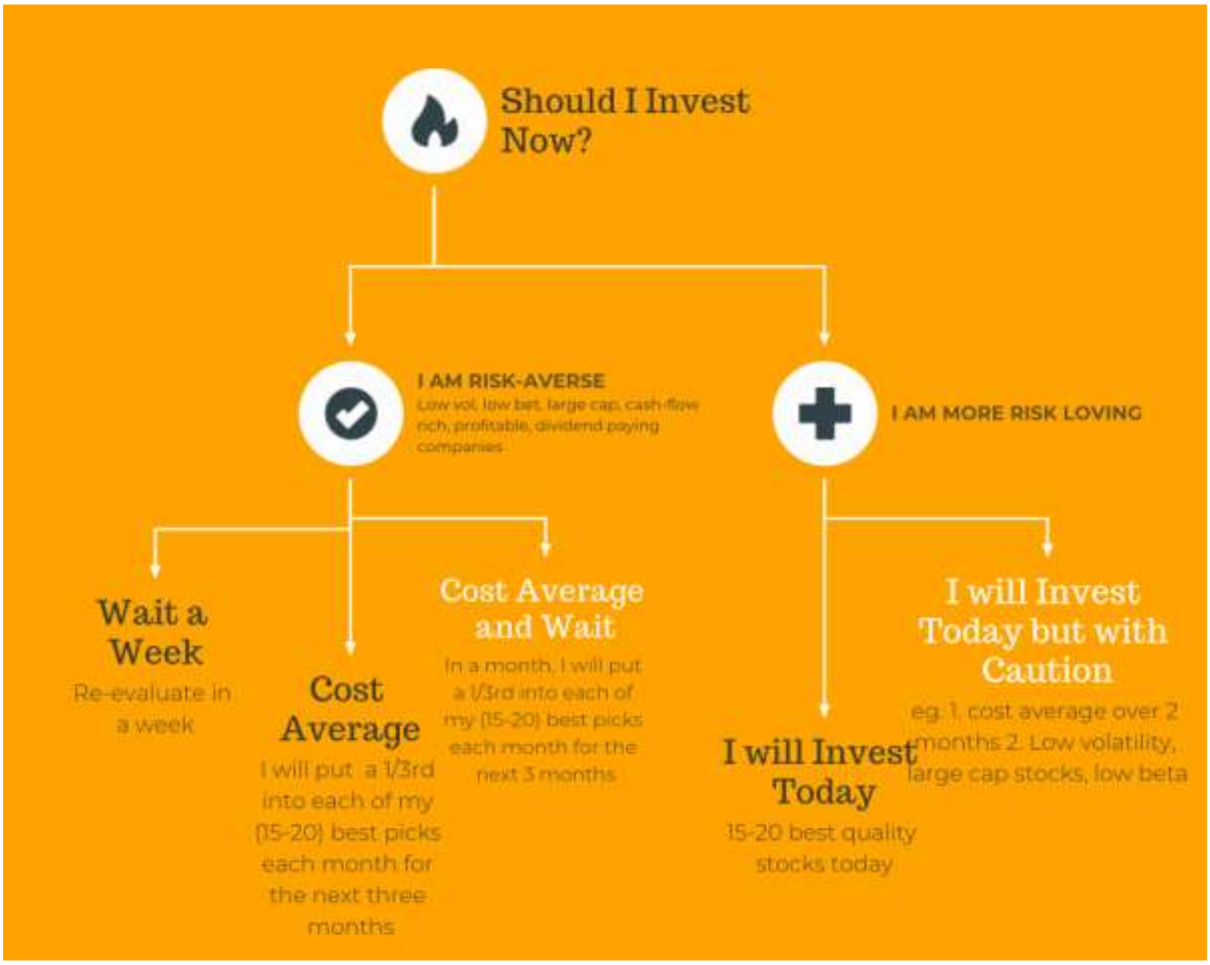
- Evidence favours Prospect Theory over House Money theory

  e.g. Chicago Day Traders take more risks p.m. if they lost a.m.,
  Hedge Funds lock in above-average first-half-year returns, ...

- Prospect theory explains a lot of retail/ internet (and even professional) investor behaviour:
  - expectations of high share returns (large equity premium)
    (possibly due to extreme loss aversion)
  - tendency to hang on to losers
    (due to increased risk-taking after losses)
  - tendency to sell winners too soon
    (due to decreased risk-taking after gains)

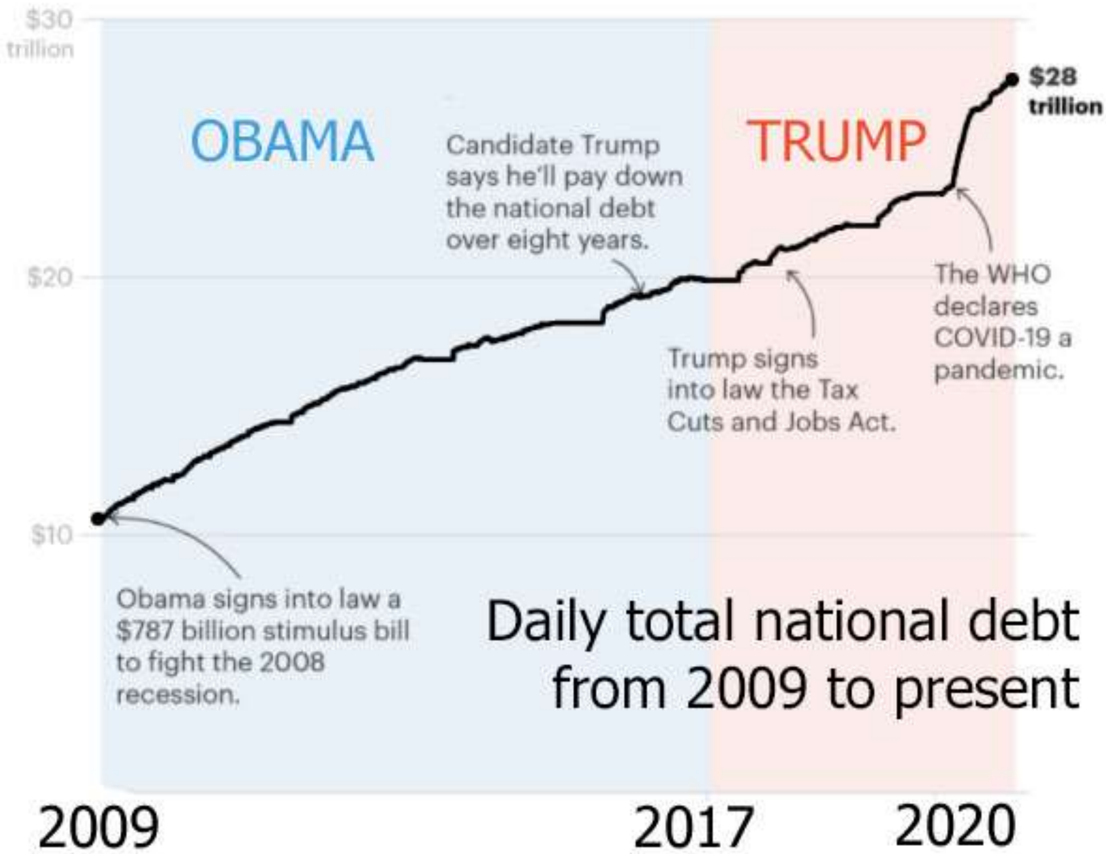
How to Protect Gains

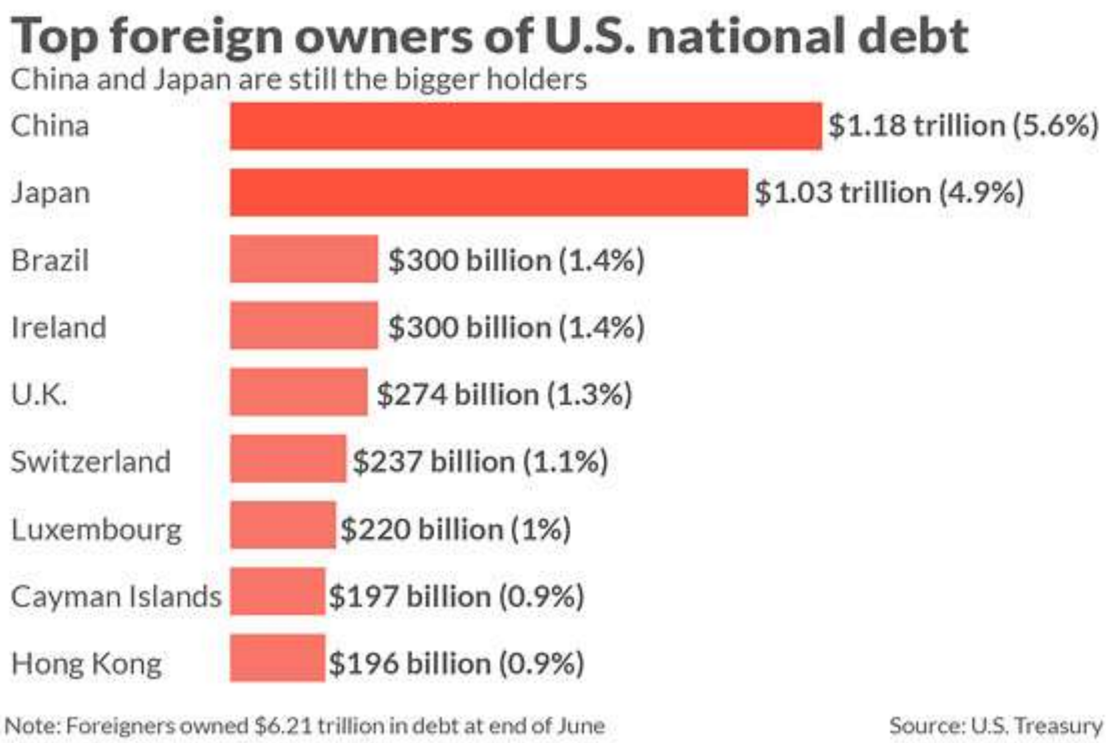
This is a major issue for a lot of my followers. Below is an image I made which will help.



US Debt Ceiling

This issue will re-emerge and this is what you need to know.


$30 trillion
$20
$10
OBAMA
TRUMP
$28 trillion
Candidate Trump says he'll pay down the national debt over eight years.
Trump signs into law the Tax Cuts and Jobs Act.
The WHO declares COVID-19 a pandemic.
Obama signs into law a $787 billion stimulus bill to fight the 2008 recession.
Daily total national debt from 2009 to present
2009
2017
2020


Top foreign owners of U.S. national debt
China and Japan are still the bigger holders
China $1.18 trillion (5.6%)
Japan $1.03 trillion (4.9%)
Brazil $300 billion (1.4%)
Ireland $300 billion (1.4%)
U.K. $274 billion (1.3%)
Switzerland $237 billion (1.1%)
Luxembourg $220 billion (1%)
Cayman Islands $197 billion (0.9%)
Hong Kong $196 billion (0.9%)
Note: Foreigners owned $6.21 trillion in debt at end of June
Source: U.S. Treasury

What's Buffett Doing?

Current Holdings of Berkshire Hathaway Inc

TICKER	NAME	% PORTFOLIO	SHARES HELD	$ VALUE	TYPE	% CHANGE
AAPL	APPLE INC	41.47	887,135,000	121,502,000,000	UNCHANGED	0
BAC	BANK AMER CORP	14.21	1,010,100,000	41,646,400,000	UNCHANGED	0
AXP	AMERICAN EXPRESS CO	8.55	151,611,000	25,050,600,000	UNCHANGED	0
KO	COCA COLA CO	7.39	400,000,000	21,644,000,000	UNCHANGED	0
KHC	KRAFT HEINZ CO	4.53	325,635,000	13,279,400,000	UNCHANGED	0
MCO	MOODYS CORP	3.05	24,669,800	8,939,590,000	UNCHANGED	0
VZ	VERIZON COMMUNICATIONS INC	3.04	158,825,000	8,898,940,000	UNCHANGED	0
USB	US BANCORP DEL	2.51	128,889,000	7,342,810,000	REDUCED	-0.62
DVA	DAVITA INC	1.48	38,095,800	4,348,990,000	UNCHANGED	0
CHTR	CHARTER COMMUNICATIONS INC N	1.28	5,213,460	3,761,250,000	UNCHANGED	0
BK	BANK OF NEW YORK MELLON CORP	1.26	72,357,400	3,708,670,000	UNCHANGED	0
GM	GENERAL MTRS CO	1.21	60,000,000	3,550,200,000	REDUCED	-10.45
VRSN	VERISIGN INC	1.00	12,815,800	2,917,990,000	UNCHANGED	0
CVX	CHEVRON CORP NEW	0.83	23,123,900	2,422,000,000	REDUCED	-2.32
KR	KROGER CO	0.81	61,788,000	2,367,100,000	ADDED	21.01
V	VISA INC	0.80	9,987,460	2,335,270,000	UNCHANGED	0
ABBV	ABBVIE INC	0.79	20,327,900	2,312,260,000	REDUCED	-10.23
FWONA	LIBERTY MEDIA CORP DELAWARE	0.68	43,208,200	2,004,430,000	UNCHANGED	0
AMZN	AMAZON COM INC	0.63	533,300	1,834,640,000	UNCHANGED	0
BMY	BRISTOL-MYERS SQUIBB CO	0.60	26,294,300	1,756,980,000	REDUCED	-13.27

What of Inflation Concerns?

Here is an interesting map.

I don't own or plan to own gold though. Not my thing. And with inflation if you are worried about increasing volatility – then the image below is relevent' choose lower volatility stocks without losing return!

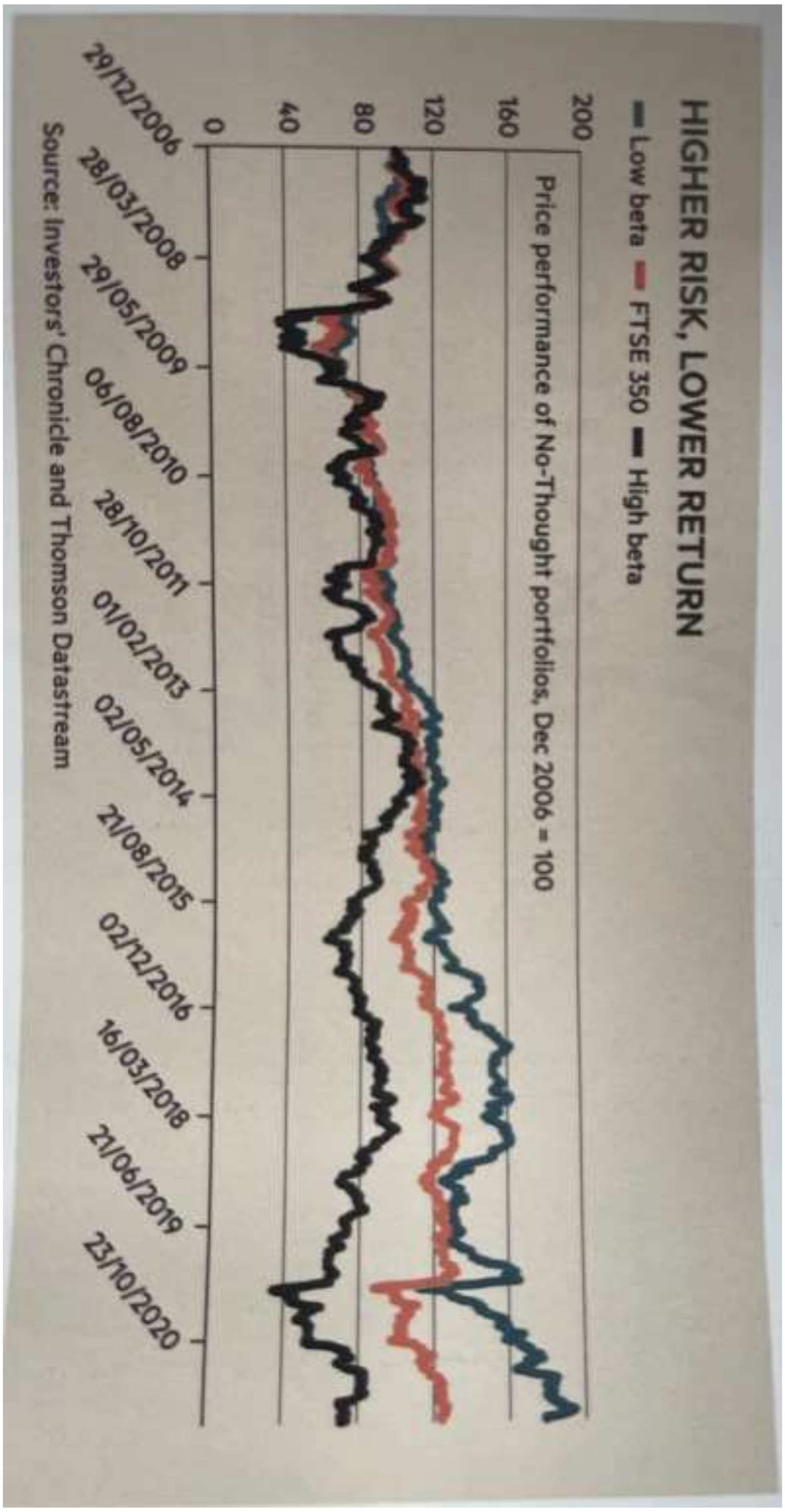
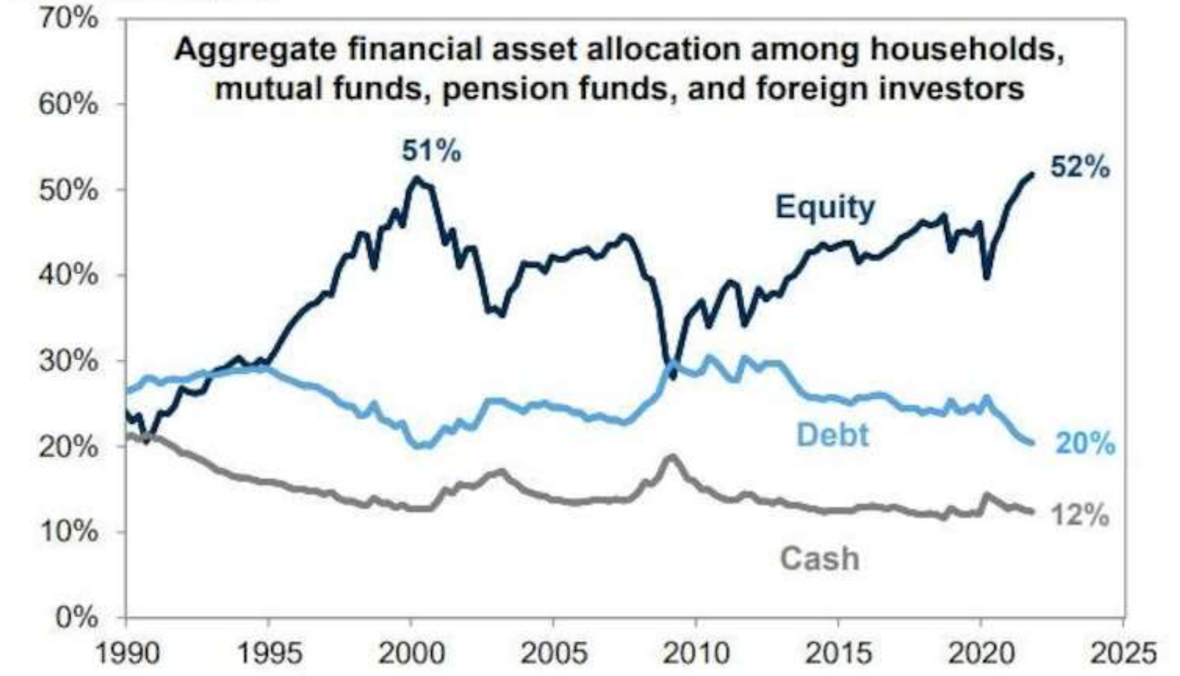


Exhibit 2: Allocations to equities among investors are at an all-time high

as of October 14, 2021

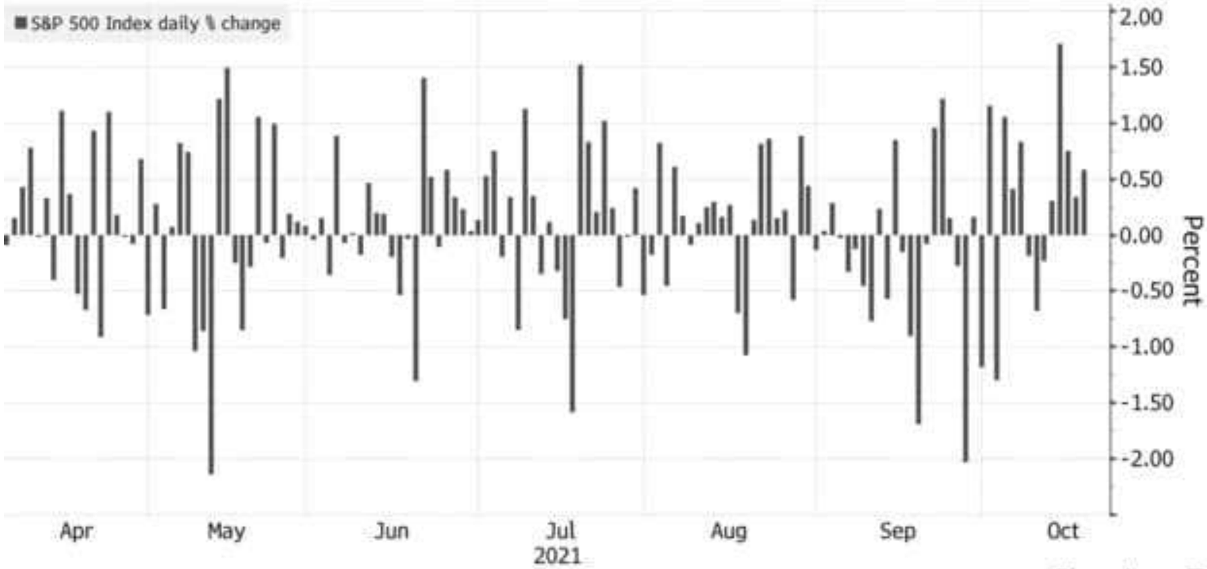


Source: Federal Reserve Board, EPFR, Goldman Sachs Global Investment Research

Dip-buying day traders are helping fend off a looming stock collapse - and institutions have no choice but to follow suit, Morgan Stanley says

Back in Rally Mode

S&P 500's five-day up streak is longest since August

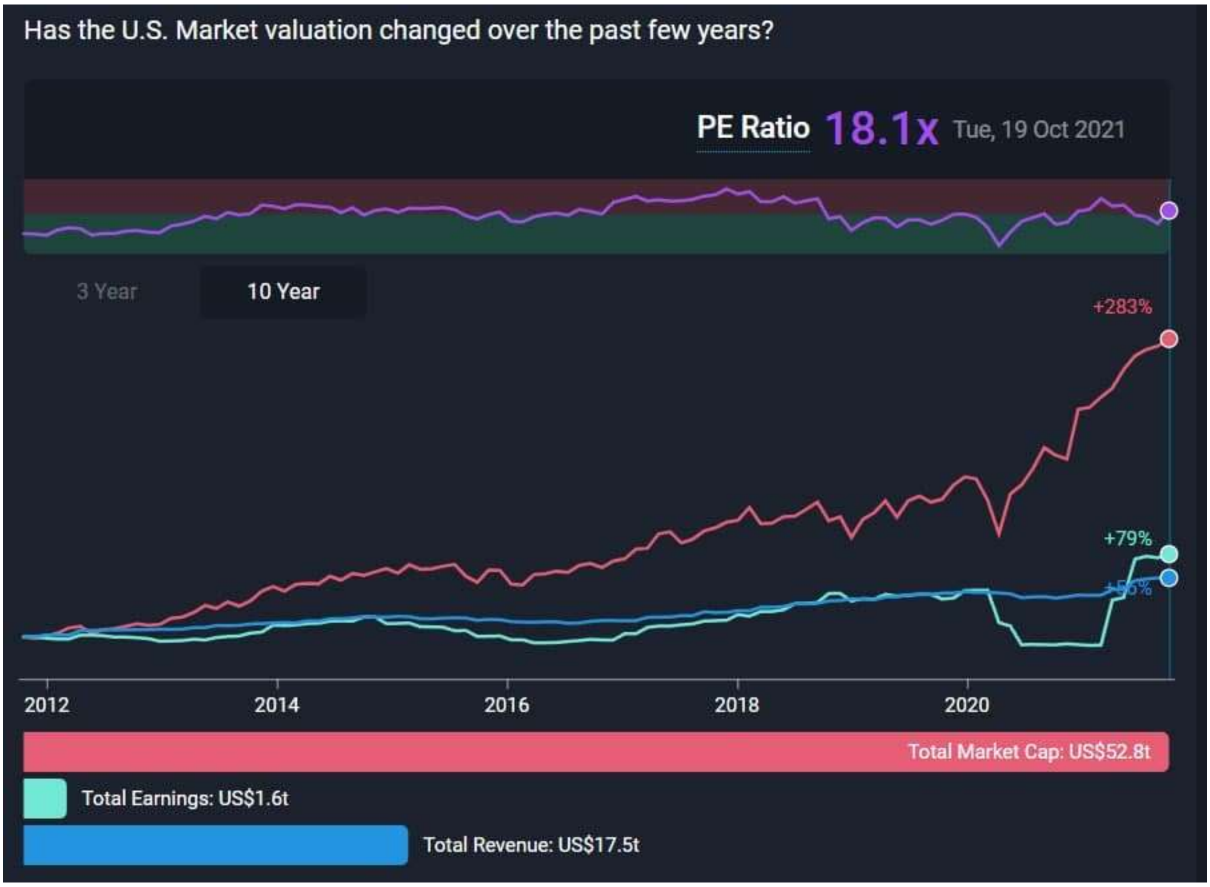


Source: Bloomberg

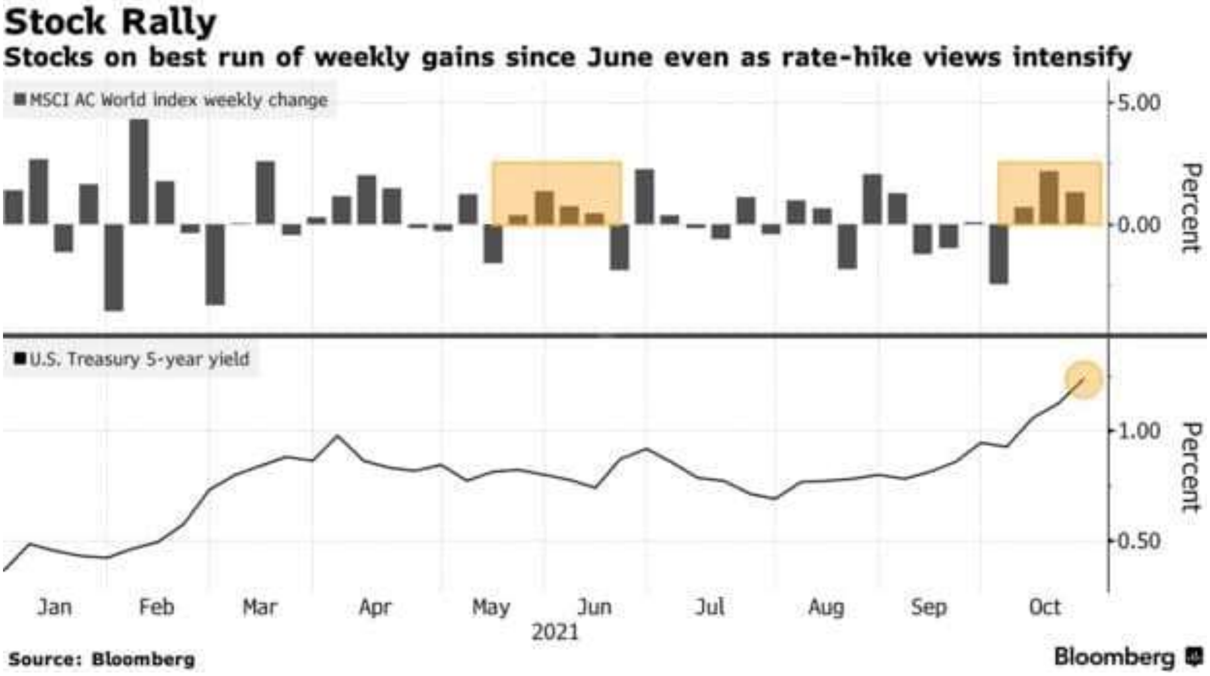
Bloomberg


Market Valuation and Performance
Has the U.K. Market valuation changed over the past few years?
PE Ratio 21.5x Tue, 19 Oct 2021
3 Year
10 Year
+79%
+23%
+10%
2012
2014
2016
2018
2020
Total Market Cap: UK£2.8t
Total Earnings: UK£143.8b
Total Revenue: UK£1.8t

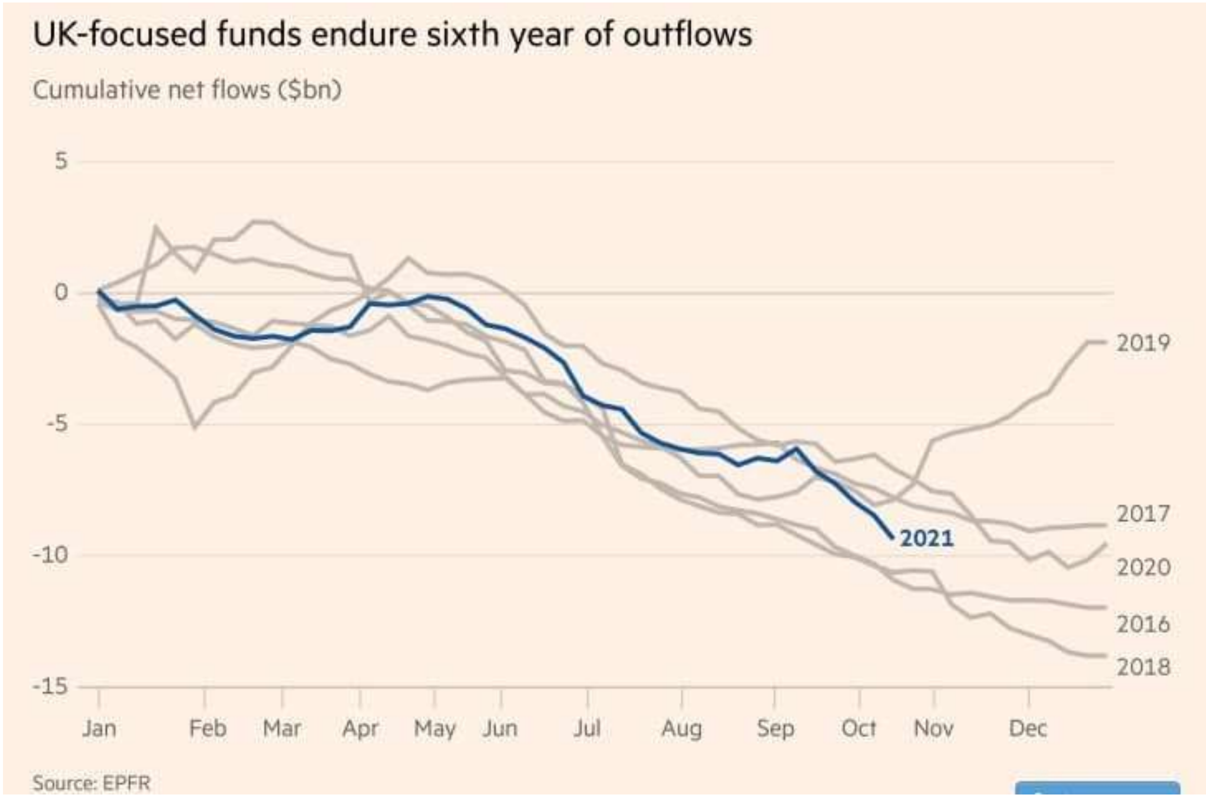

Price to Earnings
Earnings Growth
Tech 49x 21.24%
Telecom 38.8x 30.56%
Healthcare 31.1x 20.25%
Industrials 26.5x 16.18%
Consumer Staples 20.1x 16.25%
Consumer Discretionary 19.7x 28.50%
Utilities 17.7x 3.30%
Materials 13.7x -11.46%
Real Estate 13.3x 18.80%
Financials 13.3x 11.76%
Energy 12.4x 4.29%
Market PE 21.4x


Has the U.S. Market valuation changed over the past few years?
PE Ratio 18.1x Tue, 19 Oct 2021
3 Year
10 Year
+283%
+79%
+56%
2012
2014
2016
2018
2020
Total Market Cap: US$52.8t
Total Earnings: US$1.6t
Total Revenue: US$17.5t


Price to Earnings
Earnings Growth
Real Estate 47.3x 13.05%
Healthcare 34.1x 13.73%
Tech 33x 15.37%
Industrials 25.4x 20.66%
Telecom 25.4x 19.97%
Consumer Staples 23.1x 9.97%
Energy 21.8x 17.34%
Utilities 21.4x 10.44%
Materials 18.2x 9.36%
Consumer Discretionary 16.8x 28.78%
Financials 11.4x -2.83%
Market PE 18.1x



So fund inflows continue – but we are talking US more than UK – see below.



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	5.42	-1.15
Nov	3.83	1.68	3.72	11.84		5.29
Dec	1.84	-8.66	1.74	3.27		0.31
Yearly	25.08	-5.63	22.34	7.25	16.57	

Reasons Why Women Are Still Not Investing For Their Future

Data and research across the UK and US show that women are still underinvesting in the stock market. This relative lack of engagement is true of both their pensions and more general investments.

Women's lower participation in investing exacerbates the existing gender pay gap. To meet the goal of an equal society, this is a problem that needs addressing.

The Causes of Underinvestment

Recent data for the Global Financial Literacy Excellence Centre (GFLEC) has laid bare the problem of underinvesting amongst women. When compared to men, women had fewer savings, more debt, and less access to money.

Additional GFLEC studies also showed how more adults are entering old age with higher debt and little or no financial planning. Financial literacy correlates strongly with better outcomes in adult life. GLFEC proposes that engagement with financial concepts as teenagers can help uplift the population and allow them to make better financial decisions.

There are several factors at play that cause underinvestment. Three big problems affect the pension gender gap: Firstly, women put more into Cash ISAs, but less into stocks. Secondly, women contend with the Gender Pay Gap and the Motherhood Penalty. Thirdly, eight in ten women don't discuss money with friends or family.

The Gender Pay Gap manifests itself into a Gender Pension Gap. New figures from the Chartered Insurance Institute's Insuring Women's Futures initiative suggest that the average pension pot for a 65-year-old woman in the UK is £35,800. This number is just one-fifth of the average man of the same age.

What Can We Do To Bridge The Gap

There are no quick fixes for this problem. Giving children jargon-free books at a young age can help them understand financial concepts and the confidence to learn and engage in finance.

Employers have a role to play too. There is some movement in this area, with four out of five employers committed to developing a financial well-being strategy.

Indeed, many organisations, like fashion retailer Zalando, have taken the lead with educational events that help women manage their money and accrue wealth.

Platforms like Nudge have developed apps that coach and help people to understand and manage their finances. Companies can use these tools to help their staff and employees to better future outcomes.

Of course, programs and initiatives by employers are just the beginning. More needs to be done to reduce the gender pay gap at all levels of work. While undoubted progress has been made in recent decades, female board members at FTSE 100 companies are paid 40% less than their male counterparts. Representation at the board level needs to be met with equal pay.

Financial confidence is an oft-cited barrier to investing for women. Ironically, being cautious can actually help the investment world. However, initially, it's an obstacle that women must overcome. The confidence gap represents a huge missed opportunity that consistently translates into lower retirement funds for women.

One factor pointed out by Gina Miller of the wealth management company SCM is that companies aren't effectively communicating with women to a large extent. Investment companies are used to targeting men, but Miller suggests using different languages and information can help bridge the gaps.

While investing confidence is crucial, fund managers and Robo-investors can take the pressure of decision-making away from investors.

Conclusion

Women are still not investing at the same levels as men. Despite living longer, the average pension held by a UK woman of 65 is a fifth of the average man. This gap threatens to affect the quality of life of retirees catastrophically. We must address this issue to help women and families secure a better future.

There are several solutions to this problem, such as addressing the gender pay gap and investing in financial literacy education at a younger age. Additionally, investment firms need to make a better effort to target women and communicate with them more engagingly.

Impact investing in companies doing social good is one area that could provide a way to reach women. Statistically, women are far more likely to give to charities than men, so responsible and sustainable investing could provide a way to give women the best of both worlds.

Women face several disadvantages in the world of investment. However, much can be done to solve these issues and help us build a more equal and fairer society.

Women Make Better Investors, That's the Truth

Women are better investors than men, research shows

Women don't invest in the stock market as much as men. However, there are several reasons why they should, like growing their pension or accumulating wealth. But perhaps the biggest reason is that research shows women are better investors.

Why Women Typically Invest Less Than Men

Women typically invest less than men for a mix of reasons:

1. The gender pay gap means, on average, women have less money to invest.
2. Women tend to save in cash ISAs at a higher rate than men.
3. Women cite a reluctance to take risks at the same rate as men.
4. Many women lack the confidence to invest.

Why Women Make Better Investors

A lack of confidence and a lower risk appetite are cited as reasons why women invest less. However, there is some evidence to suggest that this might not be the disadvantage it seems at first glance. Men tend to overestimate their ability in the market, leading them to take an excessive amount of risk.

Women Panic Sell Less Than Men

Let's take a look at panic selling. Stock markets are unpredictable and volatile. During market dips, many investors become skittish and try to time the market. More often than not, this strategy backfires when the market recovers.

Research from the Massachusetts Institute of Technology has shown that the people most likely to panic sell are men aged 45 or over who consider themselves to have "excellent investment experience." Women are more likely to hold on to stocks instead of timing the market.

As shown by Bank of America research, selling during market dips means missing out on gains when the market recovers.

Women Take Fewer Risks

All investing carries an element of risk. But the best investors don't bite off more than they can chew. The financial advisory company Betterment looked at how a lower appetite for risk helps women in investing.

Betterment suggests that women trade less, take fewer risks, and generally stay within the confines of financial advice. Some conservatism in investment is great over the long term.

More Research, Less Panic

Men and women approach risk in different ways. One of the most glaring differences between investment styles is research. Women tend to do a lot more research than men before investing. Additionally, they tend to demonstrate more patience in the market.

As mentioned earlier, women are less likely to unload stocks during a stock market dip.

Women in Hedge Funds

Women outperforming men in investing isn't a new phenomenon either. University of California, Berkeley looked at 35,000 private brokerage accounts over six years in the 1990s. The study found that women outperformed men by around one percentage point. The average real rate of returns is around 5%, so even a 1% rise is impressive.

The Confidence Problem

One barrier to investment for women is a lack of confidence. Indeed, only 9% of women believe they are better investors than men. The research tells us something different. However, it also highlights the fact that men tend to overestimate their ability as investors.

The Global Financial Literacy Excellence Centre (GFLEC) underlined this in a recent survey. The women survey were less confident in the US stock market. Additionally, they were less confident in their ability to make investment decisions. GFLEC believes that confidence and knowledge are strongly correlated. If true, this underlines the importance of education to close the investment gap.

If you're hoping that these attitudes will change with newer generations, you might have to wait a little longer. 56% of Millennial women said that fear is what is holding them back from the market.

Why Don't More Women Invest?

In light of the statistics demonstrating great results, why don't more women invest? One interesting reason is that 77% of women see money as a tool to help their families. Men are less likely to see money this way, which could partially explain why they invest more.

As the wage gap continues to close, women will have more funds to invest. However, more work must be done, especially when it comes to granting raises.

Conclusion

Women can teach men a lot about investing. Sticking to a disciplined strategy, managing risk, and not trading too much all help long-term returns.

Discipline, patience, and a willingness to learn are all great qualities in an investor. research shows that women tend to exhibit these attributes when managing their portfolios. And with mutual funds managed by women outperforming their male counterparts this year, maybe it's time that more men started to listen.

This is How Stocks Could Benefit from Supply Chain Disruptions

Last month was difficult for the equity markets. This wasn't too unexpected; the "September Effect" is a well-known phenomenon. However, it was the stock market's worst September in over a decade.

All three main U.S. equity indexes took a tumble. The Dow Jones dropped by 3.5%, the Nasdaq by 4.6%, and the S&P 500 shed 3.9%. There are several reasons for this. As mentioned earlier, September is traditionally a difficult month. But there were two other significant factors at play.

Supply Chain Disruption

Firstly, supply chain disruption caused many U.S. companies to revise their earning predictions. With COVID-19 cases surging in the U.S. and worldwide, businesses are being affected by logistical issues.

As a result, companies can't meet demand. These production failures translate into fewer sales, which will show up as fewer profits in future quarters. Another aspect of the supply chain issues is higher material and labor costs.

Rising Interest Rates

Second, rising bond yields are bad news for many of the tech giants. Bond yields have gone up because the market expects robust economic growth. However, if increasing interest rates accompany this growth, it will harm companies with high valuations based on future profits. Higher interest rates mean the profits these giants promise in the future will be worth far less.

So, with tech and manufacturing stocks facing challenging headwinds, which stocks can benefit?

Which Stocks Can Benefit from Supply Chain and Interest Rate Issues?
CNBC's Jim Cramer sees this recent downturn as an opportunity to pick up specific stocks at a discount. He believes that investors with an eye on the long term could use this opportunity to add some big tech stocks to their portfolio. Rising bond yields took a chunk off Apple, Amazon, and Salesforce in September.

Another sector that has been performing well is bank stocks. Bank stocks have performed well in 2021, but they are still considered cheap by many analysts.

As the U.S. economy recovers from the pandemic, experts suggest the Federal Reserve will tighten monetary policy. If the Fed increases interest rates late next, it will significantly benefit lenders' profits.

The KBW Nasdaq Bank Index closed out the month strongly. It's up 37% already this year. At this rate, bank stocks are set to have their best year in almost two decades.

The Fed's latest dot plot suggests 9 out of 18 officials anticipate a rate hike in 2022. This number is up from seven in June. Additionally, Jerome Powell, Chair of the Federal Reserve, has indicated that the central bank will scale back some of its substantial bond purchases.

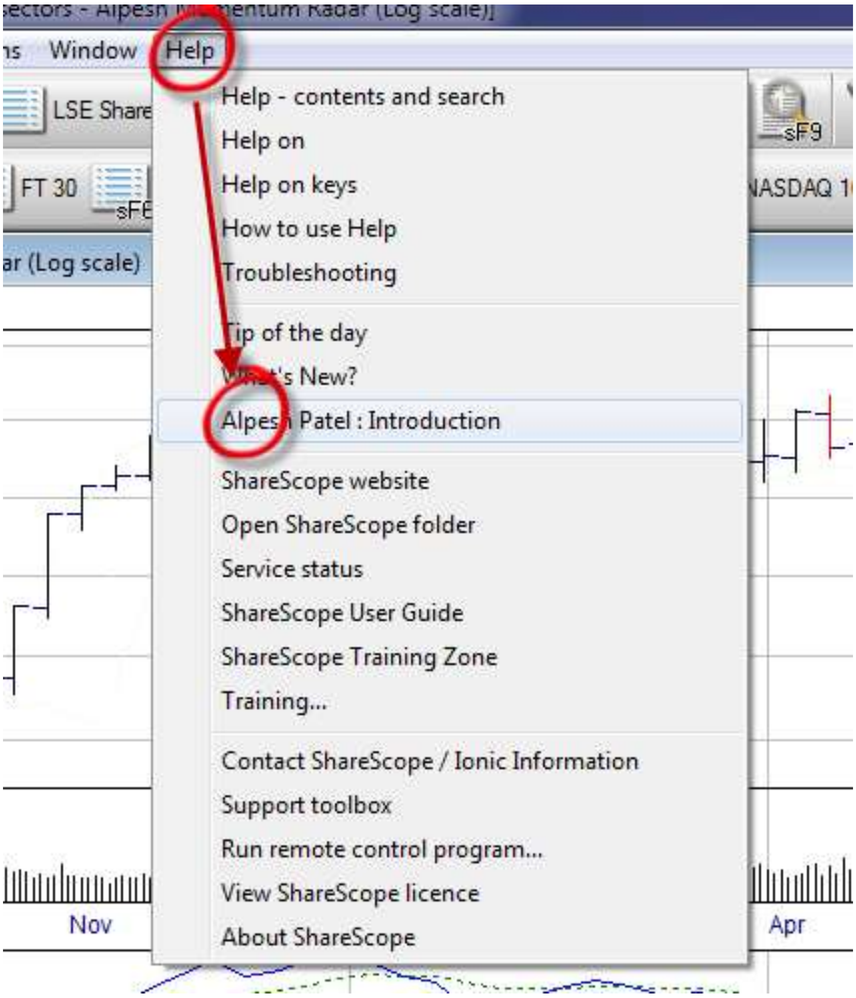
For banks who are sitting on long-term loans, an interest hike will add to their earnings. These future profits are reflected in bank stocks' outstanding performance. All 24 KBW Nasdaq Bank Index members are up at least 3.5%, with half of the index up by 10%.

Three banks that investors should consider are Bank of America (NYSE: BAC), JPMorgan Chase NYSE: JPM), and U.S. Bancorp (NYSE: USB). Bank of America because of its excellent asset quality, JP Morgan Chase for its high profits and innovative fintech, and U.S. Bancorp for its reliable and consistent earnings from stable consumer products.

Summary
As the pandemic continues to play havoc across the globe, supply chains are beset with logistical issues. Hold-ups in supplies and materials have forced many companies to revise earning predictions. On top of this, rising interest rates are making the future earnings of tech companies less appealing to investors.

However, if interest rates continue to rise, holdings in banking stocks are a good idea. Higher interest rates mean higher profits on loans. If the Fed makes it official in 2022, as expected, bank stock prices could keep rising.

Help Page



Window
Help
LSE Share
FT 30
ar (Log scale)
Help - contents and search
Help on
Help on keys
How to use Help
Troubleshooting
Tip of the day
What's New?
Alpesh Patel : Introduction
ShareScope website
Open ShareScope folder
Service status
ShareScope User Guide
ShareScope Training Zone
Training...
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