

Alpesh Patel's October & November Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers



05 November 2018

My view on the markets

I will make this a bumper issue for October/November – given how much I've been doing – and so have my view on the market and lots of invaluable information.



I was keynote speaker at the Italian Stock Exchange owned by London Stock Exchange and at the London Investor Show. Let me share the latest market insights for you.

But first have a look at this and how important it is we invest:

AGE	BEN INVESTS:		ARTHUR INVESTS:	
19	2,000	2,240	0	0
20	2,000	4,749	0	0
21	2,000	7,558	0	0
22	2,000	10,706	0	0
23	2,000	14,230	0	0
24	2,000	18,178	0	0
25	2,000	22,599	0	0
26	2,000	27,551	0	0
27	0	30,857	2,000	2,240
28	0	34,560	2,000	4,749
29	0	38,708	2,000	7,558
30	0	43,352	2,000	10,706
31	0	48,554	2,000	14,230
32	0	54,381	2,000	18,178
33	0	60,907	2,000	22,599
34	0	68,216	2,000	27,551
35	0	76,802	2,000	33,097
36	0	85,570	2,000	39,309
37	0	95,383	2,000	46,266
38	0	107,339	2,000	54,058
39	0	120,220	2,000	62,785
40	0	134,646	2,000	72,559
41	0	150,804	2,000	83,506
42	0	168,900	2,000	95,767
43	0	189,168	2,000	109,499
44	0	211,869	2,000	124,879
45	0	237,293	2,000	142,104
46	0	265,768	2,000	161,396
47	0	297,660	2,000	183,004
48	0	333,379	2,000	207,204
49	0	373,385	2,000	234,308
50	0	418,191	2,000	264,665
51	0	468,374	2,000	298,665
52	0	524,579	2,000	336,745
53	0	587,528	2,000	379,394
54	0	658,032	2,000	427,161
55	0	736,995	2,000	480,660
56	0	825,435	2,000	540,579
57	0	924,487	2,000	607,688
58	0	1,035,425	2,000	682,851
59	0	1,159,676	2,000	767,033
60	0	1,298,837	2,000	861,317
61	0	1,454,698	2,000	966,915
62	0	1,629,261	2,000	1,085,185
63	0	1,824,773	2,000	1,217,647
64	0	2,043,746	2,000	1,366,005
65	0	\$2,288,996	2,000	\$1,532,166

My value growth rating shows very few well valued growth companies. So, let's get cautious.

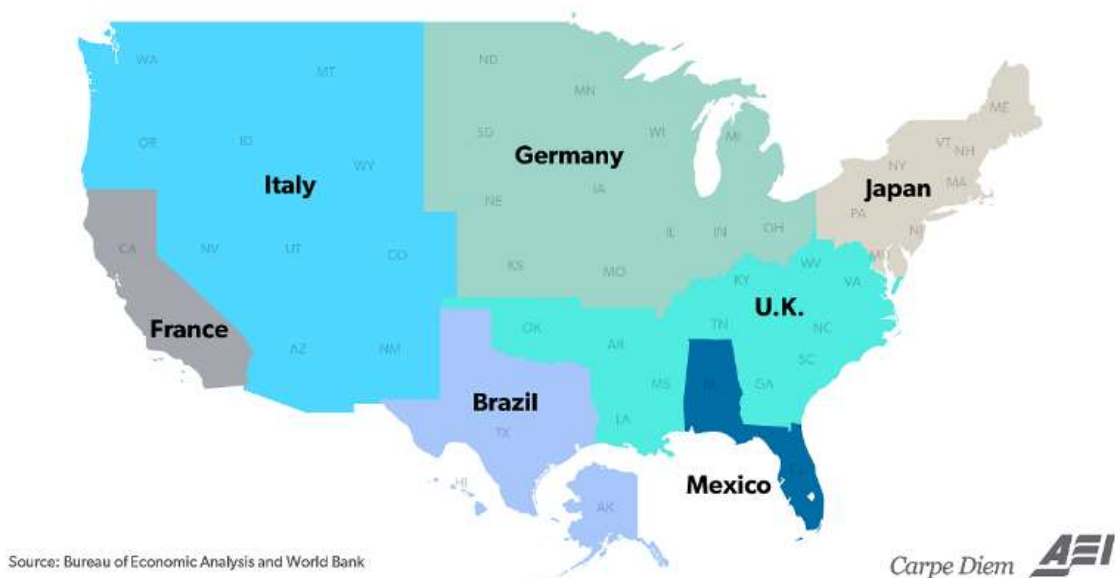
No.	Name	EPIC	Alpesh value/ growth rating
1	Walgreens Boots Alliance Inc	WBA	9
2	Regeneron Pharmaceuticals	REGN	8
3	Activision Blizzard Inc	ATVI	7
4	Alexion Pharmaceuticals Inc	ALXN	7
5	Apple Inc	AAPL	7
6	Biogen Idec Inc	BIIB	7
7	Cadence Design Systems Inc	CDNS	7
8	Citrix Systems Inc	CTXS	7
9	Expedia Group Inc	EXPE	7
10	Fastenal Co	FAST	7
11	Hasbro Inc	HAS	7
12	Henry Schein Inc	HSIC	7
13	Intel Corp	INTC	7
14	Intuit Inc	INTU	7
15	KLA-Tencor Corp	KLAC	7
16	Microsoft Corp	MSFT	7
17	O'Reilly Automotive Inc	ORLY	7
18	Paychex Inc	PAYX	7
19	Ross Stores Inc	ROST	7
20	Starbucks Corp	SBUX	7
21	Take-Two Interactive Software	TTWO	7
22	Ulta Beauty Inc	ULTA	7
23	Western Digital Corp	WDC	7
24	Xilinx Inc	XLNX	7

FTSE 100
vs Nasdaq 100

No.	Name	EPIC	Alpesh value/ growth rating
1	Micro Focus International PLC	MCRO	9
2	GlaxoSmithKline PLC	GSK	8
3	Admiral Group PLC	ADM	7
4	Barratt Developments PLC	BDEV	7
5	BP PLC	BP.	7
6	Bunzl PLC	BNZL	7
7	Diageo PLC	DGE	7
8	DS Smith PLC	SMDS	7
9	Evrast PLC	EVR	7
10	Imperial Brands PLC	IMB	7
11	International Consolidated Airlines Group	IAG	7
12	Morrison (Wm) Supermarket	MRW	7
13	National Grid PLC	NG.	7
14	Persimmon PLC	PSN	7
15	Prudential PLC	PRU	7
16	Randgold Resources Ltd	RRS	7
17	Royal Dutch Shell PLC	RDSB	7
18	RSA Insurance Group PLC	RSA	7
19	Shire PLC	SHP	7
20	TUI AG	TUI	7
21	Whitbread PLC	WTB	7
22	Wood Group (John) PLC	WG.	7

I am still not worried about the global markets – as long as America is strong. See the image below why:

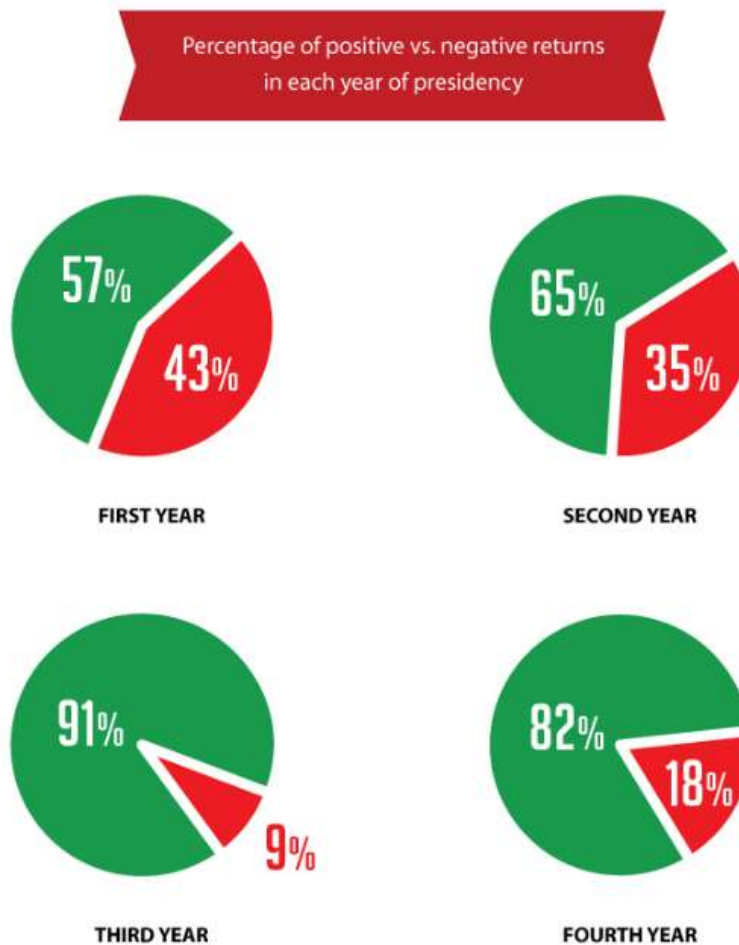
US State Borders Redrawn and Renamed for Countries with Similar GDPs (2015)



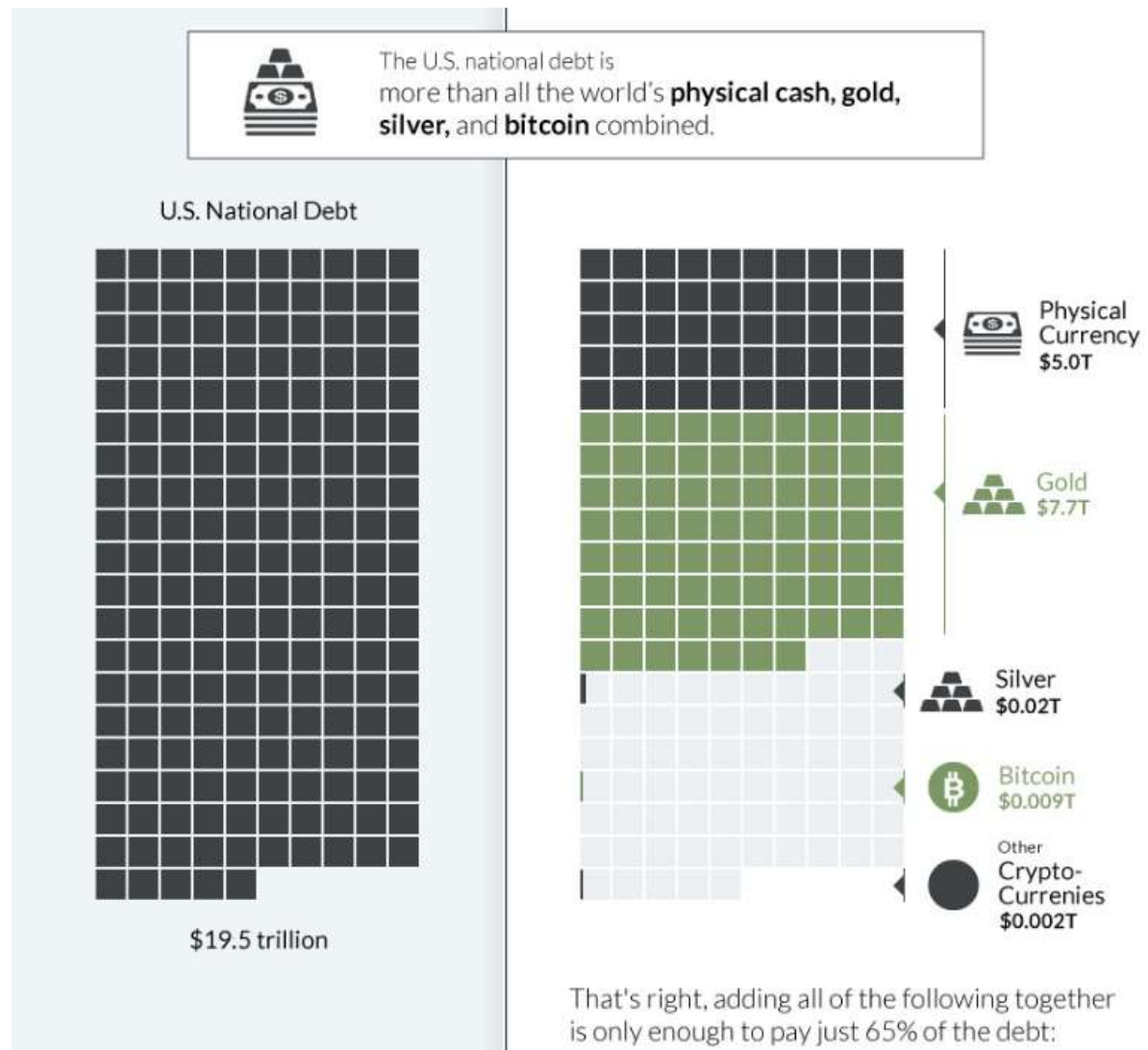
Top 20 US Metro Areas by Economic Activity, Renamed for Countries with Similar GDPs (2015)



As for the next year – there is good news:



And I still see no drop in the USD, despite US debt and loose fiscal policy by the President and Congress.



Top insights from the City

When I look at Deutsche Bank's report at the start of the year – how many risks dragged the market lower?

30 risks to markets in 2018



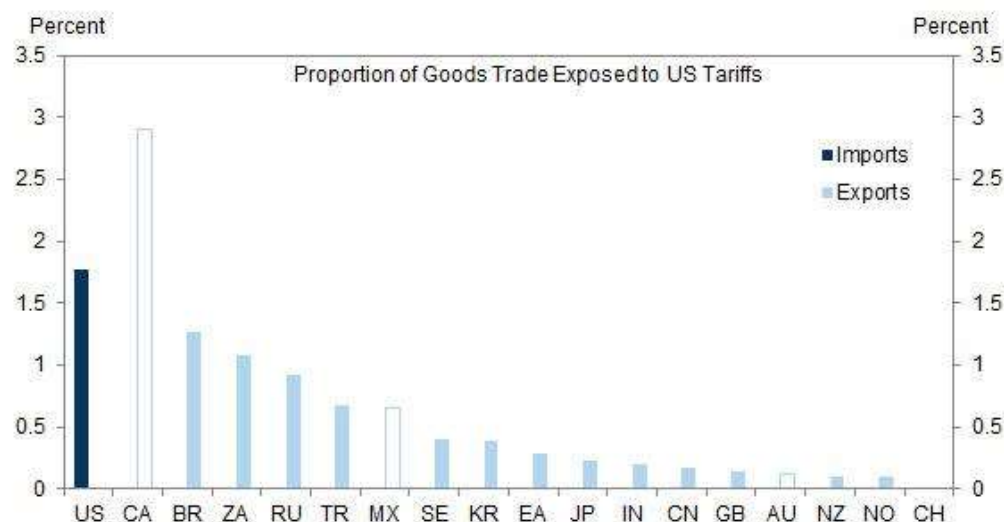
1. US inflation moving higher in 2018Q2
2. ECB signaling exit in 2018Q2
3. US IG and HY spreads to widen because of less appetite from abroad
4. New Fed leadership to be tested (will Powell be politically driven or driven by the incoming data?)
5. German inflation surprises to the upside
6. German wages surprise to the upside
7. Negative rates in EU govies coming to an end; impact on global markets
8. BoJ leadership change; BoJ abandoning yield curve control in 2018H2?
9. Rising term premia in Treasuries and Bunds as global central bank QE comes to an end
10. Valuation and fundamentals mismatch in US equities
11. US equity market correction – haven't see one for a long time, are markets ready for even a small correction?
12. Jump in volatility because of higher inflation, geopolitical shocks, or slowing global central bank QE
13. Bitcoin crash, confidence impact on retail investors
14. North Korea
15. Bigger positive impact of US tax reform than expected
16. Continued rise in US inequality => more dissatisfied voters => more populism coming
17. Mueller investigation
18. US midterm elections in November
19. Italian elections, likely in April
20. Brexit developments
21. New government in UK?
22. UK reversing Brexit decision?
23. Irish presidential elections
24. UK local elections
25. Russian presidential election
26. Commodity prices higher
27. Housing bubble bursting in Canada or Australia
28. Housing bubble bursting in Sweden or Norway
29. Housing bubble bursting in China and associated China equity market correction
30. China harder landing in economy than markets currently expect

Source: DB Global Markets Research

For me, I'd rather ignore all the analysis of risks and look for trends in prices. I am just as likely to be caught out sometimes as I am by trying to forecast news.

Was it tariffs? No:

Exhibit 2: The US Tariffs Are Small

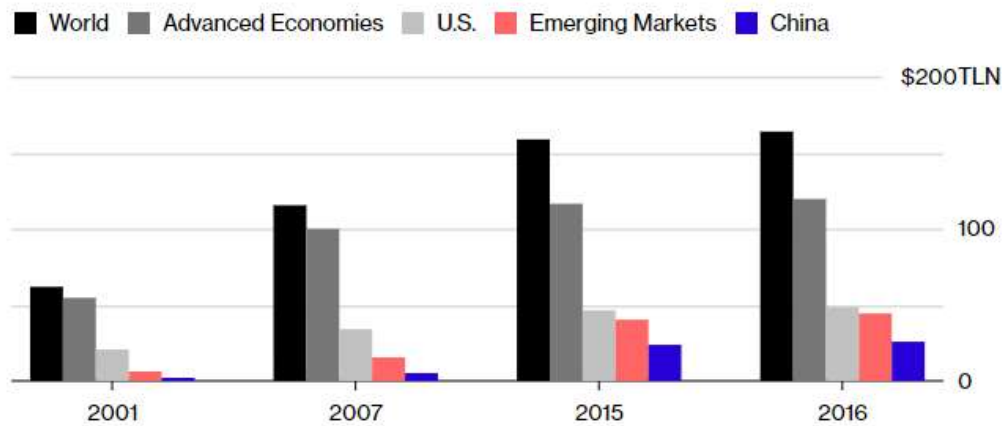


Note: Exports from Australia, Canada, and Mexico are currently exempt from the tariffs

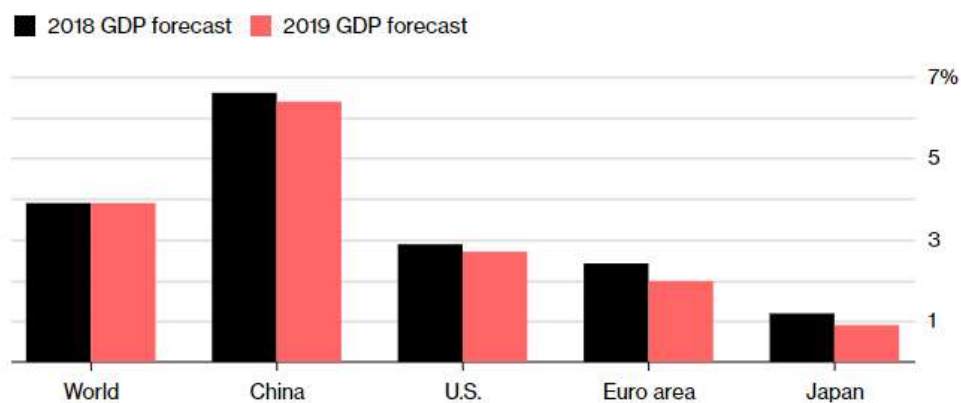
Source: COMTRADE, Goldman Sachs Global Investment Research

The biggest threat to the markets is slowing growth and our expectations not being met. But I think we are good at revising down our expectations. One reason for slowing growth is shown in the following images:

World debt at record levels.



Sources: Global Debt Database; and IMF staff calculations

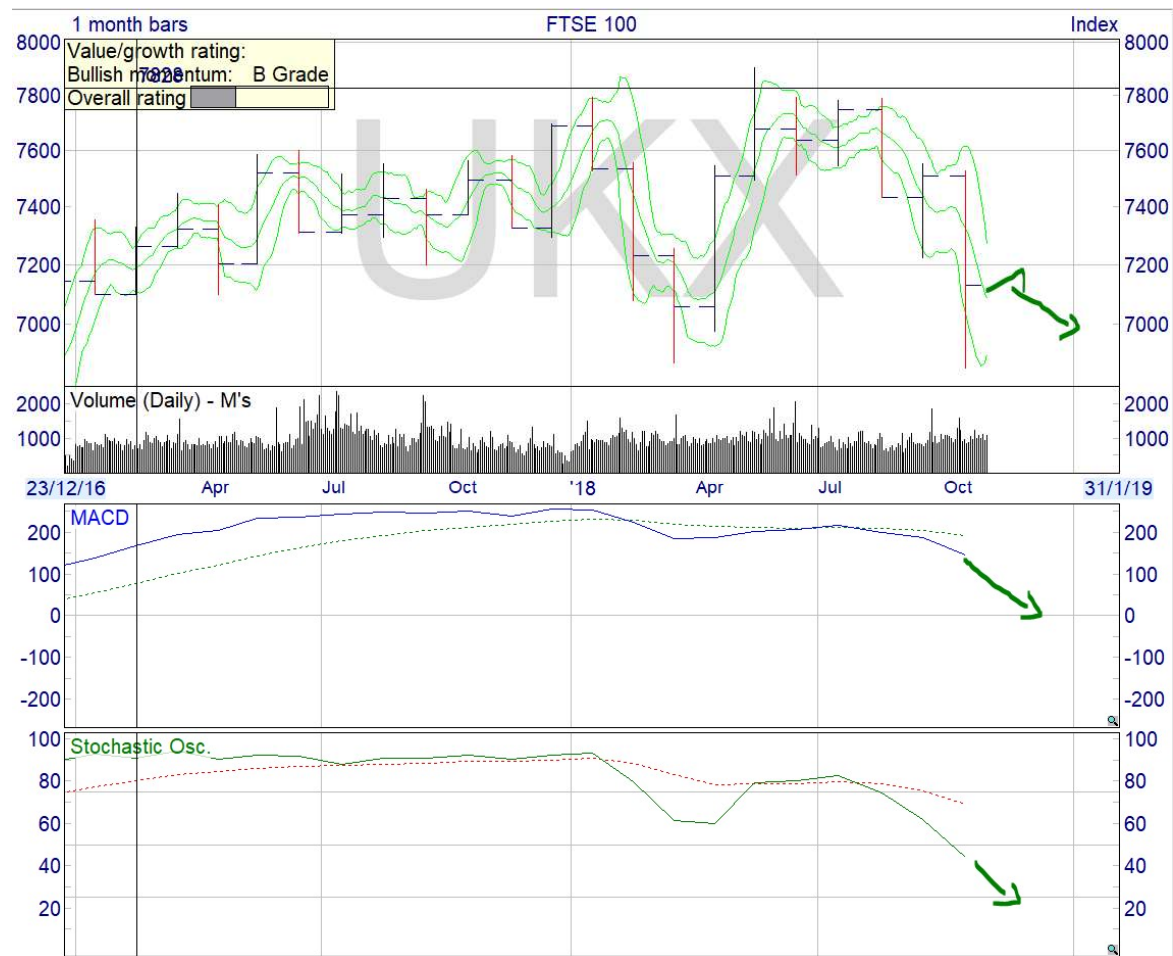


Source: International Monetary Fund

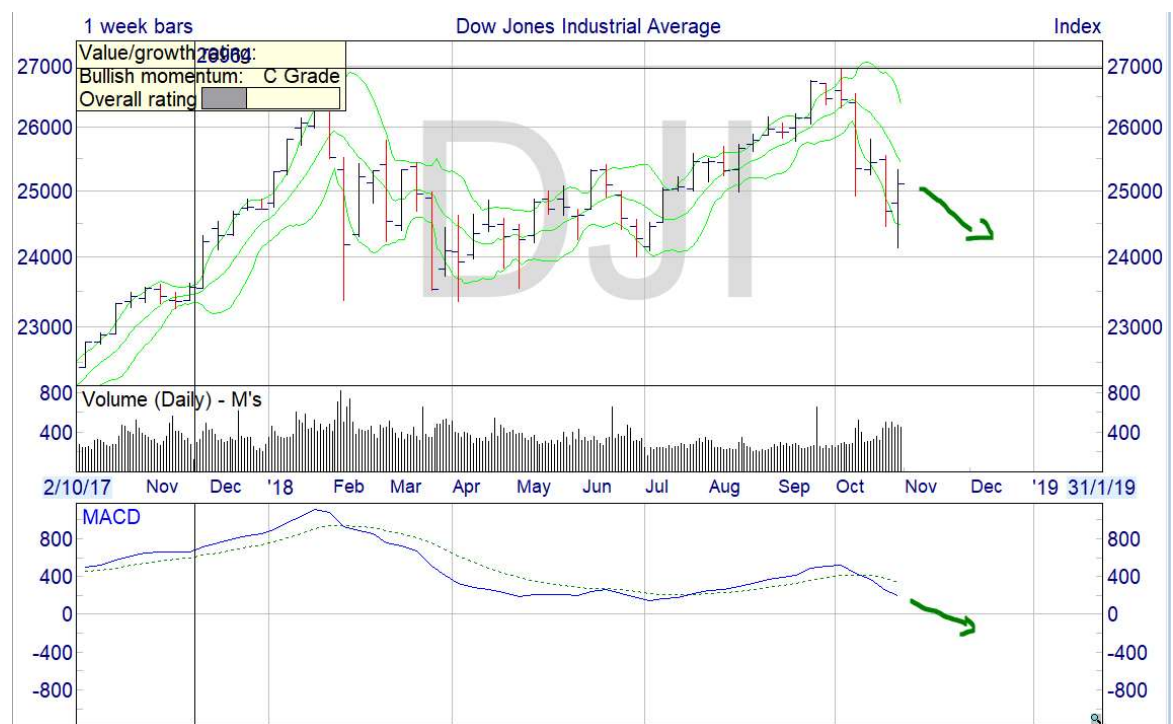
One more thing:



For my money – downward pressure for now on FTSE



And the Dow



My favourite Value/Growth picks this month

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

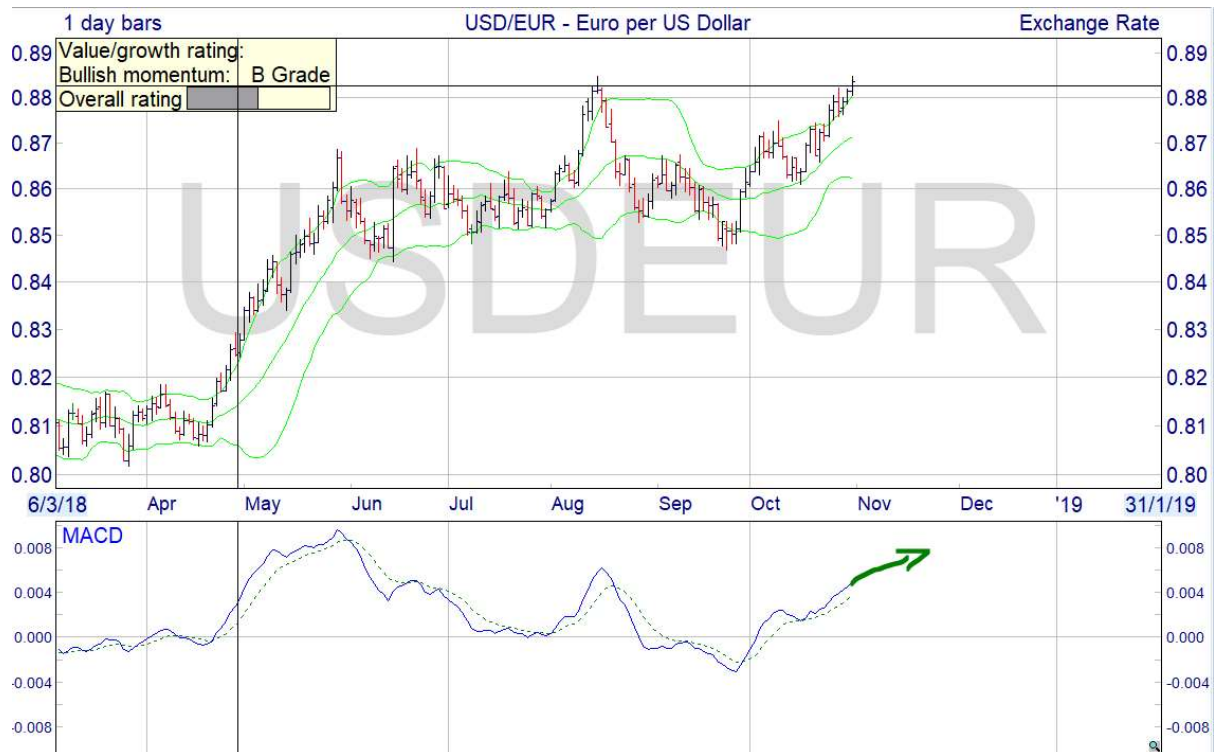
Look at the 9s – they are my most highly rated for a 12-month hold, for those who like buy and hold.

No.	Name	EPIC	Alpesh value/ growth rating
1	Norcros PLC	NXR	9
2	Telecom plus PLC	TEP	9
3	esure Group PLC	ESUR	8

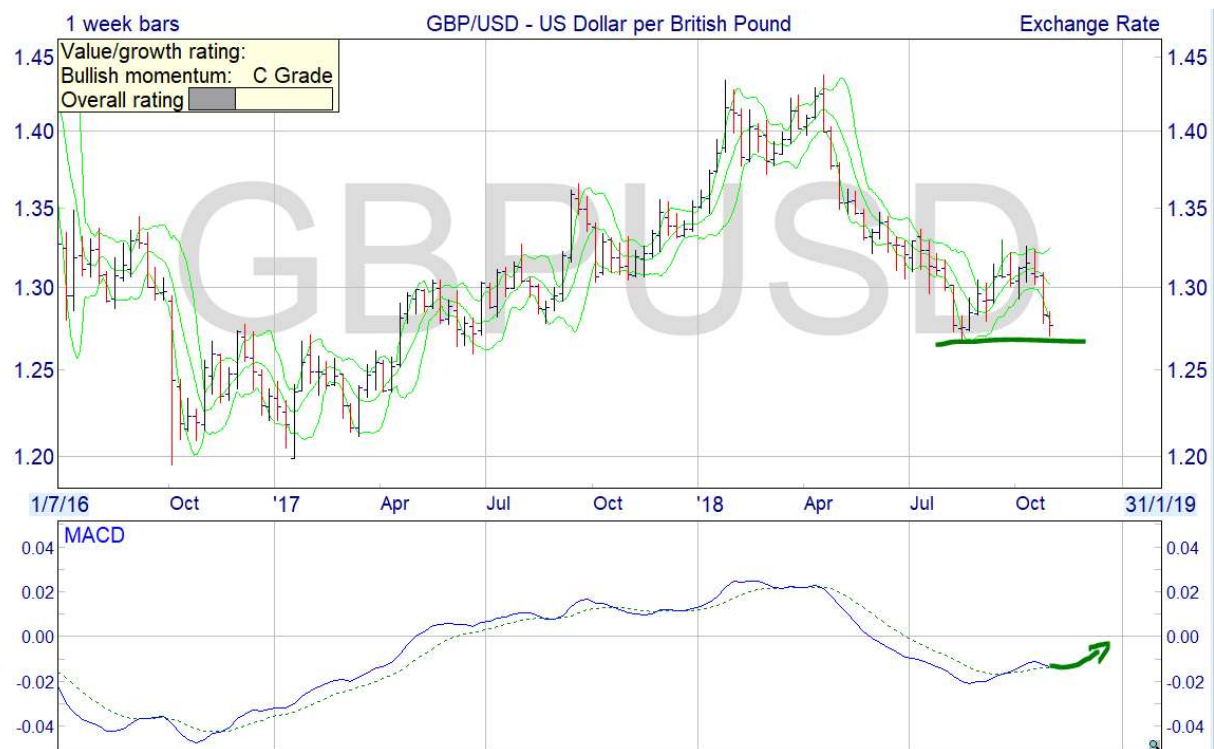
05 List: FTSE 350 - All sectors - Alpesh Table (Linked)					
No.	Name	EPIC	Close	Price% 3 months ago	Alpesh value/ growth rating
1	Dunelm Group PLC	DNLM	£5.96½	▲ 13.73	9
2	Pennon Group PLC	PNN	£7.46¼	▼ -0.69	9
3	Telecom plus PLC	TEP	£12.20	▲ 18.22	9
4	B&M European Value Retail SA	BME	£4.16¾	▲ 0.99	8
5	Barr (AG) PLC	BAG	£7.64	▲ 12.85	8
6	BCA Marketplace PLC	BCA	£2.01½	▼ -14.44	8
7	esure Group PLC	ESUR	£2.78¾	▲ 36.67	8
8	Marks & Spencer Group PLC	MKS	£2.96	▼ -3.90	8
9	NEX Group PLC	NXG	£11.36	▲ 12.48	8
10	Polypipe Group PLC	PLP	£3.71	▼ -1.22	8
11	Shire PLC	SHP	£46.80½	▲ 7.57	8
12	Travis Perkins PLC	TPK	£11.07	▼ -7.44	8

Forex

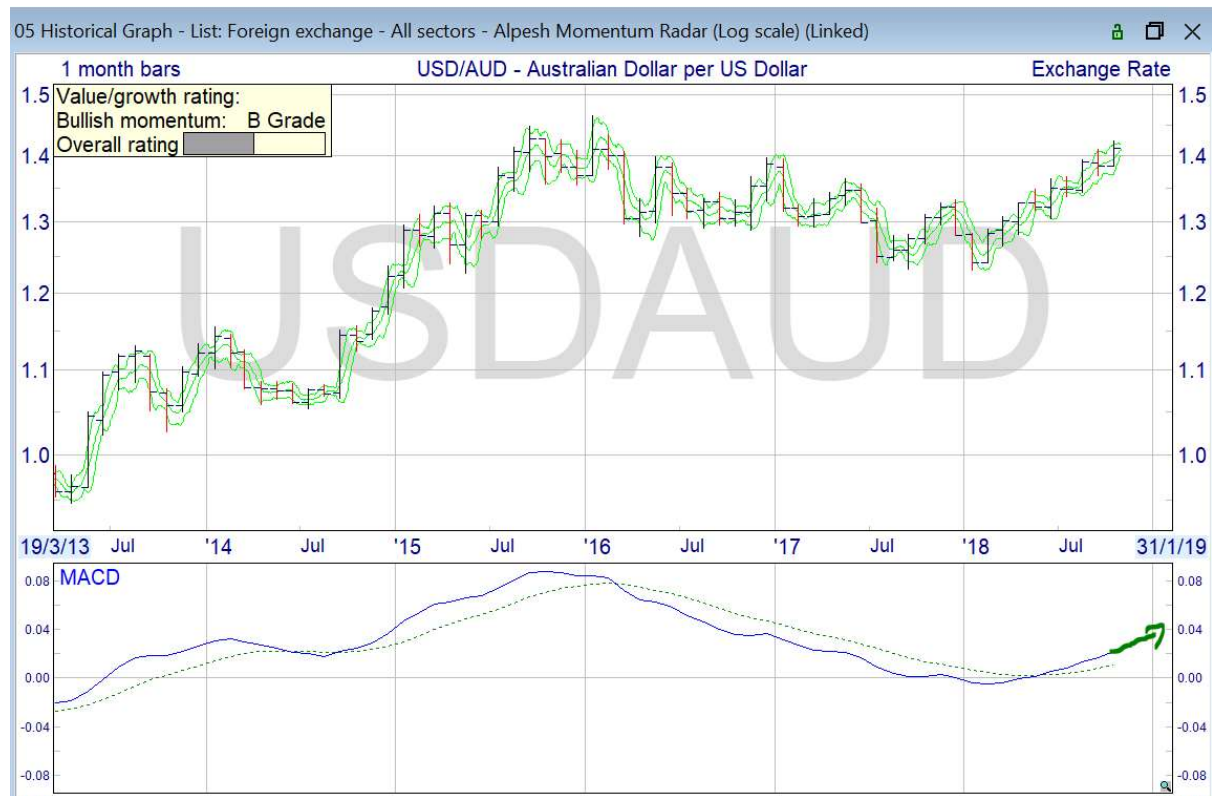
USDEUR – so much for what last time looked like a head and shoulders pattern and a fall in the USD. Instead USD rises. But I think as a deal is done on Brexit, the Euro will be more positive.



So I also think GBP will be supported for the same reasons as the Euro against USD.



Of the major and minor currencies which have sizeable followers and liquidity – see USDAUD



ETF

The short bank ETFs (always a risk with leveraged ETFs) caught my eye:

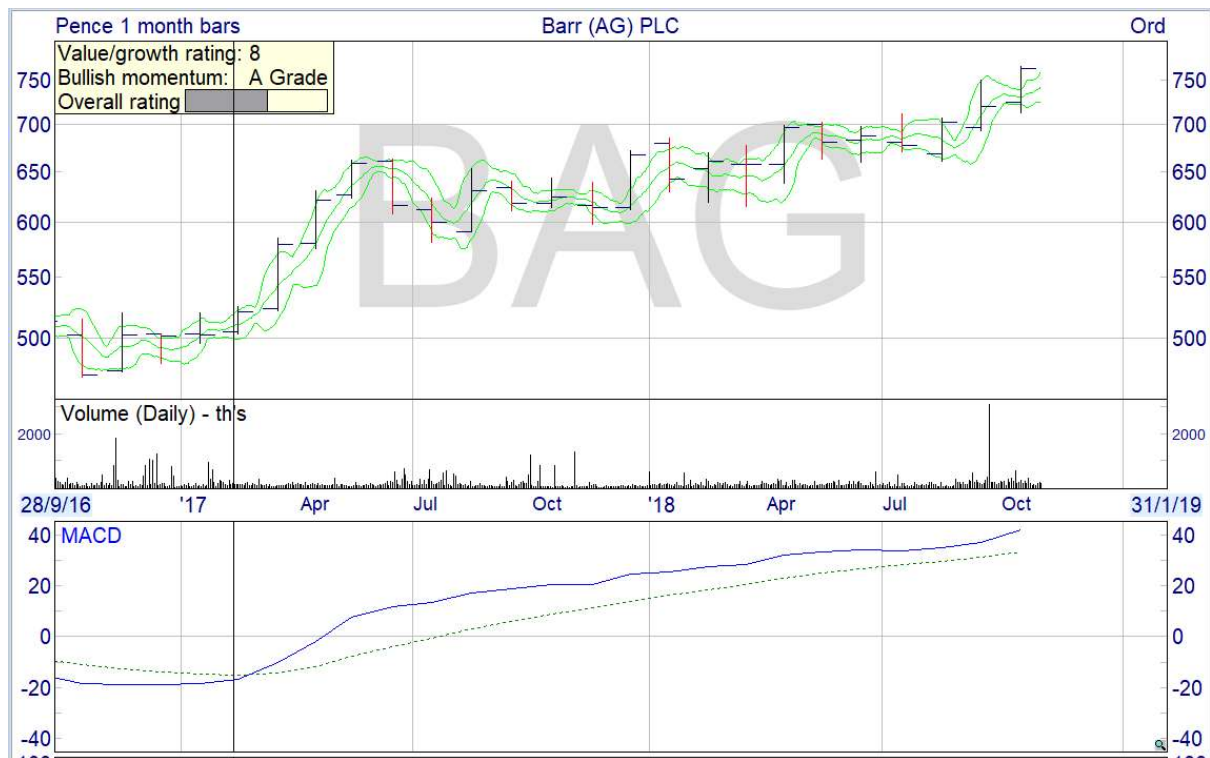
01 List: UK exchange traded funds (ETFs) - All sectors - Alpesh Table (Linked)

No.	Name	EPIC	Close	Price% 3 months ago	PEG	Price% 2 trading days ago	Price% 5 trading days ago	Price% 2 weeks ago	Price% 6 months ago	Return YTD
1	Boost EuroSTOXX Banks 3x Short Daily	3BAS	£27.63½	▲ 61.23		▼ -0.50	▼ -5.83	▲ 17.11	▲ 96.27	
2	ETFS 3X Daily Short Nickel	3NIS	\$8.40¾	▲ 59.13		▲ 5.11	▲ 17.06	▲ 21.39	▲ 41.16	
3	ETFS 3X Daily Long Sugar	3SUL	\$9.37½	▲ 51.45		▼ -8.74	▼ -16.11	▼ -10.54	▼ -1.11	
4	Boost FTSE MIB 3x Short Daily	3ITS	£10.38	▲ 46.66		▼ -0.53	▼ -8.30	▲ 10.93	▲ 65.32	
5	Boost Emerging Markets 3x Short	3SEM	£26.62½	▲ 45.83		▼ -5.16	▼ -1.43	▲ 11.86	▲ 74.25	
6	Boost Emerging Markets 3x Short	3EMS	\$33.96½	▲ 41.89		▼ -5.47	▼ -2.51	▲ 8.71	▲ 61.53	
7	SG Nat Gas x3 Daily Long £	NGL3	£3.56½	▲ 41.65					▲ 60.54	
8	ETFS 3X Daily Short Wheat	3WHS	\$57.58½	▲ 41.24		▲ 7.23	▲ 1.24	▲ 12.75	▼ -2.56	
9	SG Silver X5 Daily Short £	5SIS	£27.79	▲ 40.25		▲ 5.77	▲ 9.84	▲ 11.09	▲ 73.28	
10	Boost Natural Gas 3x Leverage Daily	3LNG	17p	▲ 37.65		▲ 6.92	▲ 0.29	▼ -5.03	▲ 51.11	
11	ETFS Leveraged Sugar	LSUG	\$2.48½	▲ 34.99		▼ -5.87	▼ -10.97	▼ -7.03	▲ 3.50	
12	Boost Short DAX 3x Daily ETP Secs 30/11	3DES	€7.84½	▲ 34.28		▼ -3.21	▼ -7.69	▲ 5.94	▲ 22.11	
13	Boost ShortDAX 3x Daily ETP	3SDE	€6.95¾	▲ 33.51		▼ -4.36	▼ -7.31	▲ 6.93	▲ 23.31	
14	Boost Natural Gas 3x Leverage Daily ETP	3NGL	21½c	▲ 33.33		▲ 5.88	▼ -1.37	▼ -8.28	▲ 39.35	
15	ETFS 3X Daily Long Natural Gas	NG3L	\$3.96	▲ 32.56		▲ 3.94	▼ -3.18	▼ -10.09	▲ 38.98	
16	Boost Palladium 2x Leverage Daily ETP	2PAL	\$157.42	▲ 30.96		▼ -3.10	▼ -7.51	▲ 0.05	▲ 23.34	
17	ETFS Leveraged Lean Hogs	LLHO	\$2.36½	▲ 30.02		▼ -0.08	▲ 7.09	▲ 12.46	▲ 8.46	
18	Leverage Shares 2X Apple ETP	AAP2	\$30.26½	▲ 30.00		▲ 3.24	▼ -0.49	▼ -2.26	▲ 68.84	
19	Boost Silver 3x Short Daily ETP	3SSI	£115.91½	▲ 28.64		▲ 6.83	▲ 9.80	▲ 11.85	▲ 51.64	
20	Boost EuroSTOXX 50 3x Short Day ETP 3	3EUS	€7.86½	▲ 28.38		▼ -4.13	▼ -6.90	▲ 3.37	▲ 18.16	

Top trades for this month

Speculative and higher risk:

Barr



Remember

Our natural language algorithms translate to plain English what our mathematical algorithms mine bigdata to give you a 360 view of every stock in the UK US, daily. Our performance is better than every UK companies fund manager over a decade.

Trading Psychology

When I wrote my first book, there was a very good reason I called it 'The Mind of a Trader'. Every one of the 10 leading traders of the world I interviewed for the book told me that psychology was key to success and wealth.

Detachment

Hedge fund manager, Bernard Oppetit, put it this way to me, "Whether I get out at a profit or loss does not matter." And this surprised me. I expected the world's leading traders to be more attached to their results and performance. In fact what was a key characteristic of them all was their detachment to the outcomes of their actions; all were far more focused getting the processes right and concentrating on those.

Detachment was important for another reason. All those I interviewed were at the top of their professions. They were managers and leaders, not just traders. That sense of mental calm was a critical part of their success.

Pat Arbor, Chair of the Chicago Board of trade put it like this, “The trouble with the loss is not only the loss of money but it’s the ego.”

But detachment also meant, in the opinion of legend David Kyte, “I think the best traders are those who don’t read the papers’. These are people detached from broader noise in other words. He would look to see, if the bulls ‘running out of steam’ and the bears taking over – regardless of what the news might be or what *should* be happening.

Discipline

Linked to detachment, was their discipline. Again, as Oppetit put it, “it takes a lot of patience and energy and motivation”. You need to have a sense of discipline for that. But discipline for what? It was discipline in following their processes to get in and out of a trade as per their processes and system, and not deviate. This means not adding to losing trades in the case of all the hedge fund managers I spoke to. It means not making excuses when you know you are suffering a loss and should exit according to your system. It also means not being greedy when you know the profits have run their course.

Key to the psychology was having a systematic approach in mind and following it and ignoring extraneous matters (such as baby needs new shoes) which can play with your mind and seduce you from deviating from your discipline.

As Bill Lipschutz, Global Head of Forex at Salomon Brothers put it, “If most traders would learn to sit on their hands, they would make a lot more money.”

Tenacity & Fearlessness & Ambition

Do not think from these psychology traits, that these leading profitable traders are not passionate. Jon Najarian, a floor trader, put it this way, “Unless you are willing to bang your head against the door until you break through, you are not going to make it.” But these is tenacity and pushing your luck too from a psychology view. David Kyte, another legendary floor trader said, “You make your own luck. If you get in at 50, and it goes to 60, 70, 80, you were lucky and that’s also pushing your luck”.

The underlying theme of letting your profits run, not being too fearful either is clear to me. But, Brian Winterflood, who has managed many traders in his life as a City of London legend, noted in the book how important ambition is for success. “You have to have fire in your belly” and yes money is a

driver, “in the big environment it was like going to sleep at the coal face, here it is a bit like waking up at a brothel.” His point being you do have to love what you do as a trader to success!

Trade Size

You may think money management and trading strategy and psychology are different. Actually, they are inter-related. Again, what surprised me about the leading traders in the world that I interviewed was that they did not take big risks or big bets. Of course they had lots of capital, but in terms of how much of that was risked on any one trade, it was tiny.

This, traders like David Kyte, legendary floor trader, explained was not just in case they were wrong in a trade (they did not try to be right all the time) but also for the psychology – that with less at risk in each trade, it was easier to maintain calm and therefore your discipline, especially when it came to cutting your losses.

Therefore, these leading traders made their lives easier as a result of their trade size rules. They also had the benefit of avoiding therefore big losing trades, which otherwise could easily wreck a good record or month and additionally it also meant that they were not pressuring themselves to be right, because if they were wrong, the loss was small.

It's these small changes which allowed me, learning from these legends, some of whom became my mentors, to go from a University student to 10 years later a hedge fund manager.

In the words of Bernard Oppetit, “You do not need to risk a lot to profit a lot”.

In the words of Pat Arbor, then Chairman of the world's largest exchange – the Chicago Board of Trade, “A good trader ends up being one who accumulates capital over a period of time”.

Risk Aversion

The leading traders are well aware trading is about fear and anxiety. “You have to know what it's like to feel pain, but you can't be afraid of it.” Said Lipschutz. They had an aversion to risk however. They ensured that they stacked the odds in their favour on any trade using their methodologies. Most of the traders I met were trend followers (either following trends after a breakout or a reversal).

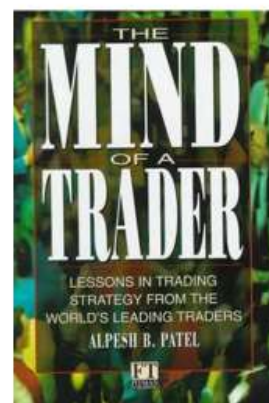
The way they put the odds in their favour was to ensure that based on their experience of such trades before, they could start small, and if they were wrong, therefore lose small, but if in profit, could add to the winning trade from their profits and so risk their profits to make more, rather than risk too much capital. Capital preservation was the most important thing.

Martin Burton, another trading legend, this time out of London, said “I am totally at ease with cutting out a position too early that I am at unease with.”

Biases

One of my favourite interviewees was Bill Lipschutz, who was Global Head of Forex at Salomon Brothers so pretty much the largest forex trader in the world. His Chairman was Warren Buffett. I used these interviews as a source of my lectures as a Visiting Fellow in Business and Industry at Corpus Christi College, Oxford University. These were at a time when for the first time the Nobel Committee for the first time recognized the significance of behavioural finance with their prize to Daniel Kahnema

MY MENTOR FROM MY BOOK: BILL LIPSHUTZ & HIS CHAIRMAN



Your Mind is Your Profit

There are many biases that influence our reasoning. Popular literature recognizes 53 different types of cognitive biases (Hilbert, 2012); however, four of them are particularly important and significantly influence risk calculations and strategic decision making (Das, & Teng, 1999).

These cognitive biases are:

- **Prior hypotheses** and focusing on limited target- this happens when a decision maker brings hypothesis and personal beliefs into decision-making process without previously inspecting the relevant data. Consequently, the decision-maker tends to overlook the information and evidence that can prove the opposite of what he thinks.

This is a major problem for traders because instead of being detached and dispassionate when looking at data, they let their pre-existing trades and losses affect their future decisions.

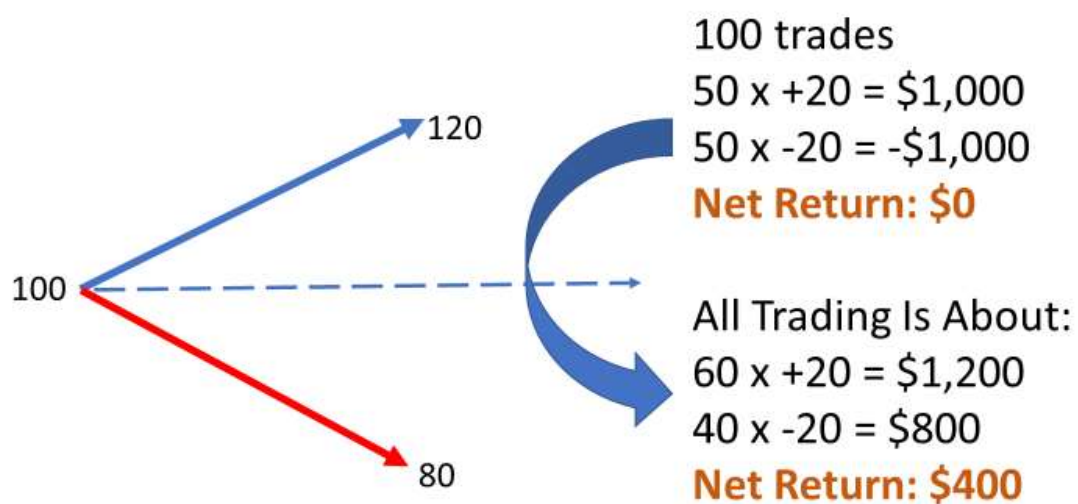
- **Exposure to limited alternatives** in the situation when data is incomplete, decision makers tend to focus on limited numbers of alternatives because they usually fill in the missing data with intuition instead of trying to get additional information.

Traders here do trades they shouldn't. Instead of waiting for high probability trades, instead they dive in impatiently.

- **Insensitivity to outcome probabilities** if a manager is influenced more by the value of possible outcomes than by the magnitude of probabilities, he/she will tend to make very risky and hazardous decisions that are not based on statistical calculations of probabilities.

Here the trader thinks how much money he will make, not how likely he is to make it. In trading, all we are trying to do is make small incremental gains, not huge windfalls.

In trading we need high probability trades. In essence we are trying to do this:



- **Illusion of manageability** when decision-makers intuitively believe that success is more probable than what statistical models predicted they can become overly optimistic. Consequently, they tend to overlook risks and develop illusion of control in uncontrollable situations. In addition, in these situations, they irrationally think that they can and will solve every possible problem that arose as a result of their decisions (Das, & Teng, 1999).

Personal Activities

I spent some time working from Lake Como:



And of course my BBC market and political comments:



I was out in India with our Deputy High Commissioner in Mumbai and Hyderabad meeting some top tech companies.



Helping tech companies like this 😊



Vishnu JP • 1st

Founder of iBoson Innovations

1d

Today's meeting with **Alpesh Patel** & **Gita Krishnankutty** was a great experience. Thank you very much for all your support. We are going to expand our business to the UK.



I spoke in India at their major tech summit. Finance and tech are overlapping and so I ensure I am at these events.

