

Alpesh Patel's September Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers



24 September 2018

My view on the markets

Back in December I tweeted that the media has no idea what a big year for the markets this was going to be – especially with the Trump tax cuts. And so it proves true. I even bought triple leveraged S&P ETF (higher risk of course than the index itself). And allowing for currency changes my Amazon purchases from December alone are up over 50%.

Readers of my newsletter will have done well.

As I said on the BBC:

- Yes, you are right Sally, you recall correctly, I did get it right on oil – all year long. Sadly those profits for traders in a one way bet make it bad news for ordinary commuters.
- Apple is undervalued – just look at how much time we spend on their phones.
- The Apple watch will take more market share from the massive Fitbit market too – lots of upside.
- Apple in 5 years will be a two trillion dollar company alongside Amazon.
- No one in finance has a clue what will happen with the Brexit deal and after it.
- The Governor of the Bank of England has been overly fearful and wrong before.
- I am bullish US markets still.



My portfolio is unbalanced. And it's making me unbalanced. Amazon has risen 67% since December alone (including GBPUSD changes). It is disproportionately large in my pension pot.

I wanted to walk you through a journey as I think it will be educational.

First the rules:

1. What is suitable for me, a married man in my 40s, with a young child, may not be for you.
2. I am not looking for the next Amazon. Look at the chart - Amazon which I came across around 1997 flat lined for years.
3. Wealth in the UK used to come from owning properties. Many an illiterate millionaire in London proves it. In the US from shares. As the UK property tax changes bite, I reckon the US stocks remain open to me.
4. I have access to an immense amount of data, let alone expertise, so let's use every edge.

5. I want stocks which are large for safety (not a rule I know), and which have already started rising. I want companies relatively undervalued, but show momentum and growth. So I will look at their accounts for these things.
6. I then ranked and rated these aspects based on weights I attached to valuation, growth, income and momentum factors.

This is my long list:

No.	Name	Price% 6 months ago	Alpesh value/ growth rating	Capital (£m)
1	Allison Transmission Holdings Inc	▲ 14.91	9	4,769.3
2	American Equity Investment Life H	▲ 15.71	9	2,587.6
3	Ares Capital Corp	▲ 9.37	9	5,840.5
4	AVX Corp	▲ 14.18	9	2,622.8
5	Black Stone Minerals LP	▲ 2.32	9	1,545.5
6	Celanese Corp	▲ 11.06	9	12,175.6
7	Coca-Cola Enterprises Inc	▲ 9.81	9	16,381.4
8	CONSOL Coal Resources LP	▲ 11.49	9	206.8
9	CVR Refining LP	▲ 23.39	9	2,116.4
10	Delek Logistics Partners LP	▲ 1.58	9	616.0
11	Dun & Bradstreet Corp	▲ 17.59	9	4,146.4
12	Federated National Holding Co	▲ 75.62	9	260.9
13	Generac Holdings Inc	▲ 18.41	9	2,644.8
14	Global Brass & Copper Holdings Ir	▲ 19.02	9	612.3
15	Granite Point Mortgage Trust Inc	▲ 8.53	9	640.6
16	A - Grupo Aeroportuario del Centro	▲ 22.79	9	
17	Hanover Insurance Group Inc (The	▲ 16.15	9	4,308.5
18	Hess Midstream Partners LP	▲ 14.07	9	498.5
19	Insight Enterprises Inc	▲ 50.96	9	1,508.9
20	ITT Inc	▲ 13.78	9	4,086.3
21	Kforce Inc	▲ 51.89	9	870.6
22	Medical Properties Trust Inc	▲ 17.80	9	4,222.6
23	Medtronic Inc	▲ 9.65	9	96,886.9
24	Merck & Co Inc	▲ 20.33	9	141,137.3
25	MPLX LP	▲ 3.10	9	23,121.0
26	NMI Holdings Inc	▲ 13.95	9	1,121.6
27	Norbord Inc	▲ 11.40	9	2,791.0
28	Oasis Midstream Partners LP	▲ 35.75	9	251.9
29	Orion Engineered Carbons SA	▲ 15.41	9	1,577.3
30	Pennymac Mortgage Investment	▲ 13.27	9	945.0
31	Plains All American Pipeline LP	▲ 16.73	9	15,039.8
32	PNM Resources Inc	▲ 12.38	9	2,507.0
33	Progressive Corp	▲ 12.82	9	29,394.1
34	RPM International Inc	▲ 25.39	9	6,684.1
35	Timken Co	▲ 3.63	9	2,858.2
36	United Parcel Service Inc	▲ 10.82	9	65,575.0
37	Web.com Group Inc	▲ 59.26	9	1,103.0

I am removing any companies under £1 billion in market capitalisation. I don't want the very huge e.g. Coca-Cola and Merck as they probably will not give me Amazon in 2003 to 2018 returns.

I also want companies with a consistent rise over 5 years. So the likes of CVR are out. Basically I want something which looks like Apple in 2011 or 2007:



Now looking at important data - some of which is below - I weigh valuation based on earnings, revenue growth consistency, return on capital, price to free cash flow, price to book value.

No.	Name	Alpesh value/ growth rating	PEG	Price% 6 months ago	ROCE (%)	Price to NAV	Rolling PE 1	Div. Cover	EPIC
1	Allison Transmission Holding	9	0.22	19.32	17.2	10.15	9.62	5.94	ALSN
2	American Equity Investment	9	0.25	16.61	0.0	1.16	12.40	7.87	AEL
3	Andeavor Logistics LP	9	0.59	2.17	9.4	1.75	20.30	0.48	ANDX
4	Ares Capital Corp	9	0.75	8.82	7.6	1.04	11.91	0.86	ARCC
5	AVX Corp	9	0.10	13.10	7.6	1.48	40.72	0.05	AVX
6	Black Stone Minerals LP	9	0.35	3.40	11.2	0.00	19.05	0.52	BSM
7	Celanese Corp	9	0.24	12.42	14.7	5.50	12.85	3.23	CE
8	Coca-Cola Enterprises Inc	9	0.00	9.78	8.4	3.10	19.13	1.58	CCE
9	CONSOL Coal Resources L	9	0.21	13.51	12.1	0.00	8.48	0.73	CCR
10	CVR Refining LP	9	0.14	21.74	9.9	0.00	9.59	0.76	CVRR
11	Delek Logistics Partners LP	9	0.35	2.60	21.9	0.00	11.88	0.74	DKL
12	Dun & Bradstreet Corp	9	0.34	17.00	31.0	-6.33	20.87	2.07	DNB
13	Energy Transfer Partners LP	9		19.40	6.6	0.00	18.90	0.71	ETP
14	Federated National Holding	9	0.15	73.59	-0.1	1.63	15.33	1.88	FNHC
15	Generac Holdings Inc	9	0.36	19.92	15.4	6.07	15.53		GNRC
16	Global Brass & Copper Hol	9	0.44	21.34	21.8	5.38	12.57	10.60	BRSS
17	A-Grupo Aeroportuario del	9	0.08	19.99			18.87	0.68	OMAB
18	Hanover Insurance Group I	9	0.33	15.91	-0.2	1.83	18.04	2.32	THG
19	Hess Midstream Partners L	9	0.46	18.18	11.9	0.00	21.99	0.83	HESM
20	Insight Enterprises Inc	9	0.30	52.54	19.7	2.29	13.93		NSIT
21	ITT Inc	9	0.32	11.94	10.5	3.31	24.48	2.52	ITT
22	Kemper Corp	9	0.39	32.71	-0.2	1.90	21.89	2.41	KMPR
23	Kforce Inc	9	0.40	52.24	22.0	7.96	22.84	2.49	KFRC
24	KLA-Tencor Corp	9	0.28	4.39	35.4	10.83	19.87	2.03	KLAC
25	Main Street Capital Corp	9	0.94	9.48	8.2	1.66	16.94	1.41	MAIN
26	Medical Properties Trust In	9	0.88	14.77	6.4	1.35	14.87	0.92	MPW
27	Medtronic Inc	9	0.32	9.27	7.6	2.44	29.26	1.21	MDT
28	Merck & Co Inc	9	0.21	22.36	10.6	5.47	22.42	0.55	MRK
29	MPLX LP	9	0.25	5.59	6.1	0.00	20.63	0.37	MPLX
30	Oasis Midstream Partners I	9	0.15	39.20	20.2	0.00	16.60	1.05	OMP
31	Orion Engineered Carbons	9	0.48	17.88	17.0	20.17	17.90	2.45	OEC
32	Pennymac Mortgage Inve	9		12.26	2.5	0.85	12.16	0.88	PMT
33	Plains All American Pipelin	9	0.44	20.01	7.1	0.00	19.60	0.58	PAA
34	PNM Resources Inc	9	0.35	12.71	5.2	1.90	26.66	0.80	PNM
35	Progressive Corp	9	0.38	13.43	-0.7	4.07	17.10	2.42	PGR
36	Rogers Communications Ir	9	0.05	14.16	12.6	4.27	17.64	1.79	RCI
37	Timken Co	9	0.30	5.11	11.7	2.55	13.16	2.43	TKR
38	United Parcel Service Inc	9	0.71	13.84	24.6	0.00	18.29	1.63	UPS
39	Web.com Group Inc	9	0.16	56.56	7.7	4.96	12.78		WEB

Top insights from the City

Now that brokers have to confess just how few of their clients make money (it's not 49%) it's 15% often, trading is truly a dirty word.

Take this broker tweet:

Take a position on ethereum today via our spread bet or CFD account. Learn more about ethereum and other cryptocurrencies here: [ow.ly/INjn30lvtna](https://www.ow.ly/INjn30lvtna)
78% of clients lose money on CFDs.

11:04 AM - 22 Aug 2018

I am glad they have to disclose it. But the problem remains:

1. brokers use in house 'educators' who are not professional regulated traders and so brokers continue to be dishonest
2. brokers once they game the client acquisition entry form to get the client in (except a few they must show the regulator they rejected) they do not monitor to the size and speed of losses - a key indicator of unsuitability

That's a shame given my second book was published by the Financial Times and called 'Trading Online' but disreputable and even those claiming to be reputable brokers have killed the word and the market. Like journalists, the majority have spoiled it for the few good ones.

Our hedge fund trades. Like most hedge funds. We have Sovereign Wealth Fund as an investor as well as the usual pension funds, family offices and high net worths. We are reputable and regulated and of course do not have retail clients.

Or take trading by the likes of Winton Capital. This slide explains in simple terms what a reputable respected hedge fund like them does in trading.



I analysed the data from various brokers over a number of years to compare winning and losing clients. Now remember many of these will not be investors, but traders.

Major Cause of Being Unprofitable

1

Winners (those who were profitable) often had more losing trades than losers. Their DNA was geared towards big profits, and not towards winning small profits

2

Losers had DNA that made them happy to take a small profit, and give up a potentially far greater gain, in exchange for being 'right'.

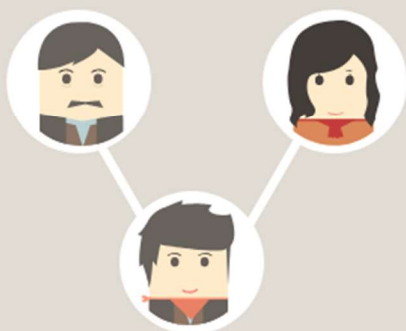
What Differentiates Winners and Losers

Winners

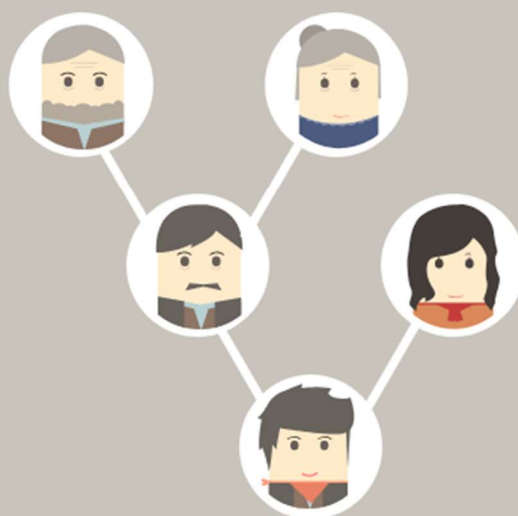
Attitude

Losers

Winners hated losses, and so exited trades not going according to plan and losing



Hated losses too, but therefore didn't exit losing trades; thereby suffering big losses oftentimes



Wins

Winners wanted big profits and didn't care about how many trades won and how many lost; many would be profitable even if winning 4/10



Losers cared about winning trades and many would win 7/10 times but still be unprofitable



How to be a Winner

Add

Winners added to their profitable trades to leverage up their 20% big win trends



Losers added to losing trades as a medicine to recoup the initial loss quicker but ended up with bigger losses



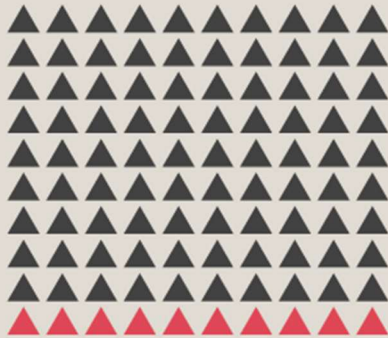
Solutions

- Add to winning trades
- Never add to losing trades
- Place a stop loss further away if the market is more volatile
- If the market is more volatile reduce your trade size
- Avoid limit or take profit order so that profits can run
- Use a trailing stop loss to make life easier



- Stop adding to losing trades
- Learn how to add to winning trades dispassionately
- Learn volatility based stop losses
- Learn not to bet too large on any one trade, by knowing how much to risk on any one trade

Fast Facts



■ winners ■ losers

Winners are the minority of private investors but you can learn to be in this population; winners were made, not born as traders

A few simple rules and strategies followed by the minority is all it takes



■ Winners (21%) ■ Losers (79%)

Losers account for 79% of private investors

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.

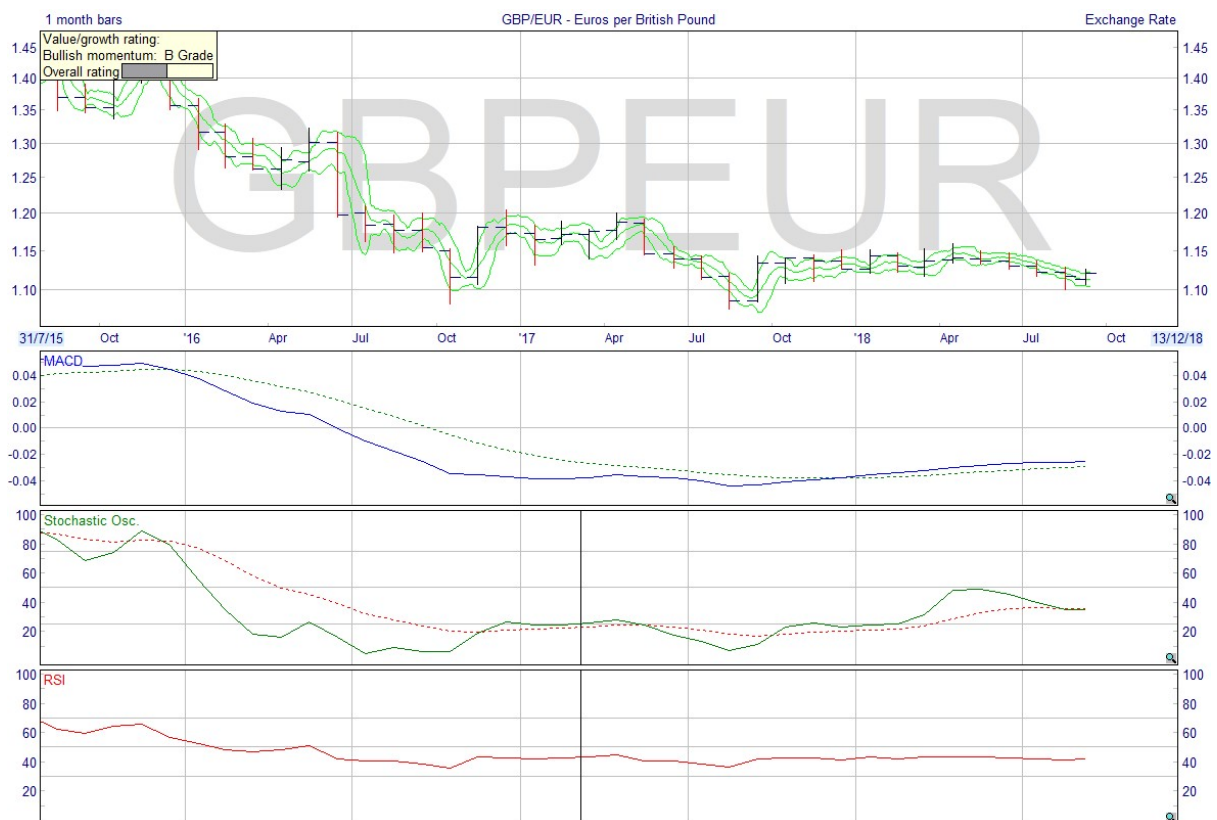
No.	Name	EPIC	Alpesh value/ growth rating
1	Galliford Try PLC	GFRD	10
2	AdEPT Telecom PLC	ADT	9
3	Cineworld Group PLC	CINE	9
4	Miton Group PLC	MGR	9
5	Produce Investments PLC	PIL	9
6	Royal Dutch Shell PLC	RDSB	9
7	Staffline Recruitment Group	STAF	9
8	Tyman PLC	TYMN	9
9	Warpaint London PLC	W7L	9

And for US shares:

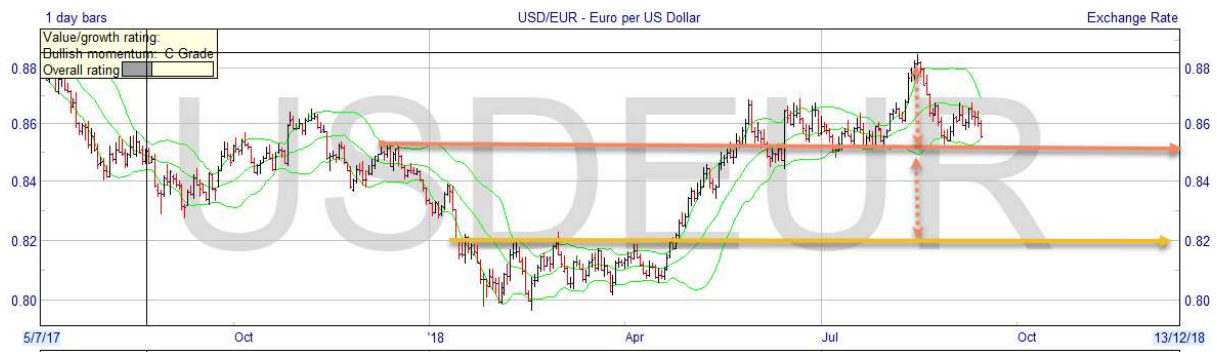
No.	Name	EPIC	Alpesh value/ growth rating
1	CVR Refining LP	CVRR	10
2	Delek Logistics Partners LP	DKL	10
3	Best Buy Co Inc	BBY	9
4	Granite Point Mortgage Tru	GPMT	9
5	Hannon Armstrong Sustain	HASI	9
6	A - Infosys Ltd	INFY	9
7	Merck & Co Inc	MRK	9
8	A - PetroChina Co Ltd	PTR	9
9	A - Total S.A.	TOT	9

Forex

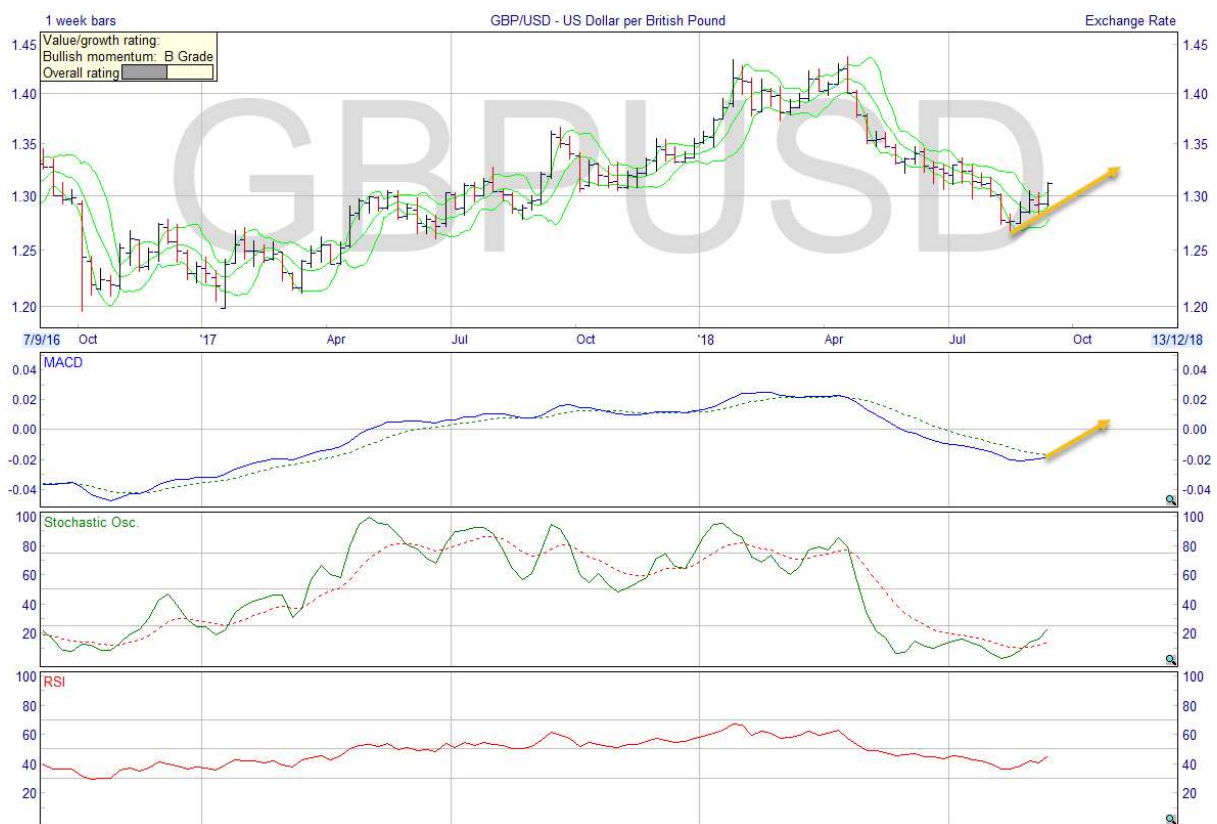
GBPEUR – I can see this going sideways for now with no strong conviction by the market or me.



Don't we have a head and shoulders on USDEUR with the USD about to fall sharply?



GBPUSD is at a critical juncture. It should rise.



ETFs

Of course the leveraged ones offer the bigger short term gains. But I do like to look at none leveraged ones:

No.	Name	Price% 6 months ago
1	SG Silver X5 Daily Short £	▲ 92.48
2	ETFS 3X Daily Short Coffee	▲ 86.35
3	Boost Brent Oil 3x Leverage Daily ETP	▲ 80.17
4	SG Gold X5 Daily Short £	▲ 72.18
5	Boost Brent Oil 3x Leverage Daily ETP	▲ 69.97
6	ETFS Carbon	▲ 69.46
7	ETFS Carbon	▲ 68.48
8	Boost WTI Oil 3x Leverage Daily ETP	▲ 62.53
9	SG Gold X5 Daily Short \$	▲ 61.43
10	Boost Emerging Markets 3x Short	▲ 59.99
11	Boost Silver 3x Short Daily ETP	▲ 59.44
12	Leverage Shares PLC 2x Salesforce.com ETP	▲ 58.05
13	Boost WTI Oil 3x Leverage Daily ETP	▲ 52.45
14	Boost Emerging Markets 3x Short	▲ 49.99
15	Boost Silver 3x Short Daily ETP	▲ 49.77
16	ETFS 3X Daily Short Silver	▲ 49.73
17	Boost Copper 3x Short Daily ETP	▲ 48.00
18	ETFS Leveraged Brent Crude	▲ 47.46
19	ETFS 3X Daily Short Copper	▲ 47.31
20	Boost EuroSTOXX Banks 3x Short Daily	▲ 46.82

My favourite Momentum/Value picks this month

The point with this radar is to find undervalued stocks showing some momentum using our algorithms.

UK:

No.	Name	EPIC	Alpesh value/ growth rating
1	Galliford Try PLC	GFRD	10
2	AdEPT Telecom PLC	ADT	9
3	Produce Investments PLC	PIL	9
4	Lookers PLC	LOOK	8

US:

No.	Name	EPIC	Alpesh value/ growth rating
1	Delek Logistics Partners LP	DKL	10
2	Coca-Cola Enterprises Inc	CCE	9
3	Granite Point Mortgage Tru	GPMT	9
4	A - Infosys Ltd	INFY	9
5	Merck & Co Inc	MRK	9

Top trades for this month

Speculative and higher risk: Bunzl, Coats, Dunelm.

Remember

Our natural language algorithms translate to plain English what our mathematical algos mine big data 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.

Thoughts on 9/11

Let me quote you from Warren Buffet's recent annual letter to shareholders. 'Money will always flow toward opportunity, and there is an abundance of that in America. Commentators today often talk of "great uncertainty." But think back, for example, to December 6, 1941, October 18, 1987 and September 10, 2001. No matter how serene today may be, tomorrow is always uncertain.'

This is the year the American markets will outperform the emerging ones. You know why? I've said it before and I'll say it again, so to repeat – do not bet against America. I've worked and studied there. I have studied their history and met their people. Do not bet against America.

Or as the world's richest man puts it, 'Throughout my lifetime, politicians and pundits have constantly moaned about terrifying problems facing America. Yet our citizens now live an astonishing six times better than when I was born. The prophets of doom have overlooked the all-important factor that is certain: Human potential is far from exhausted, and the American system for unleashing that potential – a system that has worked wonders for over two centuries despite frequent interruptions for recessions and even a Civil War – remains alive and effective.

We are not natively smarter than we were when our country was founded nor do we work harder. But look around you and see a world beyond the dreams of any colonial citizen. Now, as in 1776, 1861, 1932 and 1941, America's best days lie ahead.'

Incidentally you know what makes him the world's richest man, and also the world's largest philanthropist at the same time. He knows what motivates people in business. Do you know what it is? Bet you don't. In a new book called 'Drive' by an academic researcher, studies show that what motivates is not money. Sure, in the short term for monotonous tasks it does. But for quality creative work money is not the driver. Experiments were done on humans, children and apes. Each given tasks they enjoyed without reward. As soon as reward was offered, their performance dropped.

Find people who in the words of the richest man, 'Many of our CEOs are independently wealthy and work only because they love what they do. They are volunteers, not mercenaries. Because no one can offer them a job they would enjoy more, they can't be lured away.'

And that is why the world's richest man, an American, is gonna stay that way. You can't get at his people!

Personal Activities



One of the companies I've brought to the UK got a big deal with HSBC:

