STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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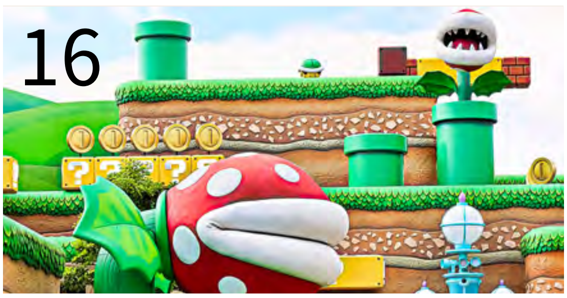
WHEN to BUY a SHARE

It only takes a few steps to sharpen your investing skills

Contents



Three important things in this week's magazine

1

Sector Report: British retail

Discover the shares exposed to a big physical retail recovery

FTSE All Share vs FTSE All Share Retailers

Physical stores have bounced back in popularity for retailers

Read our sector report on the shopkeepers making a success of the high street and retail parks

2

Investment Trusts: Small Caps

This the right time to start looking at smaller company investment trusts

You might be able to pick up a bargain in the small cap space

We look at the merits of investing in UK-listed smaller companies and the investment trusts where you can get exposure at a discount

3

Choosing stocks does not have to be an arduous task – we show you the best times to buy

Follow our checklist to help sharpen your research process and spot the best opportunities and avoid the worst

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

Why Apple's quarterly earnings are better than many investors think

Fireworks at HSBC shareholder meeting as activists of all hues make a stand

Direct Line shares fall 6% on elevated claims inflation impact on 2023 earnings

Why PayPal tanked on Wall Street overnight - $3.5 billion plunge explained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Constructive capitalism.
With your help it can power positive change.
A bold statement, but we truly believe that capital thoughtfully and responsibly deployed can be a powerful mechanism for change. Our Positive Change Fund seeks to identify high quality growth businesses who are providing solutions to global challenges. We think those businesses will prosper and flourish, at the same time delivering attractive returns to your portfolio. Want to help us power positive change?
Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.
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BAILLIE GIFFORD
Actual Investors

US rate hikes fuel banking crisis and a surge in gold and bitcoin

However, bond investors believe inflation will fall faster than the Fed's projections

While inflation is showing signs of peaking, it is not falling as fast as the Federal Reserve would like which means more monetary tightening may be necessary. The central bank increased interest rates by an expected quarter of a percentage point on 3 May and further rate rises cannot be ruled out.

There was more bad news for the Fed on 5 May after April's jobs report came in stronger than expected with stickier wage growth and falling unemployment. The latest reading doesn't make the Fed's inflation fight any easier.

Higher interest rates are already having unintended consequences for US regional banks. Customer deposits are shrinking as customers move their cash into higher paying money market funds, putting banks' balance sheets under pressure.

Gold

($/ounce)

Chart: Shares magazine • Source: Refinitiv

S&P 500 Regional Banks Index

Chart: Shares magazine • Source: Refinitiv

The US regional banking sector index has lost 43% of its value since early March. Regional banks serve small and medium-sized businesses which are the lifeblood of the economy. A retraction of credit and lending could have a significant dampening impact on the growth of the economy.

Markets are pricing in one more interest rate hike in the US followed by interest rate cuts later in the year, a view the Fed does not share. This disconnect between markets and the Fed is contributing to higher volatility across asset prices.

Brent oil prices have fallen around 18% over the last month despite oil producers' cartel OPEC+ announcing significant production cuts at the beginning of April. Worries that a global economic slowdown will lead to falling energy demand seems to have trumped tighter near-term supply-demand dynamics implied by the production cuts.

Prospects for further production cuts at the June OPEC+ meeting led to a price rebound on 5 May with Brent Crude up 4% to $75.30 per barrel, yet the rally has since lost momentum.

US banking woes and stickier than expected inflation have given a big boost to the price of gold and bitcoin as investors seek 'safe-haven' assets. Gold is up around 24% since October 2022 to $2,026 per ounce while bitcoin is up 66% year-to-date and breached $29,000 in early May. US sovereign debt default worries are also helping these supposed 'safe-haven' assets.

Treasury secretary Janet Yellen warned Congress on 1 May that the US government could run out of cash as early as 1 June unless an agreement can be reached to raise the nation's debt limit from its current ceiling of $31.4 trillion. A protracted stand-off between the Biden administration and Republicans has raised fears the US could heading for an historical default. [MG]

Travel stocks fly high as the sector finally enjoys a post-pandemic recovery

Numerous airline and cruise operators have upgraded earnings guidance this year

Shares in travel companies have been among the best performing stocks over the past six months as investors recognise that more people are flying and falling oil prices raise the prospect of reduced fuel costs.

The cost-of-living crisis does not appear to have prevented consumers from booking their summer getaway, even if the cost of flights or cruises is rising.

The latest results from British Airways owner **International Consolidated Airlines (IAG)**, **Jet2 (JET:AIM)** and **EasyJet (EZJ)** saw all three companies beat market expectations and raise their guidance for the year.

A common factor for these travel companies is strong demand for bookings – EasyJet's package holidays arm is currently 80% sold for summer 2023 and International Consolidated Airlines said it expects its flight capacity to be around 97% of levels just before the Covid pandemic.

Olly Anibaba, analyst at research outfit Third Bridge, commented: 'British Airways is expected to be the best-performing airline within the International Consolidated Airlines group this year, with transatlantic travel driving revenue growth. The reopening of the Chinese and Japanese markets, coupled with high demand for premium leisure and corporate travel between the US and UK, bodes well for the airline.'

Jet2 said it would beat full-year pre-tax profit forecasts with an estimate of between £387 million and £392 million and it has increased its fleet capacity to meet strong demand.

Not everyone in the airline sector is doing well. In April, **American Airlines (AAL:NASDAQ)** saw its share price hit after issuing a profit warning, and a month earlier **United Airlines (UAL:NASDAQ)** also troubled investors by flagging ongoing high labour costs.

London-listed travel stocks charge ahead

	6m share price change
Wizz Air	44%
TUI	41%
Jet2	31%
EasyJet	28%
International Consolidated Airlines	18%
Carnival	7%

Table: Shares magazine • Source: Google Finance, 9 May 2023

In the cruise sector, the news flow has been generally positive. US-listed **Royal Caribbean Cruises (RCL:NYSE)** recently said customers were booking cruises at higher prices and they were spending more once onboard. 'We knew that demand for our business was strong and strengthening, but we have been pleasantly surprised with how swiftly demand further accelerated well above historical trends and at higher rates,' said chief executive Jason T. Liberty.

Carnival (CCL) achieved $4.4 billion revenue in the first quarter of 2023, which represented 95% of pre-pandemic 2019 levels. It experienced the highest booking volumes for any quarter in its history, breaking records for North America, Australia and Europe.

On 1 May, **Norwegian Cruise Line (NCLH:NYSE)** upgraded its profit outlook after better-than-expected first quarter results. Like Royal Caribbean, it is seeing good momentum with spending beyond the cruise ticket. It is trying to get customers to sign up to more items before they sail, saying this typically results in higher overall spend throughout the journey. [SG]

Why consumer health spin-out Kenvue climbed in strong market debut

Positive response to IPO could help revive America's subdued new listings market

The consumer health spin-out from **Johnson & Johnson (JNJ:NYSE)**, **Kenvue (KVUE:NYSE)** enjoyed a positive stock market debut on 4 May, with shares in the company surging 22% to $26.90 in a move valuing the business at about $50 billion.

Behind iconic brands rooted in science including Listerine mouthwash, Tylenol painkillers and Band-Aid adhesive bandages, Kenvue raised $3.8 billion at $22 a share – the issue was priced at the higher end of the $20 to $23 targeted range – in what is the biggest US initial public offering (IPO) since American electric vehicle maker **Rivian (RIVN:NASDAQ)** came to market in late 2021.

Bulls are hoping Kenvue's successful listing could mark the start of a thawing of the US IPO market, which largely froze over last year as rising interest rates and stock market and economic uncertainty sapped risk appetite; the likes of ARM, Instacart, Reddit, Klarna and Stripe are among a long line of names keen to test investor appetite for Stock market listings.

WHO IS KENVUE?

Kenvue's debut marks the largest restructuring in Johnson & Johnson's 135-year history as the company seeks to refocus on its medical device and pharmaceutical divisions.

The demerged Kenvue's brand portfolio also includes the likes of Neutrogena, Benadryl, Calpol, Rogaine and Johnson & Johnson's namesake baby powder products, the latter subject to legal battles over whether they cause cancer.

Kenvue is already profitable and plans to pay a $1.5 billion annual dividend. According to a prospectus filed with the Securities and Exchange Commission, Kenvue generated sales of $15 billion in 2022 with net income of $1.46 billion on a pro forma basis, and expects annual sales growth through 2025 to be about 3% to 4% globally.

Johnson & Johnson will continue to own over 90% of the shares and has agreed to shield Kenvue from baby power-related legal costs in the US and Canada, although one risk to weigh is the fact the spin-out is facing claims relating to sales in other countries.

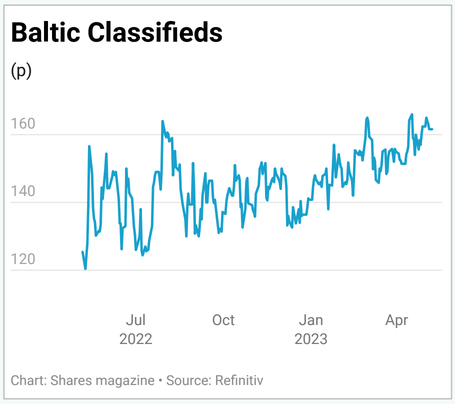
A 'NEW VIEW OF CARE'

Kenvue's CEO Thibaut Mongon commented: 'As a global leader at the intersection of healthcare and consumer goods, our carefully curated portfolio of science-backed, iconic brands has been trusted by consumers and recommended by healthcare professionals for generations. We are ready to bring a new view of care to the world.'

The carve-out of Kenvue continues a recent trend of corporate demergers including last summer's spin-off of rival consumer health colossus **Haleon (HLN)**, the maker of Panadol, Sensodyne, Advil, from UK-listed drugs and vaccine giant **GSK (GSK)**. [JC]

Baltic Classifieds is motoring ahead with online sales growth

The shares are up 13% so far this year against a flat FTSE 250



Shares in **Baltic Classifieds (BCG)** – the leading online classified advertising firm in Estonia, Latvia and Lithuania – have been on a roll since posting strong half-year results in December.

The company operates 14 portals for classified ads, covering four areas – automotive, real estate, jobs and services, and generalist – and serving businesses and consumers.

Each division increased its market share in the six months to October while at the same time the firm raised its prices, meaning sales jumped 19% on the previous year to almost €30 million.

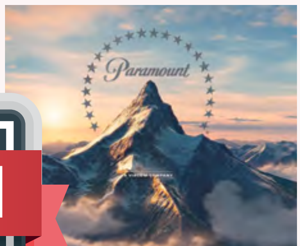
Reported operating profits rose five-fold on the same period the previous year, when the company went public and had to absorb listing and other one-off costs, from €2.4 million to €14.3 million.

On top of raising prices and gaining market share, the firm has benefited from the steady increase in prices of second-hand cars and property across the Baltics.

Group sales growth is expected to have slowed in the second half to the end of March, with the full year results due at the end of June. [IC]

Heavy selling in Paramount on big streaming losses and a dividend cut

'Yellowstone' producer suffers advertising drought but sees signs of stabilisation



Shares in US media giant **Paramount Global (PARA:NASDAQ)** plunged over 25% at the start of May, wiping out most of their year-to-date gains.

The firm posted what was generally seen as a dismal set of first quarter earnings, blighted by losses associated with its new streaming service.

Sales for the TV business were down 8% in the quarter while advertising revenues were 11% lower as weak demand forced consumer companies to cut their advertising spending.

CEO Bob Bakish said the firm was 'navigating a challenging and uncertain macroeconomic environment as the combination of peak streaming investment intersects with cyclical ad softness', although he added there were signs the advertising market was stabilising.

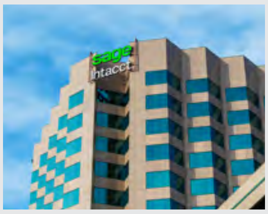
The Paramount+ streaming service reached 60 million global subscribers, growing its revenue by 65%, but losses widened from $456 million a year earlier to $511 million.

The company also took a $1.7 billion charge for integrating Showtime into Paramount +, and to cap things off cut its dividend by three quarters to save cash.

On the plus side, the firm has restarted the sale process for publisher Simon & Schuster after its failed merger with Penguin Random House. [IC]

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
May 15: Westminster, Instem
May 16: DCC, Angling Direct, Likewise, Vodafone
May 17: BT, Ninety One, Experian
May 18: Investec, Burberry, National Grid, Premier Foods



HALF-YEAR RESULTS
May 15: Centralnic, Diploma
May 16: Britvic, Marston's, Imperial Brands, Renew Holdings
May 17: Sage, Auction Technology
May 18: Nexus Infrastructure

TRADING UPDATES
May 12: Beazley
May 15: Greggs
May 16: Watches of Switzerland
May 17: Bank of Georgia
May 18: Helios Towers

Why the China reopening is a massive boon for Burberry

Recent blowout results from rivals such as LVMH raise expectations for Burberry to do the same

Trading above the £25 level, shares in British luxury goods brand **Burberry (BRBY)** are testing all-time highs as *Shares* goes to press. But the trench coats-to-cashmere scarves seller will need to deliver an upbeat outlook statement with its full-year results on 18 May to maintain this positive share price momentum.

An extraordinary luxury boom combined with China's economic rebound have helped rivals including **LVMH (LVMH:BIT)** and **Hermes (RMS:EPA)** to fashion forecast-beating sales. The reopening of the world's second biggest economy should also be boosting business at FTSE 100-listed Burberry, as domestic consumption picks up in the 'Middle Kingdom' and Chinese travellers return to the world stage.

Results for the third quarter to December 2022 from Burberry, now refocusing on 'Britishness' under chief executive Jonathan Akeroyd and new designer Daniel Lee, showed comparable store sales up a meagre 1%. Yet Burberry delivered double-digit revenue growth outside of mainland China, which offset the impact of Covid-19 related disruption.

Encouragingly, Europe continued to perform well, driven by strong trading over the Christmas period, while leather goods delivered another quarter of double-digit growth globally. Reassuringly, Burberry insisted its near and medium-term targets remain unchanged 'as we continue to target high-single digit revenue growth with operating leverage ensuring good margin progression, notwithstanding the current macro environment'. [JC]

What to expect from Burberry's results

Year end 2 April	Total sales (£m)	Normalised EPS
2022 (A)	2,826	91.6p
2023 (F)	3,106	120p

A= Actual, F= Forecast, EPS = Earnings per share
Table: Shares magazine • Source: Stockopedia

Walmart increases automation plans to drive next leg of growth

The goal is to improve inventory accuracy whether customers shop in-store, pick-up or have goods delivered

Retail giant **Walmart (WMT:NYSE)** is scheduled to report first quarter earnings before the market opens on 18 May. It has delivered better than expected EPS (earnings per share) in three out of the last four quarters, beating estimates by around 12% on average according to Nasdaq.com. The analyst consensus for the upcoming quarterly results is $1.30 in EPS.

At an investor day in April where the retailer outlined plans for its growth strategy, the company said it expected to deliver first quarter sales growth of between 4.5% and 5% in constant currencies.

The company also maintained full year earnings guidance which calls for EPS of $5.90 to $6.05. Over the next four years the firm has committed to delivering 4% annual growth in sales and operating income. Achieving the target would add $130 billion of incremental sales to the roughly $600 billion sales base.

Walmart is planning a big push into automation to support the company's rapidly growing e-commerce business. Around 55% of packages which move through its fulfilment centres are expected to move to automated facilities by 2026, saving 20% on costs, the company said.

The company anticipates increasing throughput per person resulting in higher rates of pay and less physical labour over time. [MG]

What to expect from Walmart's results

Year end 31 Jan	2023 (A)	2024 (F)
Sales ($bn)	611.3	632.1
EPS ($)	5.36	6.13

A= Actual, F= Forecast

Table: Shares magazine • Source: Stockopedia, Refinitiv

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

May 12: Olympus, Spectrum Brands

May 15: Nu Holdings, Tower, Absolute Software

May 16: Home Depot, Tencent Music Entertainment, Paladin Energy

May 17: Cisco, Target, Synopsys, Baidu, Flowers Foods, Macy's, Soho House

May 18: Walmart, Alibaba, Ross Stores, Nextgen Healthcare, SilverCrest Metals

Why Mastercard is a great stock for investors young and old

MASTERCARD
(MA:NYSE)
Price: $385.51
Market cap: $362 billion

The card payment giant's share price has doubled over the past five years, even in the face of Covid

Whether you're young and just starting to accumulate wealth in your ISA or you're in your 50s or 60s and thinking about winding down from work, **Mastercard (MA:NYSE)** is a great stock to own in a diversified investment portfolio.

The global credit and debit card monster oozes high-quality, sustainable growth, and some of the most respected fund managers in the world agree. Terry Smith-founded **Fundsmith Equity (B41YBW7)** bought a stake last year, it's also in the **Blue Whale Growth Fund (BD6PG78)** portfolio and even legendary investor Warren Buffett owns a stake through **Berkshire Hathaway (BRK:NYSE)**.

Mastercard is familiar to millions of people, yet it remains at the bleeding edge of a structural shift away from cash to mobile, online and contactless payments.

At its core, Mastercard runs BankNet, a global payment network connecting major banks with retailers for verifying and processing card payments. It handles hundreds of millions of transactions every day, taking a small cut of transaction values, typically ranging from 1% to 3%.

This is a scalable business that produces high operating profit margins, about 58% in the first three months of 2023, and an improvement on the 55% five-year average. Returns on equity and investment have also been rising – for the former, 156% for the past 12 consecutive months compared to a five-year average of 126%, and for the latter, 50.4% versus 49.4% respectively.

Mastercard is seeking to build on its success in consumer payments by doing more in the business-to-business space, where large numbers of transactions are currently made manually by cash or cheque, methods that are decreasing in popularity.

The impact of cost-of-living pressures on consumer spending cannot be disregarded but Mastercard's revenues, earnings and cash flows have remained incredibly robust – the company has beaten expectations every quarter since the Covid pandemic eased up. Soaring inflation has worked in its favour, lifting prices and thus Mastercard's take per transaction.

Analysts are confident this trend will continue. Mastercard is forecast to grow annual revenue by about 13% out to 2025. This should generate significant amounts of cash for the business.

Such reliable growth and strong returns come at a price, which means investors are being asked to pay a premium rating for the shares, which trade on 31 times forecast earnings for 2023.

Mastercard's share price has doubled over the past five years, even with the impact of Covid, soaring inflation and rising interest rates, and we expect the stock to continue rewarding holders. [SF]

DISCLAIMER: The author (Steven Frazer) has a personal investment in Fundsmith Equity and Blue Whale Growth. The editor (Daniel Coatsworth) has a personal investment in Fundsmith Equity.

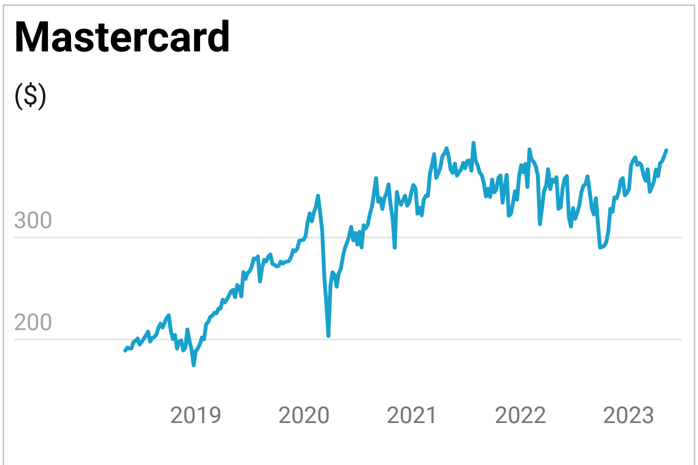


Chart: Shares magazine • Source: Refinitiv

The time is right to back emerging markets and this fund has a lot to offer

JPM Emerging Markets Income Fund invests in higher-quality companies and pays a decent dividend

JPM EMERGING MARKETS INCOME FUND
(B5N1BC3)
Net assets: **£566 million**

After a difficult period for emerging market stocks, the odds have tilted in their favour. A reversal in the strong dollar, China's emergence from zero-Covid restrictions and cheap valuations add up to an attractive mix for those prepared to stomach the risks and volatility associated with investing in this space.

JPM Emerging Markets Income (B5N1BC3) is an attractive means of playing an emerging markets recovery. This version of the fund is the income class which pays out dividends as cash to holders. If you want dividends automatically reinvested then opt for the version with the code B1YX4S7.

A good stock picker is worth their weight in gold in the developing world where the dangers associated with holding the wrong companies are significant.

This fund has an excellent track record, achieving top quartile performance over three and five years and delivering an annualised total return of 9.5% over the last three years.

The income bias is an advantage beyond just providing exposure to dividends as companies which regularly reward shareholders with cash payments must have a measure of financial strength and discipline. The fund has a yield of 4.2% and 0.88% ongoing charges.

The US dollar tends to have an inverse relationship with emerging markets. If the currency strengthens, the largely dollar-denominated debt in EM countries becomes more expensive to service and to avoid capital disappearing to the safety of US assets, central banks have to put up interest rates. Higher rates tend to depress economic growth.

However, with the dollar now in retreat amid a US regional banking crisis and as the US rate hiking cycle seems to be nearing its end, the currency could shift from a headwind to a tailwind for emerging markets.

T Rowe Price's Ritu Vohara says emerging market valuations are very attractive, trading at a 43% discount to developed markets, with 'a lot of pain already priced in'.

Top holdings in the JPM fund include **Taiwan Semiconductor Manufacturing Company (2330:TPE)** and **Samsung Electronics (005930:KRX)** as well as a smattering of Chinese financial firms, **Walmart's (WMT:NYSE)** Mexican offshoot and Indian software giant **Infosys (INFY:NSE)**.

China accounts for a little more than a quarter of the fund's holdings, with financials and information technology firms representing more than half of the portfolio.

It is important to reiterate that emerging market investments can be volatile. When times are good, they can do very well, but in tougher market conditions they can struggle. Therefore, it is important to have a long-term investment horizon and patience. [TS]

JPM Emerging Markets Income

Total return index

Chart: Shares magazine • Source: FE Fundinfo

Ashtead Technology shares are up 48% since we said to buy

Sub-sea equipment firm has real earnings momentum

Ashtead Technology (AT.:AIM) 370p

Gain to date: 48%

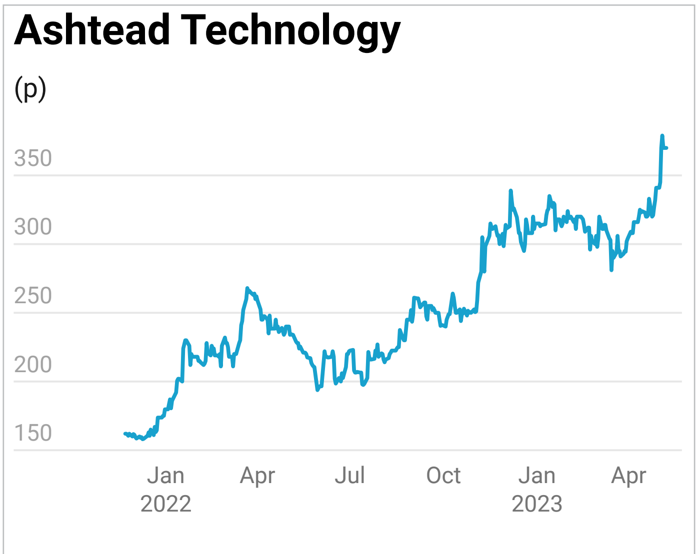


Chart: Shares magazine • Source: Refinitiv

We said to invest in sub-sea equipment provider **Ashtead Technology (AT.:AIM)** at 250p in October 2022, suggesting the company could emulate its former parent, tool hire firm **Ashtead (AHT)**.

While it remains some way off the delivering the sort of returns the latter has chalked up over the long-term, it has nonetheless rewarded our faith in spades, with the stock recently trading at a record high.

It benefits in the short-term from serving an oil and gas industry working overtime following Russia's invasion of Ukraine and how various countries have had to find alternative supplies of energy. In the longer run it will increasingly be exposed to the transition to renewables where it also has a significant footprint.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

The business has continued to demonstrate

significant momentum. On 3 May it reported a 31% increase in revenue for 2022. The company saw revenue from offshore renewables and offshore oil and gas increase by 22% and 35% respectively. Operating profit was up 47% to £20.1 million.

Demand has remained strong in the first part of 2023 and profit is now expected to be materially ahead of previous expectations. Off the back of the results and accompanying guidance, Numis analyst David Brockton boosted his earnings forecasts by 11% for this year and 14% for 2024.

Brockton says: 'We believe Ashtead Technology offers an excellent growth opportunity, serving a growing offshore international energy market for renewables as well as IMR (inspection, maintenance and repair) and decommissioning activity in oil and gas, enhanced by demand from the energy transition and security of supply.

'The group also has potential to grow its share as it benefits from a trend from equipment ownership to rental amongst its customers and consolidates a large fragmented international market.'

WHAT SHOULD INVESTORS DO NOW?

Given the significant growth potential on offer, the shares still look a buy, trading on 13.2 times and 12.1 times 2023 and 2024 earnings respectively based on Numis' updated forecasts. [TS]

BARINGS

EMERGING EMEA AND THE RACE TO NET ZERO

*Matthias Siller, Head of EMEA Equities at Barings, explains why companies across the emerging EMEA region have an important contribution to make toward global action on climate change—from supplying essential metals for renewable energy infrastructure to manufacturing the next-generation of electric vehicles. The global movement to transition away from fossil fuels may not—at first view—look like welcome news for the oil-rich or often coal-dependent economies of Emerging Europe, the Middle East and Africa. But as elsewhere in the world, the race to address climate change is presenting compelling investment opportunities for a range of sectors and companies across this diverse region. At **Barings Emerging EMEA Opportunities**, we continue to find exciting opportunities in companies that are exposed to the seismic shift to net zero globally.*

Perhaps the example that comes to mind for the EMEA region is access to natural resources. There is no denying that many of the traditional sectors, such as thermal coal and oil, are carbon intensive. However, what people might not realise is that there are a number of base metals and commodities that have a pivotal role to play in bridging the gap to a greener and more sustainable future. Renewable energy needs steel—and lots of it. Producing one megawatt of solar energy in Europe requires 35 to 45 tonnes of steel. It's estimated that a full displacement of coal, oil and gas with renewables by 2030 would add around 3% to global steel demand.

Steel is just one commodity in the chain. It's estimated that the supply of copper, which is essential to solar panels, and zinc, a big component of wind power and electric vehicles (EVs), will need to double between 2019 and 2050 to meet targets to keep global warming within 1.5°C of pre-industrial levels. The supply of nickel (used in geothermal energy) and cobalt (used in lithium storage batteries) will almost need to quadruple. Emerging EMEA companies will have an important role to play in meeting this demand.

Regional dynamics

With increasing electricity demand, the need to upgrade energy grids and decarbonise electricity generation provides a common backdrop across the region. However, the specific market dynamics differ across the geography. In the **Middle East**, utilities and government are investing in renewable energy generation, making use of the extremely favourable environment for photovoltaics (converting light into electricity) and offshore wind generation. In **Europe**, whilst dependence on Russian energy has been reduced there continues to be significant focus on the energy transition and more renewable sources of power as governments seek alternative ways to meet their energy needs. **Turkey's** role as a traditional energy corridor between Central Asia and the Middle East on one side and Europe on the other is becoming more important. We expect major upgrades of existing energy infrastructure that connects energy resources in Azerbaijan to Europe and the Mediterranean. **South Africa's** crumbling energy infrastructure has long since been a factor holding back economic growth. The government's decision to allow for and support private sector involvement in electricity generation cannot be underestimated in our view and could be a decisive step in the country's endeavour to utilise its growth potential, reduce unemployment, tackle corruption and implement structural reforms.

Companies across Emerging EMEA are playing an important role in the global movement to tackle climate change, and are also adopting more progressive practices aligned with shareholder and customer environmental expectations. As a fundamental bottom-up investor, Barings Emerging EMEA Opportunities is well-positioned to identify the key beneficiaries of this global theme – one that's set to dominate investor concerns over the years to come. To watch our latest video, explore our current holdings and rationale for selection visit www.bemoplc.com.

Of course, these markets still present all the political, currency and market risks – and demand a long-term investment view. But they also offer valuable diversification for any global portfolio. To keep up to date on this exciting investment region, sign up at bemoplc.com/preferencecentre.

How Nintendo is expanding its brand awareness to win over a new generation of gamers

Making games and creating family friendly characters is what makes the Japanese firm stand out

One of the oldest video game characters is enjoying another resurgence as *The Super Mario Brothers* movie continues to pull-in punters. It is on course to be the largest grossing film of 2023, generating a billion dollars at the box office.

The loveable Italian tradesman Mario has featured in over 200 games since first appearing in 1981 as 'Jumpman' in the first *Donkey Kong* game. The character is the all-time bestselling video game franchise with over half a billion copies sold.

While 40 years may seem like a long time for a video game character, the company behind the game and character **Nintendo (7974:TYO)** goes back even further to the late 19th century when it sold playing cards.

Today Nintendo's other successful franchises include *The Legend of Zelda*, *Donkey Kong*, and *Pokémon*.

WHAT DOES NINTENDO DO?

In a nutshell Nintendo is a vertically integrated gaming company (meaning it makes both the games and the devices to play them on), explains James Harries who holds the stock in investment trust **Securities Trust of Scotland (STS)** but its real value extends beyond gaming into 'timeless, cross generational IP (intellectual property)'.

It is easy to get lost in the console wars debate which narrowly focuses on the gadgets used by gamers to access games, but the company is much more than a hardware or software company. Nintendo's president Shuntaro Furukawa describes the company as an enabler of 'unique entertainment experiences' which integrates both hardware and software.

From a business perspective Nintendo says its fundamental strategy is to 'expand the number of people who have access to Nintendo IP'. This captures the essence of the company's culture.

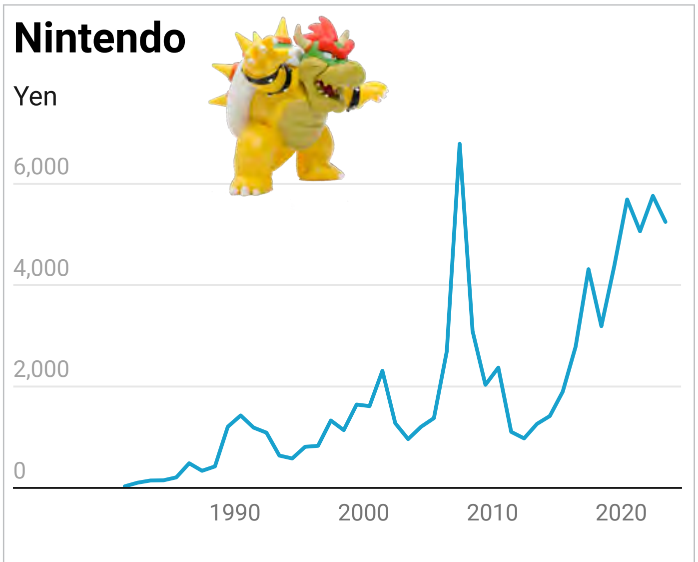


Chart: Shares magazine • Source: Refinitiv

A lasting connection with Nintendo

Nintendo provides some real-life case studies which demonstrate the longevity of its characters and how they have evolved to attract new audiences:

'She played *Super Mario Bros* when she was six. Now she's 42 and teaming up with her kids on *Splatoon*.'

'Back when his was 24 he played *Donkey Kong*. Now he's 60 and playing *Nintendo Switch Sports* with his grandchildren.'

Nintendo describes the uniqueness of its IP as follows: 'We believe people gain affection for, and become invested in, the characters they encounter in games.

'The way players connect with characters through their controller creates a two-way communication that is unique to video games. With our users' support, this kind of IP has grown into something special.'

One of the key strengths of the business is its ability to adapt and innovate to ensure its characters appeal to new audiences less familiar with the characters. Having navigated rapid changes in the entertainment industry for over 100 years, the company has proven it can adapt and innovate while extending the life and attraction of its characters.

Another distinguishing feature of Nintendo's customer base is the broad distribution of users by age which ranges from under five to over 60 with a peak around 21 years. Very few gaming products have such diverse cross generational appeal.

EXPANDING FRANCHISES

James Harries told *Shares* he believes Nintendo is a 'unique asset' which possesses long lasting IP, which attracts a wide family audience.

Family appeal is rare today among platform app providers and gaming companies which have come under fire for not policing age-inappropriate content.

Estimated all-time revenues of the most valuable media franchises in the world

Franchise	Established	Revenue ($bn)
Pokemon	1996	100.0
Hello Kitty	1974	84.5
Winnie-the-Pooh	1924	80.3
Mickey Mouse	1928	80.3
Star Wars	1977	68.7
Disney Princess	2000	46.4
Anpanman	1973	44.9
Marvel Cinematic Universe	2008	35.3
Super Mario	1981	34.6
Harry Potter	1997	32.2

Table: Shares magazine • Source: Statista. Data at Jan 2021

Nintendo global sales split by geography (%)

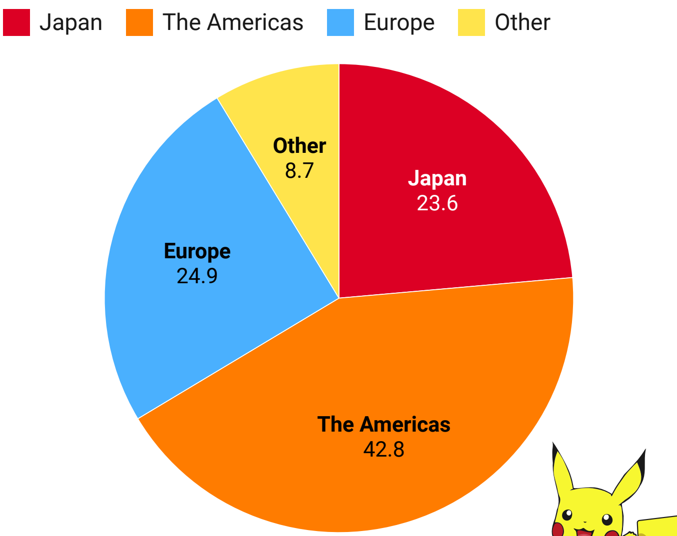
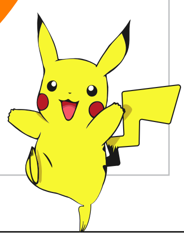


Chart: Shares magazine • Source: Nintendo



While in the past Nintendo has been quite careful about how it monetises its IP, Harries said the company is being more open and expansive today as evidenced by theme parks (the first park outside Japan opened in 2023), merchandise, mobile applications, and visual content.

The main purpose of expanding outside of gaming is not necessarily to make a profit or diversify revenue but to drive awareness and potential gamers to its extremely profitable software and hardware businesses.

In other words, it's all about strengthening and expanding points of contact with consumers. This is also an important differentiating point in relation to the debate over the battle of the consoles which is discussed later in the section on competition.

James Harries told *Shares* the reason he believes the shares trade on an attractive free cash flow yield of 10% to 11% is because the current Switch console is long in the tooth.

Nintendo is due to release a new device sometime in 2023 or 2024 which creates a risk that the new console is not as popular as the current one. Harries points out the company has had issues introducing newer but less popular upgrades in the past.

The Switch is the first hybrid console which means it can be used on the go as well as connected to a PC or TV.

HOW DOES NINTENDO MAKE MONEY?

Nintendo generates almost all its revenue from selling hardware (consoles) and software (games). Software sales include downloadable versions of packaged software, download only software, add-on content and Nintendo Switch online.

The company makes 76.4% of its sales outside of Japan which means the value of the Japanese yen against major currencies has a significant impact on the business. Nintendo hedges a small proportion of foreign exchange exposure.

Nintendo is very profitable which is reflected in high operating margins in the mid-30s percentage-wise (calculated as operating profit as a proportion of sales).

In the first nine months of 2023 to 31 December 2022 Nintendo achieved a gross margin of 53.9%.

Best selling video game franchises of all time

Number of units sold (million)

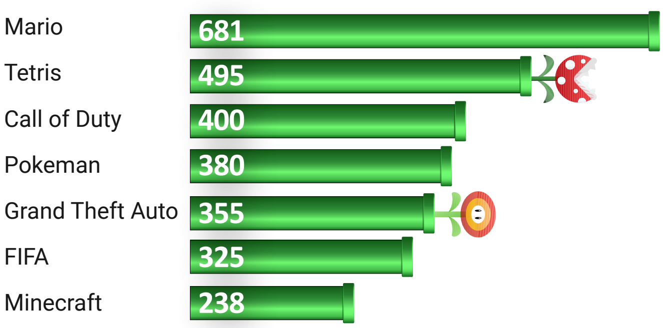


Chart: Shares magazine • Source: Statista, TweekTown, data as of 2021 or latest available

This represents the value-add of making games before deducting operational overheads.

Operating profit fell 13.2% to ¥410.5 billion ($3 billion) representing a margin on sales of 31.7%. Foreign exchange effects added around 10% to profit.

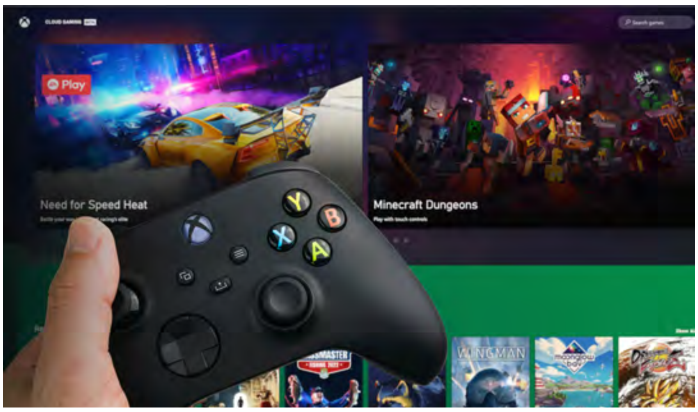
In November 2022 the company downgraded guidance for sales and operating profit in the 12 months to 31 March 2023 to ¥1,600 billion (£9.4 billion) and ¥480 billion (£2.8 billion) respectively. Ultimately the numbers came in slightly ahead of these reduced forecasts (9 May).

A good measure of the company's progress against its goal of expanding the number of people with access to Nintendo's IP is the number of annual users playing its games.

On this metric the company had 114 million players at the latest count which has grown roughly four-fold since 2018 according to company data.

NINTENDO HAS A DIFFERENT STRATEGY

Nintendo competes against deep pocketed rivals including **Microsoft (MSFT:NASDAQ)** which has a market capitalisation of £1.8 trillion, and **Sony Corporation (SONY:NYSE)**, which has a market capitalisation of £91 billion, some 47 times and two times bigger respectively.



But Nintendo does not play the same game in terms of its business model. For example, and surprisingly Microsoft subsidises its Xbox which means it loses roughly $100 plus on every sale. Sony only recently broke even on hardware sales.

In contrast half of Nintendo's 2022 profit came from hardware sales, the bulk of which were from its Switch console.

Nintendo's consoles may not be as sophisticated, but they are cheaper to make. The

How can I get exposure to Nintendo shares?

It is tricky to buy Nintendo shares directly but it is a top 10 holding in **Lindsell Train Investment Trust (LTI)**, **T Rowe Price Japanese Equity (BD446L1)** and **Vaneck Video Game and eSports ETF (ESPO)**.

company has a long history in consoles and developed the hugely successful Gameboy (1989) which is its third bestselling console selling 119 million units.

One of the reasons for Gameboy's success was the popular game Tetris which has become Nintendo's second bestselling video game franchise of all time, behind Mario.

Not only does Nintendo make a profit than from selling hardware, but it also generates a greater proportion of sales from its own games sold on the consoles (also called first party sales).

Over half of Nintendo's Switch software sales come from its own games compared with under 10% for Microsoft and Sony. The Switch has 27 game titles which sell more than one million units.

Microsoft is moving towards owning its own platform, embracing cloud gaming and enabling non-Xbox gamers to play on phones, TV's, and PC's. In April Microsoft announced a 10-year partnership with gaming chip company **Nvidia (NVDA:NASDAQ)** taking Xbox games to the latter's GeForce cloud gaming service.

Microsoft's proposed $68.7 billion acquisition of **Activision Blizzard (ACTV:NASDAQ)** which has been stymied by the UK's Competition and Markets Authority would leapfrog the tech giant above Nintendo into the third biggest gaming company.

By **Martin Gamble** Education Editor

Editor's View: Daniel Coatsworth

Listing rule changes could see more names jostle for a slot in the FTSE 100 or FTSE 250

Proposals by the financial regulator are relevant beyond attracting new names to the UK stock market

We could potentially see changes to the FTSE 100 and FTSE 250 indices as a knock-on effect to proposals by the UK financial regulator to change the UK stock market listing rules.

The Financial Conduct Authority wants to make it easier for companies to join the UK stock market by revamping the listing requirements. One of the proposals is for the London market's standard and premium segments to become a single category.

This matters to the FTSE 100 and FTSE 250 baskets of UK companies because only those in the premium listing category qualify for inclusion in the prestigious indices under the current rules.

By simplifying everything into a single category it implies that more companies could jostle for a place in these indices. That matters because investors often have exposure to these parts of the UK market through their ISA or pension through tracker funds.

WHAT ARE THE CURRENT LISTING RULES?

To stand a chance of qualifying for the index, a company must be in the premium listing category with a sterling denominated price and traded on the SETS electronic order book. It must also meet certain tests on nationality, free float (shares readily available in the market for trading) and liquidity.

Once a quarter index provider FTSE Russell reviews the value of qualifying companies in order to promote or demote names to and from different indices.

HOW MIGHT THE LISTING RULES CHANGE?

Frustratingly, FTSE Russell – owned by **London Stock Exchange (LSEG)** – seems to have been caught off guard by the FCA's announcement regarding proposals for listing changes. That means we do not know how the index qualification criteria will change if the proposals are green-lit.

Delivery firm Deliveroo could be included in FTSE indices under the new rules

A spokesperson for the London Stock Exchange said: 'At this stage we are reviewing the proposal.' A message on FTSE Russell's website says an update on the index rules will follow once the FCA has published its follow-up consultation paper in the autumn.

For now, all we can do is speculate about the names which might stand a chance of inclusion in the indices assuming the FCA goes ahead with the proposals.

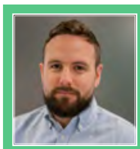
WHO MIGHT SOON QUALIFY FOR FTSE INDICES?

Relevant names on the market which do not currently qualify for the FTSE indices because they have the wrong listing category – i.e., they are standard, not premium listed stocks – but might do under the new rules include fast food delivery firm **Deliveroo (ROO)**.

Other names in the same situation include sequencing products group **Oxford Nanopore Technologies (ONT)**, e-commerce platform provider/retailer **THG (THG),** leisure group **Dalata Hotel (DAL)**, advertising agency **S4 Capital (SFOR)** and semiconductor specialist **Alphawave IP (AWE)**.

Should any of these names qualify for the FTSE 250 (they are certainly the right size) as a result of the listing rule change then one could assume their shares would suddenly be in demand as relevant tracker funds would need to buy the stock to accurately mirror the performance of the index.

WHEN to BUY a SHARE



By **Tom Sieber** Deputy Editor

Making the decision to click the buy button and invest your hard-earned cash in a stock is an important step in an investment journey and often the most difficult part.

Knowing your money is at risk inevitably makes it tricky to commit and any reticence could mean you miss exciting opportunities.

To help you get over this hurdle we are going to look in detail at when you should consider buying a stock using real-world examples to illustrate the key points. We will take in how to get to grips with valuations, the key signals to look out for and the pitfalls to avoid.

Success is never guaranteed but by having a framework and a clear understanding of why and how you are making decisions you can help tilt the odds in your favour.

WHEN YOU BUY A SHARE, SOMEONE ELSE IS SELLING

If you buy a share, remember someone else is selling it. Your conviction that a stock is an outstanding investment is matched by someone who is equally convinced of the opposite view

CHECKLIST: TIMES WHEN YOU MIGHT WANT TO BUY A SHARE

- When the valuation looks too cheap against a company's growth potential
- When you think good news is coming
- When there is a string of good news
- When sentiment starts to improve towards a stock or sector
- When there is positive share price momentum
- When there are catalysts for a share rerating
- When new management have a plan to fix a business
- When a company's balance sheet is strengthening

(unless they are just selling because they need the cash).

You are also saying the market, made up of thousands of other investors including institutions with large teams of analysts and professional portfolio managers, has priced a stock wrongly. No market is 100% efficient, so there will always be shares for whom this is the case, but it is a high bar to clear.

You also need a catalyst if your investment is to pay off. A stock can stay at a perceived 'wrong price' indefinitely without something to change the market's perception.

Positive share price catalysts can include better than expected earnings, a contract win or improved sentiment towards or a company or its sector thanks to political or economic developments.

WHY YOU NEED TO KNOW WHAT THE MARKET THINKS

Knowing what the market thinks about a company before you buy is important. Just looking at a share price chart will give you a good initial guide. If the line is heading down left to right you can assume the market has a negative attitude towards a company.

When a company reports its earnings, often a share price won't move even if the financial results are good. That's because the market was already expecting those numbers – investors want to be blown away by the figures, not simply satisfied, in order for them to place an order to buy more shares and ultimately push up the price.

Valuation will also provide a clue on the wider sentiment towards a business. Often the best time to invest in a company is when everyone hates it but you need to have confidence something will happen to change the prevailing view.

THE QUALITIES OF A GOOD COMPANY

While businesses in different sectors will have different attributes and strengths there are several qualities which are the mark of a good company.

PRICING POWER

This is the ability of a company to increase the prices for its goods and services without unduly impacting demand – something which is often reliant on the strength of its brand or brands.

What to look for: If a company is exposed to raw material costs, scan for evidence or commentary in its financial results that it has been able to pass these on to customers without causing sales volumes to decline.

MARGINS

High operating margins mean the company is keeping a healthy proportion of its revenue as profit.

What to look for: The margin is easy to work out – it is the company's profits divided by its revenues, expressed as a percentage. Most large firms will report their margin performance explicitly although the measure of profit by which they measure margin performance can differ.

CASH FLOW

Strong cash flow is the lifeblood of any business as it allows a company to invest for future growth, while funding its operations and potentially paying out dividends to shareholders.

What to look for: In a results statement look for the 'consolidated cash flow statement' which offers a detailed breakdown of cash flows.

BALANCE SHEET

It is important to invest in companies with a sound balance sheet as shareholders are last in the queue to get anything back if a company goes bust. A weak balance sheet is one with significant debt relative to the size of the company while a strong balance sheet means a firm has plenty of cash in the bank or little or no debt.

Admittedly, most companies have at least some debt and a gearing ratio (the percentage of capital employed by the business that is financed by loans, in relation to that part of capital funded by equity) below 40% is acceptable.

If a company's gearing is above 60% investors should be looking for evidence management are seeking to reduce borrowings.

What to look for: Net cash or net debt is the cash balance minus any borrowings and can be found in the section of a group's results headlined 'consolidated balance sheet'.

A UK-listed company which ticks all these boxes is **Spirax-Sacro Engineering (SPX)**. The engineer makes products which help regulate flows of fluids and steam. By excelling in this niche, it can charge customers high prices and this feeds into sector-leading margins.

The company also generates plenty of cash flow which it can use to make bolt-on acquisitions, pay down debt and underpin a dividend which by 2023 had grown at a compound annual growth rate of 11% over the last 55 years.

THE ROLE OF VALUATION

A great company might not be a great investment if you pay too much. In this section we delve into the role valuation plays in the success or failure of an investment.

While our earlier example of Spirax is undoubtedly a high-quality business, this attribute has been recognised by the market and as we write it trades on 27 times forecast earnings. This is a demanding rating for a business which, for all its strengths, is still exposed to fluctuations in the economy.

Many financial websites and software providers allow you to filter shares according to different valuation metrics including Stockopedia, Thomson Reuters Datastream, SharePad and Investing.com – some of which are free and others require a subscription.

A price to earnings or PE ratio is the simplest way to value a stock and is calculated by dividing the current share price by the forecast earnings per share. The FTSE All-Share trades on a PE of around 14 so anything below this level could be considered cheap while anything above this level could be considered relatively expensive. Anything above 20 is a genuinely premium valuation.

PE = CURRENT SHARE PRICE ÷ FORECAST EARNINGS PER SHARE

A PE does not tell you if earnings are growing. To encompass this factor within a company's valuation, investors use the PEG or price to earnings growth ratio. A PEG is calculated by dividing the PE ratio by the forecast earnings growth.

PEG = PE RATIO ÷ FORECAST EARNINGS GROWTH

A stock on a PEG of less than one is seen as offering attractive value. A PEG of less than 0.5 implies market scepticism about a company's earnings forecasts.

To return to Spirax, its forecast earnings growth of 10.6% and PE of 27 translates as a PEG of a little more than 2.5-times.

Neither metric is of much use if you are comparing companies with significantly different levels of borrowings. Alternative measures include

WHAT ARE THE BIG QUESTIONS YOU SHOULD BE ASKING?

Before you make a share purchase, ask yourself these questions. They are both a good test of your confidence in an investment and a way of ensuring you have done the necessary homework.

- How does the company make money? If you cannot answer this question, you should never invest.
- Is the company profitable? If not, why not?
- What is the track record of the company and its current management?
- Who are its main competitors?
- Does it have qualities like a strong brand or significant scale which can help it retain market share?
- How strong is the balance sheet?
- What is the valuation?
- What are the potential catalysts to move the share price higher?

EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation).

EV/EBITDA = ENTERPRISE VALUE ÷ EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION

A company's enterprise value encompasses its borrowings alongside its market value. The EV can also be used to calculate the free cash flow yield.

FREE CASH FLOW YIELD = FREE CASH FLOW ÷ ENTERPRISE VALUE

Cash flow and free cash flow, which is what's left over after a company's bills have been paid, is always a good thing to monitor as, unlike earnings, it cannot be massaged through clever accounting.

Often private equity firms will compare the free cash flow yield of a potential bid target with the rate at which they can borrow to see if the deal stacks up. Other metrics to determine value include price to book or net asset value – often used when looking at banks or property stocks.

As we touched on earlier in the article, an attractive value opportunity means little without the catalyst to unlock it. Next, we turn to the different forms a share price catalyst can take.

Examples of UK-listed firms with PEG ratios of less than one and more than 0.5

Company	PEG
Airtel Africa	0.5
Aviva	0.5
EasyJet	0.5
Entain	0.5
Hiscox	0.5
OSB	0.5
Babcock International	0.6
Pennon	0.6
South32	0.6
TP ICAP	0.6
ITV	0.7
Jet2	0.7
NatWest	0.7
Rolls-Royce	0.7
Savills	0.7
Vesuvius	0.7
Flutter Entertainment	0.8
Imperial Brands	0.8
Prudential	0.8
Ascential	0.9
Barclays	0.9
CRH	0.9
Inchcape	0.9
Informa	0.9
Investec	0.9
Lloyds	0.9
Persimmon	0.9
Playtech	0.9
Severn Trent	0.9
St James's Place	0.9

Data as at 4 May 2023

Table: Shares magazine • Source: SharePad

DIFFERENT TYPES OF SHARE PRICE CATALYST

RESULTS, TRADING UPDATES AND OTHER ANNOUNCEMENTS

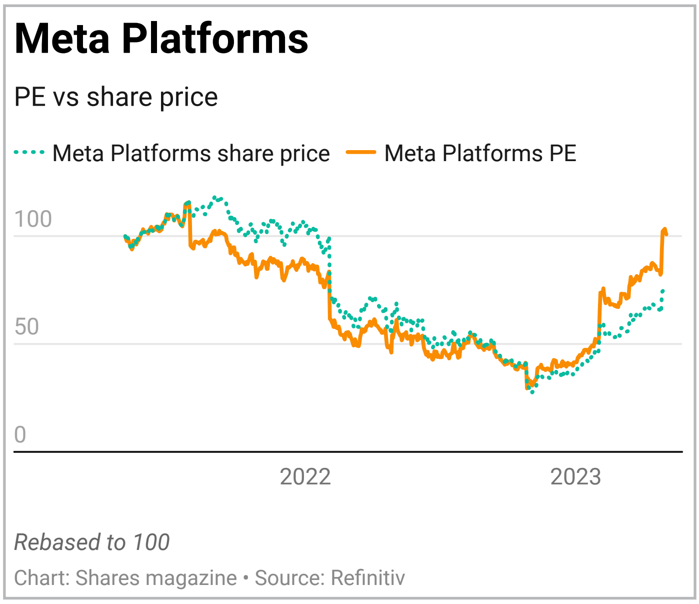
Companies listed in the UK publish their financial results twice a year and many companies also publish regular trading updates in between. US-listed companies publish quarterly results. This allows for a regular health check on their performance.

When these results are better than what analysts had been forecasting it can act as a powerful catalyst for a stock, particularly one which is in the doldrums.

For example, Facebook, WhatsApp and Instagram owner **Meta Platforms (META:NASDAQ)** enjoyed its largest one-day gain in 10 years in early 2023 when its fourth quarter and 2022 results beat forecasts, with chief executive Mark Zuckerburg winning over investors with a pledge to pursue efficiencies.

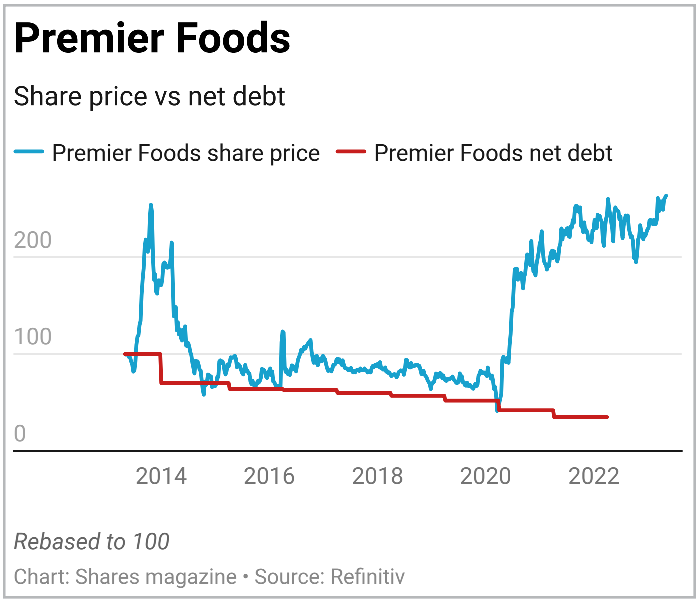
Meta, which historically has traded above 25 times earnings, was on a multiple of more like 14 at the beginning of the year, reflecting market scepticism over its plans to spend big on the metaverse and weakness in the online advertising market. It has since announced plans to slash costs and focus more on artificial intelligence, while also saying its advertising income is proving to be resilient. These bits of news added up to powerful share price catalysts, triggering a big share price rally. Investors who were able to spot the positive signs in its commentary have been handsomely rewarded with big share price gains.

This underlines the importance of being able to read the market mood and spot when sentiment shifts, as that can be a good point at which to buy a share.



There are plenty of other share price catalysts. For example, firms must disclose any price-sensitive information such as a takeover approach or when earnings are going to be significantly above or below expectations. Investors often buy on such news – either hoping the company will be taken over for a higher price than first put on the table, or that strong earnings means the company has hit a sweet spot and will continue to issue good news.

An unscheduled trading update which guides for higher than forecast earnings is often a powerful catalyst because, by definition, the news is a surprise to investors and can help change their point of view on a stock. It can lead to something called a 'rerating' which is when investors are prepared to pay a higher multiple of earnings to own a stock.



Mr Kipling cakes and Bisto gravy maker **Premier Foods (PFD)** is a good example of a rerating. In 2015, the shares traded on a prospective PE of a little more than five times, with £567 million of net debt more than outweighing a market valuation of less than £400 million.

For years, the company was seen as a zombie with all its cash absorbed by interest payments and nothing left over to invest in its brands. Having subsequently tackled its debt problem and addressed its pension liabilities, in part through big financial restructuring, the company reached a tipping point in 2020 whereby its cash generation started to enable it to pay down debt while putting money back into the business and paying dividends.

The share price reaction was dramatic and the stock now trades on a PE of 11 times and the business is valued by the market at more than £1 billion. And the good news keeps on coming. In March 2023, Premier Foods delivered an unexpected full-year profit upgrade driven by sustained positive trading momentum.

A contract win can also move the dial if it is of sufficient size. Energy services provider **Petrofac (PFC)** enjoyed 70%-plus gains in April 2023 as it booked a €13 billion contract alongside Hitachi Energy to supply multiple offshore wind platforms and onshore converter stations in the North Sea on behalf of the Dutch-German transmission system operator TenneT.

In May 2023 shares in UK micro-cap **Mirriad Advertising (MIRI:AIM)** surged more than 300% in a single day after it announced a tie-up with Microsoft, having built an interface to link with Microsoft Azure and its artificial intelligence capabilities.

It can be tricky to identify this type of catalyst ahead of time but you can look out for indications a business is starting to see signs of recovery or draw conclusions based on the performance of its competitors. It is also worth keeping a close eye on businesses which have been beset by issues which you believe are genuinely one-off or short term in nature. As these ease its performance can improve and this can help drive the shares higher.

MANAGEMENT CHANGE AND RESTRUCTURING

More of a slow-burning catalyst is a change of management and/or a restructuring of a business. The effects of which can be dramatic if the market is convinced genuine change is afoot. Serial underperformer **Rolls-Royce (RR.)**, which makes engines for aircrafts, appointed former **BP (BP.)** executive Tufan Erginbilgic in July 2022 with a start date of 1 January 2023. Anyone who held the shares on the day he took the helm would be sitting on a gain of more than 60% as at the beginning of May 2023.

From the outset Erginbilgic was unsparing in his criticism of the business, describing it as a 'burning platform' in an address to staff reported in the media. This implied he was serious about changing its fortunes.

He was off to a good start as full-year results in February 2023 were significantly ahead of expectations. At the time Shore Capital analyst Jamie Murray said he expected a more centralised decision-making structure, adding: 'Previously each division has allocated capital separately which has caused inefficiencies. Instead, we expect Rolls-Royce to announce a group-level allocation strategy, to limit waste and prioritise high return investments.'

Discover the shares exposed to a big physical retail recovery

Shares highlights key winners from the customer spending shift back to high streets, retail parks and shopping centres

Despite inflationary pressures and a cost-of-living crisis that is squeezing consumers' real disposable income, shares in household name retailers with nationwide physical store footprints have rallied hard since the back end of 2022.

They include British retail institution **Marks & Spencer (MKS)**, variety goods discounter **B&M (BME)**, cut-price greeting cards seller **Card Factory (CARD)**, athleisure specialist **JD Sports Fashion (JD.)** and quilts, cushions and curtains seller **Dunelm (DNLM)**, all retailers whose sizeable brick and mortar store footprints are proving a help rather than a hindrance amid the ongoing reversal of lockdown effects and customers' return to in-store shopping.

Consumers still like the convenience of online shopping, but the e-commerce boom triggered by the pandemic has waned because people clearly missed the in-store shopping experience during lockdowns.

As Shore Capital recently pointed out, the pandemic 'accelerated pure-play [online] participation arguably beyond its natural resting position, which has meant that normalisation has seen stores outperform pure-play'.

Investors have cottoned on to the fact that physical stores are better able to handle the challenges of returns than online-only operators and can see that with weak retailers continuing to disappear from the high street, the strongest retailers will only emerge stronger from the cost-of-living crisis with enhanced market share.

And while the consumer outlook remains unpredictable, shoppers are showing resilience in the face of higher food and energy bills and rising interest rates, while retailers' inflationary pressures are easing.

FTSE All Share vs FTSE All Share Retailers

Rebased to 100

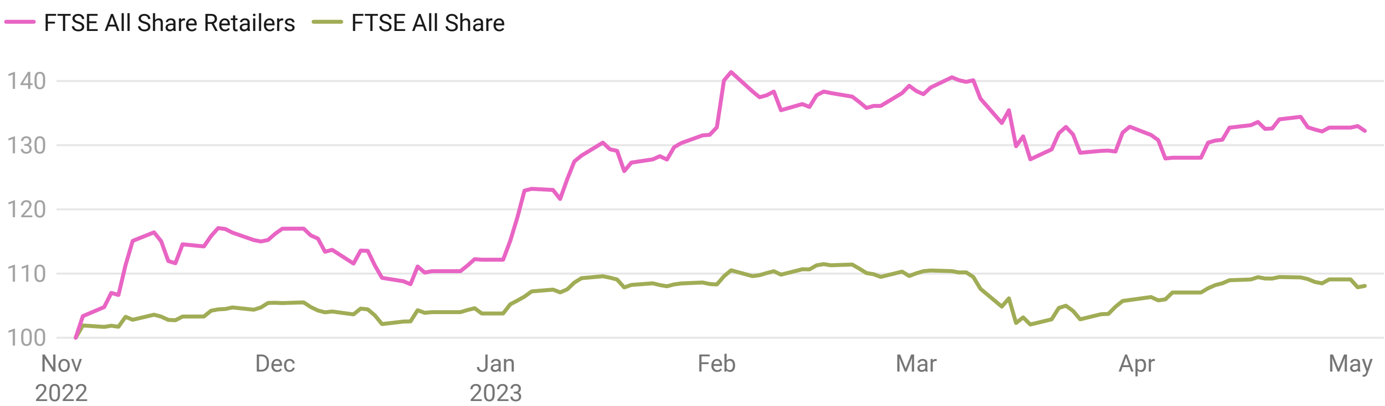


Chart: Shares magazine • Source: Refinitiv

Snapshot of selected physical retailers

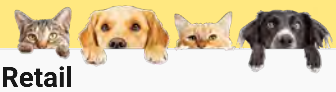
Company	6m share price change (%)	Market cap (£m)	Forecast PE	Forecast yield (%)
Card Factory	106	351.6	9.1	n/a
JD Sports Fashion	54	8293.0	12.6	0.4
Marks & Spencer	44	3184.9	10.1	2.2
Shoe Zone	39	119.1	18.5	2.2
Pets at Home 	36	1862.7	17.9	3.2
B&M European Value Retail	35	4834.4	13.2	3.2
Next	30	8575.3	12.9	3.0
Dunelm	28	2349.5	16.1	7.0
WH Smith	23	2107.7	20.5	1.7
Frasers	15	3597.2	10.3	n/a
Kingfisher	10	4812.5	10.1	4.7
Halfords 	7	448.4	10.6	4.4
Wickes	2	366.0	8.3	5.7
Currys	−17	633.1	8.1	4.5

Table: Shares magazine • Source: Sharepad, data to 4 May 2023

MIXED CONSUMER PICTURE

According to the latest ONS retail sales figures (21 April), volumes fell by a bigger than expected 0.9% month-on-month in a washout March as the wallets of inflation-weary shoppers felt the strain.

But the consumer outlook isn't completely gloomy if you look beyond March. Strong months earlier in the year mean sales volumes rose 0.6% quarter-on-quarter over the three months to the end of March, the first three month rise since August 2021.

And on the GfK measure, UK consumer confidence rose by six points to -30 in April, continuing its trajectory of improvement since September 2022, suggesting people are feeling better about their personal finances.

PHYSICAL RETAILERS ON THE STOCK MARKET

Probably the most obvious play on brick and mortar retail is **Associated British Foods (ABF)**, owner of budget fashion purveyor Primark, whose online presence is limited to ordering products which can be collected in store.

Management is worried about the impact of high inflation and higher interest rates on the consumer and is guiding for slower growth at Primark, but the cut-price clothing seller's strong value proposition means it is well-placed to continue taking market share.

Sector bellwether **Next (NXT)** has a large online footprint these days, but the decision not to abandon its high street presence has proved astute with physical stores bouncing back into fashion. In its financial year to January 2023, Next's online sales fell 2% whereas physical shop sales surged 30% higher, albeit the pandemic boost means online sales are up 40% over three years.

Next has laid the foundations for further growth by developing its website as a hub for third parties to sell their brands while making its stores more relevant via click and collect services. Led by CEO Simon Wolfson, the FTSE 100 retailer has also been gobbling up distressed brands including Made.com, Joules and Cath Kidston. Despite concerns the retailer has gone ex-growth, management recently insisted Next has 'far more ideas and opportunities for long-term growth than it has had for some time.

'And while the year ahead looks very challenging, we are not facing the kind of long-term structural obstacles that we have overcome in the past eight years.'

Marks & Spencer trades on 10.1 times forward earnings and is attracting positive earnings revisions. Steered by CEO Stuart Machin, the high street stalwart has rediscovered its mojo and recently announced a near half a billion-pound investment to open new stores that it says are 'core' to its aim of becoming the UK's leading omnichannel retailer.

Others benefiting from the return of customers to the high street include Card Factory, the greeting cards-to-gifts specialist which is one of few retailers delivering an upgrade cycle.

Other physical retailers that have rallied strongly include **WH Smith (SMWH)** and fellow FTSE 250 constituent Dunelm. Now a global travel retailer rolling out stores in international airports, WH Smith's first-half results (20 April) were ahead of expectations and the books, tech products and snacks seller continues to capitalise on the post-Covid recovery in passenger numbers.

While it is closing stores in the legacy high street business, WH Smith is well positioned in the current environment where rents are falling given its average lease length is under two years. It has around 450 leases due for renewal over the next three years.

KEY RETAIL METRICS

Key metrics to study with this sector include **like-for-like sales**, an indicator of rising or falling demand for a retailer's products, as well as gross margin, calculated by dividing gross profit by revenue and multiplying the figure by 100 to get a percentage.

High **gross margin** retailers have more of a buffer to handle rising costs as this usually means their wares are in demand from consumers, implying an ability to put up prices without hurting demand.

Free cash flow is also worth watching, as high levels of cash flow generation provide a retailer with capacity to invest in its stores and product range and fund dividends. **Inventory** levels are also worth keeping an eye on.

Bloated inventories can signal slowing demand for a retailer's products or that said shopkeeper has ordered the wrong goods; high inventories can prove costly to warehouse and negative for future margins as excess stock needs to be sold at a discount to get rid of it.

Dunelm delivered (20 April) better than expected sales of £423 million for the third quarter ended 1 April 2023, up 6% year-on-year and ahead of the consensus forecast sales growth of 4.5%. During the quarter, Dunelm saw good demand for its new spring collections, resulting in broad-based growth across all categories in stores as well as online, and stressed that the new stores it has opened this year, including larger and smaller formats, continue to perform ahead of expectations.

Brick and mortar retailers enjoying value credentials with shoppers include cut-price books, arts, crafts and toys seller **The Works (WRKS)** and **Shoe Zone (SHOE:AIM)**, the cash-generative budget footwear retailer.

CAN I PLAY THE BRICK & MORTAR REVIVAL THROUGH FUNDS?

While there is no UK equivalent of the SPDR S&P Retail ETF in the US, investors can gain some diversified exposure to top retailers through funds. Investment trust **Mercantile's (MRC)** top 10 holdings include **Watches of Switzerland (WOSG)**, Dunelm and WH Smith, while Mike Ashley-controlled Frasers is the biggest holding in the **Aurora (ARR)** and **Artemis Alpha (ATS)** trusts.

Keith Ashworth-Lord recently bought back Next for **CFD SDL UK Buffettology (BF0LDZ3)**, having sold the retailer in April 2020 in response to lockdown. Ashworth-Lord argues Next's retail store performance is 'no longer a constraint on profits and its estate has some of the shortest lease commitments in the sector', while recent acquisitions of businesses out of administration like Joules and Made.com 'add to the growth story'.

Also offering an exposure to the in-store shopping revival is Simon Murphy's **VT Tyndall Real Income Fund (BYX0D61)**, invested in sofa seller **DFS Furniture (DFS)** and WH Smith.

TWO STOCKS TO BUY

FRASERS (FRAS)
779p

Investors seeking a lowly-valued yet resilient retailer which continues to roll out new stores whilst growing sales online should buy Mike Ashley-controlled conglomerate **Frasers (FRAS)**. Best-known as the company behind value-for-money trainers and tracksuits seller Sports Direct, Frasers has moved beyond its sporting goods roots. It is behind brands ranging from luxury designer fashion chain Flannels and department store House of Fraser to Evans Cycles, GAME and Jack Wills with strategic stakes in the likes of Hugo Boss and Mulberry. Frasers is becoming Nike's 'partner of choice' in the European sporting goods market. While the retailer doesn't pay a dividend, it has a reputation as an excellent capital allocator that uses its free cash flow for acquisitions as well as share buybacks. According to Stockopedia, Frasers trades on prospective price-to-earnings ratios of 10.2 and 9.4-times for its 2023 and 2024 financial years respectively.

Chart: Shares magazine • Source: Refinitiv

PETS AT HOME (PETS)
391p

A strong recent rally leaves **Pets at Home (PETS)** trading on a PE of 18.5 for full year 2024, but it is worth paying up for the UK's leading pet care business. The pet food, accessories and vet services specialist is a play on the resilient, growing pet care market, underpinned by humanisation and premiumisation trends. Covid engendered a pet ownership boom, sign-ups to the retailer's Puppy and Kitten Club continue at pace. A recovery for physical retail plays into Pets at Home's full pet care proposition to customers through its nationwide store base, online business, subscriptions, and grooming and veterinary services, which combined with a broad product range and sharp pricing is enabling the business to win market share.

Chart: Shares magazine • Source: Refinitiv

By **James Crux**
Funds and Investment Trusts Editor

How to turn £2,000 into £5,000 with a little effort and some risk

We look at the options for investors with a smaller pot of savings

Even if we haven't tried it, most of us are familiar with the 'couch to 5k' challenge, aimed at getting us off our backsides and improving our physical health and wellbeing, so can we do the same with our finances?

In this article we aim to show how, with a little bit of effort and varying degrees of risk, you can turn £2,000 into £5,000.

GET YOUR EMPLOYER TO HELP

Assuming you don't need instant access to the £5,000 once you have raised it, one of the easiest ways to reach your target is to make contributions to your workplace pension.

Today, most workplace pensions are defined contribution schemes with the option to pay some of your net salary into your pension pot, also known as a 'salary sacrifice' scheme.

Every month, you pay a small percentage of your salary into the pension – which is automatically deducted for you before tax – and your employer adds money to the scheme as well.

Say on top of your starting pot of £2,000 you pay £25 per month into your workplace pension and that is matched each month by your employer.

You end the first year with £2,600 in your pot – your original £2,000 plus £300 deducted from your salary and another £300 paid in by your employer.

Following this same pattern, in the second year your pot increases to £3,200, in the third year it will be £3,800, in the fourth year £4,400 and, lo and behold, in the fifth year you've reached your £5,000, yet it's only cost you £1,500 in contributions. It would be reasonable to assume you achieve some growth in the value of your investments as well during this period.

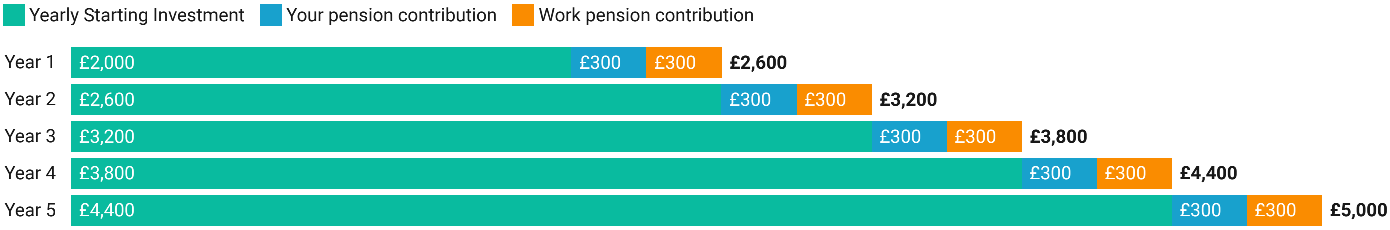
In practice, there are rules that state you must make a minimum level of contributions if you earn up to £50,000, so your monthly payment is likely to be more than £25, meaning you will reach your target well within five years.

Employers must pay at least 3% of your salary into the pot and including your contribution it must add up to at least 8% of your salary – implying you pay 5%. In reality, the amounts could be higher for you or your employer because of your pension scheme rules.

It's also worth bearing in mind that the Government will make contributions to your pension scheme in the form of a tax refund, which is 20% for basic-rate taxpayers.

For the example above, in a net pay/salary sacrifice scheme it would simply be a £25

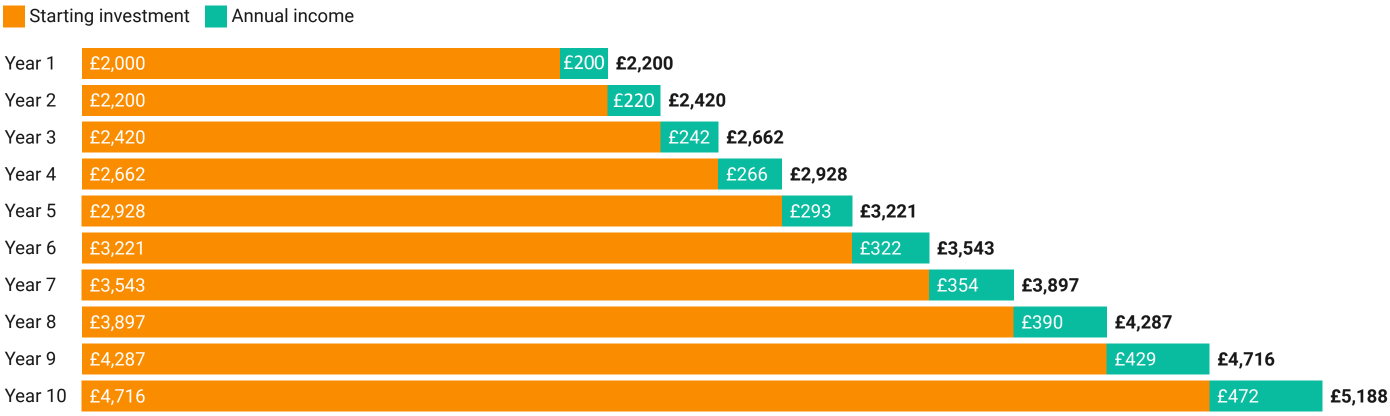
Pension example (£25/month contribution by you and your employer)



In practice employee contributions are likely to be more than £25/month

Chart: Shares magazine

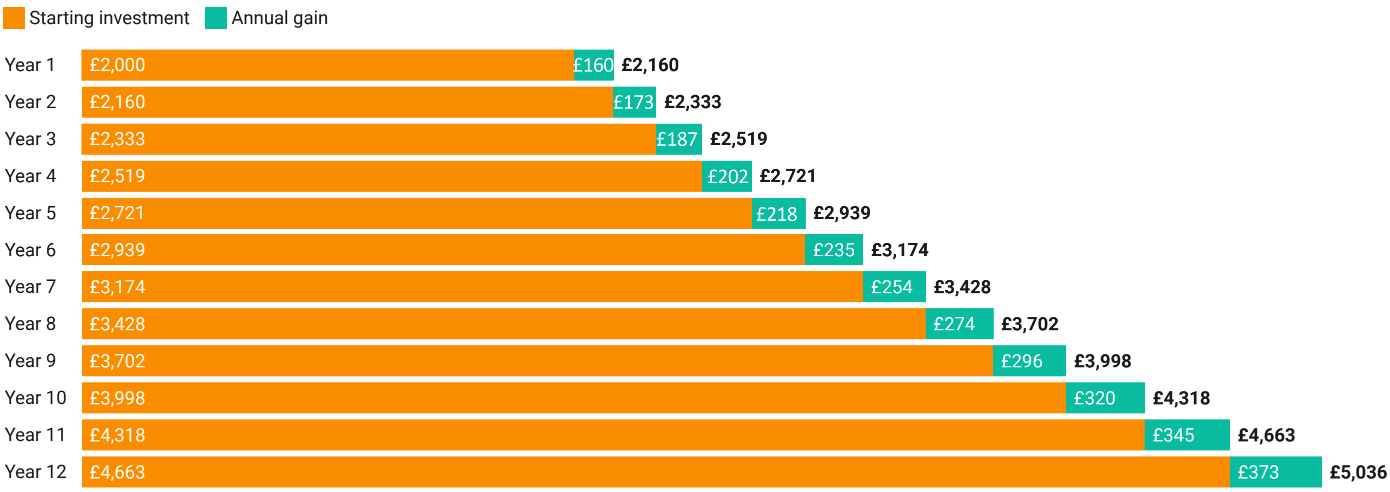
High-yield example (10% annual return)



Figures have been rounded to the nearest whole number and interest is calculated before costs

Chart: Shares magazine

Global ETF example (8% annual return)



Figures have been rounded to the nearest whole number, and gains do not take costs into account

Chart: Shares magazine

contribution straight from your pre-tax salary. Instead of getting tax relief added to the pension contribution, you get the relief by having a lower tax bill on the salary paid to you after pension contributions are deducted.

In a relief at source scheme, it would be £20 paid into your pension and £5 tax relief claimed from HMRC by the pension scheme.

GO FOR HIGH YIELD

If you have £2,000 in an ISA rather than a pension and want to get to £5,000, you can lean on one of the wonders of investing known as the power of compounding.

Compounding is when you earn interest on both the money you save and the interest you earn on your savings.

As an example, if you can find a selection of stocks and bonds which yield an average of 10% then you will get a big tailwind from the power of compounding.

You do need to bear in mind that, as a rule, investments with high yields tend to be riskier than investments with low yields and the high yield is there to compensate for that extra risk.

If your starting pot in your ISA is £2,000, and you receive 10% in interest or dividends once a year, after one year you will have £2,200.

However, after two years you will have £2,420, 10% interest on your original £2,000 and 10% on your interest from the first year.

After three years you will have £2,662 as your savings and interest keep compounding, until after 10 years you have £5,188.

In practice, dividends and interest tend to be paid more frequently than once a year so your investments will compound slightly faster and you could reach your target of £5,000 in less than 10 years. Hopefully there will also be some growth in the value of your investments from the price of shares or funds in your portfolio.

As long as you are using a tax-efficient product like an ISA, you won't have to pay tax on any capital gains or dividends, although it is important to factor in the cost of reinvesting your income every year, which is typically quite small but does affect your returns.

TAKE A GLOBAL APPROACH

One of the most popular choices for those just starting out on their investment journey is investing in a broad spread of shares through an exchange-traded fund, also known as an ETF.

ETFs are funds designed to track an index (i.e., a specific basket of assets) but with much lower costs than owning each individual stock – annual management charges can be as low as four or five basis points, that is 0.04% or 0.05%, which makes them an extremely economical way to get access to markets.

The MSCI World index, which includes 1,600 companies across more than 20 countries, is about the broadest global index you can find, and the **Lyxor Core MSCI World ETF (LCWL)** – which tracks this index – has an annual charge of just 0.12%.

For that you get exposure to technology giants like **Alphabet (GOOG:NASDAQ)**, **Amazon (AMZN:NASDAQ)** and **Microsoft (MSFT:NASDAQ)**, as well as big UK, European and Asian companies.

Over the five years to 31 March 2023, the ETF had returned roughly 47% which works out at 8% per year, so if it continues to compound at the same rate in the future, on paper it would take 12 years to turn your £2,000 into £5,000. Naturally if you made additional contributions to your ISA, perhaps a small amount every month, this would help to reach your target sooner.

You also need to bear in mind there is a degree of risk involved. Global stock markets don't go up 8% per year every year as annual returns are more volatile and less predictable.

For example, the MSCI World index went up 27.7% in 2019, 15.9% in 2020 and 21.8% in 2021, but it lost 18.1% last year, so it could take more or less than 12 years to reach your target.

By **Ian Conway** Companies Editor

This is the right time to start looking at smaller company investment trusts

Three reasons why the coming months could see a rally in modest-sized, lesser-known companies

Slowing growth coupled with heightened uncertainty is never a good combination for stock markets. Smaller company shares tend to deteriorate more because their operational risks are seen to be more concentrated versus large-cap peers.

History shows that smaller companies tend to underperform larger ones during economic downturns, so given the gloomy backdrop, many investors will happily avoid smaller companies this year. But dig a little deeper and a surprising conclusion presents itself, claims Anjli Shah, investment director at fund management firm Abrdn.

'The time to start allocating capital to small caps might be sooner than investors think,' he says. That's because the market tends to price in an economic recovery before it happens. 'We believe this disconnect creates opportunities for active investors,' says Shah.

'We're in the midst of a slowdown deliberately manufactured by central banks to deal with inflation, which is showing signs that it may be peaking,' says Neil Hermon, director of UK equities at Janus Henderson Investors. If the inflationary picture starts to markedly improve over the coming months, central bankers might change tack or at the very least, not continue to hike base rates, an outcome increasingly being priced in for this year by markets.

'Given this scenario, we believe there are three reasons investors should be looking to invest in small cap stocks,' Hermon says - low valuations, strong recovery potential and increasing M&A (merger and acquisition) activity.

OPPORTUNISTIC BUYOUTS ACCELERATING

In just the past few weeks we have seen the latter point play out, with online retail company **THG (THG)** jumping 44% after receiving an approach from Apollo Global Management. That followed just days after shares in veterinary group **Dechra Pharmaceuticals (DPH)** soared 33% as it revealed it was in talks with private equity group EQT over a possible £4.6 billion deal.

Also in April, mobile payments firm **Network International (NETW)** was approached by a consortium of CVC Partners and Francisco Partner Funds while property company **Industrials REIT (MLI)** backed a £500 million takeover by Blackstone. These takeover approaches join a string of UK-listed companies to see their share prices jump after being approached by potential buyers, including **Dignity (DTY)**, **Hyve (HYVE)** and **John Wood Group (WG.)**.

VALUATIONS BELOW HISTORIC AVERAGES

The apparent pick-up in M&A is not surprising considering the unstretched nature of UK stocks relative to historic averages. Datastream information collected by Janus Henderson showed the forward PE, or price to earnings ratio, of UK shares was 9.8 at the start of 2023.

The 10-year average was 13.2, while over 20-years, the PE average was 12.9, the data shows. Since then, the FTSE All-Share index has inched barely 2% higher, while the FTSE Small Cap Index has declined 1.6%.

Interestingly, AIC (Association of Investment Trusts) data for the Global Smaller Companies trust sector shows that only **Smithson Investment Trust (SSON)** has beaten the **iShares MSCI World Small**

How selected UK Smaller Companies trusts' discounts compare

	Discount/premium (%)	Three year average discount (%)	Five year average discount (%)
Chelverton Growth Trust	-45.1%	-31.3%	-23.2%
Marwyn Value Investors	-44.4%	-36.5%	-35.5%
Crystal Amber Fund	-34.1%	-23.9%	-19.7%
River and Mercantile UK Micro Cap Investment Company	-18.2%	-14.8%	-14.2%
Downing Strategic Micro-Cap Investment Trust	-15.8%	-18.6%	-13.4%
Aberforth Smaller Companies Trust	-14.2%	-11.1%	-10.3%
abrdn UK Smaller Companies Growth Trust	-13.9%	-8.8%	-7.8%
BlackRock Smaller Companies Trust	-13.6%	-8.8%	-7.2%
Henderson Smaller Companies Investment Trust	-13.4%	-9.8%	-9.0%
Invesco Perpetual UK Smaller Companies Investment Trust	-12.5%	-12.9%	-9.1%
JPMorgan UK Smaller Companies Investment Trust	-12.4%	-9.8%	-11.1%
Athelney Trust	-10.1%	-15.7%	-11.4%
abrdn Smaller Companies Income Trust	-9.6%	-14.5%	-14.2%
Strategic Equity Capital	-8.1%	-13.5%	-14.3%
Montanaro UK Smaller Companies Trust	-7.6%	-6.1%	-9.3%
Miton UK Microcap	-7.0%	-7.5%	-7.0%
BlackRock Throgmorton Trust	-5.8%	-1.4%	-2.7%
Rockwood Strategic	-0.9%	-9.8%	-13.0%
Odyssean Investment Trust	0.4%	-1.3%	-0.4%

Table: Shares magazine • Source: AIC, 4 May 2023

Cap UCITS ETF (WSML) over the past year, which tracks the MSCI World Small Cap Index, up 1.34% versus -1.53%, on a total returns basis.

Only six of the 26 UK Smaller Company investment trust specialists have beaten the iShares ETF's performance, led by **Rockwood Strategic's (RKW)** 40% total return, presumably helped by the cash inflow from the sale of its Crestchic holding (worth 28.7% of net assets) to **Aggreko (AGK)** at a 13% premium to NAV (net asset value).

The AIC data shows that 76% of UK and Global Small Cap trusts are currently trading at NAV

How Global Smaller Companies trusts' discounts compare

	Discount/premium (%)	Three year average discount (%)	Five year average discount (%)
North Atlantic Smaller Companies	-29.5%	-27.8%	-26.9%
Edinburgh Worldwide Investment Trust	-17.0%	-5.1%	-2.5%
Herald Investment Trust	-15.2%	-14.0%	-14.2%
The Global Smaller Companies Trust	-13.5%	-9.9%	-7.6%
Smithson Investment Trust	-8.9%	-1.8%	n/a

Table: Shares magazine • Source: AIC, 4 May 2023

discounts that are wider than their five-year average.

EXPERTISE IN YOUR POCKET

Retail investors that have been running their own portfolios for a while know how difficult it can be to pick winners, and this is where small cap investment trusts can help, believes William Heathcoat Amory, analyst at Kepler Research.

'Trusts in the small and mid-cap sectors have seen significant NAV falls, as well as discounts widening. Managers of trusts investing in smaller companies can pick fundamentally attractive businesses and take long-term views, based on fundamentals and specifics, rather than being dependent on broad economic trends,' he says.

'In our view, this is a key attraction, not just for the growth opportunities, but also because of the fact that having a variety of idiosyncratic risks within a portfolio provides genuine diversification, resulting in higher risk-adjusted returns.'

Heathcote Armory points to a recent Factset analysis that there are diverse patterns of circumstances impacting smaller companies in the UK and overseas, and that means 'the potential for managers to add alpha through stock picking remains undiminished.'

'ELEPHANTS DON'T GALLOP, BUT FLEAS CAN LEAP'

In investment circles smaller companies have traditionally been perceived to be the stock market's riskiest companies, but they have always held fascination for investors, professional and retail, because they also tend to offer the biggest capital gains potential.

On the premise that 'elephants don't gallop, but fleas can leap,' to borrow a phrase from British investor Jim Slater, it is far easier for a small company to double its size, and investors' money, than for a big one to do so.

Using history as a guide, Abrdn's Shah says smaller companies start to rebound quicker during economic downturns than is widely assumed. 'With valuations depressed, investors could therefore potentially pick up great long-term opportunities at a discount,' and, it makes sense to tap into the risk-adjusted, diversification benefits offered by small cap investment trust specialists.

'Since no one can predict when the current downturn is going to end, we believe investors with a small cap risk tolerance should view the current environment as a potentially opportune time to consider small caps,' says Janus Henderson's Hermon.

DISCLAIMER: The author of this article has a personal interest in Smithson Investment Trust.

By **Steven Frazer** News Editor

Should I claim for pension credit and what might I receive?

You will need to act fast to take advantage of a cost-of-living support measure

Is it worth putting in a claim for pension credit? What are the benefits and how do I go about checking if I qualify?
Malcolm

Tom Selby, AJ Bell Head of Retirement Policy, says:

Pension credit is a key benefit provided by the state which often goes unclaimed by lower income retirees. The government has previously estimated over 850,000 eligible retirees fail to claim pension credit each year, with the average pension credit payment worth around £3,300 a year, according to the Department for Work and Pensions.

In 2023/24, if you are over state pension age (66), single and your income is less than £201.05 a week then you will qualify for pension credit, with the payment topping up your income to that level. For a couple, both of whom have to be over the state pension age, the combined income figure is £306.85.

In relation to pension credit, your income includes your state pension, other savings and investments, employment or self-employment earnings and most social security benefits. If you have £10,000 or less in savings and investments, it's important to note this will not affect your pension credit claim.

If you have more than £10,000, every £500 over £10,000 counts as £1 income a week. For example, if you have £11,000 in savings, this counts as £2 income a week.

For those who are entitled to receive it, claiming pension credit is also important because it acts

as a gateway to other benefits, such as help with heating costs, housing benefit and dental treatment. Those who claim pension credit currently qualify for cost-of-living payments from the government. These payments are designed to help people through the current period of high inflation and are targeted at low-income households. To be eligible for the latest cost-of-living payment, which is worth £301, you need to have been entitled to pension credit between 26 January and 25 February 2023.

DWP's rules allow you to backdate pension credit claims by up to three months, meaning the deadline to make a claim for between 26 January and 25 February is approaching. Anyone wanting to apply for pension credit for this crucial period needs to have done so by 19 May.

Even if you only qualify for one day of pension credit between 26 January and 25 February, this will be enough to qualify you for the full £301 cost of living payment. If your application for pension credit for the period is successful, you will be paid the cost-of-living payment automatically – but it's up to you to make a claim if you think you are eligible.

You can find the details for applying here. If you are unsure how to go about completing your application, organisations like Age UK and Citizens Advice can help.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

ShareSoc
UK Individual Shareholders Society
www.sharesoc.org

Events

TITLE	Type of event	Date	Link to register
CHALLENGER ENERGY GROUP (CEG)	Company Webinar	18 May 2023	Click here to register
SAINSBURY'S PLC (SBRY)	Company Webinar	22 May 2023	Click here to register
VODAFONE GROUP PLC (VOD)	Company Webinar	31 May 2023	Click here to register
THARISA PLC (THS)	Company Webinar	08 Jun 2023	Click here to register

Follow us on

Six ways to improve your investing skills by Warren Buffett

He's considered one of the world's best investors, so it can pay to follow his lead

'Woodstock for capitalists' has just taken place in Omaha, Nebraska. It's more prosaically known as the annual shareholder meeting of **Berkshire Hathaway (BRK.B:NYSE)**, Warren Buffett's investment company.

Buffett is the world's most famous investor, but he is just as well known for his folksy snippets of wisdom as he is for his investment prowess.

His teachings are a bit of a treasure trove for private investors, though some of his maxims are somewhat enigmatic and need interpretation, not least because sometimes Buffett doesn't seem to follow them himself.

Here's a selection of some of his better-known quips, and what concrete tips investors can take from them.

1. BE LONG TERM WITH YOUR INVESTMENTS

Buffett says: *'Our favourite holding period is forever.'*

One of Buffett's most often quoted proverbs is that his favourite holding period is forever.

The idea that when you buy stocks or funds you should do so with the intention of never letting them go is a good one, not least because short termism can lead to investment losses and excessive trading fees.

However, not even Buffett can claim to adhere to this maxim totally, as he has sold plenty of stocks in his lengthy and illustrious career.

Private investors should also be willing to sell investments if they believe their best days are behind them. Perhaps the words of the economist John Maynard Keynes may also be useful qualifiers here: 'When the facts change, I change my mind.'

2. CHOOSE HIGH CONVICTION ACTIVE FUNDS

Buffett says: *'Diversification is protection against ignorance.'*

This is a somewhat extreme position expressed by Buffett, and one he doesn't actually follow himself, seeing as Berkshire Hathaway runs a diverse, if compact, portfolio of business and stocks.

Diversification should be a high priority for private investors, but there comes a point when it stops being diversification and veers into being 'diworsification'. This is when someone adds assets to a portfolio simply for the sake of diversification without considering if they will benefit the overall investment strategy.

Another example of this term is closet tracker funds, which largely hug the index but charge active fees for doing so, leading to long-term underperformance. Investors holding such closet trackers should consider switching to low-cost tracker funds or high conviction active funds.

3. USE TRACKER FUNDS

Buffett says: *'Both large and small investors should stick with low-cost index funds.'*

This is a bit of a puzzling statement coming from a man who runs a highly active portfolio on behalf of investors, with great success.

Nonetheless, there is sense in some investors sticking with tracker funds, especially those with little experience, or those who simply don't want to spend time picking good active managers.

Buffett acknowledges a place for active managers too though, saying in almost the same breath, 'there are, of course, some skilled individuals who are highly likely to outperform the S&P over long stretches'.

Investors don't have to choose exclusively between active and passive funds, they can mix or match, or indeed switch from one strategy to the other as they gain experience or branch out into new markets.

4. RELISH YOUR DIVIDENDS

Buffett says: *'We relish the dividends we receive from most of the stocks that Berkshire owns, but pay out nothing ourselves.'*

Investors ignore dividends at their peril. They are an important function of long-term returns from the stock market, especially in the UK, which is home to many high yielding companies.

Berkshire Hathaway doesn't pay any dividends, on the basis Buffett thinks he can always find a good home for that money to produce future growth and income. Private investors can take the same approach by rolling up the dividends from their portfolio, either reinvesting them in the same stocks, or reallocating them to other investments.

5. DON'T INVEST IN WHAT YOU DON'T UNDERSTAND

Buffett says: *'Risk comes from not knowing what you're doing.'*

This is an important piece of advice which can prevent you losing money and feeling a nasty sense of buyer's remorse to boot.

If you don't understand something, then you shouldn't invest in it. At the same time, it's important to recognise that no-one has every single bit of information available about prospective investments, so a balance has to be struck in which investors gather enough information to know the conditions under which their investment is likely to perform well and poorly.

Everyone makes mistakes, even professional money managers, so simply learn from these for next time and you will become a better investor.

6. AVOID CRYPTOCURRENCIES

Buffett says: *Cryptocurrencies are 'probably rat poison squared'… 'I can say almost with certainty they will come to a bad ending.'*

Don't expect to see bitcoin in Berkshire Hathaway's portfolio any time soon, and if you rate the advice of Warren Buffett, you best steer clear yourself.

Crypto has gone through a bit of a rough patch in recent years, though 2023 has been kind to it so far.

There may well come another time when crypto soars in value and investors get tempted to buy in. But crypto has few, if any, genuine economic uses apart from concealing criminal activity, and its long-term adoption by consumers, businesses and investors as a medium of exchange or a store of value is highly speculative.

Those who want to take a punt on its future should do so only with a small amount of money they can afford to lose.

By **Laith Khalaf**
AJ Bell Head of Investment Analysis


BING!
BING!
BONG!
That's the sweet sound of taking control of your investments with AJ Bell.
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Capital at risk.

How I invest: betting big on emerging markets to deliver outsized returns

Junior doctor Suman has exposure to India and China as part of his portfolio

Suman works as a junior doctor at an NHS hospital in Liverpool. He came to the UK in 2015 but started his investment journey in 2010 while he was living in India and where he invested in Indian equities.

'I started investing for myself primarily, and the reason I started was to try and get significant returns. I didn't initially have a long-term strategy in place, all I thought is I can put some money in, it grows, and I can then reinvest,' he says.

Suman gets his investment ideas by reading *Shares* which he finds a useful source of information, as well as looking at Google Finance for news and occasionally reading comments about investing on social media network Reddit. He also creates his own investment-related videos via YouTube as a way of sharing everything he's learned about investing.

The doctor invests £500 a month via the AJ Bell platform into various funds and investment trusts held across a Stocks & Shares ISA and a Lifetime ISA. Additional money is invested where possible into a portfolio of ETFs (exchange-traded funds) held with another platform provider.

WHAT DOES SUMAN INVEST IN?

Suman is happy to take extra risks when investing in the search of higher returns. He says: 'If you are not prepared to explore and manage risk within your portfolio, you may not make a significant return on your investment.

'I am interested in holding emerging markets, so I invest 30% of my ETF portfolio in that area. I play a risky game investing in emerging markets, but this is part of my psychology.'

The 30% ETF portfolio component for emerging markets is split two-thirds into the **iShares MSCI Emerging Markets IMI ETF (EMIM)** product and one-third into an ETF that follows an index of Indian equities, namely **Franklin Templeton FTSE India ETF (FLXI)**.

'Apart from India, I do not feel confident in buying financial products in other emerging market economies directly. I would rather go through a tracker fund or use active fund managers who have more portfolio knowledge and expertise than me.'

Investments held across his Stocks & Shares and Lifetime ISAs provide further exposure to emerging markets including shares in **Scottish Mortgage Investment Trust (SMT)** which has various Chinese holdings including online marketplace **Meituan (3690:HKG)**, technology and entertainment platform **Tencent (0700:HKG)** and TikTok social media network owner Bytedance.

The doctor also has money in **JPMorgan Emerging Markets (JMG)**, an investment trust which seeks to invest in what it considers to be high-quality companies, both large and small, with the potential to deliver sustainable long-term growth.

The rest of the ETF portfolio is split 20% into an iShares product tracking the US Nasdaq index and the same again for a US S&P 500 tracker and a further 20% into a FTSE 100 tracker to get exposure to UK stocks.

The remaining 10% of the ETF portfolio is invested in an investment product that tracks the performance of companies related to the artificial intelligence theme. And in the rest of his ISA portfolios, Suman has money in a few global funds.

FUTURE PLANS

'I have a five-to-10-year view of my investments; I have an even longer perspective to take into consideration for funding my children's education. I am also saving for retirement which is another 28 years from now,' says Suman.

Currently, the doctor holds no individual company shares in his portfolio. This is down to two principal reasons: first, he has lost money in the past investing in shares on an individual basis; and second, he doesn't know when to get out.

'I can see good companies around me, but I do not know when to exit the stock. That needs a lot of knowledge and research which I do not have to do by owning ETFs, investment trusts and funds,' he adds.

For now, he is happy with sticking to his current plan and says he will continue to stash money away in his portfolios whether the economy is good or bad.

'The macroeconomic picture will not stop me from investing in the future. Whenever things go wrong, I put a lot of money in the markets, for example during the Covid pandemic. This was a time I went all in, as well as at the end of the last quarter of 2022.'

30% of Suman's ETF portfolio is in emerging markets

Suman's investments across his various portfolios

Fidelity Global Special Situations
Franklin FTSE India
Fundsmith Equity
iShares MSCI Emerging Markets
iShares NASDAQ 100
JPMorgan Emerging Markets Investment Trust
L&G UK Equity
Scottish Mortgage Investment Trust
Vanguard S&P 500
VT AJ Bell Adventurous
VT AJ Bell Global Growth
WisdomTree Artificial Intelligence

Table: Shares magazine • Source: Investor's own records

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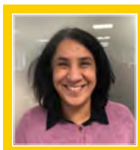

By **Sabuhi Gard** Investment Writer

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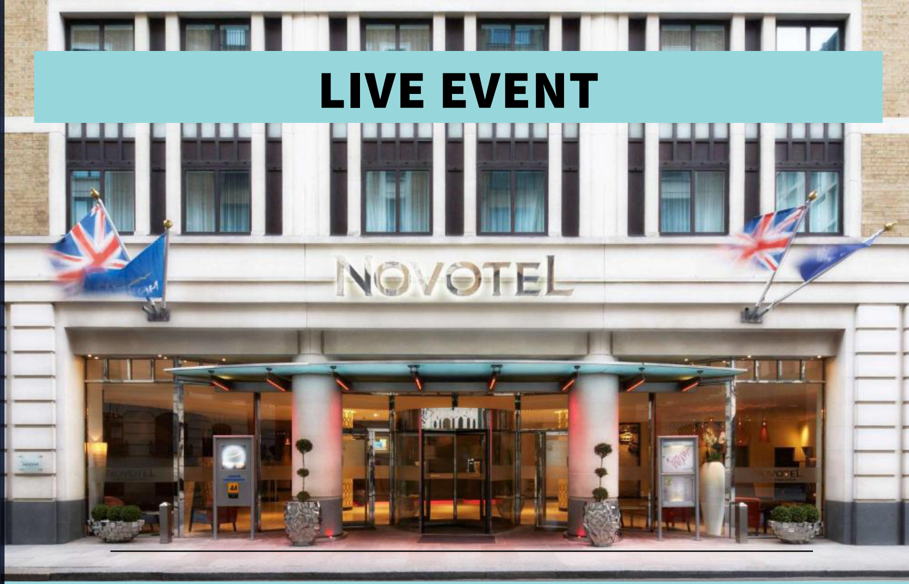

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