

Value in trouble

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August is often a testy month for markets. The popular reasoning for this goes: as the holiday season gets under way, experienced investors and traders jet off to luxury resorts and seafront mansions, which reduces market liquidity (increasing share price sensitivity) just as jumpy juniors take the steering wheel.

With the Covid-19 pandemic very much still with us, and a looming US election also testing nerves, there's certainly the potential for an interesting month ahead. Added to this, cries of "bubble" have been growing in volume over recent months. The most vociferous members of the it's-a-bubble brigade are value investors. Indeed, after a decade of terrible performance for 'value', topped off by corona-carnage this year, professional value investors' desire for a bursting of the purported "growth bubble" is as much about survival as anything else.

The style chart on the right shows that once again. Based on conventional wisdom, stock market recoveries should not be like this. Normally the early stages of a recovery are

dominated by a 'dash for trash' in which down-trodden value stocks massively outperform. This column highlighted this phenomenon when it briefly emerged a couple of months ago. But growth, quality and momentum strategies have swiftly reasserted their dominance.

Value investors reckon things will change soon. Gary Channon, the founder of deep value investment firm Phoenix Asset Management and manager of Aurora investment trust, has said the story of value investing will prove to be like a horror movie with a happy ending.

Meanwhile US value-focused hedge fund Longleaf Partners has recently written to investors saying it believes a speculative bubble very similar to that of the 1970s and 1990s has formed, focused on a relatively small number of excellent but grossly overvalued companies. It expects a "near term" correction, marking "a rare moment that is measured in generations".

Small-cap value quant firm Verdad, meanwhile has produced an extensive study that highlights the fragility of valuations based on the popular argument that low interest rates make future earnings more valuable, thereby justifying higher valuations for growth stocks. Verdad points out the theoretical framework

that supports this argument means that the lower rates are, the more value is put on earnings expected further out. So ever lower rates create an ever more speculative market in growth stocks given "it is a big, big bet that is 90-per-cent-plus dependent upon assumptions about what the 2030s and 2040s will look like".

There's no point in pretending value managers are not desperate to make an argument for their floundering investment style. But the desperation does not mean their arguments are without substance. The cruel irony with value investing is that it is often when arguments appear most desperate that they are most right.

Our tips section this week offers up some 'value' plays for those finding that all the bubble talk has got to them. Both of the 'value' plays also boast a decent long-term structural growth story. For **Volution (FAN)**, a Covid hit has knocked earnings and the shares trade at a low double-digit forward PE. However, rising regulation should underpin long-term growth. Meanwhile, there's been no let-up in demand for the industrial units owned by **Urban Logistics Reit (SHED)**. Based on solid rental growth prospects, its shares offer the credible prospect of a 6 per cent dividend yield.

Fund manager best ideas: Health

Based on top 5 holdings

05/08/2020	No of funds		
UnitedHealth Group Inc	6 (+3)	argenx SE	1 (NEW)
Roche Holding AG Dividend Right Cert.	5 (+2)	AstraZeneca PLC	1 (NEW)
Vertex Pharmaceuticals Inc	4 (NEW)	Baxter International Inc	1 (-1)
AbbVie Inc	3 (+2)	Becton, Dickinson and Co	1
Amgen Inc	3	Biomarin Pharmaceutical Inc	1
Abbott Laboratories	2	Boston Scientific Corp	1
Biogen Inc	2	Bristol-Myers Squibb Company	1 (-1)
Gilead Sciences Inc	2 (-1)	Edwards Lifesciences Corp	1 (NEW)
Johnson & Johnson	2	Fresenius Medical Care AG & Co. KGaA	1
Medtronic PLC	2 (+1)	Horizon Therapeutics PLC	1 (NEW)
Sanofi SA	2 (+1)	Humana Inc	1
Thermo Fisher Scientific Inc	2 (+1)	Merck & Co Inc	1 (NEW)
Alexion Pharmaceuticals Inc	1	Novartis AG ADR	1 (NEW)
Applied Therapeutics Inc	1	Regeneron Pharmaceuticals Inc	1
		Seattle Genetics Inc	1

Source: Morningstar

New 52-week lows

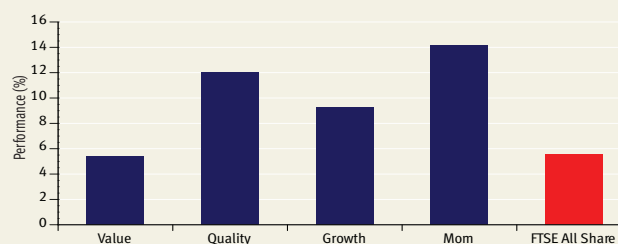
Name	TIDM	Price	% from low
Gem Diamonds	GEMD	23p	0.4%
Kier Group	KIE	60p	0.7%
Reach	RCH	58p	0.9%
STV Group	STVG	218p	1.4%
Real Estate Investors	RLE	29p	1.4%
Advanced Medical Sol Grp	AMS	194p	2.0%
Stagecoach Group	SGC	45p	2.4%
Imperial Brands PLC	IMB	1,280p	2.5%
Worsley Investors	WINV	23p	2.7%
TOC Property Backed Lndng	PBLT	86p	2.9%

Source: FactSet, as at 5 August 2020

New 52-week highs

Name	TIDM	Price	% from high
Centamin	CEY	212p	0.6%
BBGI	BBGI	170p	0.7%
Capital Gearing Trust Plc	CGT	4,480p	0.9%
Vectura Group	VEC	107p	0.9%
Gresham House	GHE	693p	1.1%
Clipper Logistics	CLG	355p	1.3%
Schroder Asian Total	ATR	388p	1.3%
YouGov	YOU	815p	1.5%
Bunzl	BNZL	2,270p	1.5%
Admiral Group	ADM	2,471p	1.5%
Scottish American Invmt	SAIN	436p	1.6%
Polymetal International	POLY	1,928p	1.7%
Fidelity China Special	FCSS	313p	1.7%
IntegraFin Holdings	IHP	548p	1.8%
Herald Investment Trust	HRI	1,680p	1.9%
Renewables Infrastructure	TRIG	137p	1.9%
Computacenter	CCC	1,986p	1.9%
Civitas Social	CSH	113p	1.9%
SEGRO	SGRO	963p	1.9%
Impax Asset Management Gp	IPX	402p	2.0%
JTC	JTC	488p	2.0%
JP Morgan Emerging Mkts	JMG	1,068p	2.0%
Cello Health	CLL	162p	2.1%
Softcat	SCT	1,306p	2.2%
Serco	SRP	165p	2.2%
SDCL Energy Efficiency	SEIT	111p	2.2%
Allianz Technology Trust	ATT	2,430p	2.2%
JPMorgan Global Core Real	JARA	110p	2.2%
Intercede Group	IGP	88p	2.2%
HomeServe	HSV	1,340p	2.2%
Martin Currie Global Port	MNP	326p	2.2%

Source: FactSet, as at 5 August 2020

Strategy: 3 months to 5 August 2020 (%)

Source: FactSet

Shorts

Company	Short interest	No of shorters	1-week change in short interest
Hammerson	13.9%	10	-0.4%
Royal Mail	9.6%	8	0.5%
Metro Bank	8.9%	4	-0.1%
Cineworld	8.8%	9	0.5%
Premier Oil	8.7%	3	0.0%
Tullow Oil	7.8%	5	0.0%
Sainsbury (J)	6.8%	6	1.2%
Pearson	6.5%	6	0.5%
Petrofac	6.1%	5	0.6%
Domino's Pizza	5.6%	7	0.1%
Petropavlovsk	5.5%	1	0.3%
Weir Group	5.3%	6	-0.4%
Gw Pharmaceuticals	5.2%	4	0.0%
Blue Prism	5.0%	5	-0.5%
Tui Ag	4.9%	6	0.5%
Pets At Home	4.9%	2	0.0%
Babcock Intl	4.9%	3	0.0%
IQE	4.8%	3	0.0%
Future	4.6%	3	-0.4%
Vodafone	4.0%	4	0.0%
Wm Morrison Supermarkets	4.0%	4	0.5%
Dignity	4.0%	3	0.2%
Croda International	3.8%	4	-0.1%
Micro Focus International	3.6%	3	0.0%
Smith (David S)	3.6%	5	-0.2%
Ashmore	3.5%	4	0.6%
Wood Group (John)	3.5%	6	0.4%
Keywords Studios	3.5%	4	0.0%
Ascential	3.5%	4	0.1%
Marks & Spencer	3.2%	2	0.0%
Capita	3.2%	4	-0.4%
Hurricane Energy	3.1%	3	0.1%
Primary Health Properties	3.1%	4	0.0%
Aggreko	3.0%	3	0.0%
GVC Holdings	3.0%	4	0.1%
Ultra Electronics	3.0%	1	0.0%
AG Barr	3.0%	3	-0.3%
Restaurant Group	2.9%	3	-0.1%
Victrex	2.8%	3	0.0%
Intercontinental Hotels	2.8%	2	0.0%
Valaris	2.8%	1	0.0%
Auto Trader	2.6%	4	0.0%
AA	2.5%	2	0.0%
Hiscox	2.5%	2	-0.1%
Signature Aviation	2.4%	4	0.0%

Source: FCA, as at 5 August 2020

1-month EPS upgrades (top 25)

Wednesday, 5 August 2020		Forward EPS change		
Name	TIDM	1mth	3mth	1yr
Yellow Cake	YCA	1027.8%	4159.7%	5404%
ASOS	ASC	405.6%	-	51%
Belvoir Group	BLV	141.0%	35.5%	18%
Beazley	BEZ	132.4%	135.2%	-80%
Totally	TLY	96.7%	96.7%	105%
ZOO Digital Group	ZOO	76.8%	76.2%	-61%
Next	NXT	69.6%	-3.1%	-60%
Atalaya Mining	ATYM	65.3%	100.1%	-26%
Hochschild Mining	HOC	65.2%	-15.2%	-26%
Wincanton	WIN	64.5%	-40.4%	-40%
Luceco Plc	LUCE	63.1%	165.0%	18%
EKF Diagnostics	EKF	58.6%	111.3%	131%
Tyman	TYMN	58.4%	-9.4%	-27%
LoopUp Group	LOOP	57.8%	232.6%	133%
CVS Group	CVSG	57.6%	21.4%	-14%
RM	RM	55.0%	-76.7%	-76%
3i Group Plc	III	52.7%	-	-29%
Allergy Therapeutics	AGY	50.0%	-	-
Numis	NUM	45.8%	-	38%
Hollywood Bowl Group	BOWL	44.3%	-18.2%	-75%
Glencore	GLEN	43.7%	0.6%	-72%
Fresnillo	FRES	41.0%	54.2%	54%
Antofagasta	ANTO	39.6%	113.6%	-47%
Panopoly Holdings	TPX	38.5%	38.5%	22%
Clipper Logistics	CLG	38.0%	27.4%	12%

Source: FactSet

1-month EPS downgrades (top 25)

Wednesday, 5 August 2020		Forward EPS change		
Name	TIDM	1mth	3mth	1yr
Syncona	SYNC	-99.8%	-	-100%
Hunting	HTG	-95.5%	-99.7%	-100%
Melrose Industries	MRO	-90.4%	-93.8%	-97%
Arbuthnot Banking Group	ARBB	-90.2%	-94.4%	-93%
Gem Diamonds	GEMD	-87.2%	-88.9%	-97%
Jadestone Energy	JSE	-81.7%	-	-99%
Stagecoach Group	SGC	-77.3%	-78.3%	-82%
ScS Group	SCS	-72.0%	-20.2%	-86%
Halfords Group	HFD	-69.7%	-66.6%	-71%
Victoria	VCP	-65.7%	-68.2%	-73%
MJ Gleeson	GLE	-64.4%	-80.0%	-87%
JD Sports Fashion	JD	-59.3%	-59.3%	-57%
Mears Group	MER	-57.7%	-66.9%	-70%
Lloyds Banking Group	LLOY	-52.8%	-68.8%	-91%
Bigblu Broadband	BBB	-52.3%	-52.3%	-48%
IG Design Group	IGR	-50.4%	-50.4%	-53%
Ince Group	INCE	-49.1%	-46.0%	-54%
Forterra Plc	FORT	-45.8%	-78.0%	-83%
PageGroup	PAGE	-45.5%	-58.2%	-88%
Kenmare Resources	KMR	-45.2%	-65.9%	-82%
Advanced Medical Sol Grp	AMS	-43.3%	-46.5%	-55%
MITIE Group	MTO	-42.2%	-59.9%	-66%
Countryside Properties	CSP	-38.5%	-47.3%	-57%
Polypipe Group	PLP	-36.4%	-54.7%	-62%
Gattaca	GATC	-36.2%	-35.0%	-

Source: FactSet