

Dash for trash

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During the past week or so there has been a spectacular change in fortune for the value investment strategy.

The chart below shows the performance of the investment styles we monitor over three months, one month, two weeks and one week. While 'value' continues to be the loser over three months, over shorter timeframes it leaves all other investment approaches in the dust ('value' in the chart represents the average performance of strategies based on backing the cheapest fifth of FTSE All-Share stocks based on: forward price/earnings ratio; price to sales; price to book value; dividend yield; and enterprise value to cash profits). In fact, while the outperformance of 'value' looks dramatic over the past month as a whole, for the first two weeks of the month it was actually underperforming the other styles, although it was outperforming the index. In other words, the dramatic recent win for value has really happened within the past two weeks, and the lion's share of that outperformance appears to have come in the past week.

It may feel an odd time for value to outperform. Value stocks tend to reflect the inherent weakness of the company that has issued the shares. This often boils down to things such as

high debt and significant 'cyclicality' (City jargon to describe a company with profits that are very sensitive to economic conditions). It seems strange that these stocks should outperform as the world enters a deep recession.

However, a 'dash for trash' is a classic phenomenon when stock markets rebound, which in turn typically happens before any clear signs of an economic recovery have emerged. Indeed, stock markets tend to move in anticipation of events that are furthest from sight rather than those that are readily apparent.

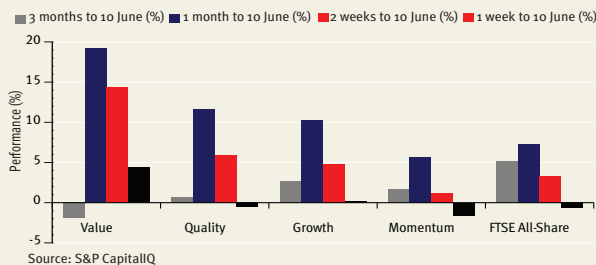
The 'dash for trash' can be seen as another sign that the huge policy response – fiscal and monetary – to the economic impact of coronavirus is being viewed favourably by investors. Importantly, the dash for trash can be regarded as more of a judgement on the economic outlook than a reaction to the increased liquidity provided by central banks. This is because there is a logic to thinking increased liquidity will boost demand for shares in the biggest and safest companies, while investors that want to benefit from an economic recovery will buy shares in companies that have the most to gain from an upturn – the weakest companies with the most beaten-up shares.

Naturally, this move by the market could prove premature. The Covid-induced recession could be longer and more painful than those piling into cheap stocks expect. There are also signs of very speculative punts being taken.

But a dash for trash is always a highly speculative phenomenon. This means it takes a bold investor to jump on the bandwagon. Indeed, the psychological difficulties of switching investment style mean most investors are best advised to stick with the style wagon they are already on. More generally, the dash for trash can be regarded as a broadly encouraging sign, given it is a key initial stage in most stock market recoveries. That said, there are still plenty of reasons to remain cynical and wary of bear traps (recoveries that suck in money before blowing up).

Three of the shares appearing in this week's tips section come from the 'trashier' end of the spectrum. All could see their businesses benefit significantly from a recovery. For upholstery retailer **DFS (DFS)** (see page 43), not only could an economic revival mean a recovery in demand, but it should also face less competition as weaker rivals fall by the wayside. **M&G (MNG)**, meanwhile (see page 40), should benefit from any continued market strength and this could make potential value on offer from its unexciting business become more apparent. Finally, **BHP's (BHP)** (see page 42) profits are highly sensitive to the price of iron ore and copper, both of which have their fortunes closely wed to the state of the global economy. Encouraging signs from China makes this an interesting time for the company.

Style shift: Dash for trash



UK technology fund manager best ideas

Based on top 5 holdings

27/04/2020	No of funds		
		PayPal Holdings Inc	1
Amazon.com Inc	6	Analog Devices Inc	1
Microsoft Corp	6	Okta Inc A	1
Alphabet Inc A	5	Zscaler Inc	1
Apple Inc	5	Paycom Software Inc	1
Visa Inc Class A	4	Workday Inc Class A	1
Salesforce.com Inc	2	ServiceNow Inc	1
Facebook Inc A	2	Qualcomm Inc	1
Cisco Systems Inc	2	Xilinx Inc	1
Alphabet Inc Class C	2	Mastercard Inc A	1
Twilio Inc A	1	Micron Technology Inc	1
Synopsys Inc	1	NXP Semiconductors NV	1

Source: Morningstar

New 52-week highs

Name	TIDM	Price	% from high
Manchester & London Investment Trust	LSE:MNL	628p	0.0%
YouGov	AIM:YOU	790p	1.3%
Personal Assets Trust	LSE:PNL	44,150p	1.3%
Pebble Beach Systems	AIM:PEB	12p	1.6%
Fulcrum Utility Services	AIM:FCRM	31p	1.6%
Amyrt Pharma	AIM:AMYT	148p	1.7%
Oxford Biomedica	LSE:OXB	810p	1.7%
Caledonia Mining Corporation	AIM:CMCL	1,305p	1.9%
Aberdeen Standard Euro Logistics Income	LSE:ASLI	103p	1.9%
Aberdeen Japan Investment Trust	LSE:AJIT	638p	1.9%
Watchstone	AIM:WTG	179p	2.0%
Pershing Square	LSE:PSH	1,974p	2.0%
Smithson Investment Trust	LSE:SSON	1,464p	2.1%
Jersey Electricity	LSE:JEL	477p	2.3%
Allianz Technology Trust	LSE:ATT	2,140p	2.3%
Volvare	AIM:VLE	1,560p	2.3%
Baillie Gifford European Growth Trust	LSE:BGEU	1,040p	2.3%
Stock Spirits	LSE:STCK	252p	2.3%
Venture Life	AIM:VLG	73p	2.7%
Civitas Social Housing	LSE:CSH	109p	2.7%
Scottish Mortgage Investment Trust	LSE:SMT	734p	2.8%
Spirax-Sarco Engineering	LSE:SPX	9,922p	2.8%
Gore Street Energy Storage Fund	LSE:GSF	101p	2.8%
Baillie Gifford US Growth Trust	LSE:USA	193p	2.9%
The Monks Investment Trust	LSE:MNKS	1,006p	2.9%
Cardiff Property	LSE:CDFF	1,725p	3.0%
Numis Corporation	AIM:NUM	311p	3.0%

Source: S&P Capital IQ, as at 10 June 2020

New 52-week lows

Name	TIDM	Price	% from low
Craven House Capital	AIM:CRV	85p	0.0%
DWF	LSE:DFW	65p	0.8%
Impellam	AIM:IPEL	234p	0.9%
Pittards	AIM:PTD	42p	2.4%

Source: S&P Capital IQ, as at 10 June 2020

Shorts

Company	Short interest	No of shorters	1-week change in short interest
Premier Oil	19.6%	3	0.0%
Hammerson	10.7%	6	-1.8%
Royal Mail	8.7%	7	0.6%
Tullow Oil	7.2%	5	-0.8%
Pearson	7.2%	8	0.6%
Babcock Intl	6.5%	6	-0.3%
Hyve	6.4%	2	New
Metro Bank	5.9%	3	-0.8%
Easyjet	5.8%	5	-2.4%
Wm Morrison Supermarkets	5.6%	4	-0.2%
Capita	5.4%	4	-0.1%
Intu Properties	5.4%	3	0.8%
GW Pharmaceuticals	5.2%	4	0.0%
Petropavlovsk	5.1%	1	0.0%
Pets At Home	4.8%	2	0.0%
IQE	4.8%	3	0.0%
Dignity	4.6%	3	0.2%
Ascential	4.5%	5	-1.1%
Croda International	4.4%	5	0.2%
Sainsbury (J)	4.4%	3	0.3%
Whitbread	4.3%	6	New
Petrofac	4.2%	3	-0.9%
Future	4.1%	3	-0.1%
Blue Prism	4.0%	4	0.0%
Vodafone	3.9%	4	0.1%
Tui	3.9%	4	-0.2%
Keywords Studios	3.5%	4	-0.1%
Smith (David S)	3.4%	5	0.5%
Wood Group (John)	3.4%	5	-0.1%
Aggreko	3.4%	3	0.0%
Daily Mail & General Trust	3.3%	3	0.0%
Weir Group/The	3.3%	3	-1.1%
Marks & Spencer	3.2%	2	0.0%
Auto Trader	3.1%	5	0.5%
Virgin Money UK	3.1%	3	-0.6%
AG Barr	3.1%	2	0.1%
Signature Aviation	3.0%	5	0.5%
Victrex	3.0%	4	0.5%
Primary Health Properties	3.0%	4	0.0%
Ashmore	2.9%	3	0.0%
Valaris	2.8%	1	0.0%
Cineworld	2.7%	4	0.0%
AA	2.7%	3	0.0%
Restaurant Group	2.6%	3	0.1%
Ted Baker	2.6%	3	0.0%
Hiscox	2.5%	2	New
Lancashire Holdings	2.5%	2	New

Source: FCA, as at 10 June 2020

1-month EPS upgrades (top 25)

Wednesday, 10 June 2020		FWD EPS CHG		
Name	TIDM	1mth	3mth	1yr
Luceco	LSE:LUCE	75.8%	-44.2%	-38%
McCarthy & Stone	LSE:MCS	68.2%	-86.9%	-
Ramsdens	AIM:RFX	56.7%	-53.4%	-54%
IGas Energy	AIM:IGAS	50.0%	-84.3%	-85%
IWG	LSE:IWG	47.6%	-79.9%	-79%
Titon	AIM:TON	37.6%	37.6%	-27%
Frasers	LSE:FRAS	35.5%	-48.2%	-26%
Orchard Funding	AIM:ORCH	29.7%	29.7%	-24%
Venture Life	AIM:VLG	27.5%	62.7%	74%
Bloomsbury Publishing	LSE:BYM	24.1%	-48.8%	-51%
Watches of Switzerland	LSE:WOSG	23.1%	-39.9%	-
EKF Diagnostics	AIM:EKF	22.4%	27.5%	34%
SDX Energy	AIM:SDX	20.7%	-43.5%	-69%
Mattioli Woods	AIM:MTW	18.6%	18.6%	12%
Frontier Developments	AIM:FDEV	15.3%	24.3%	35%
McBride	LSE:MCB	14.4%	14.1%	-
Ebiquity	AIM:EBQ	13.6%	-49.5%	-50%
Joules	AIM:JOU	10.2%	-33.2%	-57%
Totally	AIM:TLY	9.9%	9.9%	900%
boohoo	AIM:BOO	9.4%	-8.1%	8%
IntegraFin	LSE:IHP	8.7%	-5.8%	-6%
Playtech	LSE:PTC	8.2%	-33.6%	-68%
Legal & General	LSE:LGEN	8.1%	-6.2%	-1%
Zotefoams	LSE:ZTF	8.0%	-29.2%	-51%
Warpaint London	AIM:W7L	7.7%	7.7%	-43%

Source: S&P Capital IQ

1-month EPS downgrades (top 25)

Wednesday, 10 June 2020		FWD EPS CHG		
Name	TIDM	1mth	3mth	1yr
Cineworld	LSE:CINE	-98.8%	-99.4%	-100%
Hyve	LSE:HYVE	-92.3%	-93.2%	-94%
Johnson Service	AIM:JSG	-88.5%	-96.5%	-96%
The Restaurant Group	LSE:RTN	-88.4%	-99.6%	-100%
Renewi	LSE:RWI	-87.9%	-90.2%	-93%
MJ Hudson	AIM:MJH	-84.1%	-	-
Hostelworld	LSE:HSW	-82.4%	-86.2%	-90%
TI Fluid Systems	LSE:TIFS	-80.5%	-92.3%	-94%
Henry Boot	LSE:BOOT	-73.4%	-73.4%	-74%
Oxford Biomedica	LSE:OXB	-70.5%	-51.2%	-89%
Draper Esprit	AIM:GROW	-68.4%	-68.4%	-72%
The Vitec Group	LSE:VTC	-63.8%	-82.6%	-87%
MJ Gleeson	LSE:GLE	-62.3%	-77.1%	-77%
Biffa	LSE:BIFF	-61.8%	-74.7%	-74%
Card Factory	LSE:CARD	-58.1%	-81.9%	-86%
Fuller, Smith & Turner	LSE:FSTA	-57.9%	-69.3%	-
Blanco Technology	AIM:BLTG	-52.0%	-59.1%	-59%
C&C	LSE:CCR	-51.8%	-70.8%	-
Amigo	LSE:AMGO	-48.5%	-52.1%	-
Iofina	AIM:IOF	-47.3%	-47.3%	-2%
J D Wetherspoon	LSE:JDW	-46.6%	-	-
Beazley	LSE:BEZ	-46.0%	-95.6%	-97%
Polypipe	LSE:PLP	-42.5%	-51.9%	-54%
Countryside Properties	LSE:CSP	-41.8%	-50.1%	-51%
Costain	LSE:COST	-40.5%	-61.5%	-81%

Source: S&P Capital IQ