Wheat from chaff

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In last week's column I looked at research from quant firm Verdad that illustrated what poor returns investors tend to get from buying shares in companies with distressed debt. In this week's tip section our writers have been trying to sort some of the wheat from the chaff.

When a rising market lifts all boats, it can feel like an opportunity to exit poorly performing positions that have proved a source of misery in the recent past. However, such action only really makes sense if it is based on a level-headed reassessment of the investment in question. Our emotions run riot when markets are volatile and it is often hard to view such situations coolly.

The tables we produce in the ideas farm offer some objective clues as to whether a stock may be a good or bad bet. Unfortunately, these simple screens can't in themselves provide answers, but they can provide the basis of more intelligent questions. Take this week's tip recommendation that readers exit **AA (AA.)**. Naturally, our view could prove wrong and the company may find a way to address its debt and pension issues while reinvigorating growth. There would certainly be plenty of potential valuation upside if it did, but our opinion is that this is unlikely and the risks in the opposite direction are currently unpalatable.

Helping to inform the question about the group's prospects are the objective clues from both our table of most shorted stocks and broker downgrades. While AA shares have been significantly more shorted in the past, short interest has ticked up over the past month, although as can be seen in the shorts table, not the last week. Meanwhile, at a time when a number of companies are seeing brokers become more positive on their pandemic prospects, AA continues to see forecasts slide. Neither of these signals are in any way conclusive or incriminating either together or on their own. However, they provided us with a good prompt to re-examine the investment case and we don't like what we see (see page 39).

Our other sell tip this week, **Victrex (VCT)**, can also be found in our short table and has seen a small uptick in short interest over the past week. That said, the quality of this company's balance sheet and operations are in an altogether different and superior category to that of AA. Our view here is based more on our concerns about over optimism in the trading outlook (see page 41).

Fashion retailer **Joules (JOUL)** is another case where our tables nave hinted that something interesting may be happening. Last week the company appeared to have experienced strong broker forecast upgrades over the prior month. This followed significant downgrades when lockdown began. Importantly, the company's business model looks good, the balance sheet looks robust, and the valuation looks attractive should it reclaim anything near its former glories (see page 40).

The recovery from coronavirus offers both risks and opportunities and the best returns are likely to come from those situations where it is hardest to distinguish whether risk or reward is the bigger factor. We hope the 'outside view' offered by the ideas farm tables can help readers decide where the balance may lie in for individual companies in addition to helping guide our own analysis as an investment magazine.

Fund Manager Best Ideas: UK Large Cap

Based on top 3 most overweight

24/06/2020	No of funds (change since last time)
RWS Holdings	6
Future	5
Spirax-Sarco Engineering	5
4imprint	4
Homeserve PLC	4 (+1)
Craneware	4
SSP	3
Hargreaves Lansdown	3
Sage Group (The)	3
Standard Chartered	3
Diversified Gas & Oil	3
Rightmove	2
Cineworld Group	2
Auto Trader Group	2
Bodycote	2
Euromoney Institutional Investor	2
RELX	2
Bellway	2
Electrocomponents	2
Royal Dutch Shell	2
Halma	2
GB Group	2
Boohoo	2 (+1)
The Royal Bank of Scotland	2
Lloyds Banking	2
Burford Capital	2
Advanced Medical Solutions	2
JD Sports Fashion	2
IWG	2
Fevertree Drinks	1
Dunelm	1
Rio Tinto	1
Blue Prism	1
Howden Joinery	1
Intermediate Capital	1
Daily Mail and General Trust PLC Class A	1
QinetiQ	1
Restaurant Group	1
Unilever	1
Tesco	1
John Laing	1
Imperial Brands	1
Pearson PLC	1
WPP	1
Ashmore Group PLC	1
Beazley PLC	1
Rentokil Initial PLC	1
Morrison (Wm) Supermarkets PLC	1
InterContinental Hotels Group PLC	1
Admiral Group PLC	1
RHI Magnesita NV Ordinary Shares	1
St Modwen Properties PLC	1
Dart Group PLC	1
Synthomer PLC	1
Standard Life Aberdeen PLC	1
TI Fluid Systems PLC	1
First Derivatives PLC	1
Sirius Real Estate Ltd	1
Legal & General Group PLC	1
Dechra Pharmaceuticals PLC	1
Prudential PLC	1
Diploma PLC	1
Games Workshop Group PLC	1

Source: Morningstar

New 52-week highs (top 30)

Name	TIDM	Price	% from high
Sterling Energy	AIM:SEY	11p	0.0%
Tritax EuroBox	LSE:EBOX	99p	0.0%
Worldwide Healthcare Trust	LSE:WWH	3,685p	0.1%
Lancashire Holdings	LSE:LRE	850p	0.2%
JPMorgan Japanese Investment Trust	LSE:JFJ	539p	0.2%
The Monks Investment Trust	LSE:MNKS	1,066p	0.2%
Allianz Technology Trust	LSE:ATT	2,295p	0.2%
Edinburgh Worldwide Investment Trust	LSE:EWI	265p	0.4%
Aberdeen Japan Investment Trust	LSE:AJIT	648p	0.4%
Scottish Mortgage Investment Trust	LSE:SMT	817p	0.4%
Reckitt Benckiser	LSE:RB.	7,228p	0.5%
International Biotechnology Trust	LSE:IBT	782p	0.5%
Baillie Gifford US Growth Trust	LSE:USA	217p	0.6%
Pacific Horizon Investment Trust	LSE:PHI	482p	0.6%
The Biotech Growth Trust	LSE:BIOG	1,300p	0.7%
Fidelity China Special Situations	LSE:FCSS	268p	0.7%
Personal Assets Trust	LSE:PNL	44,500p	0.8%
Fulcrum Utility Services	AIM:FCRM	32p	0.8%
Octopus Renewables Infrastructure Trust	LSE:ORIT	111p	0.9%
Witan Pacific Investment Trust	LSE:WPC	353p	0.9%
CMC Markets	LSE:CMCX	280p	0.9%
Games Workshop	LSE:GAW	8,370p	1.1%
Smithson Investment Trust	LSE:SSON	1,480p	1.1%
Baillie Gifford Shin Nippon	LSE:BGS	195p	1.1%
Polar Capital Technology Trust	LSE:PCT	2,060p	1.1%
Manchester & London Investment Trust	LSE:MNL	660p	1.2%
YouGov	AIM:YOU	800p	1.2%
Capital Gearing Trust	LSE:CGT	4,430p	1.3%
IDOX	AIM:IDOX	47p	1.4%
Experian	LSE:EXPN	2,883p	1.7%

Source: S&P Capital IQ, as 24 June 2020

New 52-week lows

Name	TIDM	Price	% from low
Dewhurst	AIM:DWHA	515p	0.0%
Craven House Capital	AIM:CRV	75p	1.3%
Impellam	AIM:IPEL	233p	1.9%
Pittards	AIM:PTD	40p	2.5%
RTC	AIM:RTC	39p	2.6%
TOC Property Backed Lending Trust	LSE:PBLT	86p	2.9%

Source: S&P Capital IQ, as 24 June 2020

Shorts

Company	Short interest	No of shorters	1-week change in short interest
Hammerson	11.9%	8	0.8%
Metro Bank	9.5%	4	-0.1%
Premier Oil	8.7%	3	0.0%
Royal Mail	8.1%	6	-0.5%
Tullow Oil	8.0%	6	0.1%
Pearson	6.8%	7	-0.6%
Babcock Intl	6.2%	6	-0.2%
Intu Properties	5.5%	3	0.1%
Gw Pharmaceuticals	5.2%	4	0.0%
Petropavlovsk	5.2%	1	0.1%
Pets At Home	4.8%	2	0.0%
Iqe	4.8%	3	0.0%
Wm Morrison Supermarkets	4.6%	4	-0.6%
Croda International	4.5%	5	0.1%
Future	4.4%	3	0.3%
Dignity	4.4%	3	-0.3%
Cineworld	4.2%	6	0.0%
Petrofac	4.2%	3	0.0%
Tui	4.0%	4	0.1%
Ascential	4.0%	5	0.3%
Capita	4.0%	4	-1.1%
Blue Prism	3.9%	4	0.1%
Vodafone	3.9%	4	0.0%
Wood Group (John)	3.9%	6	0.0%
Sainsbury (J)	3.7%	2	-1.0%
Easyjet	3.7%	4	-0.9%
Weir Group	3.6%	4	0.5%
Domino's Pizza	3.6%	5	0.7%
Keywords Studios	3.5%	4	0.0%
Smith (David S)	3.4%	5	0.0%
Ultra Electronics	3.3%	2	0.4%
Aggreko	3.3%	3	0.0%
AA	3.3%	3	0.0%
Marks & Spencer	3.2%	2	0.0%
AG Barr	3.2%	2	0.1%
Daily Mail & General Trust	3.1%	3	0.0%
Auto Trader	3.1%	5	0.0%
Primary Health Properties	3.1%	4	0.0%
Ashmore	2.9%	3	0.0%
Valaris	2.8%	1	0.0%
Aston Martin Lagonda	2.7%	4	New
Restaurant Group	2.7%	3	0.1%
Victrex	2.6%	3	0.1%
Burberry	2.6%	3	0.1%
Signature Aviation	2.4%	4	0.0%
Crest Nicholson	2.4%	1	New
Intercontinental Hotels	2.3%	2	New

Source: FCA, as 24 June 2020

1-month EPS upgrades (top 25)

Wednesday, 24 Jun 2020		Forward EPS change		
Name	TIDM	1mth	3mth	1yr
Best of the Best	AIM:BOTB	148.4%	148.4%	267%
Gear4music	AIM:G4M	102.5%	102.4%	98%
Luceco	LSE:LUCE	75.8%	-44.2%	-38%
4imprint	LSE:FOUR	62.1%	-63.5%	-72%
Ramsdens	AIM:RFX	56.7%	56.7%	-54%
CMC Markets	LSE:CMCX	48.1%	64.9%	142%
Calisen	LSE:CLSN	44.7%	10.3%	-
McCarthy & Stone	LSE:MCS	43.9%	-87.2%	-
Saga	LSE:SAGA	38.7%	-61.8%	-68%
Antofagasta	LSE:ANTO	38.7%	-45.2%	-71%
Kingfisher	LSE:KGF	38.2%	-17.2%	-36%
Frasers	LSE:FRAS	35.5%	-48.2%	-26%
Hummingbird Resources	AIM:HUM	31.3%	57.2%	116%
Orchard Funding	AIM:ORCH	29.7%	29.7%	-24%
Asos	AIM:ASC	28.5%	-	-
Bloomsbury Publishing	LSE:BMY	28.0%	-34.4%	-37%
Venture Life Group	AIM:VLG	27.6%	62.8%	85%
boohoo	AIM:BOO	24.8%	5.0%	19%
TBC Bank	LSE:TBCG	22.3%	-	-
Urban&Civic	LSE:UANC	22.2%	-18.2%	-36%
Polar Capital	AIM:POLR	20.9%	-5.0%	-22%
Caledonia Mining Corporation	AIM:CMCL	19.4%	-	-
CRH	LSE:CRH	19.3%	-23.6%	-26%
Mattioli Woods	AIM:MTW	18.6%	18.6%	13%
Trackwise Designs	AIM:TWD	16.9%	15.8%	9%

Source: S&P Capital IQ

1-month EPS downgrades (top 25)

Wednesday, 24 Jun 2020		Forward EPS change		
Name	TIDM	1mth	3mth	1yr
Cineworld	LSE:CINE	-98.9%	-99.2%	-100%
MJ Hudson	AIM:MJH	-95.5%	-99.3%	-
Young & Co.'s Brewery	AIM:YNGA	-89.9%	-94.6%	-95%
Renewi	LSE:RWI	-87.4%	-89.8%	-93%
C&C	LSE:CCR	-83.5%	-90.0%	-
Renold	AIM:RNO	-76.9%	-82.3%	-87%
Biffa	LSE:BIFF	-71.9%	-78.1%	-78%
Draper Esprit	AIM:GROW	-68.4%	-68.4%	-73%
The Vitec Group	LSE:VTC	-63.8%	-81.3%	-87%
Steppe Cement	AIM:STCM	-57.6%	-57.6%	-63%
Blancco Technology	AIM:BLTG	-52.0%	-59.1%	-59%
Fuller, Smith & Turner	LSE:FSTA	-50.8%	-69.3%	-
Speedy Hire	LSE:SDY	-50.1%	-57.6%	-80%
Yourgene Health	AIM:YGEN	-50.0%	-50.0%	-
WH Smith	LSE:SMWH	-49.7%	-	-
Amigo	LSE:AMGO	-49.4%	-52.1%	-
Iofina	AIM:IOF	-47.3%	-47.3%	-3%
Grafton	LSE:GFTU	-46.7%	-67.5%	-73%
MJ Gleeson	LSE:GLE	-45.5%	-82.2%	-82%
Vp	LSE:VP.	-42.8%	-47.4%	-49%
Countryside Properties	LSE:CSP	-37.9%	-50.1%	-51%
Joules	AIM:JOUL	-37.6%	-42.3%	-76%
Vivo Energy	LSE:VVO	-37.2%	-48.1%	-55%
Costain	LSE:COST	-37.1%	-53.5%	-81%
Howden Joinery	LSE:HWDN	-36.7%	-51.9%	-51%

Source: S&P Capital IQ