NEWSLETTER
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Editorial

Achieving Better Investment Decisions

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Bill provides an update on various SIGnet initiatives plus what has been happening to his portfolio of shares. Chris Hardstaff from the Henley group has also written an article about his portfolio of shares and how it has been performing. I think it is always interesting to get an insight into how other investors operate and the reasons for their actions.

One of the Fundamental investment groups had a good face to face meeting in July to discuss various investment topics, but here we feature some aspects from the discussion on RWS, the language translation company. Does it still qualify as a quality company?

A book that was reviewed in the SIGnet newsletter back in September 2019 has cropped up in discussion recently and we have taken the opportunity to revisit the book since the behavioural issues discussed in it are still a problem for many, myself included.

Liking a company and what it provides is all very well but when our emotional self overrules a purely metric based decision making process it can result in us growing long ears, like the rabbit.

The SIGnet Challenge has three new companies in the top ten this month for you to check out. Whilst only two groups are currently 'in profit' in this competition, there are some really interesting stocks that have been chosen by different groups for you to investigate.

Please keep sending interesting articles about your investment discussions. Sharing your views and ideas adds value for all SIGnet members, forward to terry.nalden@sharesoc.org

Terry Nalden
Editor

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It has been a productive month for new initiatives in SIGnet.

- Steve Lowe of the Liverpool Group organised a successful first post-Covid company visit, to Bolton based Velocity Composites (VEL).
- I held the first virtual Induction Meeting for new members. The idea is to both welcome new members, and help them choose a Group to join. I will hold these once per month, and you don't have to be a new member to attend a meeting – if you don't have a group, or want to join a second group, just e-mail info@sharesoc.org and ask for the date and Zoom link for the next meeting.
- We are launching a new London Evening Group, the Convener will be Colin Farrier. The first meeting will be on Monday 25th September. An online pre-launch event will be held at 7.00 pm on Wednesday 30th August, you can sign up for this at https://www.sharesoc.org/events/signet-new-london-group-launch-meeting30-august-2023/
- We are planning to launch a Beginners' Virtual Group in October, details to follow. If you are interested please e-mail info@sharesoc.org and ask to be put on the Waiting List.
- We are restoring the post meeting discussions for ShareSoc company webinars. The first one will be after the CentralNIC webinar on 6th September. It would be useful to have a team of individuals able to host future discussions – any volunteers, please contact me bill.fawkner-corbett@sharesoc.org

In contrast, performance of my portfolio was less productive. It was up 1.2% in the month, positive territory but worse than either index I follow - the NASDAQ 100 (NDX) continued its Bull run up a further 6% in the month and the AIM All Share (FTAIE) climbed 3%.

Best performer was Future (FUTR), last month's brave buy to which I added early this month – it was up 20%. Worst performer was Zoo Digital, down a further 40% in the month and now showing a return of -60% on what I hesitate to call an investment. My lack of action fits the definition of a Rabbit in Freeman-Shor's book "The Art of Execution". It is an excellent book, well worth reading. A very useful review of the book appears later in this Newsletter. For sure, I acted like a mesmerised rabbit in the glare of a car's headlights. Zoo Digital shows I need to be more diligent at putting into practice what I read.

Better news came from two companies that I hold which reported positive results in the month. Kitwave (KITW) is a wholesaler delivering impulse products, frozen, chilled and fresh foods, alcohol, groceries and tobacco to approximately 42,000 mainly independent customers. It is growing both organically and by acquisition. It has proved a good purchase, returning 27% since I bought earlier this year, and 68% annualised. The first half results were very good, and the CEO declared that performance would be ahead of expectations for the year; broker upgrades followed. The one disappointment is some Directors selling to take profits, but Directors still have a very large holding of 17.2%. Stockopedia shows a modest forward PE of 10.9, and it seems to have further growth and perhaps multiple expansion ahead. It is currently the largest position in my Active Portfolio, at 5.4%.

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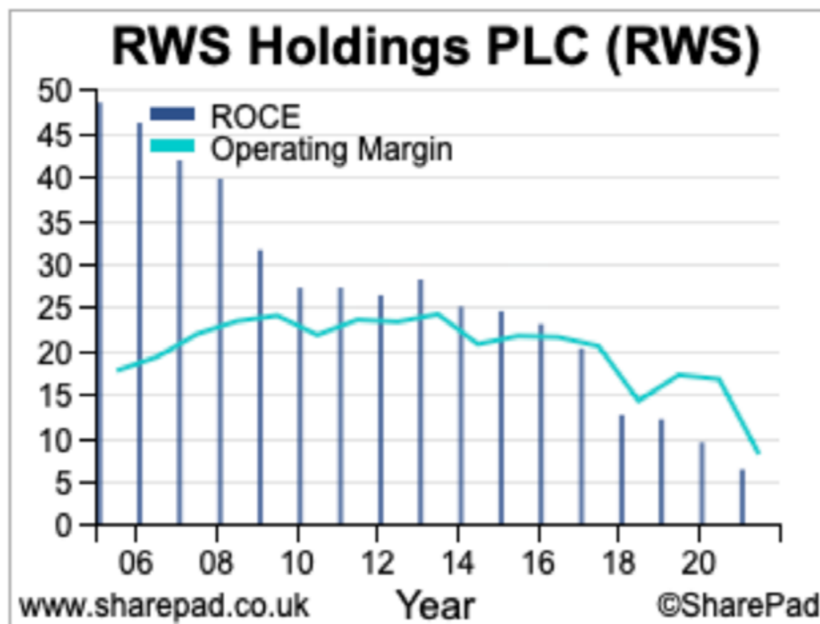
The second is Technip Energies (TE), a global engineering and technology company focusing on energy transition. It is based in the outskirts of Paris. It reported H1 results in late July. It has capabilities in LNG, Hydrogen, Offshore Wind and CO2 management; and has an R&D capability creating its own innovative products (over 4,000 patents). I have not yet had time to study the results. EBIT was down almost 5%, but this reflects the impact of a cancelled LNG project with a Russian partner. The very encouraging news is that the backlog rose 41%, and is now 2.9 x 2022 revenue. Government and corporate initiatives to abate global warming should be a significant growth driver for the company's business. And again Stockopedia shows a modest forward PE of 11.1, so multiple expansion is possible. It is the tenth largest position in my Active Portfolio, at 3.6%.

Bill Fawkner-Corbett

RWS and the Problem for 'Buy and Hold' investors



The New Fundamental Group met recently and part of the meeting was a review of RWS, the language translation business. A few years ago RWS was viewed as a good business that ticked plenty of boxes to be considered a quality company. The latest review highlighted some important changes in this business and the more recent metrics made our group question if this was still a quality company. This article is not intended to provide a detailed review of RWS but to highlight some headline concerns and then consider the behavioural challenges this presents for what was considered a 'buy and hold' stock.

RWS is financially strong, has been growing its profits, generates good cash flow and has regularly paid an increasing dividend. Over the years the business has changed with a number of acquisitions and recognition of the need to embrace digitalisation and artificial intelligence.

So how has it all been going?

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Well since 2006 the ROCE has been steadily declining to 7.0% for FY 2022.

The operating margin achieved was 26.5% in 2017 and has slipped back to 18.5% for FY 2022.

There has been a large decline in the profit per employee over the last 5 years which possibly suggests a poor realisation of the potential synergies from the acquisitions and loss of efficiencies.

The annualised total return for shareholders since the beginning of 2015 is 8.1%, however from 2018 that annualised figure is minus 6.3%. The impact of Covid was partly responsible, but the figure for 2023 to this July is minus 26.1%. The negative sentiment for many UK stocks is a big factor in this.

Now we never expect a company to have a steady straight line increase in its business over many years, there are often some bumps along the way, but clearly RWS has some problems to overcome. Can management rebuild the ROCE and if they can, how long will it take?

The group discussion then moved to the tricky part, should the holders have sold out of their positions before they reached this low point or should they invest more? We did not reach a conclusion but all recognised the rabbit dazzled by the headlights not knowing which way to jump.

I have heard investors say that one of the hardest things to do is to sell a stock that they have believed in and maybe held for a few years. If it goes off track, a natural reluctance to admit a mistake and sell out. Or a willingness to accept that the management might improve the company and return it to its former glory, particularly if you have met them and formed a positive opinion.

Bill has already mentioned the book by Lee Freeman-Shor called 'The Art of Execution', first published in 2015 and definitely worth reading, particularly if you lean towards a 'buy and hold' approach to your investing. In fact we reviewed the book in the SIGnet Newsletter of September 2019.

Even if you have read it a few years ago, it is worth re-reading because it is surprisingly difficult to break some of those old habits where our emotional self overrules a purely metric based decision making process.

Reproduced below is a review of the book from 2018 from which you can decide if you are an Assassin, a Hunter, a Raider or a Connoisseur.

Terry Nalden

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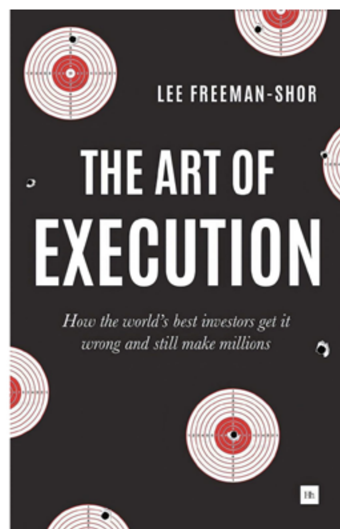
Book Review - The Art of Execution by Lee Freeman-Shor



Who is Lee Freeman-Shor? He managed a team of professional fund managers in London over a number of years, he analysed performances, patterns and identified behaviours. He then distilled his findings into this book.

The single most significant thing he identified was how you execute your investments.

To expand on that a quote from George Soros:

'it's not whether you are right or wrong that is important, but how much money you make when you are right and how much you lose when you are wrong'.

The author identified obvious behavioural groupings and for ease of reference gave them names.

Rabbits - Assassins - Hunters - Raiders - Connoisseurs

I am not presenting a detailed set of issues and solutions, just some examples.

Rabbits were the least successful. They suffered from a range of biases and influences that they failed to control.
When people make decisions they tend to reach a conclusion based upon the way a problem was presented. One of the rabbits' mistakes was allowing their favourite types of investments to dominate how they looked at a stock. They were good at making up stories to explain losing situations.

Whenever they were in a losing position they were capable of constantly adjusting their mental story and time frame so that the stock always looked attractive. Their first impressions were everything, they failed to update their view to match reality.

They were slow to acknowledge when they were wrong and make the required adjustments. The rabbits could not bear the idea of crystallising a loss.

Ego, being unwilling to accept that you are wrong. The author's research showed that you should expect to be wrong 50% of the time!!

What the rabbits could have done differently:
1) have a pre-determined plan when you buy if anything should go wrong with the investment.
2) the only solution to a losing situation is to sell out or significantly increase your stake.
3) doing nothing is not an option.
4) do not look for reassurance, seek out opposing views.
5) do not underestimate the downside
What separated the winners from the losers was simple - winners make small mistakes, the losers make big mistakes.

Assassins, when it came to selling a losing position they were ruthless. They were driven by a set of rules, not emotions. A successful system has the ability to recognise losers and kill them quickly.

Reviewing loss making positions over a few years they concluded that two thirds of the time you are likely to be better off cutting a losing position.

Hunters are often contrarian and take the view that when the odds are great and you have an edge you should invest big. If a stock you are invested in has fallen materially in price but nothing else has changed, the investment thesis is still intact, your odds will have improved significantly so you should increase your stake in the company.
Owning too many stocks spreads the risk but ensures you are unlikely to have any big winners. The Hunters were willing to concentrate their portfolios, sometimes having at least 20% in a single stock.

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Raiders, took a profit as soon as practical. Some raiders were able to identify up to 70% winning stocks but sold them when they made a 10% profit so they did not make very big gains. The raiders did not run their winners. Selling at a profit provides a nice feeling so they become addicted to it. Also short-termism is encouraged by how performance is measured in most investment companies.

Connoisseurs were the most successful.
They invested in a relatively small number of stocks, their very best ideas.
They added to their successful stocks.
They ran their winners.
They adapted when they were losing.
They only invested in liquid stocks.

Terry Nalden 2018

My Portfolio by Chris Hardstaff

Since joining SIGnet and listening to how others organise their investments, I have learnt to be more organised and structured in my investments. I've also found a lot of information sources I never knew about. Previously my portfolio was a hotch-potch of investments I'd made without a lot of thought to what I already held and balancing my portfolio. Now I run 3 discrete portfolios: all held in the same broker accounts (one ISA, one trading account.)

I have an income portfolio, which I religiously keep to 10 investments. Some are already high yielding shares, others are ones which are growing their pay-outs fairly aggressively.

Then, I have a strategic or "top down" portfolio. This is where I look at the world and decide which sectors or geographic areas are likely to do well. It is mainly populated by Investment Trusts, with occasional ETFs and sometimes individual companies (e.g. if I like the oil sector, banking or housebuilding I will tend to buy an individual company share.) I will use ETFs where the sector is rather too small to have a managed fund, and to invest in Government Bonds or commodities.

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And finally, I have the stock picking or "bottom up" portfolio, where I look for individual companies which I like. Typically, these are medium sized UK shares operating globally in niche markets and often market leaders (examples are Porvair, who operate in specialist filtration & SRT Marine, who are world leaders in maritime vessel identification and tracking). Usually, I am tempted by potential long-term growth. Occasionally I will buy something because it is cheap.

With all my investments I buy for the long term. The exception is where I buy a mega cap which looks cheap. Then I am happy to make 5-10% over however long it takes and enjoy the dividend in the mean-time. (Elephants don't gallop, but they can move around quite a bit.) For instance, I recently bought some shares in BAT, they are steadily growing profits, with a dividend yield around 9% and a PE under 9. It just seems too cheap.

Although I am a long-term investor, I do quite a bit of short-term trading within my existing holdings. I try to take advantage of market volatility to increase my holdings in companies and/or decrease my net investment.

I judge all my investments on the basis of the compound annual return, so making 5% in 3 months (equivalent to a compound annual return of 21.5% p.a.) is better than making 25% in 2 years (equivalent to 11.8% p.a.)

On a practical view, I check the London Stock Exchange website most weekdays some time after 7 a.m. to see what news releases there have been. If there have been none of interest to me, this only takes about a minute. My trading is usually done via limit orders. When identifying a share I wish to buy or sell, I also decide on the price I want, and set a limit order accordingly.

I usually check prices early on during trading and at the end of each day. However, I do have a quick glimpse several times during the day, though this is not part of my "good practice."

Shares which are new to my portfolio this year are:

-**Moneysupermarket**, which I bought because the travel side of their businesses was beginning to get busy again and at some point soon energy switching will return. Plus, it looked cheap on fundamentals. I bought in January at 191p, it's now at 274p.

-**DiscoverIE** – is a company I have been watching for ages, and finally took the plunge in March at a price of 794p. It's a volatile share which has been at 938p since I have had it, but it's slipped back to more or less where I bought.

-**Johnson-Matthey** is one of the biggest metal processors in the world, making catalysts and the like for all sorts of industries. For many years their cash cow has been the catalytic converter for petrol & diesel cars, but that is changing so they are developing new technologies in the same area – they recently sold their car battery development business to concentrate on hydrogen power. It's a long term play; but in the finals at the end of May I have seldom read a CEO so optimistic about the future business. I'm down about 15% on the trade to date, but still optimistic.

-**888** – since taking over William Hill their share price has plummeted but I think in the long term the synergies in the two businesses should prove it to be a good move.
Then they sacked their CEO for dodgy dealings in the Middle East causing the share price to drop further. Once they announced the limit of the problems and their enhanced optimism about the future I bought in April at 66p. It's now around 110p.

As previously mentioned, I also bought **BAT** because it was cheap. I bought and sold in February making 5.27% in 11 days. I have since bought back, and am currently up about 2% but it has also gone ex-dividend which adds another 2.22% to my trade.

I have also switched a couple of holdings in my strategic portfolio:

I changed my India investment from ANII to IGC.

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My Portfolio by Chris Hardstaff

The first tends to invest in larger Indian companies with international business, whilst IGC is more reflective of the Indian economy. Plus, IGC had out performed ANII for a few months. Since making the switch IGC is up 4.4% and ANII is down 2.5%.

I also changed my healthcare investment from WWH to PCGH. They have similar objectives but PCGH had been out performing and so it has continued since I made the switch, though the sector has not performed well PCGH is down 1%, WWH down 4%.

As for my practice of short term trading, I will buy small tranches of existing holdings. The way I do this is to buy X shares for £Y. I then set a limit order to sell 0.9X shares at a price to get back £Y. I usually get back a bit more money than I invested, so I increase my holding and reduce my net investment (provided the trade works of course). An example of this is with Luceco, which has seen me increase my holding this year by 2.6% and reduce my investment by 1.1% which does not sound much but it all helps and it gives me a bit of fun!

As for how well I've done, I can't claim great success, but I am just outperforming the indices this year. At the end of June my portfolio was up 1.36% on the year, while the FTSE100 was up 1.08% and the FTSE 250 was down 2.31%.

Chris Hardstaff - Henley Group

SIGnet 2023 Challenge

The Herts group have extended their lead and the Farriers group have moved into profit.

Most groups have improved their performance during July but both Cambridge and Oxford have hit very choppy waters and sunk to the bottom!

There are three new companies in the top ten this month, pawnbrokers H & T, Yu group who supply gas and electricity to small businesses and Tristel decontamination products for medical devices, boosted by FDA approval in July.

Saturday 1 July	% Change	Monday 31 July	% Change
Herts	5.45%	Herts	8.61%
Farriers	-2.39%	Farriers	5.59%
Leeds Veritas	-3.40%	Leeds Veritas	-0.68%
Liverpool	-7.41%	Northern Ireland	-3.72%
Northern Ireland	-7.99%	Liverpool	-4.01%
Cadnam	-8.13%	Kent	-4.53%
Leeds Originals	-10.94%	Cadnam	-6.6%
Manchester	-11.44%	West London	-9.1%
Midlands	-11.68%	Manchester	-10.62%
Kent	-12.96%	Midlands	-11.24%
Cambridge	-13.02%	Leeds Original	-11.8%
West London	-15.43%	Cambridge	-13.26%
Oxford	-16.46%	Oxford	-15.71%

Top 10 stocks to 1 July	% Change	Top 10 stocks to 31 July	% Change
Hummingbird	74.66%	C3al.inc	81.07%
C3al.inc	58.35%	Hummingbird	73.29%
NVIDIA	35.69%	NVIDIA	49.8%
Tesla	32.95%	Adobe	47.4%
Adobe inc	31.81%	Salesforce .com	34.78%
Koninklijke Philips Electronics	29.31%	Marks & Spencer	34.2%
Salesforce .com	26.47%	H & T Group	26.1%
Marks & Spencer	25.41%	Yu Group	24.9%
Driver	23.08%	Koninklijke Philips Electronics	23.6%
Games Workshop	20.34%	Tristel	20.3%

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Editorial, General Information and Membership Secretary Email: info@sharesoc.org

Telephone: 0333-200-1595 (Int: +44-33-3200-1595)

Web: www.signet.org.uk

Address: SIGnet, c/o ShareSoc, 20 Wenlock Road, London, N1 7GU.

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