



# Standing out from the crowd

It seems an awful long time ago, but when I would go to football training as a kid, I'd fret about what kit to wear, not wanting to stand out. My Dad would say to me "don't worry about what everyone else is wearing, you're there to do a job, it's not a fashion show".

It's fair to say my Dad was more Graeme Souness than Paul Pogba when it came to such matters.

Doing things a little differently takes a certain nerve, a certain confidence. Within fund management it's no different, however the confidence doesn't have to be in oneself, but rather in one's investment process.

If in complete isolation one considers where we are in regard to market valuations, easing back in to risk assets feels like the right thing to do, particularly considering bond yields have retraced somewhat since the start of December. Earnings have been robust and profit margins are close to historic highs, yet global indices have fallen.

Our investment process is highlighting that valuation multiples therefore are remarkably more attractive today than in Q3 2018.

I recently read a number of articles and blogs where fund buyers were offering up their 'top picks' for 2019 and I would say that the lion's share of such 'top picks' were in the form of an alternative or defensive strategy. This comes off the back of a reasonably grown up correction in most markets which I found a little surprising. Whatever is the opposite to the adage "The time to buy a straw hat is in the winter" comes to mind.

Those who know what we represent, would know that we don't find being bullish overly comfortable, therefore our observations are made with a large pinch of caution. There are many moving parts to this debate, and perhaps none more so than where we are in the monetary cycle.

Cheap and freely available debt has fuelled growth and geared up earnings, somewhat making forecasts as we move into a new economic regime difficult. We expect to witness change at all levels; monetary policy, fiscal policy and politically. This will change landscapes and without doubt, offer up pockets of material volatility.

We must be cognisant of that, but we must also be confident to say that we're seeing value in markets, and we're not afraid to say that we've been selling down our cash and putting it to work. If we don't buy the FTSE100 at 10x forward earnings when do we buy it? If we don't add to Japan on 1.1x price to book when do we? If we don't look at the domestic REITS on 42% discounts, when do we? The facts have changed in the past quarter, and therefore our stance has changed.

If we are true to ourselves that we invest for the medium to long term then we are absolutely right to deploy capital at this juncture. If we fret about standing out from our peer group at the end of quarter 1, then nothing of note will ever be achieved and existence is futile. We're here to do a job, not worry about what others are doing.

Chart 1: A snapshot of broad equity market valuations in October 2018 versus January 2019:

Index	02-Oct-18				02-Jan-19			
	Forward P/E	Price to Book	Price to Sales	Div. Yield	Forward P/E	Price to Book	Price to Sales	Div. Yield
FTSE 100	12.40	1.81	1.22	4.25	10.53	1.59	1.05	4.91
FTSE All-Share	12.49	1.82	1.14	4.07	10.54	1.57	1.02	4.72
S&P 500	16.29	3.53	2.28	1.79	13.19	3.01	1.92	2.15
NASDAQ	20.39	4.84	2.96	0.98	15.76	3.94	2.46	1.21
Russell 2000	21.40	2.39	1.21	1.38	15.63	1.92	0.98	1.66
Euro Stoxx 50	12.63	1.68	1.21	3.62	10.57	1.50	1.04	3.99
CAC 40	13.36	1.68	1.14	3.16	10.64	1.42	0.95	3.75
DAX	11.82	1.72	0.93	3.14	10.12	1.54	0.78	3.39
NIKKEI 225	15.24	1.93	1.17	1.72	12.94	1.54	0.95	2.19
TOPIX (Tokyo)	13.08	1.37	0.86	1.99	10.99	1.09	0.69	2.49
Hang Seng	10.01	1.27	1.84	3.72	8.72	1.17	1.74	4.00
CSI 300	10.19	1.68	1.29	2.32	8.01	1.43	1.07	2.65
KOSPI	8.69	0.96	0.60	1.87	7.57	0.81	0.51	1.65
Taiwan TAIEX	13.43	1.71	1.01	4.03	11.49	1.44	0.85	4.85
Thai SET 50	14.76	2.22	1.59	2.69	12.71	1.98	1.40	3.17
Nifty 50	15.87	3.01	2.36	1.28	15.79	2.87	2.18	1.48
MOEX Russia	5.66	0.88	0.86	5.44	4.98	0.81	0.75	5.92
Brazil Ibovespa	9.68	1.73	1.32	3.61	10.17	1.94	1.44	3.44

Source: MitonOptimal; Bloomberg



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