Insights, Tacit Thought | Weekly Investment Insights

The Ick Factor

Published on: 11 January, 2019 | Author: Investment Team

No it's not a Simon Cowell spin off show. But it is something that gets our vote. The investment community regularly borrows language from the outside world. Take the word catalyst for example. It's normally used in the context of a chemical reaction. A catalyst, in investor speak however, is an event that has a significant effect on the price of a security.

Some investors search for a catalyst before making any investment. While this can be useful, sometimes it's just not necessary. Think about it. The combustion reaction occurring in your car engine doesn't have a catalyst yet manages just fine without one. The valuation of an asset when you purchase it is often all it takes to make good returns.

In investing, there are no certainties but with RPI currently at 3.2%, buying a 10-year gilt yielding 1.26% is one of those few perverse certainties that guarantees you'll lose money in real terms. The ride may be smoother owning gilts but a trip straight to financial hell might not be worth the journey. At Tacit our focus is primarily on growing the 'real' value of our client portfolios and therefore we must embrace certain risks in the current environment.

The table shows the five largest equity holdings in the Real Return strategy at present.

	Price to book	Dividend Yield	10 Year Gilt
BP	1.31	5.88%	1.26%
HSBC	0.89	5.81%	
Royal Dutch Shell	1.26	6.08%	
Lloyds	0.8	5.82%	
Vodafone	0.76	8.66%	
MSCI UK	1.58	4.97%	

Source: Bloomberg and Reuters Eikon as at 09/01/2018

The top five equity holdings all trade on par or slight discounts to the broader UK market, which is already on a mark down to global equity markets. They also give a stream of dividend income that yields higher than inflation.

The price to book value is a proxy for the liquidation value of a company and values less than 1.00 are indicative of cheap evaluations.

Compared to historical valuations, these companies are trading cheaply. And this is where the ICK factor kicks in with the sheer disdain in which some UK stocks are held by overseas investors. For example, some brokers in the US refuse to

buy global oil companies simply because they are listed in the UK. If we look at BP and Shell for example, about 80% of their revenue is generated outside of the UK. Irrational herd behaviour of this nature begets opportunity.

With low valuations, solid balance sheets and a high current dividend yield, a specific catalyst is not required: sheer value will be enough over time.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.