

STRATEGY FOR Week Commencing 3 August

Last week it was reported that the U.S. economy suffered its biggest blow since the Great Depression in the second quarter as the COVID-19 pandemic shattered consumer and business spending, and a nascent recovery was under threat from resurgence in new cases of coronavirus. The bulk of the deepest contraction in at least 73 years reported by the Commerce Department occurred in April. This is not an isolated fact and similar contractions of business activity were reported in all major economies. The impact of the pandemic continues to devastate business with particular sectors hit hard. What is the answer to the risk on effects currently in vogue? I have always been an advocate of diversification which provides some comfort in times of uncertainty. Looking at correlations between shares is a useful technique as negatively correlated high BETA shares ensure that when markets fall a portfolio can be protected through hedging. This week's focus is on concentration risk. Thanks to the big tech stocks that are known as the fab five Microsoft, Amazon, Google, Apple and Facebook, These constitute a significant amount of the most important equity index in the world, the S&P 500, suggesting it has become historically top heavy with these shares. For the first time since 1979 only five stocks account for more than 20% of the S&P 500 market cap. Back then it was IBM and IT&T. with more than 6% weights each followed by General Motors, General Electric and Kodak. Interestingly, Kodak diversified from photographic development and into Covid which has seen exponential growth in its share price as of late. Over the last year the top five stocks have accumulated an additional 5% of the market cap relative to the other 500 stocks in the index exceeding their rate of growth in 2000. The rate of growth in their market shares looks like were partying like 1999 [And we know what happened with the bubble of the 2000s] This is telling us concentration risk is approaching levels decidedly weighted to the Fab five. Any significant change of fortunes would have a marked effect on the performance on sector specific indices. The month of August normally has the second lowest average monthly returns for 70 world equity markets, surmising that August is not a good month for equities. In an average month for August the market tends to drift lower for the first couple of weeks and then increase for the final two weeks of the month. Last week volatility ensured that the portfolio managed to keep in the positive with a +0.32% increase. The recent sterling performance of BATM advanced communications came to an abrupt halt last week with a -12% decline as a result of Israel government's Grand Corona Law changes potentially affecting BATM futures performance. Omega diagnostics stood firm with consolidation in its share price around 60p. Spirent Communications regained momentum +10% weeks on week ending last week at the top end of the price range with a £2.80 price. Recent interest has led to Spirent enjoying momentum to the upside. Segro my recent acquisition saw a 5% increase vindicating my decision to reinvest in this share. Segro being my Brexit trade a topical choice given the continuing uncertainty of trade negotiations that look set to go to the wire. SAGA saw a -7% decline possibility fuelled by the continuing uncertainty of the pandemic on the travel industry. Reviewing the progress of SAGA will be on my agenda for the prevention of deterioration in further share price performance. House builders Bellway and Redrow saw weekly declines of -3%. US pharma shares again showed little promise with Catalyst Pharmaceutical continuing to disappoint and first for potential disposal. I may look at reconfiguration of US shares in looking for alternatives if continued performance continues to disappoint. This week I will continue to review and monitor positions buoyed by the fact that July proved a profitable month. Until Next Time. [STRATEGY FOR Week Commencing 27 July](#) [WC20 July](#) [WC 13 July](#) [WC 6 July](#) [WC 29 June](#)