

Strategy Commentaries for August 2022

Week commencing 22 August – August has so far been a resilient month for markets. However seasonal trends suggest a more realistic approach as one sees a potential reset to the end of August. Courtney Smith a well respected investment legend commented on this in his weekly wall street winners video. One has always to take notice of such a well respected commentary. [CLICK HERE to view](#). A sea saw of divergent contradictions seem to be on hand between the US and UK. Inflation has become a thorny issue as of late. In the US, sentiment did filter through to markets on the potential slowing down of inflationary pressures. On the other side of the pond in the UK, last week's double digit inflation reported 10.1% with an expected projected uplift to 13% by the Bank of England has contributed to 'the cost of living crisis', further eroded by falling sterling now at \$1.18, thereby providing further inflationary pressures. The once regarded UK low inflation high growth economy has been blown out of the water as exiting Prime Ministers Johnson departs leaving the long awaiting replacement Truss to take over the helm. The soon adopted policy initiative of tax giveaway helicopter money are unlikely to work since money would be redirected with inequitable distribution. Perhaps Truss needs an economic lesson in the marginal propensity of tax, its consequences and the redistributed effects of an ill thought out strategy. Energy has been my favoured sector as of late. Yet one must be aware on changing parameters. WTI crude futures closed a choppy session under \$90 per barrel mark last Friday [19 Aug], marking a 2.5% decline on the week amid increasing concerns of a global economic slowdown. Recession fears continue to exert pressure on energy markets, with Fed minutes signalling a strong commitment to bring inflation substantially down while the BoE and the ECB are also expected to remain hawkish. US crude inventories were seen sharply lower last week, while European companies scrapping for alternatives to Russian crude ahead the start of the EU's embargo further tightened supply expectations. The portfolio saw a 1.16% increase week on week [the fifth increase in a row] so I fully expect an adjustment as one goes into September. Long standing Share ON semi-conductors was sold last week as a price target of +30% profit was achieved. The holding period of return for ON had been less than satisfactory. Shares are not ones friend, and portfolio management will always look to displace the ones that could do better. Jupiter Fund Management was sold after continual poor share price performance. Jupiter was bought for dividends re-emphasizing the fact that shares prices that go ex dividend normally lose their value. The important thing is share price recovery and Jupiter seem to have lost its vava vroom. Replacement share Nat west group again another dividend payer will pay a handsome dividend. A further involvement in gas energy was made to replacement share ON with Chesapeake Energy. Gas has taken high profile as of late and I have taken focused concentration on Liquid Natural Gas companies as they provide an anti-dope to countries that use blackmail in Gas supply through static pipelines. A share Review on gas share EQT corporation can be seen on the share review page for further insightful commentary including my Technicals interpretation. This week will be one of review but if a price target is achieved on video and marketing share Harmonic then profit retention will again be on my agenda. Have a good week. Until Next Time.

Week commencing 15 August – Market breadth and market sentiment played an influencing factor in last week's uptake in US markets. News that inflation was on a temporary reprieve suggesting a slowdown in US inflation spurred the three main US indices to welcome highs. A resurgence or A false dawn! Leading economic indicators such as the Purchasers Managers Index and the University of Michigan Consumer index provides a useful barometer on market sentiment. A rating of 50 is a threshold level. Anything below 50 is treated as recessionary, anything above 50 expansionary. The University of Michigan consumer sentiment for the US increased to 55.1 in August of 2022 from 51.5 in July, the highest in three months and beating market forecasts of 52.5, preliminary estimates showed. Yet one must always be on one's guard. The yield curve in the US approached zero level a pre-emptive warning sign of recession in six to nine month's time so be warned. In the UK alas BOE warnings of an immediate slowdown was confirmed last week with negative growth in GDP [the UK GDP contracted 0.1% in Q2] and expected inflationary pressure continuing to levels not seen for many a year to 13%. Combining that with winter poverty on energy costs expected for many, leaves a not so comfortable read for politicians whose absent when their needed most and their delusional self-importance on leadership contests is unbelievable. August has so far proved to be a welcome month for stock market performance as earnings season has provided much needed optimism. Yet one must be conscious of the seasonal time of the year with possible black swan events appearing out of nowhere. The conflict in Eastern Europe has raised the awareness on the impact on energy supply and who supplies it. This in itself has raised the prospect of looking at others forms of alternative energy. A trade idea often springs out from opportunity. Green energy as against fossil energy provides ample opportunity to look for opportunities such as Solar, Wind, Hydrogen, Rain fuel. Keeping abreast on new technological opportunities allows one to explore the future before it becomes mainstream. That being said, last week I included in the portfolio a share EQT corporation dealing with natural gas production. EQT mission is to replace international coal with American natural gas being the largest green initiative on the planet and the world's best weapon to address climate change. EQT is particularly a tuned to Liquid Natural Gas, a market that has huge potential. This share was a replacement to my hugely successful trade of New Fortress Energy which was disposed of purely because it had reached a 50% profit target. This case reiterates the point that a disciplined trading system ensures that one knows exit entries before one takes a trade thereby ensuring that one does not fall foul of profit dilution. The profit on NFE another gas-to-power infrastructure company, engaged in providing energy and development services had reached a price level that enabled one to take good profits. Energy, Energy, Energy has been the place to be in preference to Technology. Portfolio management is about awareness and adaptability on trends and sectors that are hot to trot or cold to freeze. Who can tell whether energy sector is the place to be in six month's time! Yet taking profits on NFE was a no brainer. Wash, rinse and repeat is the strategy adopted with EQT a replacement trade with a stop loss activated thereby protecting previous profits made. The portfolio continued to recover with summer heat with a +3.71% increase. There were robust increases week on week in Devon Energy +15%, Oneok Inc 9%. Last week shares that went ex-dividend saw price retrenchment as per normal when shares go ex divi, with US share Dianna Shipping -4% and UK stocks Jupiter Fund -6%, ME Group Int -3%. Technology share ON semi-conductors a long standing share saw spirited performance with a 4.5% increase. Return on Investment over a holding period for ON has been less than favourable and disposal may be in the offering with the technology sector still at a testing time. This week I will look at target prices with a possible replacement strategy for shares that have gone Ex divi or long standers that continue to struggle like the hot weather. Until next time.

Week commencing 8 August – Top down or bottom up economic diagnosis is often an approach that analysts use to determine the pathway in making trading decisions. The top down world view was in open view last week as geo political tensions in Asia took centre stage. Sabre rattling can cause misunderstanding which can manifest itself in economic and trading consequences. The bottom view where economies are reeling from the effects of pan world inflation, mean economic disharmony now in evidence in major economies. Central Banks throughout are now adopting a one size fits all policy of interest rate manipulation. The days of cheap money are now over and interest rate hikes with all its consequences will now become flavour of this era. The Feds 0.75% and Bank of England's 0.50% rise is probably just transitional as inflation now exceeding 10% plus mean further interest rises by the central banks a foregone conclusion. Consumer credit in the United States increased by USD 40.15 billion in June of 2022, up significantly from an upwardly revised USD 23.79 billion gain in the previous month and well above market expectations of a USD 25 billion rise. It was the biggest monthly gain in consumer credit in three months while the US economy added 528K payrolls in July 2022, well above Wall Street expectations. So hence the Feds reason to increase interest rates to choke down the economy. In the UK the fashionable lexicon phrase 'cost of living crisis' now being bantered around as the protagonist like a political pawn designed to capture the hearts and minds of the masses. One must not assume that economic relief will be provided by the Government and trading provides a means of independence. One only needs to navigate the markets, not such an easy task given the derogatory performance in 2022. One must always adapt strategy depending on changing circumstances. In recent weeks I have concentrated on dividend income stocks where one actually buys guaranteed income by holding stocks on ex-dividend dates. This strategy has been overlooked by many but this strategy enables one to acquire income which in these days is a worthwhile consideration. Last week the portfolio saw neutral increase of +0.63%. Last week shares in Antero midstream was sold after Ex divi and replaced by another dividend stock of Dianna shipping paying equivalent of 18% pa dividend. For the astute among you one can see that a comfortable forward dividend being available down the line. There is obviously a health warning as once stocks that go ex-dividend the stock normally fall in price, so be warned. The downside performance of Devon Energy losing -9% week on week is an example of a dividend stock that has struggled so one needs to balance as always risk against reward. Exiting of shares at particular points again plays a key role. Both New Fortress Energy with a 4% increase and recent acquisition ME group International both showing resilience last week. My strategy has been recently to shift from growth to value, but as always this this will be adapted in accordance with changing circumstances. This week again will be one capturing income generating stocks with possible disposal of long standing shares that reach their target. Until next time.

Week commencing 1 August – Is it just possible that there is a turn in the US market I wonder. July saw US stocks enjoy their best month of 2022. US stock indices ended last week in the green, marking their best performances in 2022, supported by strong earnings from tech giants like Apple and Amazon. In the UK, the FTSE 100 rose 1.06% to end at a 7-week high of 7,423.43, booking a 2% weekly gain, and marking their strongest performance since December 2021 as a jump in commodities and upbeat corporate results outweighed fears of economic slowdown. Interest rate recalibration would now seem to be flavour of the month. The FEDs latest 0.75% interest rate increase has multitude consequences not only to the bond market [inverse relationship price of and interest rates] but exchange rates and cost pressures. Interest rates have been kept at artificial levels for many a year as markets have been kept on steroids with cheap money. This week the Bank of England will also address inflationary woes with an expected 50 bps. Yet with inflation running at 9% per annum one must be sceptical that minor changes will really make any real difference. The 1970s saw cost push inflation and so here we are again 50 years and back on the merry go around.

So what's the answer I here you ask to navigate the financial world with increasing interest rates and accelerating inflation. Sector and specific stock selection would I suggest is a possible way forward. Media talk is now highlighting Recession as the likely outcome of the measures that are now being put in place by Central Banks. Dissecting the business cycle and looking at sectors and stocks that do well in the upcoming recession is a worthwhile strategy to consider. Defensives stocks probably now coming into their own as decisive approach. One hopes that August continues from where July left off putting June in the history books. Oil stocks continue to bounce around like a yoyo with Gold traditionally a safe haven but out of the news. The Crypto fraternity have recently been burnt with the significant declines experiences. The portfolio has of late been in recovery mood with a +2.73% and +4.24% over the last two weeks. One useful technique is to look at Return on Investment over the holding period of a stock. The lousy return over the year on Akamai Technologies over last year led me to dispose of the share even with a reasonable profit. Following on from last week's commentary on concentrating on dividend stocks as a way of generating income, new share acquisitions on UK stock Photo-me –International, US infrastructure stocks Oneok Inc and Antero Midstream ensures the benefit of good paying stocks. Photo-Me International plc operates, sells, and services a range of instant-service equipment in the United Kingdom, Continental Europe, Ireland, and Asia. Recent US purchases have been acquired with defensive infrastructure in mind. Antero Midstream Corporation owns, operates, and develops midstream energy infrastructure. It operates through Gathering and Processing, and Water Handling segments. ONEOK, Inc., engages in gathering, processing, storage, and transportation of natural gas in the United States. It operates through Natural Gas Gathering and Processing, Natural Gas Liquids, and Natural Gas Pipelines segments. This coming week a review of recent purchases and the volatility of gas energy costs will take precedence with New Fortress Energy and Devon Energy continuing to accede to new highs. With earnings season now upon us next week could prove vital in the fortunes on the shares in the portfolio. August be a month of good cheer por favour. Until Next Time.