THE SCOTTISH Investment Trust

The CONTRARIAN

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ANALYSIS AND INSIGHT FROM **THE SCOTTISH INVESTMENT TRUST**

Getting our ducklings in a row

As investors, we can never know exactly what the future holds. Instead, we can only make a realistic assessment of risk and reward. At the moment, many of the risks facing investors top the daily news agenda. Faced with trade wars and Brexit uncertainty, there is a growing consensus that global growth is slowing. Meanwhile, the US Treasury yield curve has recently inverted – an ominous, though not infallible, signal of looming recession. Companies, industries and economies all move in cycles. Our contrarian approach seeks to anticipate changing conditions.

Confidence boost

Despite signs of fading economic growth, stockmarkets have marched higher this year, notwithstanding a few summer wobbles. In fact, at the time of writing, global equity indices sit close to their all-time highs. The main reason for this being the dovish turn taken by central banks in response to faltering economic data. In July, the US Federal Reserve cut interest rates for the first time in almost 11 years. Other central banks are poised to unleash fresh stimulus.

Such monetary easing seeks to boost the economy by providing cheaper loans to businesses and putting more money in the hands of consumers. But it also gives markets an artificial boost – because it makes speculative investments more attractive and because it makes depositing money in the bank less rewarding.

Central bankers can't stop the turn of the economic wheel forever, though, we're firm believers that all economies and industries move in cycles. It's difficult to predict exactly when any setback might happen but we believe that it's important not to be caught off guard when it does.

Out of kilter

We're much less alarmed by the economic outlook than by the way in which the market's risk and reward calculations appear so wildly out of kilter. The dislocation between investors' appetite for risk and the economic facts can only stretch so far before the elastic snaps back.

As we see it, many investors have become increasingly blasé about risk. The market's

Continued: Overleaf

ABOUT

The Scottish Investment Trust

At The Scottish, our experienced team actively manages a high conviction, global investment portfolio with the aim of generating above average investment returns over the longer term for our investors.

Our contrarian approach is benchmark agnostic and aims to benefit from profitable opportunities in any market environment.

Founded in 1887, the trust has a long tradition of providing shareholders with an accessible, low cost way to invest in companies from around the world, whilst further boosting returns through the provision of a growing dividend.

The Scottish has grown its regular dividend every year for the last 35 years. Our independently managed, closed-ended fund structure allows us to be patient with our investments.

Continued From: Front Page

enthusiasm for unprofitable technology companies is a case in point. History shows that new and alluring investments are often met with initial excitement. But even successful technologies can ultimately become poor investments as shares reach levels that cannot be justified by the underlying profitability. Such bubbles can deflate under the weight of changing economic conditions.

An active approach to risk

Passive investors have no choice but to go along for the ride – buying more of what has already become inflated and less of what has fallen out of favour. Active managers, like The Scottish, can take a different course of action.

One way we do this is by avoiding stocks that look overpriced and investing instead in 'ugly ducklings'– unloved companies with potential to recover. Their share prices already factor in a lot of bad news. We like getting our ducklings in a row in this way because having valuation on your side can be an advantage when conditions take a turn for the worse. It also means that they are much better placed to surprise the market positively.

Plucky ducklings

At the same time, we've been finding opportunities in companies that offer products and services for which demand is relatively stable throughout the economic cycle. They include gold and telecoms stocks.

We've seen undervalued opportunities in gold miners for some time. But the latest twist in President Trump's trade war has brought this opportunity into even sharper focus. The president's accusation of currency manipulation by China has prompted fears of competitive devaluations. Gold's ability to act as a reliable store of value shines through here. Governments can't manipulate the gold price, and nor can they create the precious metal in unlimited quantities – unlike fiat money. So, as the value of money falls, gold benefits. The prices of gold stocks have perked up in response to this new environment.

We have recently added a number of telecoms stocks to our portfolio. With the internet now an integral part of our lives, it is a service that we would struggle to give up, even in leaner times. With new 5G and fibre services emerging, we see signs that the regulatory cycle is moving in favour of these companies – incentivising operators to invest through the prospect of better returns. Meanwhile, the robust finances and compelling valuations that can be found offer considerable attractions – as do their solid dividends.

A sustainable dividend income can cushion the blow of a bear market, providing a steady source of returns. In turn, we aim to reward our investors with a robust dividend through thick and thin.

Favourable balance

Risk always goes hand in hand with returns. It can be easy to be seduced by the prospect of exciting returns but without paying sufficient attention to the associated risks. Striking a favourable balance is at the heart of our contrarian ethos. By selecting investments that have already priced in bad news and by avoiding those priced for perfection, we aim to keep portfolio risks to a minimum while seeking opportunities that look ripe for improvement.

9 September 2019

A wise owl knows

That long-term financial planning is important, especially when it comes to providing for your owlets. There are a number of tax-efficient ways to invest for children including Junior Individual Savings Accounts (JISAs) and even Self-Invested Personal Pensions (SIPPs).

Currently, the Junior ISA annual allowance is £4,368 and Junior SIPP contributions of up to £2,880 per annum receive government tax relief. Those and a myriad of other options are available through share dealing platforms, stockbrokers and other financial intermediaries.

It should be remembered that the value of any tax benefits depends on your individual circumstances and tax rules may change in the future. We are unable to provide individual investment or taxation advice. You should consult a professional adviser should you require such advice.

Investing in your children's future

To our readers who have children, it will probably come as no surprise to hear that British parents are estimated to spend an eye-watering £1.2 billion to send their children back to school, according to market intelligence agency Mintel. From uniforms to computers, parents spend more and more to kit out their children for the new academic year.

Most people want to give their children the best education they can afford, which can mean financially supporting them from school all the way through university – with the hope of achieving better prospects later in their lives. So, what steps can parents (or grandparents) take to meet the long-term costs associated with education, and to ensure their children's head start?

Time horizon is key

It cannot be stressed enough how important having a long-term financial plan is. The earlier you start putting money away, the more likely you are to build a substantial fund, as your money has time to accumulate over a larger number of years. Regular investing, even if it's a relatively small sum, can also reap rewards. Although not guaranteed, equity markets have historically increased in value over the long-term. Conversely, they tend to be more volatile in the shorter term (often in line with the economic cycle). By putting away money every month, you can smooth out these fluctuations – an effect that is called pound cost averaging, particularly important with many years ahead for the child.

There's also income compounding to consider, which occurs when you invest in an asset and your dividends are reinvested. Over time, both your original investment and this reinvested income can grow. The benefits of pound cost averaging and compounding can be big attractions for parents and that's why it's worth starting to invest early for children's education, even if they're not yet at school. A timely start can make life a lot easier when school fees or university living expenses fall due.

Investing can be for everyone

Technological change has broken down many barriers, giving parents (and indeed all investors) information and opportunity that would have been out of reach previously. Investing is more accessible than ever thanks to the rise of online, often low-cost, share dealing platforms.

Whether you're looking to invest a small sum every month, or to gift larger lump sums, there are numerous options available. The major share dealing platforms typically offer products appropriate for investing for a child's future. These may give access to shares that are traded on a stockmarket, including investment trusts.

Long-term investing with the Scottish

Here at the Scottish, our focus is to manage a global equity portfolio. The way we invest is very much with an eye to the long-term. In addition, our aim is to grow our dividend ahead of UK inflation – we've accomplished this in each of the last 35 years, qualifying as a 'Dividend Hero' by the Association of Investment Companies.

Our approach – at a glance

- We're contrarian investors, which means we take a different view from the crowd. This lets us curate a portfolio of unfashionable and undervalued stocks that are ripe for improvement.
- Our diversified portfolio consists of our best ideas on a global basis, spread across sectors and regions.
- Our independent, closed-ended structure aligns well with the long-term goals of our investors.
- We offer one of the lowest Ongoing Charge Figures (OCFs) in our peer group which is valuable as a small difference in OCF can affect an investor's return over the long-term.

Please always remember – if you're unsure about investing, or are worried about making any decision, you should always speak to a professional financial adviser.

Curious to learn more?

Visit our new online learning hub

Whether you are starting out on your investment journey, want to think a little more like a contrarian or are just looking for some inspiration – we hope there will be something there for you.

Watch our first video series presented by Iona Bain, 'Money... what's it all about?'.

And if you enjoy it – please don't forget to share it!

www.thescottish.co.uk/learning-hub

More ways to connect with The Scottish...

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