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Personal
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“We are going to see a spectacular recovery in corporate profits. So you want to buy the riskier stuff”

Sterling tip from the Argonaut bull

What is the next great investment story? Not the emerging market consumer, according to Barry Norris at Argonaut. He argues that there has never been a better time to buy British.

Never mind the GDP figures, feel the stockmarket. Despite the appalling official data on the underlying economy, there appears to be no shortage of fund managers ready to tell you that we're only at the start of a long boom in share prices.

At M&G's annual investment dinner last week, the firm's head of equities gave a stirring rendition of the case for optimism. Over at Fidelity, Anthony Bolton says you may have missed the absolute bargains of earlier this year, but it's still reasonable to expect a “multi-year bull market”.

But possibly the most bullish (albeit in a more contrarian way) is Barry Norris at Argonaut, who manages the £311m European Alpha fund for Ignis.

Norris is guided by mean reversion. For the past 10 years we have had a bull market in emerging markets and commodities. Over the same decade we have had a bear market in US, UK and European equities. What you buy now is quite simple: junk your pricy emerging market stocks for bombed-out western equities.

“For the last 10 years, the average investor has earned nothing on equities. Most UK investors have, as a result, diversified, and are probably more diversified than they have ever been, going into ever more exotic markets,” says Norris.

He says that the worst outcome for global asset allocators would be if UK stocks started outperforming. But that's probably what's going to happen, after sterling's dramatic fall.

“Unless you think we are fundamentally doomed – which I don't – then this is a great time to buy sterling assets,” says Norris. “I wouldn't be surprised if the UK market is one of the best performing markets over the next year.”

Hold on. Norris runs a Europe fund. Is he telling us to get out of European equities and into UK equities?

He is not. Norris is one of those unusual European fund managers who sees Britain as part of Europe. He runs his portfolios on a pan-European basis and at present sees some of the better opportunities in UK stocks.

His perspective on markets is truly global, perhaps testament to his years at Neptune before he quit to set up Argonaut. Unlike other fund managers, he doesn't dodge the big questions about currencies, asset allocation and market timing. For example, he thinks investors should be paying close attention to the behaviour of the dollar.

He says: “In this decade we have had a long period of dollar weakness. In the 1990s there was a long period of dollar strength. Since 1999 the dollar has halved against the euro. A weak dollar has been good for emerging markets because they are effectively all pegged to the dollar. So if you compare a Chinese shoemaker with an Italian shoemaker, the Italian has lost out massively because of the halving of the dollar.”

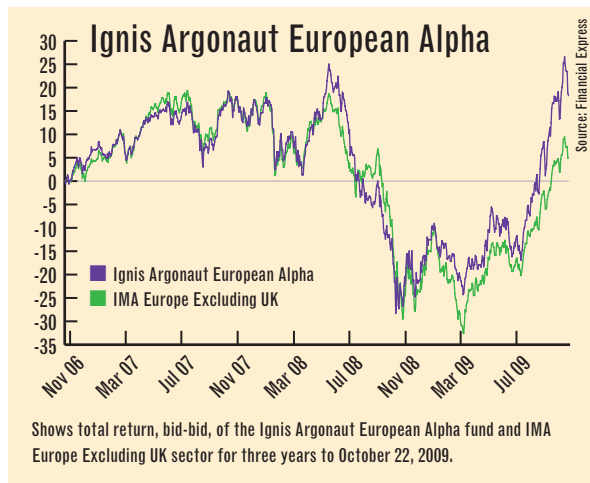
Norris is not necessarily predicting a strong rise in the dollar, but he says the currency model that has sustained emerging market economies will not last much longer.

Unlike so many other fund managers, he is not convinced that the emerging market consumer is the next great investment story. Norris says that consumer demand as a proportion of GDP in China is falling year-on-year and that the country remains wedded to an export-led, low-value-added model.

He says the best parallel for British investors is the period 1973-74. The best time for a stockmarket is when things start becoming less bad.

“You move to the position where banks are no longer so over-leveraged and start lending again. Most major economies will grow above trend from Q4 2009 onwards.”

Given the shock third-quarter figures for British GDP,



isn't this a tad over-optimistic? Norris acknowledges that we have been in a “sweet spot” for the past couple of months, and that there is a risk of a double dip, when central banks start raising rates. But until then, markets look attractive.

Given his global outlook, it's no surprise that he is out of emerging markets and defensives and into cyclicals – especially autos and financials.

He likes Daimler, which is about 50% above its €20 (£18) lows. “It's still trading at cyclical lows, yet it has got rid of Chrysler and paid back all of its debt over the past 10 years.”

In financials, he likes the institutions that are not too heavily geared towards China. In Norris's view, you should never invest in the country that has the world's highest market-cap banks. A few years ago that was Britain. Today, the world's biggest bank is Bank of China. “Standard Chartered and HSBC are trading within 10% of their all-time highs. RBS and Lloyds are 90% off their highs. One of the most amazing things at the moment is that the market is so risk averse, when we are in the early stages of a bull market.”

Valuations are hugely attractive, he says. “Since 2007, corporate profits have fallen 50%. The market today is on 14 times earnings. In every cycle, aggregate earnings hit a new peak, which suggests that we should go up 100% from here. That puts today's stocks on seven times earnings.”

“We are going to see a spectacular recovery in corporate profits. So you want to buy the riskier stuff. The biggest chance you have of losing money is if you buy the stuff that has gone up most over the last 10 years. That's emerging markets, government bonds, cash. They all did spectacularly well.”

But I'm still a little confused. Don't these arguments push you away from Europe and towards Britain? He accepts that the euro will not be the friend it has been over the past six months. But he says that in European stocks you find the highest beta in terms of the industries you are exposed to.

Buying Europe but hedging against the currency is one strategy, and Norris is considering it, but not quite yet. “We are thinking of a partial hedge,” he says. He is also, perhaps not surprisingly, thinking of launching a UK-only fund.

I have not said much about performance. But there are not many questions to ask. Ignis Argonaut European Alpha is top decile over virtually every period. Norris has mixed top-down macro views with brilliant stockpicking. Advisers have foolishly ignored Europe in the dash into emerging markets. This could be the fund to restore the balance.