

## **An Evaluation of the Current If G Portfolio**

*by Jim Shoesmith, June 2005*

### *Introduction*

I have just started subscribing to If G and am now preparing a series of notes to help me understand their methodology and their resulting portfolio and recommendations. I am putting these notes on the website as they may be of use or interest to other existing or potential If G subscribers. And others may be able to help me with comments on these notes.

This first note provides an evaluation of their current (May 2005) portfolio. There are clear limitations in this approach, but it should provide some useful insights; the limitations should not prove too dangerous providing that too much is not read into them.

### *The Portfolio*

There are 35 investments in the portfolio: 33 companies and 3 unit trusts, these trusts are being ignored during this evaluation as it is company investments upon which I wish to focus. 33 is a high number of companies for a portfolio (The Zulu Principle talks of 10 to 15 being the most desirable number). Comments anyone?

Some 13 of these companies have been recommended twice, there are therefore 46 recommendations.

The portfolio is divided into 7 groups, as set out below; though I am not sure that these groups are particularly meaningful: any helpful comments here?

<i>Group</i>	<i>No. of Companies</i>
Blue Chip Stalwarts	2
Zulu Principle	4
Prospective Zulu Principle	9
More Aggressive Growth	15
High Yield	1
Natural Resources	1
Take-Over Target	1
<i>Total</i>	<i>33</i>

It is the 46 recommendations (= share purchases) that are now evaluated.

### *Evaluation of Portfolio Recommendations*

The portfolio recommendations have on average only been held for about 14 months; surprising short for a 'growth' portfolio which should imply longer term holdings, but If G say that theirs is not a long-term-hold portfolio. The oldest has only been 'held' for 4 years and 6 months.

The overall annualised percentage increase in the share prices is 15%. Something must be added for dividends received, precise data is not readily available but as most

are low yield this would only add about 1 – 2 percentage points. The overall gain is therefore, say, 16-17%: impressive! Though given the short (14 month average holding time) this may be due to the current recommendations rather than a solid record of long term success.

Over 75% of the recommendations are now at a share price higher than at the time of the recommendation. A 3:1 success ratio must be considered good.

### *Index Comparisons*

Comparisons with an index are very difficult. The recommendations are mostly AIM and therefore just using the AIM index is the simplest approach, with the FTSE All Share as a good general alternative. Trying to construct a composite index based upon the sectors and relative weightings is possible but complicated and would require reworking each time the composition of the portfolio is altered.

A key problem with the AIM index, however, is that it is volatile: it was at 1001 at the start of 2005 and rose to a peak of 1166 on 7<sup>th</sup> March then falling to 957 at the end of May 2005; any evaluations using this index are therefore prone to give substantially different results within the space of a few months. I have tried to overcome this volatility by using an *average* AIM index for 2005 which I have said to be 1007. On this, admittedly less than firm, statistical basis the AIM index weighted by the dates of the recommendations has also gone up 15%; the recommendations, on this basis, have therefore equalled, but not beaten, the AIM index !

The All Share Index is perhaps a better comparator, on the grounds that a growth portfolio should beat the market in general. The FTSE All Share index weighted by the dates of the recommendations has gone up 11%; the recommendations have therefore beaten 'the market in general' but only by 4% points: 4% points over an average holding time of only 14 months could however be said to be significant.

### *Conclusion*

Based upon the, perhaps unrepresentative, sample of the present portfolio of recommendations, which have been held for a surprisingly short 14 months, I f G does appear to make good recommendations:

a 15% annualised overall increase in share price, this is good in absolute terms and better than the overall market's 11% increase, and

an impressive 3:1 success ratio in terms of recommendations' share prices having gone up, rather than down.

A preponderance of the recommendations are however in the more risky software and AIM parts of the market, and therefore is equally the AIM index and beating the overall market by just 4% points enough to justify the extra risk? I leave you, for now, with that question.

Jim Shoesmith