

Feature – Momentum or value?

Our investment strategy exercise is off to a great start with both portfolios outperforming the FTSE All-Share

Value and momentum: Market beaters

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Three weeks ago (see *Shares, Cover*, 29 Jul) we began an exercise to test which of momentum or value investing is the most profitable. The initial results show both methods are comfortably ahead of the FTSE All-Share with momentum massively outperforming, generating a 6.5% return, versus the broader market's 1.3% gain.

Although this should not be too much of a surprise, as momentum is about taking advantage of present trends while value investing tends to be a longer-term strategy, it is reassuring to see both portfolios doing well.

Value's 1.9% return has been restrained by a single stock – a profit warning from building group **Rok (ROK)** on Wednesday of last week (11 Aug) knocked the shares by some 40% on the day. Yet this hit to the portfolio was somewhat cushioned by a takeover approach for public sector consultant **Tribal (TRB)** which is up 28.8% since we flagged the stock at 62.5p. Analysts reckon private equity is behind the approach and a formal bid could be much higher than the share price of 80.5p at the time of writing.

Only four of the 15 momentum stocks

are in negative territory. Three have seen marginal reductions in value and the fourth, **China Medical System (CMSH:AIM)**, is down because of its proposal to switch its share quotation from London's Aim to Hong Kong.

Our 30 stock selections across the two portfolios were based purely on technical data rather than individual company research. We wanted to see how far we could profit from stocks purely because of factors relating to their share price performance and valuation.

We used the following criteria for value stocks:

- **Projected PE of between one and 10**
- **Price to earnings growth (PEG) ratio under one**
- **Projected dividend yield over 3.4%, under 10%**
- **Dividend cover of between two and 10**
- **Price to book value of between 0.01 and one**

A positive trading update has helped to push media group **Cello (CLL:AIM)**, 11.6% higher to 38.5p. Stockbroker Altium says Cello is 'substantially undervalued' relative to its growth potential, historic benchmarks and peer group and has a 50p price target, implying 30% further upside. Reassurance that trading is

on track after January's profit warning has reignited engineering recruiter **Morson (MRN:AIM)**, whose shares have risen 10.8% to 102.5p.

Momentum stocks were selected on the following basis, all three had to apply:

- **Past one month: 10% or more price increase**
- **Past three months: 20% or more price increase**
- **Past six months: 30% or more price increase**

Petro Matad (MATD:AIM) has been the best performer, rising 45.2% to 135p after drilling results confirmed the presence of oil in Mongolia. Investors still like video search group **Blinkx (BLNX:AIM)**, up 27% to 67p. Engineer **Weir (WEIR)** has more than doubled in the past year but remains firmly in an upwards trajectory. Half-year results (3 Aug) were well received. Investment bank UBS says there is scope for yet more upgrades to earnings forecasts before the year is over but warns forecast increases for next year may be more subdued as 2010 was driven by business recovery and next year is about structural growth. We will revisit the portfolios in mid September to update on their performance. ■

MOMENTUM PORTFOLIO

Company	EPIC	Entry price (p)*	Price now (p)**	% change since 15 July 2010
Petro Matad	MATD:AIM	93.0	135.0	45.2
Blinkx	BLNX:AIM	52.8	67.0	27.0
Mulberry	MUL:AIM	280.0	342.0	22.1
Petroneft Resources	PTR:AIM	38.8	44.5	14.8
Imagination Technologies	IMG	328.8	353.9	7.6
Devro	DVO	222.0	230.8	3.9
Nichols	NICL:AIM	430.3	446.0	3.7
Weir	WEIR	1205.0	1238.0	2.7
EnCore Oil	EO:AIM	56.3	57.0	1.3
PZ Cussons	PZC	341.8	345.1	1.0
Pursuit Dynamics	PDX:AIM	224.3	226.3	0.9
Rockhopper Exploration	RKH:AIM	326.5	322.0	-1.4
Aggreko	AGK	1610.0	1554.0	-3.5
ASOS	ASC:AIM	949.5	892.0	-6.1
China Medical System	CMSH:AIM	47.5	37.0	-22.1
AVERAGE RETURN	-	-	-	6.5
FTSE All-Share over same period	-	2,710.6	2,746.2	1.3

* Entry price taken 14 July 2010

** Current price taken 11 Aug 2010

VALUE PORTFOLIO

Company	EPIC	Entry price (p)*	Price now (p)**	% change since 15 July 2010
Tribal	TRB	62.5	80.5	28.8
Cello	CLL:AIM	34.5	38.5	11.6
Morson	MRN:AIM	92.5	102.5	10.8
RSM Tenon	TNO	46.0	50.0	8.7
Game	GMG	66.5	70.9	6.6
Fiberweb	FWEB	60.5	64.3	6.2
Harvey Nash	HVN	41.0	43.5	6.1
Staffline	STAF:AIM	85.5	90.5	5.8
Johnson Service	JSG:AIM	17.25	17.5	1.4
THB	THB:AIM	57.5	57.0	-0.9
InterQuest	ITQ:AIM	58.5	57.5	-1.7
Catlin	CGL	384.8	372.5	-3.2
Fairpoint	FRP:AIM	76.25	73.5	-3.6
Maxima Holdings	MXM:AIM	89.0	83.0	-6.7
Rok	ROK	27.8	16.3	-41.4
AVERAGE RETURN	-	-	-	1.9
FTSE All-Share over same period	-	2,710.6	2,746.2	1.3

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