

# “Elephants Don’t Gallop”

Jim Slater in “The Zulu Principle”

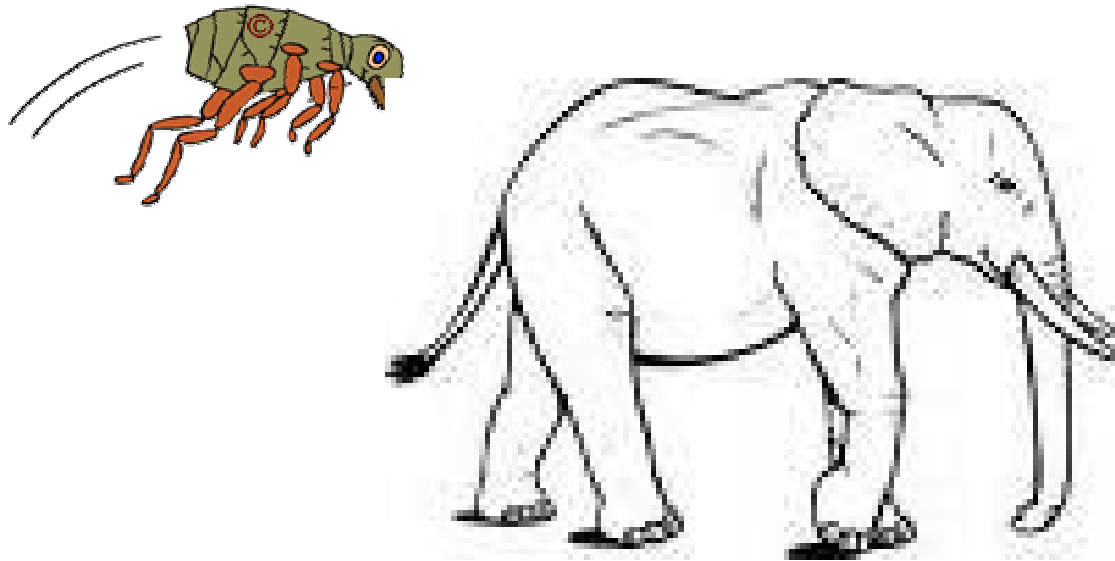
Chris Rose

CCCIC - Bedford

National Investment Club Conference 2009

# .....or do they !?

- Elephants can run at up to 40 kmh
  - But not for long
- A flea can jump 200 times its own height !



# And my point is .....?

- Should we be investing in small companies with low market capitalisation

or

- Large high cap companies

# Large Cap Companies

- FTSE 100, £1b+
- 86% of total value of the market
- Well regulated
- In established markets
- Well understood businesses
- Institutional investors dominate
- Fewer surprises
- Steady share price (relatively)
- Boring ?

# Small Cap Companies

- £50m - £500m
- More dynamic by their very nature
- Small management team
- Short chain of command
- Inspirational
- Higher risk – you really can lose the lot
- Higher gains – 2x – 10x not uncommon
- Simple business model in niche area

# Investing in large companies

- Research material readily available
- High liquidity
- Low bid-offer spread
- Trend with the market
- Relatively stable
- You are a minnow in a large pond
- Rarely offer the opportunity for growth multiples in the life span of an investment club.
- FTSE 100 ETF

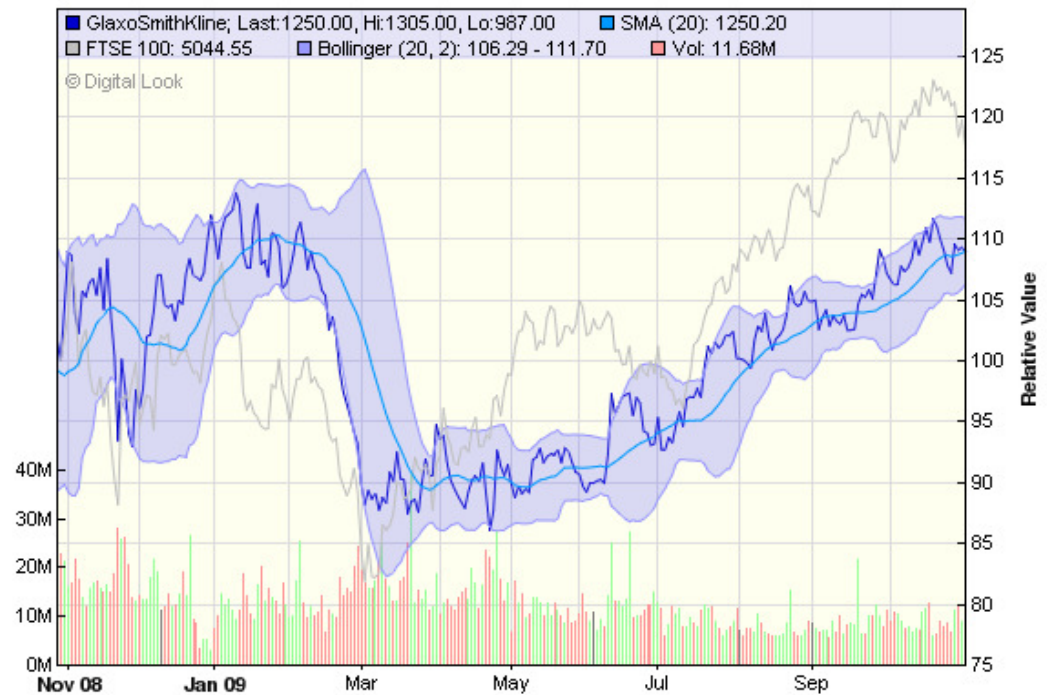
# Investing in small cap

- Higher risk
- Potential for high reward
- Low liquidity
- Large spread
- Less well documented
- More accessible

- FTSE 100 ETF
- 17% up on 1 yr



- Glaxo Smith Kline
  - Market Cap £64b
  - PE 12
  - TO £27b
  - Profit £8.4b
  - 8% growth in yr
  - 0.16 % spread (2p)



# Some examples

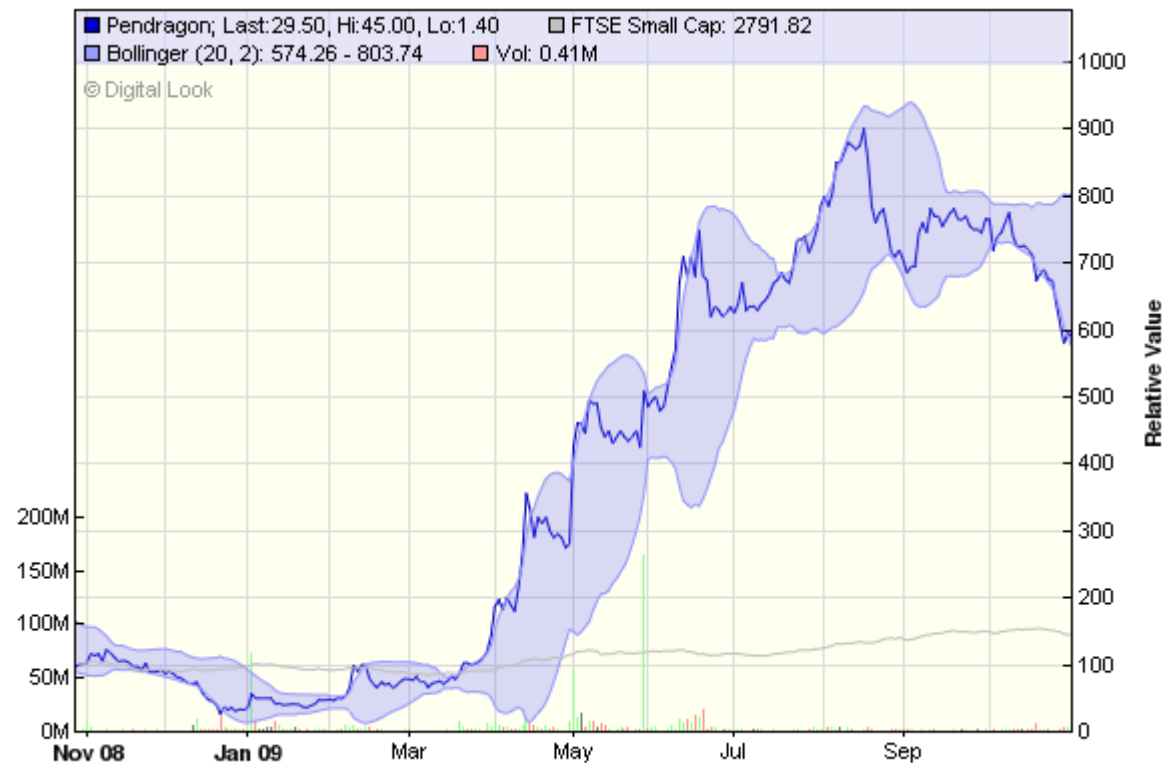
- Mothercare
  - Market cap £500m
  - We all know them
  - PE 18
  - T/O 09 £723m +
  - Profit £42m
  - 2x Growth in 1 yr
  - 0.08% spread



- Abcam
  - Market cap £330m
  - Biotech
  - PE 26 Peg 0.2
  - T/0 09 £56m +
  - Profit £16m
  - 2x Growth in 1 yr
  - 1.5% Spread
  - 5 trades



- Pendragon
- £193M
- 9x in August
- Now 6x
- 3% spread



# Nano Cap

- Sub £50M Market Cap
- Big Spread
- Very low liquidity
- Caution unless you know the business first hand !

# Aims of an Investment Club

- To have fun
- To learn about investment
- To make money

**Give yourself the freedom to experiment,  
this is not your pension !**

# Investment Strategy

- Small number of diverse large cap holdings providing a foundation in defensive stocks
- Or FTSE 100 ETF

## PLUS

- Portfolio of exciting small caps with large growth potential - Zulu

# In Conclusion

- Small Cap companies do provide the greatest opportunity for significant capital growth – 2x – 10x
- Balance risk with good research against investment strategy eg Zulu
- Include an element of the big boring companies to give stability to your portfolio and to participate in the market.

# Elephants Really Don't Gallop



But don't stand in their way just in case !