“Elephants Don’t Gallop”

Jim Slater in “The Zulu Principle”

Chris Rose

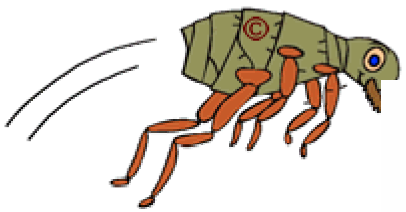
CCCIC - Bedford

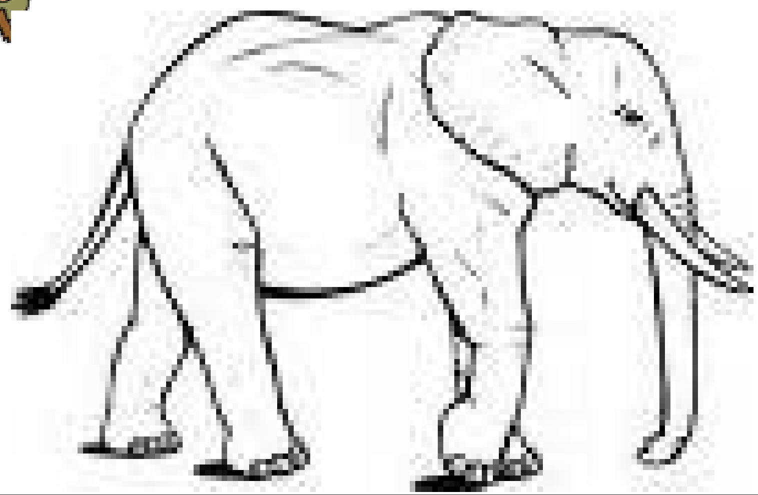
National Investment Club Conference 2009

…..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 y

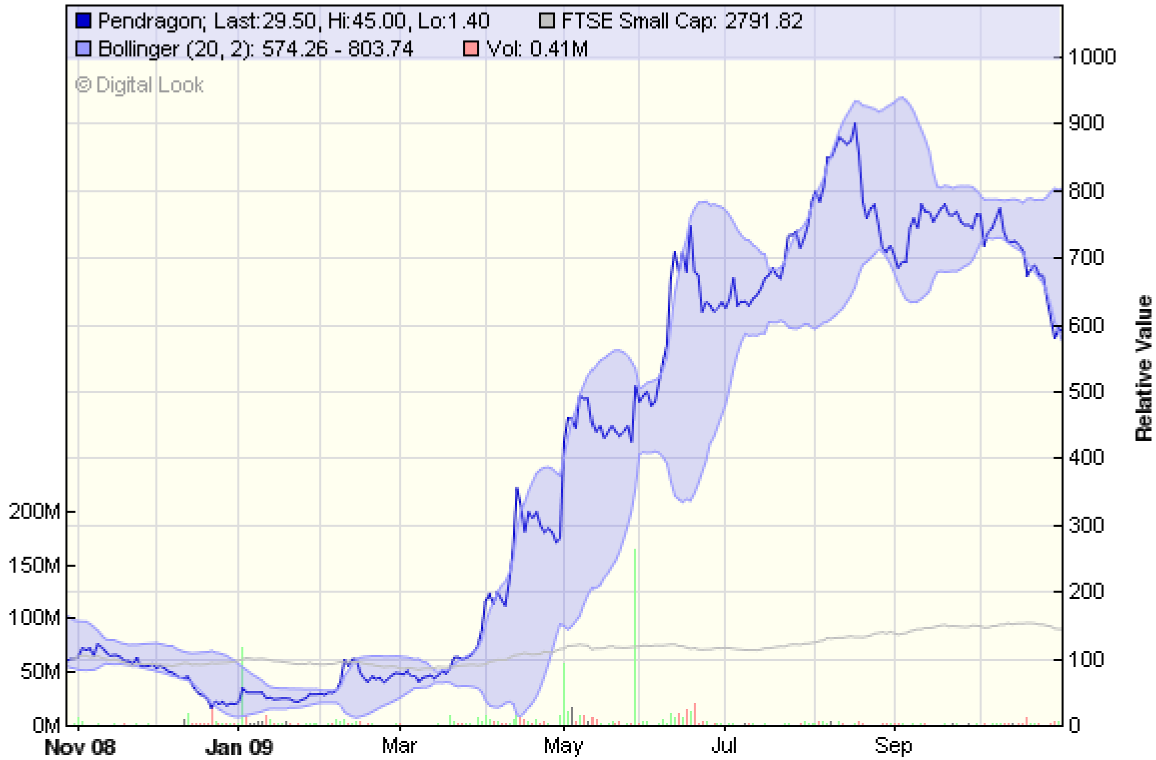
- Glaxo Smith Kline
  - Market Cap £64b
  - PE 12
  - TO £27b
  - Profit £8.4b
  - 8% growth in yr
  - 0.16 % spread (2p)

Some examples

- Mothercare
  - Market cap £500m
  - We all know them
  - PE 18
  - T/0 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 <u>diverse</u> 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 !