



Investment Insight

Friday, 10 February 2017

Choosy: Every fund manager has a different way of evaluating companies when deciding whether to invest, avoid or divest. We meet all types: those who use extensive quantitative screening methods, those who place great store on meeting company management, those who take a bottom-up approach, those who take a top-down approach, those who travel extensively, etc. etc.

However, whether explicitly or implicitly, there are certain basic parameters that most fund managers are interested when evaluating their existing or potential investments. In this week's **Inside Track** we provide a flavour of some of the criteria that feature on many fund managers' checklists.

Golden future. Whether it's down to nervousness over the impact of President Trump on the stock market or concern over relatively high valuation levels in some asset classes, demand for "safe haven" precious metals has ticked up recently. The top ten precious metal ETFs attracted almost \$1.6 billion in January and gold futures are headed for the first monthly gain since September. In this week's **Pic of the Week** we take a look.

Quoted...

"Always borrow money from a pessimist. He won't expect it back." – Oscar Wilde

The Inside Track

Every investor will have their own checklist of factors to evaluate before making an investment decision. But what factors do professional investors look at? The following are some of the common ones.

Cycle: Does the current stage of the economic cycle tend to suit this company?

Value: Is the company cheap when evaluated on a discounted cash flow basis or on other valuation measures such as price/book or enterprise value to EBITDA?

Quality: Is the company's Return on Equity and Return on Capital Employed satisfactory? Does it have a high Piotroski score?

Momentum / Momentum reversal: Is 6-month momentum positive? Is 18-month momentum negative?

Accounting: Are there any unusual accounting policies? To what extent do accrued (i.e. non-cash) income or expenses impact the company's profitability?

Governance: Is the company's corporate governance strong? Does it have good environmental and social characteristics?

Balance sheet: Does the company's Altman z-score indicate good financial health? Do intangible assets represent a significant proportion of the company's net assets?

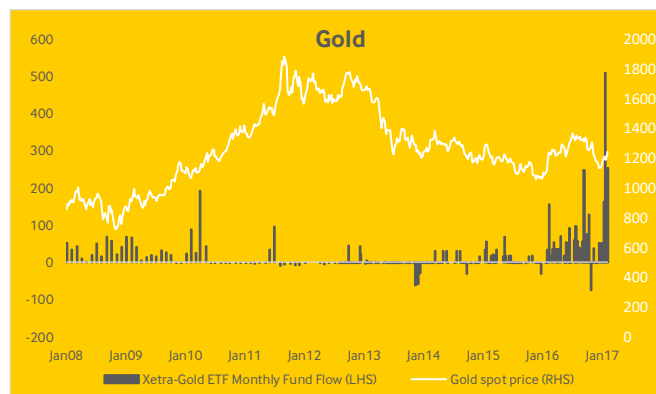
Management: Does management have a good track record? Is their ownership share in the company meaningful in the context of their net worth and how did they acquire it? Have directors been buying or selling the company's shares recently?

Reliability: Does the company forecast its earnings well? If earnings are revised, are those revisions usually upwards?

Profitability: Are the company's profitability margins stable or improving? Does the company have a market position or other intangible asset that enables it to protect its margins?

Pic of the Week

Gold has been a disappointing investment for some in recent years. However, there are plenty of gold bulls out there who argue convincingly that we will see gold hit \$3,000/oz in the foreseeable future. Whether they'll be right or not, only time will tell. However, as this week's chart shows, there has been a noticeable uptick in flows into gold ETFs recently, so perhaps we will see some more solidity to the gold price while investors debate the outcome of Trumpenomics.



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+0.6%	+22.4%	+2.2%	+8.4%
US equities	+1.2%	+24.6%	+3.1%	+11.3%
European equities	+0.5%	+18.0%	+0.5%	+6.2%
EM equities	+0.7%	+26.3%	+6.9%	-2.8%
Irish equities	+0.1%	+13.2%	-0.6%	+15.7%
Commodities	+0.1%	+3.9%	+1.1%	-9.6%
Hedge funds	+0.2%	+7.2%	+0.9%	+1.3%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+1.0%	0.0%	+6.9%
Germany	+0.3%	+1.9%	+1.7%
USA	+2.4%	+2.1%	+1.9%
China	+3.4%	+2.1%	+6.8%

Currencies	Current	YTD Δ
EUR:USD	1.07	+1.3%
EUR:GBP	0.85	-0.1%
EUR:CNY	7.33	-0.2%
GBP:USD	1.25	+1.3%
Bitcoin	973.59	+2.3%

Commodities	Current	YTD Δ
Gold	1,235.16	+7.2%
Copper	5,878.00	+6.4%
Oil	55.70	-3.1%
Wheat	441.75	+8.3%

Week ahead: Key events

13/02 US CPI
14/02 China CPI & Japan Industrial Production
14/02 Germany GDP & CPI
14/02 UK CPI & Eurozone GDP
15/02 UK Jobless Claims & US Mortgage Applications
15/02 US Industrial Production & Retail Sales
16/02 US Housing Starts & Initial Jobless Claims
17/02 UK Retail Sales

Central Bank rates	Current
Eurozone	0.00%
USA	0.75%
UK	0.25%

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