44th edition - January 2024

TopFunds Guide

FOR GROWTH INVESTORS

Welcome to the new-style ***TopFunds Guide For Growth Investors***, now in its 44th edition, and essential reading for private investors since January 2003.

It is designed to meet the needs of two groups of investors:

- Advised clients of **Dennehy Wealth**, so they can debate and discuss rumbling investment issues with their adviser (and they do!)
- DIY or non-advised investors, who enjoy reading independent ideas, as well as exploring our research, and the online tools of FundExpert.co.uk

dennehy wealth

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FundExpert
Smart research. Better investing.

Contents

New TopFunds Guide, New Era

We have redesigned the old TopFunds Guide to make it easier for you to find what is relevant to you. You are reading the new ***TopFunds Guide For Growth Investors***. Parts 1 and 2 will be relevant to all readers, and parts 3 and 4 are designed for DIY or self-directed investors.

As always, do let us have your feedback. We are very proud that this is the 44th edition, but with the benefit of your thoughts we will always look to improve.

1. In Focus

1.1 MEMENTO HOMO

2023 was a year like no other we have encountered since the 1980s.

You might recall the story from ancient times, of the slave who would walk behind the triumphant Roman general, and whisper in his ear ***"Remember you are mortal"***.

Across the global investment industry there was a lot of such whispering as 2023 drew to a close, and the most honest practitioners, to their credit, did bare their souls.

One who manages £3 billion, and is no flash Harry, put it simply:

"Too many of the things which were meant to go down went up, and a few of the things which were meant to go up went down."

The problem was that as we entered 2023 the declared outlook of the most experienced practitioners was bleak, at best. JP Morgan's Jamie Dimon (personal net worth $2 billion) said that a hurricane lay on the horizon. This sentiment was widely held.

One manager of $2 billion expressed his frustration thus:

"What worked yesterday isn't working today and probably won't work tomorrow."

It is not difficult to explain this. In 2018 we expressed the belief that when the 40 year cycle of falling inflation and interest rates came to an end (that has now happened), there would be no one in the **investment** industry with any experience of a different era.

Yet 2023 wasn't a terrible year for investing, with mixes of small losses and small gains. The views we saw expressed were more a mix of frustration and deep reflection ***"after three years riding a rollercoaster"***, as The Economist put it. For a good number of serious minded money managers, and also a significant number of self-directed investors, 2023 was the last straw.

Yet opportunities persist, as you will see on pages 5, 6, 8, and 9. But to exploit these requires different skills (page 7), and also a mechanism to limit losses (page 10).

The latter is vital, as the US stock market bubble and investor mania is still dominant, and the global debt bubble has yet to pop (but for the not trivial matter of US and UK government bonds falling more than 50% within the last two years!).

Time perspective is key. The markets are in a clunky transition phase, as we highlight on page 7.

But once the necessary "cleansing" has occurred, possibly the best investment opportunities of our lives will come into focus, and the charts on pages 13 and 14 give you a sense of the scale of your potential.

1.2 World's Biggest Election Year Ever – You Can't Trump It

Elections in 2024 will cover 40% of the world population, that is 3.2 billion people. There has never before been a year quite like this, as 40 nations go to the polls. Should we care? Where are the risks?

The presidential election in **Taiwan** is already behind us, and the successful candidate is not a favourite of **China**. This is highly unlikely to be a problem in 2024 as China has too much to lose economically by invading Taiwan – their priority is getting young people out to work, getting the economy motoring after the lockdown exit, re-building domestic confidence, and continuing to outperform the rest of the world in key technology fields, including everything "green".

India's Prime Minister Modi should be re-elected for a third term as the worlds largest democracy goes to the polls in April. Surprises are unlikely, and the result should ensure economic stability for another few years, with India continuing to attract investors.

Election results in Indonesia, Pakistan, South Korea and Indonesia will not move global financial markets. Similarly with elections in Ukraine and Russia in March, where significant surprises are much more likely on the battlefield than in polling stations.

European Parliamentary elections over the Summer will probably do little more than confirm a shift to the Right, and to those who are apparently against the EU, but not the handouts. But the centre should hold.

The **UK general election**, whenever it is held in 2024, is the least likely of all global elections to trigger a surprise result, but for Russia. Nonetheless, there is a **hidden UK investment opportunity** which we explore in detail on page 5.

Nothings Trumps This One

Then there is the Big One in November. Putting to one side the ludicrously contrived structure of their Presidential election, similarly the mind-numbing wall-to-wall coverage by the UK media, this one really is important for investors in the UK and around the globe.

Many were relieved to see the back of Trump in 2021. The stock market positively surprised most investors in his first tenure. It is not easy to see how he can repeat this trick. It isn't just that **Trump brings along inherent chaos, and investors hate uncertainty**.

If he goes for tax cuts again, the Federal Reserve will have to keep interest rates high to off-set the stimulatory impact of lower taxes. As well as bashing China, a 10% levy on all imports has also been mooted, which will encourage more global protectionism, push prices and inflation up... **and trigger higher interest rates**.

He has few fixed beliefs, can change his mind several times a day, and is prone to being seduced by the latest nutty idea from his circus of advisers.

The tricky problems of Ukraine and the Middle East need an American President to bring insights, subtlety, and charm, all absent with Trump. His unpredictability is not what is needed when a lot of people have their fingers on triggers. These geopolitical issues are very much a concern of investors, as we discovered with the global cost of living crisis prompted by the invasion of Ukraine, and may yet re-discover if oil prices head towards \$200 as the Middle East conflict spreads.

He might not be the biggest danger to the world in 2024, as The Economist suggests he is. But he's up there with some very unsavoury characters.

1.3 UK General Election – The Hidden Opportunity

This third party research is very interesting. Partly because most of us are likely to have views skewed by personal political views, which means we lose the scent – and the facts are inconvenient.

Partly because the answer is not intuitive, and it highlights a great investment opportunity for 2024.

Long term research* highlights that over the complete electoral cycle there is no significant difference in stock market performance between left- and right-leaning governments. This is the same in the UK and US, and is not what you might expect.

The difference, and **the opportunity, occurs around the time of the election itself.**

If a right-wing government is elected, there might be some initial relief, and a bounce, but it doesn't hold. Bear this in mind if the Conservatives win with a working majority, although as we write this appears highly unlikely.

In contrast, if a left-leaning party (Labour) is elected the market will fall sharply (ditto with a Labour-led coalition). Similarly, if there were a hung Parliament, not a negligible risk. Herein lies the opportunity.

The research is clear. You must buy UK smaller companies when the market falls on election of a left-wing (Labour) government. The outperformance from those lows can be considerable over the whole electoral cycle – and that's before taking into account how cheap UK smaller companies are today.

UK smaller companies are widely acknowledged as being one of the worlds cheapest stock market sectors. This has arisen because they are simply out of favour. The individual smaller companies are still making profits, but investors have not been buying.

You can see this in chart 1 below. They peaked in August 2021, fell 32%, and since October 2022 have been going sideways ever since. A catalyst is needed to get investors interested, from which point there will be a lot of money to be made.

But what catalyst, and when?

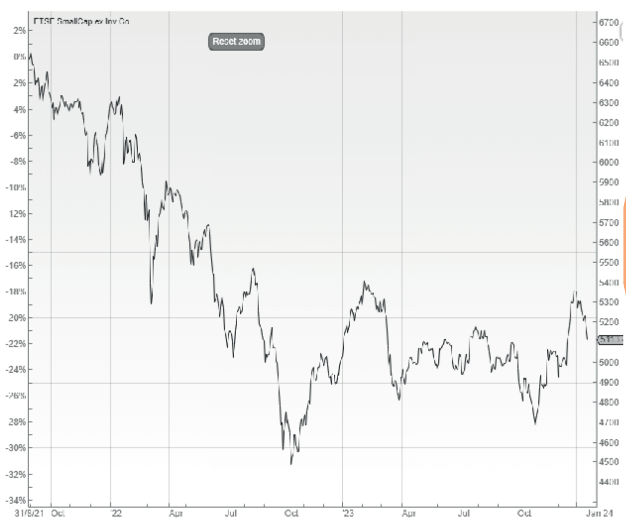
Based on this research there is a decent chance that the catalyst will be a Labour win in the General Election this year. Just be warned, the market might be plumbing lower lows by that point, and **buying will feel uncomfortable**, perhaps as others are panicky...

...but that has always been the case when you are confronted by the very best investment opportunities.

If you are a self-directed investor, the smaller company funds with momentum are set out on page 22.

** "Is there a link between politics and stock returns?" Tomasz Wisniewski, University of Leicester*

Chart 1: UK Smaller Companies since August 2021 peak



" Keep up the great service Brian and the team- it is really appreciated."

S.B.
February 2022

1.4 JAPAN EXCITEMENT – LATE BUT DESERVED

The Japanese stock market generated a lot of excitement in 2023. This was quite late in the day, as you will see, but there is still a clear opportunity to make money in a market which remains cheap.

A lot of the positive media coverage of Japan was derived from the G7 meeting towards the end of May. This in turn spurred wider investment interest in Japan, which we encountered through press enquiries and quite a few clients contacting us about the potential.

As our long term readers and clients know, this new interest in Japan was more than a decade late!

In November 2009 we made a Japanese smaller companies fund one of our two ***"Trades Of The Decade",*** and continually highlighted this potential every year since. (*The other was India in 2009*)

Then on Pfizer Monday, 9th November 2020, we re-iterated the opportunity in Value-style funds, particularly in Japan, and decent profits ensued. But this opportunity in Japan only received a wider recognition in 2023, as if the party had just started.

Is The Party Over Already?

By the time an investment opportunity is being widely lauded in the media, a top is very often at hand – at the very least we should expect a notable pause. That is what we got from June 2023.

But this shouldn't scare off investors who haven't yet embraced the Japanese potential.

These pauses are very healthy in a sustainable long term bull market. It prevents investor over-enthusiasm driving prices too far too fast, and the creation of bubble-and-bust conditions – the sort which have prevailed in the US for some time.

What Changed in 2023?

Although the G7 in May drew the attention of many global investors to Japan, the really exciting news was on 25th January 2023. The Tokyo Stock Exchange (TSE) published a list of measures encouraging companies to think about releasing the value in their businesses, and thereby share prices. In particular, it urged companies with a price-to-book ratio below 1 to make plans to boost their price.

At its simplest, the price-to-book ratio compares the value of the company on the stock market (price) with the value of the company assets (book).

Where the stock market price of the business is below the value of the assets, the ratio is less than 1. For example, if the ratio is 0.8 it would mean you could buy the business for £8m and sell it for £10m.

Ordinarily this might signal to investors that a company is undervalued, and should be bought. It might also highlight companies ripe for takeover to release that value.

The problem for Japan is that a very large proportion of the companies listed on their stock market are in this "cheap" category. That suggests a cultural or regulatory problem, as it is not just about one overlooked company.

As a result, the action by the TSE isn't going to unlock value in just one company, but in a broad swathe of the Japanese stock market, which is very exciting.

Japanese smaller companies look particularly cheap, and this should be a rich hunting ground in 2024.

The selection of Japan funds on page 19 even includes one for income investors.

1.5 NEW ERA, NEW SKILLS

Back in 2018, and on numerous occasions since, we have been absolutely clear that a 40 year era was coming to an end, and that this would mean no one working in the investment industry today had any experience of what lay ahead. **Confusion is now being widely expressed. What does all of this mean?**

This raises a number of issues. What will the new era look like? How must investors change their approach to investing? What new skills are required? What will this transition phase look like?

From Complacency To Confusion

Over 40 years of mostly good times complacency took hold, naturally so. Investing seemed easy, so why make it hard by over-thinking or over-complicating.

Smart people become lazy, and investment approaches such as ***"buy and hold"*** become entrenched, along with the ***"markets always recover"*** mantra.

"Buy and hold" means investors switching off, and getting caught in investments such as the Woodford funds or the deceptively conservatively named Scottish Mortgage investment trust (down 50% at the moment).

"Markets always recover" ignores the example of Japan, which plunged more than 80% over 20 years. See page 10 for how you can manage this risk with a stop-loss strategy.

The Transition

For the sake of argument we can say that the 40 years of plenty ended on 3rd January 2022 when the US stock market peaked, as measured by the S&P 500. The new era didn't begin at that point, merely the transition to a new era, which itself could take a small number of years.

That a two generational turning point in markets had (probably?) just passed was lost on the great bulk of the investment industry. When there were "issues" the finger could be pointed at the pandemic or Ukraine or China.

It was only during 2023 that doubts set in. That there is confusion has become particularly evident in the last month or so, as wealth managers and investment banks look back over 2023 and forward into 2024, as you saw on page 3.

Patience More Than Ever

Patience has always been an essential attribute for fund and wealth managers, their clients, and self-directed investors. This need is even greater now.

Partly because no one knows how long this transition will last. Partly because investors need to accept no or little growth during this period. In contrast, investment growth was a given across most of the last few decades. Some might even have come to believe it was a right!

New Skills – Adaptability and Agility

Once you have forgotten the lazy mantra of recent decades, **you must adapt**. This is not easy as it is not a one-off, and will stretch across two distinct periods.

The first period is the transition which began in January 2022. The problem here is that there is no clear trend. Initially there were sharp falls, then a drifting sideways in a wide range. Plus occasional uptrends such as from Autumn 2023, which, if our analysis is correct, will be reversed in the period ahead.

The transition is only over once clear uptrends are established on a number of mainstream markets. These seem most likely to include a variety of Asian markets, which should also be joined by a number of cheaper financial markets in the West, where the UK is an obvious candidate after the General Election.

Agility will then be needed, the ability to think and act fast.

We do not pretend that these skills are easy to apply in practice – but it will be a lot harder without them.

1.5 GOLDEN OPPORTUNITIES WITHIN COMMODITY UNIVERSE

"Demand for raw materials is at record levels, inventories are low, and spare production capacity is largely exhausted. This is just classic 'own commodities'."

So said one veteran investing into commodity markets.

But it didn't work out in 2023. This is illustrated by the performance of the **JPM Natural Resources** fund.

After a couple of good years with double digit gains, it fell last year by 8%, in line with a range of commodity prices, not just oil, a dominant component of the complex commodities universe.

There was one notable mainstream exception. Gold.

Gold – Insurance At Last?

We have often highlighted some of the silly things said about gold, often by some very clever people, for whom we have the greatest respect, but who have a blind spot when it comes to gold.

Gold is not a safe haven. Nor a hedge against inflation. It is not insurance. It is not money (or you would be able to use it to buy stuff in M&S).

Since Russia invaded Ukraine gold is up 4%, hardly an earth-shattering move with the advent of the biggest European war since the Second World War and a global cost of living crisis.

Sometimes gold just seems to go out of fashion, and that is a time to pay attention to opportunities. Admittedly it recently hit an all-time high, but it did so with little or no fanfare. You can see this event in chart 2, showing gold (green) in 2024 versus the broadly based JPM fund.

The important point on the graph is the beginning of October 2023, marked with a red cross. Gold (the green line) bounced and continued to new highs by the end of 2023, whereas the JPM commodities fund has moved sideways and down.

The trigger appears to have been the escalation of the Israel/Palestine conflict. For some (probably older) investors this raised the spectre of the 1970s and, combined with the interminable conflict in Ukraine, pushed them to raise their exposure to gold.

It doesn't matter if we think it is a safe haven when risks are rising – it just needs sufficient other investors to believe this is so.

Don't Get Carried Away

If there is an opportunity in gold, the best returns will be enjoyed buying a fund invested into gold miners. The reason is that they go up more than the gold price when it gets up a head of steam. But they also do the opposite if the gold price suddenly reverses lower, so be careful.

The commodity funds with momentum, shown on page 17, are a very eclectic bunch. None of the gold mining share funds show as this upturn only began in the Autumn.

Ninety One Global Gold or BlackRock Gold and General fit the bill.

Chart 2:
JPM Natural Resources vs Gold, 2023

1.6 ASIA UPDATE: WAITING FOR CHINA

This is "The Asian Century", but 2023 was not a year when Asia shone. Here we look at what happened and what needs to change for this to turnaround.

In 2023 Asian stock markets as a whole barely moved (down 0.75%, MSCI Pacific excl Japan). Their economies were growing, they don't suffer the indebtedness of the West (mostly), and the growing middle classes are a considerable driver of growth. The problem was China.

Western financial markets are in thrall to the Federal Reserve, the US central bank, which helped them later in 2023. But for Asia markets and economies China is more important.

Last year began with high hopes for China to recover sharply after the late-in-the-day unlock from COVID. But it didn't happen, and as 2023 wore on it became clear that China was not bouncing, and confidence in their financial markets was drifting off.

The Shiny Exceptions

There were two notable exceptions to this malaise. We looked at Japan on page 6, and there was steady progress, up in the region of 10% over the year. Do hold Japan funds.

Indian indices were a little better still, up 13%, with even less participation from global investors. India is expensive, but that has been its perpetual state. Our impression is that whenever it falls 10% it attracts buyers. Keep an eye out for this opportunity. But back to China...

China Will Bounce

The Chinese government has no choice but to intervene to try and bolster domestic confidence, which will also help a stock market reliant on domestic buyers.

When and how they will do so is unclear. To date stimulus has been drip-drip, which is not exciting anyone, not yet. The minimum is to stabilise their property market, which will clear away one big problem for domestic and foreign investors.

Be in no doubt that behind the gloomy headlines huge progress is being made. China already dominates in vitally important global markets, such as solar and wind power, electric vehicles, and telephony.

Judging by the number of citations in leading academic journals, there is a wall of intellectual capital to maintain this progress for years and decades to come... but investors need to feel more confident about today.

We will be keeping a close eye on developments, and looking out for the funds most attuned to the turning point in China, whenever that appears to be emerging.

Asian Attractions Beyond China

We have already mentioned Japan and India. Indonesia, Korea, Vietnam, and Taiwan also have their own strengths, and numerous countries beyond these.

Asia is made up of 49 countries and is the worlds biggest continent. You must invest here, even if you sidestep China for now.

In 2023 the better Asia-wide funds were an interesting mix of income and smaller company funds. You can see the best of these set out at the top of page 17.

"I am very happy at the info that you have made available in a very friendly format."

R.P.
April 2022

1.7 ESSENTIAL INVESTING HABITS – HAVING A STOP-LOSS

Successful investing is about getting into good habits. That doesn't mean just knowing the theory - it doesn't matter how well read you are, or whether you have a 1st in Economics.

Success means actually doing it - having a plan, based on best practice, and then applying it - day after day, month after month, year after year.

One typically overlooked part of this plan is risk management. That sounds fancy, but at its core it has one simple element, a stop-loss.

Do you want to risk losing a substantial chunk of your life savings? Of course not. Do you have a plan to stop this happening? Most investors don't.

Warren Buffett, one of the worlds greatest investors, tells us that:

"The first rule of investing is not to lose money"

Of course investors will lose money from time to time, it goes with the territory. What Warren means is that we must ***limit*** losses.

When you buy funds you buy an inherently wide spread of investments, perhaps the shares of 50-100 different companies. So the fund isn't going to go bust, and you are not going to lose all of your money. Moreover you can easily factor into your thinking occasional years of market weakness.

But every few years very sharp falls occur, which can be sustained for years. If this occurs at the wrong time in your life cycle, this could ruin your life plans. You can see this potential for falls in the chart below, where **falls of 55-85% are implied**. This was shown in Janaury 2022, and nothing has changed.

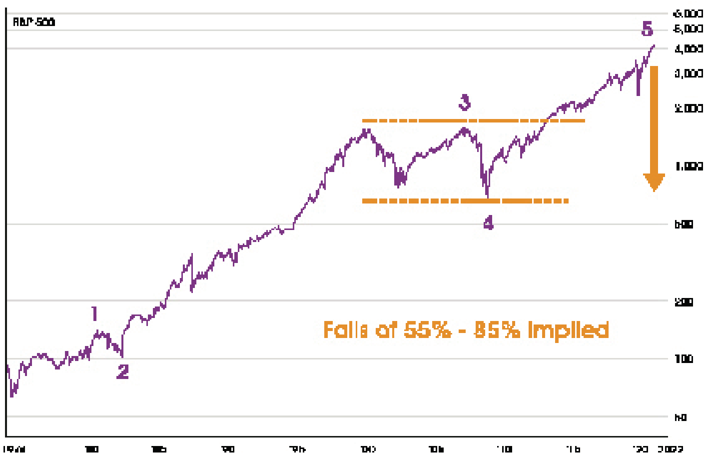
The possibility of such falls is very clear right now.

The solution is having a stop-loss, which is simply a way to stop your loss getting any bigger. You aren't predicting where the market will go next. You are simply protecting your valuable capital, in particular the risk of intolerably large, and prolonged, losses.

If our parents or grandparents had invested early in the last century, could they really have guessed that their lives would be consumed by two World Wars, the Wall Street Crash, and the Great Depression? **Sometimes fate is just going to deal you a tough hand.**

Applying a stop-loss is a key part of the discretionary portfolios we manage for our advisory clients. If you are a self-advised, DIY investor, we have an automated tool on **FundExpert** to alert you when your stop-loss is hit – go to **www.fundexpert.co.uk** and click on "tools".

Chart 3: Projected Size Of Falls In US Stock Market



2. What's Hot, What's Not

Of the thirty sectors listed belowpage, nineteen have a difference between best and worst funds in excess of 15%.

This is a massive range in so many sectors over just 6 months.

This again highlights that to achieve the best growth within any given sector you must have a clear, simple and proven process to select funds within that sector, and then apply this process with discipline. (That discipline should also include applying a stop-loss, which we review on page 10.)

Sector	Performance 6 Months %	Best fund %	Worst fund %	Difference Best/Worst %
IA India/Indian Subcontinent	13.27	24.52	5.99	18.53
IA Property Other	11.43	31.74	-5.8	37.54
IA Technology & Technology Innovation	11.31	30.79	5.77	25.02
IA Latin America	10.11	11.72	8.19	3.53
IA Sterling Corporate Bond	10.06	16.48	4.81	11.67
IA North America	7.71	16.55	-2.09	18.64
IA UK Gilts	7.67	10.13	5.56	4.57
IA Sterling Strategic Bond	7.28	13.15	2.54	10.61
IA Sterling High Yield	7.09	9.39	4.65	4.74
IA UK Equity Income	6.83	10.93	2.2	8.73
IA North American Smaller Companies	6.38	12.86	0.5	12.36
IA Global	5.8	32.21	-25.04	57.25
IA Europe Excluding UK	5.7	12.12	0.26	11.86
IA Specialist	5.67	22.64	-6.52	29.16
IA Global Equity Income	5.66	11.91	1.15	10.76
IA Global EM Bonds Blended	5.59	9.12	2.95	6.17
IA Mixed Investment 40-85% Shares	5.57	9.35	1.45	7.9
IA Mixed Investment 20-60% Shares	5.53	11.35	0.88	10.47
IA UK All Companies	5.4	15.65	-3.59	19.24
IA Mixed Investment 0-35% Shares	5.34	9.14	3.19	5.95
IA European Smaller Companies	5.2	9.8	-2.71	12.51
IA Japan	4.91	11.57	-6.46	18.03
IA UK Smaller Companies	4.74	10.9	-3.14	14.04
IA UK Index Linked Gilts	4.6	5.37	3.6	1.77
IA Targeted Absolute Return	4.24	16.12	-0.8	16.92
IA Global Emerging Markets	3.73	14.61	-4.4	19.01
IA Commodity/Natural Resources	3.04	13.45	-14.59	28.04
IA Asia Pacific Excluding Japan	1.74	9.85	-7.99	17.84
IA UK Direct Property	-0.23	2.8	-4.12	6.92
IA China/Greater China	-8.41	-0.43	-14.61	14.18

Corporate Bond Steady, Shock

The top four sectors based on the last 6 months performance will be on the fringe in most UK investor portfolios.

The first ***mainstream*** sector is **Sterling Corporate Bond**. In last years edition this sector was trashed as interest rates had gone sharply higher - bad for bonds. Surprisingly perhaps now they have bounced significantly, primarily because of the lack of any recession, so far. The difference between best and worst was “just” 11%, high for what is meant to be a lower risk sector.

Property, Choose With Care

The lack of a UK recession, and growing prospect of early rate cuts towards the end of 2023, propelled the **Property Other** sector, that is funds which buy the shares of property companies. But you had to be in the right funds.

You lost money in the worst funds, and the difference between the best and the worst in just 6 months was 37%. In 2024 it will not be a surprise if there are marked casualties in the property sector, so take care.

US Driven By Tech

The best mainstream stock market was **North America**, but you still lost money in the worst fund, and the difference between best and worst was a sizeable 18%. The best funds had a heavy exposure to tech. But the latter are very over-valued, and the risks are high.

North American Smaller Companies did not have the same tech driver, so the performance was a touch less, and the difference within the sector was lower at 12%. Normally you might expect smaller companies to have greater divergence, but where we are is not normal.

The **Technology** sector is the 3rd best over the last 6 months, up 11% on average and the best fund up 30%. The difference between best and worst is a sizeable 25%. Individual tech stocks fall in and out of fashion at great speed, and that, plus extreme valuations, assures that this sector will again see wide divergences in 2024.

Extreme Commodities

After a couple of years of pre-eminence, cracks appeared in the **Commodity/Natural Resources** sector. The average fund was just about positive (3%), but the difference within the sector was a huge 28%. As we said last time, this sector needs care.

There are a good number of funds focussed in just one area, say gold or oil, which creates notable volatility. For many investors, the choice for greater peace of mind might be a generalist commodity fund.

UK Grown In Unlikely Places

If the UK stock market is pregnant with potential, the gestation period is longer than an elephant’s!

The **UK Equity Income** sector is typically the most sober of the three UK equity sectors, yet was the best over the last 6 months, and with limited difference between best and worst. What you can’t see is that this sector lost money for most of this 6 months, and only really came to life in November and December (in common with most financial markets around the globe).

Hopes of rate cuts made income paying equities look attractive again. But don’t over-do it.

With the UK election ahead, and much else stirring, the better opportunity might be **UK Smaller Companies** later in 2024, as you saw on page 5.

Asia Top And Bottom

The difference in performance between **India** and **China** could not be more stark. No indian funds lost money, but not even the best Chinese fund made a profit. On page 9 we look across Asia as a whole and note that this vast continent needs China to turnaround in 2024.

3. How to Select Funds For Growth

This is the exciting bit! Yet we have to start with the bad news. **96%.**

96% is the proportion of funds which ***fail*** to consistently beat an undemanding benchmark.

In straightforward terms it means that 96% of funds are no better than mediocre.

But don't worry because there are well-proven methods to select funds where you have a high probability of doing somewhat better than mediocre – a lot better. We look at this in much more detail in our ***TopFunds Guide Fundamentals*** research.

Right now you have two options depending on how involved you wish to be in the investing process:

- If you are already an advised client of **Dennehy Wealth**, or are considering that option, below we will show you what we do.

or

- If you are a self-advised or **DIY investor**, below we will show you how you might approach your fund selection.

How Dennehy Wealth Do It

If you would like us to do the work for you, Dennehy Wealth have a **Discretionary Fund Management service** (or DFM for short) and this kind of service will suit you if:

- You do not believe you are doing as well as you could via your current adviser

or

- You've are DIY investor, but feel the time is right to switch to expert day to day management

We have a number of discretionary portfolios, and each is designed to meet the needs of investors with different objectives and attitudes to risk.

" Thanks again for all of your adaptive analysis in these dramatic & vulnerable times.."

A.J.
March 2022

Chart 4: Dynamic UK Blended Portfolio vs Index Tracker (2000-2024)

Building Blocks

Each of our discretionary portfolios have a number of building blocks, with each building block typically having a geographical focus e.g. the UK and/or Asia.

For example, our **Growth Portfolio** is typically split between a number of building blocks including one representing the UK and one for Asia. At the bottom of the previous page you can see how that UK building block has performed since the year 2000 i.e. up 862% versus 124% for an index tracking fund.

Similarly at the bottom of this page is our Asian building block, up 3216% since 2001 verus 521% for the index.

Magic Or Insight?

Having just said that 96% of funds are mediocre at best, you are either impressed with these graphs or sceptical. Possibly both! Yet there is no magic.

The approaches that work best when investing are well established and supported by a volume of research stretching back decades, where in some cases that research looks back more than a century, and considers a variety of financial markets around the globe.

In a nutshell there are only four ways for investors to do better than average, and these are set out in ***TopFunds Guide Essentials***. This one is called Momentum. In simple terms this means buying winners, one that has a high probability of performing better than average in the period ahead. If it has been a top performer in its sector over the last 6 months, there is a high probability it will be an above average performer in the 6 months ahead.

Very straightforward. The **evidence of the success** of this process is shown with absolute clarity in the charts on this and the previous page.

Not Always So Simple!

All of the above works brilliantly in 9 years out of 10 (though don't take this ratio too literally!). But in the 10th year more flexibility is required.

Selecting funds is our "***attack***". Our "***defence***" is exemplified by our application of a stop-loss (see page 10). But in some periods we must emphasise our defence at the expense of our attack. A good number of the global money managers had the same concerns in 2023, as you saw on page 3. Until "normal" conditions return, we must stay patient and agile.

Chart 5: Dynamic Asia Portfolio vs Index (2000-2023)

Selecting Funds As A DIY Investor

The alternative to our "done-for-you" DFM service is to do it yourself, and many of you do. Just for you, back in 2012 we created **FundExpert**. There are tools so that you can quickly identify the funds with Momentum, sector by sector, auto reminders when you need review, and alerts when your funds value is falling (e.g. our unique stop-loss alerts). There is much more besides, so do go and explore, **FundExpert.co.uk**.

Right now we want to show you how to quickly choose funds with Momentum by using the tables at the back of this publication, which we have pulled together from **FundExpert** for your convenience.

Before you select funds you should think about your attitude to risk, and also asset allocation i.e. where in the world to invest. These are dealt with in more detail in **TopFunds Guide Fundamentals**. But for our purposes now, we will assume that you are comfortable with main stream stock markets, and would like a global portfolio, albeit one with a bit more in the UK.

It might be split like this:

UK	40%
Europe	20%
Asia	20%
North America	20%

Now you can turn to the table towards the back of this publication, **TopFund Sector By Sector**, and select the top 3 funds from each of these four sectors, and it will look like the table to the right.

That is 12 funds, a manageable number. We recommend no more than 15, as otherwise it becomes too unwieldy to monitor. Also you should have no less than 5% of the total value in each fund, or the impact of the fund is too limited on overall performance. This kind of discipline is important for you as a self-directed investor

As a DIY investor you will have your own views, and it is easy to adjust the above. For example, you might prefer UK Smaller Companies, and these could replace the UK All Company selections.

SECTOR	FUND IDEAS
UK All Companies:	
16%	**Ninety One UK Special Situations**
12%	**Aegon Ethical Equity**
12%	**Man GLG Undervalued Assets**
Europe:	
12%	**WS Ardtur Continental European**
12%	**Janus Henderson European Focus**
11%	**Premier Miton European Opportunities**
Asia:	
10%	**abrdn SICAV I Asian Smaller Companies**
10%	**Xtrackers S&P ASX 200 UCITS ETF**
7%	**Guinness Asian Equity Income**
North America:	
17%	**First Trust US Equity Income UCITS ETF**
14%	**VT De Lisle America**
14%	**New Capital US Growth**

The above funds, and those in part 4, are the winning funds as at 1st January 2024. These are updated at the beginning of every month. **Do make sure you are selecting the most up-to-date funds** by going to check the current fund ratings on FundExpert.

Next Steps As A DIY Investor

The funds you have now selected will need reviewing in 6 months. We have created FundExpert so you can do just that, but with much more besides, as you will see. Do this now if you have not done so already:

- Make sure you are registered on FundExpert (*contact us if having any problem with this*)
- Input your purchased funds.
- To ensure you receive an alert, choose a review point e.g. 6 months.
- Choose a stop-loss level i.e. we alert you when a fund falls in value by that amount.

4. TopFunds Sector by Sector

This section is for DIY investors, those who prefer to select their own funds. You can read much more about how and why you select funds from within this section in our ***"TopFunds Guide Essentials"***, so do download a free copy ***here*** if you haven't done so already.

It's suffice to say here that it revolves around selecting funds which have the **greatest momentum** in the sectors where you wish to concentrate your investing. You saw an example of this on page 15.

In the following pages the top-rated funds are listed sector by sector alphabetically. Within each sector table we show you the best 10 funds, with the top 20 in the case of the UK All Companies, UK Equity Income, and Global Growth sectors.

Our long term research across all sectors shows that you are ***typically*** better to select the top 3 funds in the sector, which we have highlighted in bold at the top of each sector.

For example, if your portfolio is made up of four sectors, you will be holding 12 funds, three from each sector. Avoid having more than 15 funds, as it becomes too cumbersome to monitor and administer, and never have less than 5% of your portfolio in one fund.

The funds in the following tables, and page 15, are the winning funds as at 1st January 2024. These are updated at the beginning of every month. **Do make sure you are selecting funds based on the most up-to-date ratings** by going to check the current fund ratings on FundExpert.

You must review your funds in 6 months. The funds identified in this section had the greatest momentum on 1st January 2024. In 6 months time, 1st July 2024, you will need to review the funds you hold. You must do this on FundExpert.co.uk. If you don't already do this, or don't know how to do this, email ***here***, and put "how to review my funds" in the subject line, and we will send you through the "*how to*".

It is important that you do this, so you stay in the top performing funds, which will change regularly.

Protect your capital value. *"The first rule of investing is not to lose money"* said Warren Buffett. A stop-loss means that you decide you will sell your fund if it falls by a certain amount – so you literally stop the loss from getting any bigger. You can't completely avoid losses – but you can control them.

What is Monthly Risk? In these tables we show a number for Monthly Risk (also called Value at Risk or VaR). This number means that in 19 months out of 20 you should not, on average, expect a larger fall in the capital value than this number. But do note that in the 20th month the loss might be more severe (October 1987 being an extreme example, with a 20%+ fall in one month).

More on all of this in our "***TopFunds Guide Essentials***".

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
Asian Stock Market			
abrdn SICAV I Asian Smaller Companies	**9.85**	**7.02**	**-6.93**
Xtrackers S&P ASX 200 UCITS ETF	**9.63**	**6.09**	**-9.65**
Guinness Asian Equity Income	**7.34**	**6.38**	**-7.63**
TT Asia Pacific Equity	7.12	10.18	-8.68
Jupiter Asian Income	7.07	9.44	-6.43
Jupiter Asia Pacific Income	6.99	6.13	-7.09
Vanguard FTSE Developed Asia Pacific ex Japan UCITS ETF	6.8	4.74	-9.1
Royal London Asia Pacific ex Japan Equity Tilt	6.7	8.37	-9.21
iShares Pacific ex Japan Equity Index (UK)	6.69	7.86	-7.36
L&G Pacific Index Trust	6.65	7.79	-7.29
China			
Fidelity China Innovation	**-0.43**	**-11.58**	**-12.33**
Fidelity Greater China	**-0.78**	**-8.92**	**-11.24**
Quilter Investors China Equity	**-5.23**	**-19.31**	**-11.15**
GAM Star China Equity	-6.06	-21.34	-14.04
Janus Henderson China Opportunities	-6.25	-20.97	-11.66
HSBC GIF Chinese Equity	-6.39	-18.53	-12.31
HSBC MSCI China UCITS ETF	-6.43	-16.42	-12.91
Matthews China Small Companies	-6.45	-20.48	-11.55
Schroder ISF Greater China	-6.45	-13.88	-12.08
AB SICAV I China A Share Equity Portfolio	-6.59	-11.45	-9.52
Commodities and Natural Resources			
iShares Global Timber & Forestry UCITS ETF	**13.45**	**7.2**	**-9.47**
Pictet Timber	**8.91**	**10.68**	**-9.02**
Xtrackers MSCI World Materials UCITS ETF	**7.93**	**8.31**	**-9.15**
BlackRock BGF World Energy	7.71	-0.99	-13.25
iShares Oil & Gas Exploration & Production UCITS ETF	7.65	-4.42	-15.46
Guinness Global Energy	7.63	-3.15	-11.95
Pictet Water	7.54	10.01	-7.27
JPM Natural Resources	7.43	-3.8	-9.87
WS Guinness Global Energy	7.28	-2.27	-11.82
Xtrackers MSCI World Energy UCITS ETF	6.52	-2.96	-12.99

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
European Stock Market			
WS Ardtur Continental European	**12.12**	**18.63**	**-9.07**
Janus Henderson European Focus	**11.95**	**20.36**	**-8.12**
Premier Miton European Opportunities	**11.1**	**14.46**	**-10.21**
Quilter Investors Europe (ex UK) Equity	10.21	20.21	-7.8
Janus Henderson European Selected Opportunities	9.96	19.02	-7.78
GAM Star Continental European Equity	9.03	19.4	-8.34
L&G European Equity Income	8.68	12.77	-8.16
HSBC GIF Euroland Value	8.47	16.98	-8.84
TM CRUX European Special Situations	8.21	11.45	-8.22
EdenTree Responsible and Sustainable European Equity	8.2	15.02	-7.73
Global Emerging Markets			
iShares EM Dividend UCITS ETF	**14.61**	**13.48**	**-7.68**
GQG Partners Emerging Markets Equity	**14.45**	**22.32**	**-7.41**
Fiera Capital Europe Magna EM Income and Growth	**11.25**	**12.53**	**-7.4**
iShares MSCI Emerging Markets SmallCap UCITS ETF	11	15.95	-6.68
SSGA SPDR MSCI Emerging Markets Small Cap UCITS ETF	10.98	16.19	-6.62
abrdn SICAV I Emerging Markets Smaller Companies	10.97	20.02	-6.71
WisdomTree Emerging Markets Equity Income UCITS ETF	10.95	15.82	-6.61
Fidelity Emerging Markets Quality Income UCITS ETF	9.67	9.69	-8.05
Invesco Emerging Markets ex China (UK)	9.4	21.75	-10.03
Aubrey Global Emerging Markets Opportunities	8.69	3.49	-10.31
Global Growth			
Invesco CoinShares Global Blockchain UCITS ETF	**32.21**	**47.77**	**-11.15**
GAM Disruptive Growth	**20.05**	**36.91**	**-9.77**
L&G Cyber Security UCITS ETF	**16.71**	**31.89**	**-11.52**
GAM Star Disruptive Growth	15.79	28.89	-10.25
L&G Artificial Intelligence UCITS ETF	14.56	47.68	-14.33
WS Blue Whale Growth	13.64	30.66	-10.63
Schroder ISF Global Energy	12.77	10.29	-14.81
SSGA SPDR MSCI World Financials UCITS ETF	12.1	9.67	-9.46
MS INVF Global Opportunity	12.02	43.77	-12.73
Ninety One Global Special Situations	11.93	23.37	-10.54

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
MFS Meridian Contrarian Value	10.97	19.21	-7.66
Invesco Global Equity (UK)	10.88	23.71	-6.6
Jupiter Merian World Equity	10.86	18.77	-6.21
Heptagon Kopernik Global All Cap Equity	10.8	10.97	-6.93
GQG Partners Global Equity	10.64	14.63	-6.64
JGF-Jupiter Global Value	10.55	11.41	-6.55
Quilter Investors Global Unconstrained Equity	10.47	27.14	-10.04
Jupiter Merian Global Equity	10.46	18.66	-6.53
Guinness Global Innovators	10.39	32.06	-9.44
JPM JPM Global Sustainable Equity	10.37	18.35	-6.46
Japan Stock Market			
WS Morant Wright Japan	**11.57**	**21.43**	**-7.99**
WS Morant Wright Nippon Yield	**10.84**	**18.87**	**-7.95**
Janus Henderson Horizon Japanese Smaller Companies	**10.62**	**7.35**	**-9.12**
Arcus Japan	10.34	20.16	-7.07
BlackRock GF Japan Small & MidCap Opportunities	10.19	5.9	-8.12
iMGP Japan Opportunities	10.13	19.04	-6.44
Nomura Japan Strategic Value	10.07	40.07	-7.04
Polar Capital Japan Value	9.75	13.46	-7.48
Lazard Japanese Strategic Equity	8.59	19.56	
WisdomTree Japan Equity UCITS ETF	7.73	18.28	-8.36
Specialist			
iShares Listed Private Equity UCITS ETF	**22.64**	**31.02**	**-8.95**
iShares MSCI Poland UCITS ETF	**20.37**	**39.89**	**-12.83**
First Trust Nasdaq Cybersecurity UCITS ETF	**18.03**	**32.04**	**-9.92**
Nikko AM ARK Disruptive Innovation	17.23	59.14	-23.89
iShares MSCI Turkey UCITS ETF	16.05	-11.51	-15.6
Schroder ISF Emerging Europe	15.23	36.64	-11.57
First Trust Cloud Computing UCITS ETF	15.01	43.55	-16.24
iShares MSCI Target UK Real Estate UCITS ETF	14.18	7.51	-8.07
Polar Capital Biotechnology	13.78	9.33	-9.58
Algebris Financial Equity	13.68	23	-10.12

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
Sterling Corporate Bonds			
Man GLG Sterling Corporate Bond	**16.48**	**24.26**	**-2.71**
Liontrust Sustainable Future Monthly Income Bond	**14.82**	**13.09**	**-3.54**
Schroder Long Dated Corporate Bond	**14.35**	**11.86**	**-6.86**
Blackrock Institutional Bond Over 10 Year Corporate	13.92	11.16	-6.39
Liontrust Sustainable Future Corporate Bond	13.28	12.99	-3.53
iShares Over 15 Years Corporate Bond Index	13.25	10.07	-7.85
Fidelity Long Dated Sterling Corporate Bond	13.13	11.56	-6.4
Pimco GIS UK Long Term Corporate Bond	13.03	9.57	-6.21
Janus Henderson Inst Long Dated Credit	12.67	9.24	-7.8
CT Sterling Medium and Long Dated Corporate Bond	12.55	10.7	-4.94
Sterling High Yield			
Invesco High Yield (UK)	**9.39**	**12.51**	**-2.31**
Schroder High Yield Opportunities	**9.05**	**13.64**	**-2.3**
CT High Yield Bond	**8.96**	**12.55**	**-2.12**
GS Europe High Yield Bond Portfolio	8.85	13.36	-2.96
Aegon High Yield Bond	8.57	14.32	-2.34
abrdn High Yield Bond	8.22	13.03	-2.05
Baillie Gifford High Yield Bond	8.22	11.34	-3.81
Man GLG High Yield Opportunities	7.8	10.65	-1.85
Barclays GlobalAccess Global High Yield Bond	7.78	12.83	-2.96
L&G Active Global High Yield Bond	7.69	11.24	-2.99
Sterling Strategic Bonds			
Man GLG Dynamic Income	**13.15**	**24.89**	**N/A**
Invesco Sterling Bond	**11.21**	**10.98**	**-2.69**
Virgin Money Bond and Gilt	**10.93**	**7.4**	**-3.71**
abrdn Strategic Bond	10.74	8.02	-2.35
EdenTree Responsible and Sustainable Sterling Bond	10.17	8.03	-2.47
CT Strategic Bond	10.05	10.49	-2.14
NFU Mutual Gilt & Corporate Bond	10.02	8.5	-4.07
BlackRock Sustainable Sterling Strategic Bond	9.96	11.05	-2.97
Royal London Ethical Bond	9.96	9.54	-3.45
Titan Hybrid Capital Bond	9.79	7.04	-3.54

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
Targeted Absolute Return			
VT Argonaut Absolute Return	**16.12**	**14.43**	**-9.03**
AQR Systematic Total Return UCITS	**9.48**	**6.55**	**-4.51**
Aviva Inv Multi Strategy Target Return	**7.84**	**5.81**	**-2.54**
Artemis Target Return Bond	7.68	8.28	-1.38
abrdn SICAV II Absolute Return Global Bond Strategies	7.46	6.63	-1.34
Man GLG Absolute Value	7.22	9.24	-2.46
IFSL Church House Tenax Absolute Return Strategies	6.92	6.22	-1.77
CT Dynamic Real Return	6.43	8.65	-3.29
Janus Henderson Multi-Asset Absolute Return	6.43	6.35	-1.76
New Capital Global Alpha	6.34	0.64	-2.51
UK All Companies			
Ninety One UK Special Situations	**15.65**	**27.35**	**-10.99**
Aegon Ethical Equity	**12.31**	**14.91**	**-9.24**
Man GLG Undervalued Assets	**12.25**	**16.2**	**-9.47**
Aviva Inv UK Listed Small and Mid-Cap	12.09	8.35	-9.1
Fidelity Sustainable UK Equity	11.48	11.16	-7.39
Schroder Recovery	10.92	13.05	-8.91
Sanlam Active UK	10.85	12.06	-9.17
Premier Miton UK Value Opportunities	10.23	10.33	-10.28
Janus Henderson UK Alpha	9.81	10.23	-9.73
Aegon UK Sustainable Opportunities	9.79	9.67	-8.61
L&G UK Mid Cap Index	9.75	9.42	-10.27
FTF Martin Currie UK Mid Cap	9.45	9.5	-9.67
JOHCM UK Dynamic	9.45	12.33	-8.82
Santander UK Growth Unit Trust	9.21	13.06	-8.44
IFSL Marlborough Multi-Cap Growth	9.19	15.52	-9.3
Dimensional UK Value	9.12	9.27	-9.81
Amundi Prime UK Mid And Small Cap	9.11	7.37	-7.87
HSBC FTSE 250 Index	8.82	7.75	-9.19
iShares Mid Cap UK Equity Index (UK)	8.8	7.75	-9.15
Fidelity UK Select	8.64	9.94	-8.11

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
UK Equity Income			
Schroder Income Maximiser	**10.93**	**11.95**	**-8.1**
Schroder Income	**10.82**	**11.29**	**-8.78**
iShares UK Dividend UCITS ETF	**10.07**	**6.12**	**-9.58**
Man GLG Income	9.95	12.13	-9.31
Courtiers UK Equity Income	9.29	7.99	-8.53
WS Gresham House UK Multi Cap Income	9.24	12.47	-4.77
Santander Equity Income Unit Trust	8.93	10.51	-8.44
Royal London UK Equity Income	8.83	10.25	-7.96
Artemis Income	8.48	9.79	-8.12
JOHCM UK Equity Income	8.46	5.99	-10.19
Quilter Investors UK Equity Large-Cap Income	8.22	9.39	-8.2
TM Redwheel UK Equity Income	7.89	10.06	-9.2
BNY Mellon UK Income	7.87	10	-7.9
JPM UK Equity Income	7.51	9.59	-8.55
Premier Miton Monthly Income	7.51	8.35	-8.13
Vanguard FTSE UK Equity Income Index	7.51	6.19	-9.27
Premier Miton Optimum Income	7.32	8.36	-8.52
CT Responsible UK Income	7.22	8.91	-7.15
Janus Henderson UK Equity Income & Growth	7.22	2.65	-8.31
Santander Enhanced Income Portfolio	7.22	9.57	-8.56
UK Smaller Companies			
Aegon UK Smaller Companies	**10.9**	**5.35**	**-8.15**
Dimensional UK Small Companies	**9.51**	**8.12**	**-8.9**
FTF Martin Currie UK Smaller Companies	**9.51**	**-4.02**	**-7.36**
Fidelity UK Smaller Companies	9.5	10.25	-6.79
JPM UK Smaller Companies	9.19	7.11	-8
iShares MSCI UK Small Cap UCITS ETF	9.15	9.15	-9.51
Artemis UK Smaller Companies	9.05	4.85	-6.56
Janus Henderson UK Smaller Companies	8.19	3.2	-9.05
Royal London UK Smaller Companies	8.03	3.72	-6.96
WS Gresham House UK Smaller Companies	7.99	7.33	-5.26

SECTOR	GROWTH		MONTHLY RISK %
	6 Month %	1 Year %	
US Stock Market			
First Trust US Equity Income UCITS ETF	**16.55**	**10.11**	**-10.97**
VT De Lisle America	**14.23**	**14.73**	**-8.8**
New Capital US Growth	**13.75**	**42.66**	**-11.19**
T. Rowe Price US Large Cap Growth Equity	13.33	40.91	-10.52
T. Rowe Price US Large Cap Growth Equity Fund	13.1	42.06	-10.71
iShares S&P 500 Financials Sector UCITS ETF	12.18	5.36	-10.64
SSGA SPDR S&P U.S. Financials Select Sector UCITS ETF	12.15	5.36	-11.26
CT North American Equity	11.99	20.07	-8.01
MS INVF US Growth	11.85	40.87	-21.44
FTF Franklin US Opportunities	11.78	33.15	-10.67

" I would like to thank you for your advice and assistance over the past few years, which I have found invaluable. "

A.R.
December 2022

Important legal information

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Funds reviewed in this guide (whether you hold them in ISAs, SIPPs, or otherwise) are risk investments and are intended as long-term investments (5-10 years at least). If you withdraw from these investments in the early years you may not get back the full amount invested. The value of risk investments can go down as well as up.

Risk investments are not suitable for everyone and you should obtain expert advice if you have any doubt about whether they are suitable for your particular circumstances. Levels and bases of, and reliefs from taxation are subject to change. The past is not necessarily a guide to future performance.

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