




Investment Management

Investment Research

Investment Counselling



Valu-Trac Investment Management Limited
Authorised and regulated by the Financial Conduct Authority,
registration number 145168

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Summary

Valu-Trac is the registered name given to a globally consistent discipline for measuring, monitoring and using 'intrinsic values' of investments in global markets.

'Intrinsic value' for an income producing investment (bonds and equities) is based on likely income production. For investments which provide no income (commodities) 'intrinsic value' is determined in relation to the World Monetary Base, which is defined in Valu-Trac World Monetary Reviews.

Superior 'intrinsic value' provides competitive investment performance and reduction of risk.

Valu-Trac covers over 20,000 individual stocks in 23 Developed and 26 Emerging Equity markets. We value stock market indices, sectors and industries, the 10 year Government Bond market in countries where data is available, all their currencies, as well as 15 commodities.

Valu-Trac started as an investment advisory business specialising in Global Asset Allocation and still provides Investment Research and Investment Counselling, both top-down for Strategy and bottom-up for stocks, which can be summarised as follows:-

Strategic Commentaries and allocations to:

- bond markets, equity markets, and alternatives
- commodity markets
- multi asset classes (bonds, equities, commodities etc.)
- currency markets for active or defensive hedging
- sectors and industries globally, regionally, or by country

Tactical:

- stock selection, individually, globally, regionally, by country, sector, and size
- selection of long and short pairings according to client parameters
- provision of Watchlists which monitor stocks selected by recipients and their portfolio(s)

Valu-Trac provides transparency by publishing all of its measurements on 'Valu-Trac Display', an interactive desktop-based information system which provides visual access to charts and measurements integral to the Valu-Trac philosophy.

Valu-Trac became authorised as an investment manager in 1989, originally as a result of requests from research clients. Valu-Trac manages traditional (long only) and alternative (hedge funds) investments for institutional and private investors. Some of its funds are available to the public.

Philosophy

Valu-Trac addresses the fundamental point that when an income producing investment is acquired, so is the right to receive the income it will generate. Investors always know the price they are paying, but are often hazy about the level and behaviour of their expected income stream's intrinsic value. Failure to be aware of intrinsic value can mean loss of capital not because the investment case is bad, but because, in the case of popular stocks especially, low intrinsic value has been acquired at time of purchase which starts to move higher and detracts from price. Valu-Trac's services are designed to remove this risk and so achieve sustainably good results.



Why is intrinsic value cyclical? That most men shave and Proctor and Gamble's Gillette makes such good razor blades that it dominates its market place is a compelling case for investment in Proctor and Gamble. But it is to be expected that Proctor and Gamble's intrinsic value will be moving up and down from high to low and back as investors perceive high intrinsic value, push the price up and thereby cause intrinsic value to fall. At some stage low intrinsic value will attract selling and intrinsic value will rise. The return to high intrinsic value can be painful in terms of price, so it is best to delay purchase until high intrinsic value is restored and is starting to fall. All of this is made visible and simple to follow in Valu-Trac's measurements.

Future income from individual investments and portfolios can be predicted, valued and managed rationally, unlike price movements which are inherently unpredictable, uncontrollable, and whose behaviour can often be irrational as greed or fear predominate.

Valu-Trac values future income consistently and objectively across the world, avoiding dangerous, subjective human forecasts which introduce optimism and pessimism. Instead we rely on earlier findings of the Federal Reserve Bank of St. Louis that peoples' expectations are based on their experience. We use historic long term trends in growth in income, national and corporate, to inform our growth rates. They may be wrong (as may all forecasts) but, because they are rooted in past experience and prepared consistently across the globe, they provide intrinsic values of future income which are likely to reflect expectations and can be relied on to be globally comparable.

Underwritten by competitive intrinsic value, Valu-Trac's investment selections tend to show competitive returns with volatility of return such that high Sharpe Ratios are attainable.

Income Producing Investments – Valuation Process

Valu-Trac's intrinsic value measurement is rooted in the principle that the underlying purpose of every investment is to produce a recurring stream of income for its owner and, as Benjamin Graham pointed out in the foreword to his book *The Intelligent Investor*, "the habit of relating what is paid to what is being offered is an invaluable trait in investment".

Accounting practices concerning reported earnings vary between countries, as do tax rates, dividend distribution policies, and inflation rates. To overcome these differences, Valu-Trac identifies an income stream which is genuinely comparable internationally. In the case of an equity, it is based on reported cash earnings adjusted so that Valu-Trac's income stream is a proxy for the globally consistent 'dividend equivalent' that the directors of a company anywhere could conservatively afford to distribute. For Fixed Income securities a corresponding income stream is the yield to redemption.

Income streams, in the minds of potential investors at least, are presumed to be capable of growth. Even in professional investment circles much importance is attached to forecasts, but it is Valu-Trac's view that the future cannot be predicted with any reliability. However, we do believe that a growth rate can be assumed provided that it is rooted in past experience of long term national rates of growth of corporate profits and the economy. In the case of individual companies, such a rate should be adjusted upwards or downwards according to each company's historic rate of 'ploughback' return on capital relative to its market (relative internal growth rate).



Each income stream can then be projected, discounted to net present value, annualised, and related to price. Resulting intrinsic value yield is expressed as an indicated compound annual real rate of return, so that the income stream for any income producing investment becomes the basis for Valu-Trac's proprietary measurement of intrinsic value. Important information can be derived from the latest *level* of intrinsic value viewed historically, absolutely and relatively. Further information can be derived by looking at the latest *behaviour* of intrinsic value.

Research and experience show that investments with attractive income streams measured in terms of intrinsic value are rewarded with price (i.e. capital) appreciation, and vice versa. Allocation between and within asset classes according to the level and behaviour of intrinsic value yield therefore produces superior investment returns.

Put simply, investments should be made in competitive (and falling) intrinsic value, while uncompetitive (and rising) intrinsic value should be discarded. Such a practice has demonstrably avoided the major pitfalls of the last thirty years (i.e. the 1987 market crash, the collapse of the Japanese stock market in 1990, the bursting of the 2000 'bubble', etc.) and it has exploited opportunities to build, as well as to preserve, capital.

It is also potentially rewarding to monitor the intrinsic value of investments relative to other investments, or benchmarks, or even a set of liabilities, all of which can be carried out by Valu-Trac's investment services.

Non-income Producing Investments

Bonds and Equities are all denominated in fiat money issued by central banks. Fluctuations in central bank monetary bases inform about the 'quality' of money, including monetary inflations, deflations, and disinflations. They also inform about likely developments in the level of long term interest rates, in currency exchange rates, in monetary liquidity, and about changes in price levels of non-income producing investments, e.g. commodities, including gold. Central bank monetary bases also provide a means of determining intrinsic values of currencies.

Gold, a non-income producing investment, is an 'alternative' investment because it is a monetary alternative to fiat money. Some would argue that in terms of the classic definition of money - a reliable means of exchange, an objective standard of value, and a dependable store of value – gold can always be relied on whereas fiat money today cannot.

Comparing intrinsic values of non-income producing investments such as gold and other commodities provides important information to investors about income producing investments as well as providing the means to successful allocation in the choice between 'alternative' investments and 'traditional' investment such as bonds and equities.

Valu-Trac Monetary Research

Valu-Trac therefore has two core disciplines – systematic measurement of intrinsic value on a globally consistent basis, and monitoring of the global monetary base and its components. The global monetary base is the consolidated total of all Central Bank monetary bases.

By 'monetary base' we refer to the net domestic liabilities of a central bank's balance sheet, equivalent to the net assets of a corporation. If the net assets of a corporation are growing, it is making money. Likewise with a central bank, which if growing means monetary inflation. This concept, along with other features of Central Banks policies, are explained and examined in our regular World Monetary Reviews.



Valu-Trac's Research & Counselling Services

Valu-Trac started as an investment advisory business specialising in Global Asset Allocation and provides Investment Research and Investment Counselling. The research is both *top-down* via Global Bond and Equity Markets, their currencies, and alternative investments, as well as *bottom-up* for stocks, industries, and their sectors.

We publish daily highlights following **Opportunities & Dangers** from within our asset database of stocks, sectors, countries, commodities and currencies. Global Sector and Regional **Focus reports** are published monthly along with our headline **Global Investment Strategy Highlights** note.

We also provide clients with online **Watchlists** which report the latest Valu-Trac 'Status' (Buy Candidate, Attractive, Neutral, Avoid or Sell Candidate) of each constituent and the portfolio as a whole, and show key measurements for each of the investments selected from our extensive database by each client.

Valu-Trac also **customises allocations** according to a client specific universe and guidelines in order to provide **model portfolios** on a Global level (bond & equity markets, sectors, currencies, and/or commodities) or individual stock portfolios.

Customised **data feeds** can be supplied to complement a client's own investment process. We can also provide clients with '**Valu-Trac Display**' - an interactive desktop based information system which provides visual access to all the charts and measurements integral to the Valu-Trac philosophy (including markets, sectors, stocks, bonds, currencies, and commodities).

Please contact Martin Henderson (martin.henderson@valu-trac.com; +44 (0)1343 880217) for the full list of our Research publications, for our customised services, or for our Investment Management services.

Further information can be found on our website: www.valu-trac.com