Warrants Alert

August 2013

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Not much is certain in equity markets, but one thing of which we can be sure is that trends change like the weather. Believe it or not, the Greek and Spanish equity markets were among the biggest global winners over the last month. In the UK, the FTSE 100 Index clawed back the whole of the losses of the month before, the Bank of England switched from targeting inflation to targeting unemployment, and economic data quite suddenly started to indicate a real upturn. Against this background, many warrants performed well. We write about a big movement in Myanmar Investments warrants this month, and about JPMorgan Indian moving in the opposite direction. We also provide coverage of currency movements, oil markets, US technology stocks and European banks.

MARKET STATISTICS

A strong month of performance from corporate warrants has shifted the average statistics meaningfully. After a 13% average rise the average warrant price is up from 33p to 38p and the average CFP is down to 9.85%. This is not too far above the 'danger level' we calculated to be 9.1% in the June newsletter. This suggests it may pay to add some stop-losses to your investment process if you do not have them in place already.

Corporate Warrants		**Covered Warrants**	
Average Warrant Price:	38p	SG Issues:	448
Average Premium:	14.98%	RBS Issues:	22
Average Final Exercise Date:	27th April 2015	Total Number Listed:	470
Average Gearing Factor:	6.8 times	Calls / Puts:	325 / 145
Average Capital Fulcrum Point:	9.85%		

There were some beefy upward movements in the corporate warrants market in July, aided by generally supportive markets. Special situations lead the way though, led by a remarkable three-fold leap in **Myanmar International Investments** warrants (MILW). This is a genuine gain, not just one caused by a movement in the dealing spread. We write about it inside. We have also written a fair bit about **Vietnam Holding** over recent months, and the fund's

warrants (VNHW) have certainly proved lively. They are ahead by 53.8% over the last month and trading on a small discount ahead of their expiry on 25th September. We are disappointed these are not longer-dated, as we would have liked the opportunity to consider them as a medium-term investment prospect. On the downside, **JPMorgan Indian** subscription shares (JIIS) have been a victim of some big investment outflows from the country and a building sense that the country's economy could be heading for trouble.

CORPORATE WARRANTS - MAJOR PRICE CHANGES

One Month

Rises

Myanmar Investments	200.0%
Vietnam Holding	53.8%
Standard Life Equity Inc	46.4%
Henderson In'tl Income	28.0%
Polar Cap Glbl Financials	27.2%
Perpetual Inc & Gr Sub	27.1%
Polar Cap Glbl Healthcare	25.8%
BlackRock Greater Europe	24.6%
Worldwide Healthcare	23.1%
JPMorgan Asian	15.9%
JPMorgan Overseas	11.2%
Polar Capital Technology	10.6%
World Trust Fund	2.6%
Raven Russia	0.5%

Falls

JPMorgan Indian	-31.7%
Golden Prospect Prec Met	-16.7%
JPMorgan Emerging Mkts	-13.7%
Aberdeen LatAm Income	-12.2%
Artemis Alpha	-6.4%
Ground Rents Income	-5.9%
Impax Asian Environmntl	-3.0%

Three Months

Rises

Invista European	146.3%
Vietnam Holding	81.8%
Standard Life Equity Inc	60.8%
Worldwide Healthcare	30.6%
Perpetual Inc & Gr Sub	30.0%
JPMorgan Overseas	22.9%
BlackRock Greater Europe	16.5%
Polar Capital Technology	15.9%
Polar Cap Glbl Healthcare	11.8%
Impax Asian Environmntl	6.0%
Henderson In'tl Income	3.4%

Falls

JPMorgan Indian	-53.1%
Golden Prospect Prec Met	-47.4%
Aberdeen LatAm Income	-47.1%
JPMorgan Japan Smaller	-32.1%
JPMorgan Emerging Mkts	-31.3%
JPMorgan Asian	-18.9%
Artemis Alpha	-17.8%
Marwyn Mgmt Partners	-14.3%
BlackRock New Energy	-9.1%
World Trust Fund	-7.0%

Twelve Months

Rises

Standard Life Equity Inc	264.4%
Vietnam Holding	233.3%
JPMorgan Japan Smaller	214.7%
Perpetual Inc & Gr Sub	197.8%
Worldwide Healthcare	188.2%
Henderson In'tl Income	179.6%
Impax Asian Environmntl	169.4%
Polar Cap Glbl Healthcare	153.3%
JPMorgan Asian	82.5%
World Trust Fund	73.9%
Raven Russia	29.1%
Aberdeen LatAm Income	28.6%
JPMorgan Emerging Mkts	23.9%

Falls

Golden Prospect Prec Met	-84.8%
Marwyn Mgmt Partners	-80.0%
Praetorian Resources	-76.5%
Invista European	-71.1%
Henderson Opportunity	-61.2%
JPMorgan Private Equity	-36.9%
JPMorgan Indian	-29.3%
Artemis Alpha	-22.0%

WARRANTS ALERT TRADING PORTFOLIO III

The performance of the Trading Portfolio last month was acceptable without being stellar. Our two healthcare subscription shares both continued to inject some healthy returns, but Raven Russia warrants were fairly static and our GBP/USD currency put warrants went into reverse as sterling found some fresh support from encouraging growth data. Overall, the net rise was £1141.46, or 7.70%.

The daily gyrations in the currency markets never stop, and certainly there has been plenty of action in the **GBP/USD** exchange rate over the last month. From US$1.5194 the rate moved up slightly in July, but has accelerated over the last week and on the day of writing in particular as the Bank of England has laid out new guidance on interest

rates and its management of the economy. Traders report that the new 'target' approach to interest rates, keeping them stable unless and until unemployment falls to 7%, removes a great deal of uncertainty and allows sterling to flourish in a more stable environment. Unemployment, rather than inflation, is now seen as the key to rates as it is the best indicator of conditions in the economy at which the monetary policy committee (MPC) would "begin to consider" withdrawal of "exceptional" stimulus, or QE as we all know it.

On current forecasts, it could be the end of 2016 or 2017 until anything changes, particularly as the economy is not at what the new Bank of England Governor Mark Carney calls "escape velocity" – the rate of growth required to break away from the clutches of recession and sluggish growth that has persisted in the UK since the credit crisis of 2008. There have been some very positive signs of late though, from measures of activity in the manufacturing, retail, and construction sectors. Now that the Bank of England has signalled low interest rates for years to come, there may be little excuse to continue deferring investments in capacity and in newer plant and equipment. The housing sector could see a marked pick-up too.

To us though, today's sharp rally in sterling looks like a knee-jerk reaction that is unlikely to be sustained. Confirming an era of low interest rates and continuing monetary expansion is not usually a way to support a rising currency, and we think short-term changes in sentiment can very easily and quickly swing back the other way. For the moment US$1.55 looks like a strong resistance level, but if the exchange rate breaks through that, then we should probably accept that the landscape has shifted. For now we will hold on to our position in the **FX41 GBP/USD 1.50 20-Dec-13 puts,** down to £0.118 now, with a stop-loss of £0.08.

The stop-loss on **Polar Capital Global Healthcare** subscription shares can move up from 35p to 38p. We like this holding enormously, and it has produced a large gain for the portfolio, but this does not mean we will hold it for ever. For a start, these subscription shares expire in January, and on top of that we appreciate that the underlying shares are richly valued on a premium to NAV of 5.3%. We are not certain that will be sustained. What is more, due to the very considerable success of our two healthcare holdings we now have more than 60% of the value of the portfolio tied up in just two holdings, making the portfolio very top-heavy and lacking in diversification. That will need to change before long. For **Raven Russia** warrants the stop-loss is 45p, and for **Worldwide Healthcare Trust** subscription shares the stop-loss can jump markedly from 300p to 390p. We are content to sit on our cash for another month as we see out the summer period.

Warrant	Ticker	Number	Bought	Current	Profit	% Change
GBP/USD 1.50 20-Dec-13 puts	FX41	10000	£1,832.50	£1,180.00	-£652.50	-35.61%
Polar Cap Global Healthcare	PCGS	9500	£1,205.94	£4,370.00	£3,164.06	262.37%
Raven Russia	RUSW	5600	£1,914.40	£2,660.00	£745.60	38.95%
Worldwide Healthcare	WWHS	1200	£1,314.98	£5,340.00	£4,025.02	306.09%
Cash				£2,373.00		
Interest				£48.38		
TOTAL				**£15,971.38**		

NEW CORPORATE WARRANT ISSUES

We're in the midst of the usual summer lull in corporate activity, without any fresh IPOs or bonus issues of warrants this month. It is certainly worth revisiting the two from last month though. Starting with **Polar Capital Global**

Financials, the trust's shares have risen to 107.375p and the subscription shares (PCFS) are up by 27% to 14.625p. This is just over our initial price forecast, but with the underlying shares now higher as well, we continue to rate the subscription shares as a BUY. They offer good gearing of 7.3 times for a CFP of just 5.55%, representing what we believe to be an attractive technical position.

After we highlighted their existence a month ago, and their anomalously low price, **Myanmar Investments International** warrants (MILW) have had an exciting run-up. From US$0.15 the warrants have trebled in value to US$0.45 (dealing spread US$0.35-US$0.55). This has removed the discount that prevailed before, but no more. A 14% jump in the ordinary shares to US$1.20 means the warrants are trading at parity now, on a zero premium in spite of the long life remaining to June 2018 and their 2.7 times gearing.

Of course their technical merit is just one part of the story, and we did mention last month the considerable issues of illiquidity, the unquoted nature of the underlying portfolio, and the wider issues such as politics, currency, corporate governance, and the like. There's no doubt this makes for a fascinating story though, and we have read more about the country now that suggests it is making more strides towards attracting foreign investment. Just this week, the International Business Times reported that the country received US$423m in June – mainly from Thailand, but also from Singapore, China, India, and the UK. These investments went into the production and hotel sectors according to official sources. The newspaper says "this marks a change in the perception of Myanmar's development potential, following the establishment of a more democratic government, in the eyes of international investors. In previous years, foreign firms invested in sectors such as oil and gas, mining and electric power. In particular, China, Myanmar's biggest investor with more than US$14bn, has traditionally invested in resource and energy projects, mostly taking resources out of Myanmar into China, with China as the main consumer, according to Chiangrai Times, a Thai news portal. Now, it seems, international firms are pouring money into Myanmar with the intention to stay. Both production and hotels represent fast-growing industries in the country." Last year, 94 foreign enterprises invested over US$1.42bn in Myanmar, according to Irrawaddy, a Burmese newspaper based in Thailand. "The significance of last year's FDI was that 78 out of 94 proposed enterprises were in the labour-intensive manufacturing sector, mostly garment factories," said Myanmar President Thein Sein. A few weeks ago, Norwegian company Telenor and Qatari company Ooredoo were awarded coveted telecom licenses to develop mobile networks in Myanmar. Ooredoo has pledged a US$15bn investment in the country, and both companies are expected to begin building infrastructure later this year. When they do, foreign investment in Myanmar could rise at an even faster rate that it is now.

We'll have to see how Myanmar Investments International gets involved. It has already been active in its early stages, establishing an office in Yangon and appointing Tham Chee Chung as its investment director there. Separately, the company has also hosted a private breakfast meeting for the country's President, U Thein Sein, during his two-day state visit to London. We are quite surprised that such a small company should have this much clout, but it augurs well for the future. We'll follow the progress here with great interest.

CORPORATE WARRANTS NEWS

For the last two months in a row we have said the subscription shares of **Aberdeen Latin American Income Fund** (ALAS) were "too high", so we were not unhappy to see them fall by 12.2% this month. As the ordinary shares slipped as well though, this has really not done anything to improve what we still regard as an over-stretched technical position. At 9p the subscription shares are still too high in our opinion.

On 1st August, the stockbrokers Cantor Fitzgerald issued a new report on **Artemis Alpha Trust,** noting that the trust reached its tenth year anniversary in June. The note calls it an "outstanding ten years" and says "John Dodd and Adrian Paterson have a lot to proud of, having built an outstanding long-term track record, second to none in the

peer group. While recent performance has been held back by disappointments in two of the top three holdings, we believe this does not take away from their ability to deliver. They have significant personal investments in the trust and we view the recent dip in performance as an attractive entry point. The shares are trading wider than their one-year average discount."

Let's flesh out some of those points. Since taking over the trust in June 2003, the Artemis managers have delivered a NAV total return of 370.7% (16.5%pa) compared to a return from the FTSE All-Share Index of 146.4% (9.3%pa) over the same period. Cantor reckon this outperformance has been consistent as well – it's not that the managers just had one hot year that lifted their standing. The trust has outperformed in 86% of all rolling three-year periods and in 65% of all rolling one-year periods. As you may already know, the managers are about as far away from index trackers as you can get. They invest in their own idiosyncratic way, on a bottom-up unconstrained basis, mainly in smaller companies, and with an unquoted element. Certain themes tend to be followed, including oil & gas.

Cantor explain that two of the top three holdings have disappointed of late. These are both unquoted companies. They say "Vostok Energy's negotiations to sell itself did not materialise in time to meet the maturity of its bonds, so was written down to zero, costing the NAV 5.2%. Hurricane Energy's IPO was put on hold as late delivery of a contract rig meant its exploration plans had to be pushed back to 2014, prompting a 36.9% write-down in the holding value and costing the NAV 3.0%." The brokers see these as understandable setbacks in view of the higher risk nature of the portfolio, and do not see anything of more concern in the news. The Hut Group – a leading multi-website online retailer - has been a far more successful unquoted investment, being written up by almost 250% and adding 3.5% to the NAV over the last financial year. Nevertheless, you can see the recent dip in form on this two-year chart.

Outside of oil & gas and internet businesses, the other main theme in the portfolio is financials. The managers believe many fund and wealth management businesses are at a 'tipping point' where operational gearing is really starting to kick in, leading to strong profit growth. The portfolio has holdings in Polar Capital, Liontrust Asset Management, Brewin Dolphin, and Ashcourt Rowan. A combination of strong inflows, rising equity markets, and a competitive shift towards larger advisers post-RDR makes for a promising industry outlook, the managers believe.

We wouldn't argue too strongly against an investment in Artemis Alpha subscription shares (ATSS). As with the ordinary shares though, we have noticed the performance is 'lumpy' and that it seems possible to finesse some entry and exit points. At 45.625p now, the subscription shares offer gearing of 6 times for a CFP of 9.71%. That looks very reasonable value, if not particularly cheap, but our research indicates it is better to buy these subscription shares in the 5%-6% CFP range, so we would rate them only a HOLD at this level.

Many investment trust companies trading at a premium to their net asset values, particularly those offering a high income (where the demand is elevated), are taking the opportunity to raise more capital through 'C' share issues. **Henderson International Income** is joining the throng. The trust points out that since its listing at the end of April 2011 it has declared 8.4p of dividends and delivered a diluted NAV total return, including dividends, of 25.9%. Since launch there has been consistent demand from investors for HINT ordinary shares, which has been satisfied by the "tap" issuance of a further 8m ordinary shares, and net assets now stand at some £58m. Demand for shares has been such that the company has on occasion exhausted the limits of its ability to issue ordinary shares. The board now intends to seek to make a substantial non-dilutive issue of new ordinary shares potentially in the form of a C-share issue, subject to demand and to shareholders' approval. We don't think this will have much impact on the subscription shares (HINS) at 18.875p, except to the extent that it mops up some of the excess demand that might otherwise have driven the ordinary shares temporarily higher. The good news is that a larger trust can spread its fixed costs more widely and that with greater liquidity it can attract larger investors.

Henderson Opportunities Trust has been flying. It has been outperforming the FTSE All-Share Index handsomely, and its ordinary shares are up by 10% over the last month alone. As a comparatively small, geared, aggressive trust, this is not altogether a surprise, but the trust is hardly on our radar at all as far as the subscription shares (HOTS) are concerned. They have been trading at a nominal floor for some time, having slumped to a position well out-of-the-money. Given the seemingly higher volatility of the ordinary shares though and their recent strong performance, we wondered whether there was any meaningful chance of a late comeback. At present the shares are trading at 680.5p against an exercise price of 936p, and the final expiry date is 15th February 2014. As usual, we have performed some calculations, and we were a little surprised at the outcome. The historic volatility of the ordinary shares over the last three years is actually quite low at 13.53%, leaving the delta close to zero and the Black-Scholes valuation for the subscription shares at 1.3p, very much in line with the market price of 1.01p. Unless there is an acceleration in the rise of the ordinary shares, regrettably our advice remains that these subscription shares are NOT WORTH CONSIDERING at this stage.

Impax Asian Environmental has confirmed it is winding up, and has started the process. Just as we go to press, trading is being suspended in the shares and subscription shares, and the vast majority of shareholders (almost 90%) have opted for the cash exit. Until its announcement on August 7th the trust had still not clarified exactly how much of a payout subscription shareholders would receive (we thought the wording in the documentation was rather unclear on this matter), but the calculation date for the administrators has passed now, and the trust has announced the payout will be 5.3375p per subscription share. This is the lower of the two figures we had considered possible (see comment in the May newsletter), but it is still a better outcome than could have been achieved by selling in the market.

We took **JPMorgan Emerging Markets** subscription shares (JMGS) off our technical 'undervalued' list last month, since when we have seen a realignment. The ordinary shares have edged up by 0.4% over the month, while the subscription shares are down by 13.7% to 66p. We think they are VERY REASONABLY VALUED again now, with attractive gearing of 8.6 times and a CFP of 8.94%. On 22nd July, the brokers Investec pointed out that the trust's largest individual portfolio holding, the Indian Housing Development Financing Corp, had risen by more than 3% in local trading. The broker reiterated its positive comments, saying "the discount of the fund is historically wide at around 12%, down at lows seen over the last year, and some distance from the one year average level of 10.1%. Performance has been good even in a tough market for emerging market funds, and now on a discount level looks to be a good time to add to a holding or initiate a new one in the fund."

There seems to have been a blaze of negative publicity about investing in India. Warren Buffett's investing firm Berkshire Hathaway has pulled out of India after two years, and Bloomberg reports that Wal-Mart, ArcelorMittal and Posco are also "pulling back on investments in India that they had announced with great fanfare." The article

notes that foreign direct investment in India was down by 21% in the last fiscal year and that "this one doesn't look promising." The article lays a large chunk of the blame at the door of the Indian government, saying "headwinds from Delhi are contributing to the slowest growth rates in a decade, a record current account deficit and a 7.9% plunge in the rupee this year." No-one who has visited India will be too surprised to learn there are considerable administrative hurdles to doing business in India, but Bloomberg provide a couple of interesting specific examples. First, "in September 2012, Prime Minister Manmohan Singh's government passed a law allowing big retailers to open stores directly in India, yet no one has. Reasons are legion: too many prerequisites; constraints on whom goods can be purchased from; a raft of regulations limiting franchise models and factory construction; and the hair-pulling need to negotiate separately with each of India's 28 states." The piece explains "India has fallen into a self-destructive pattern of relenting on the big issues, then killing would-be investors with the details. Take the experience of furniture retailer Ikea of Sweden AB, which in January won approval to open outlets in India. Not content with the Swedish icon investing about US$2bn, the government played hardball. It tried to bar Ikea from selling food in its stores; Ikea stood its ground. But the damage was done." You may already know of the Vodafone tax case as well – the company "is still wondering if it will take a multibillion-dollar loss on a deal thanks to tax-policy changes. In 2007, the Newbury, England-based carrier acquired the Indian unit of Hong Kong-based Hutchison Whampoa Ltd. Since then, a retroactive clause placed in the nation's laws have thrown the deal into chaos, creating a US$2.2bn tax dispute, delaying an initial public offering and further denting India's reputation."

"The investment case for India has turned less favourable," Goldman Sachs said in a note to clients last week. The bank said the sharp depreciation in the rupee has particularly hurt foreign investor sentiment. The Wall Street Journal's 'moneybeat' blog notes that "The Reserve Bank of India recently lowered its expectation for India's economic growth to 5.5% for the year that ends March 31st 2014, from 5.7% earlier. Foreign institutional investors, who are major drivers for the Indian stock market, have sold stocks worth US$2.85bn in June and July, versus an investment of around US$15bn in the first five months of this year. Some of the large net sellers of Indian stocks lately were HSBC GIF Indian Equity fund, and US-based exchange-traded fund Wisdom Tree India Earnings, which sold stocks worth US$216m each during the April-June period, according to data from research firm Morningstar."

"Against a backdrop of lower growth, tighter liquidity and rising macro vulnerabilities, we downgrade India to underweight," Goldman said in its note. The bank said it expects the rupee to fall further. This is becoming a major issue for the country, and one that was central to another damning article in the Financial Times this week, about the appointment of a new head for the Reserve Bank of India. The FT said "his immediate task will be to help to stabilise the tumbling rupee, bolster slowing growth in Asia's third biggest economy and stem an outflow of foreign investment." The article highlighted the fact that the rupee has dropped 39% against the US dollar over the last two years, and by 13% since May 22nd. Part of the problem is that foreign cash is heading out of the country. "If the bleeding is not stopped India will face various serious consequences", says Jahangir Aziz, chief India economist of JP Morgan. "It is one of the most serious economic quagmires India has ever been in." Also quoted in the article was A. Prasanna, head of research at ICICI Securities, who said "if you put together everything – growth stagnating, stubborn inflation and a high fiscal and current account deficit, I don't think you have had this kind of episode since 1991."

That's the background against which the Indian BSE Sensex Index has dropped by 3.9% in the year to date and the **JPMorgan Indian** investment trust has been struggling to make any headway. Its shares are down by 5.3% in the last month and the subscription shares (JIIS) are down by 31.7% to 41p. We are starting to worry that they could be at risk of a worthless expiry, even though the shares still seem reasonably in-the-money at 330.35p against the exercise price of 291p. The final expiry date for these subscription shares is 2nd January 2014. The Black-Scholes model indicates a 'fair value' for the subscription shares of 45p, and the delta works out at 82.3%. The corollary of that is that there is a 17.7% chance of a worthless expiry, not an insubstantial risk in our view. With sentiment running very much against India at present, we would be inclined to KEEP A CLOSE EYE on these subscription shares

now, although we also think the technical rating could yet prove attractive if the market bounces. Gearing is 8.1 times for a CFP of 1.41%.

Analyst team members from **JPMorgan Overseas** were "honoured" in the Thomson Reuters Extel Europe Survey 2013, the fund managers say, without giving more precise details. It was the London-based European team that was named in the survey, we understand. Of course the trust uses the 'best ideas' from a large number of JPMorgan analysts all over the world. Jeroen Huysinga, the portfolio manager of JPMorgan Overseas, explains "what gives us our competitive advantage is the 60 experienced research analysts we have around the world, in Tokyo, Singapore, London and New York. They have been through all the market cycles, and they are genuine experts in the companies in their sector – they know their suppliers, their competitors; they know their universe inside out with incredible focus and specialism. Many of them have achieved independent recognition through prestigious analyst prizes such as this one awarded to the European team by Thomson Reuters Extel." He adds "we have a very clear investment process, and we are as focused on valuation in the stocks we already hold as in those we are considering for inclusion in the portfolio. In addition to the strength in depth of our global analyst resource, that discipline is what distinguishes us from a lot of the competition. It is a process of constant challenge – and from that challenge, the highest conviction ideas are located and put in the portfolio."

We note the trust had a good month, with its shares rising by 7.1% to 927.5p. Its rise of 3.8% in net asset value was good enough to rank it seventh out of 35 global growth trusts, maintaining its strong record. We do like the trust, and note that the subscription shares (JMOS) have now moved into-the-money on the October 2013 exercise terms (but not yet on the 2014 or 2015 terms). It is a great pity that the quoted dealing spread is so wide on the subscription shares, currently 45.5p-59p. We reckon the actual dealing spread in the market might be more like 48.5p-56p, depending on the size of trades, but even so, this is a major off-putting factor. If it were not for the dealing spread, which eats so greedily into any potential profits, we would almost certainly be rating these subscription shares a buy. With 17.8 times gearing and a CFP of 5.49%, based on the final exercise date of 31st October 2015, we think they offer CONSIDERABLE TECHNICAL ATTRACTIONS. At the mid-price, that is.

Perpetual Income & Growth subscription shares (PLIS) reach the end of their life this month. Holders who have been waiting to act have been rewarded with a 27% gain over the last month as the UK market has rallied. Now it is decision time. The expiry date is 31st August. As we explained last month, we think this is a good trust to consider as a long-term portfolio holding – it is ranked fourth of 20 UK income & growth trusts by NAV performance over the last five years, and third out of 20 over the last three years. We feel you could usefully exercise the subscription shares and hold on to the shares for a while. This is of course an individual choice, but this would overcome the issue of the discount. With the ordinary shares at 363.35p at the time of writing and the exercise price of 218.94p, the subscription shares have 144.41p of intrinsic value at present, but trade in the market at a discount, at 138.5p (dealing spread 137p-140p). A discount of this size is not unusual for subscription shares approaching expiry, and we doubt whether it will close over the period between now and expiry.

At first glance, **Polar Capital Technology** subscription shares (PCTS) are not an obvious candidate for consideration. At 9.125p they command a CFP of 17.58% - well above the 10% threshold we commonly apply as a quick filter – and the ordinary shares are currently below the exercise price with only seven months or so of life remaining. There is a strong chance of worthless expiry here. That said, we wouldn't rule these out entirely – it wouldn't take too much of a rally to brighten the picture considerably, and the trust is certainly in a sector that can provide exceptional returns from time to time (although not of late). On 9th July the trust's manager Ben Rogoff hosted an investor call to present the trust's annual results for the year to 30th April. We have read Winterflood's notes on the call. The actual figures, first of all, were uninspiring. The net asset value per share edged up by 5.1%, below the 6% increase in the fund's benchmark, the Dow Jones World Technology index, and way below the 21.4% increase in the FTSE

World Index. The manager attributes the fund's underperformance against the benchmark to P/E multiple expansion that has disproportionately benefited cheaper, large cap stocks that are returning excess cash to shareholders. He believes the underperformance of the sector relative to the wider market reflects a continuing pressure on corporate IT budgets. This has had a particularly notable impact on PC markets, which were already struggling. A poor year, then, although Winterflood point out that over the longer term, the fund still has a strong performance record, with the NAV up 114% over the last five years compared with an 82% rise in the benchmark.

Ben Rogoff's narrative remains the same. He still holds the view that many large incumbents will suffer in the next technology cycle and that it is becoming increasingly difficult for existing and new technology companies to co-exist. Consequently the portfolio is constructed around three key themes. The first of these is cloud computing and the unrelenting growth in data. Pressure on IT budgets is forcing companies to rethink their IT architecture. Computing and storage costs continue to fall which is having a deflationary effect on IT pricing. However, this is expected to have a particular impact on traditional IT hardware companies. Security remains a key issue, although the technology is becoming more widely accepted and Ben highlighted that the CIA recently awarded a cloud contract to Amazon. The second theme is broadband applications and the growth in online advertising, e-commerce and software-as-a-service (SaaS). Ben believes this is likely to benefit companies such as Google (the trust's largest holding), eBay, and LinkedIn. The third theme is mobile computing and making the internet ubiquitous. Whilst he believes the best of the growth in devices and smart phones is now behind us, it is expected to lead to an increase in mobile payments which should benefit holdings such as eBay and MasterCard. Looking ahead, 'big data' and the ability to cheaply store and analyse entire data populations was highlighted as an area of future growth that has already disrupted a number of industries. Ben suggested that the internet has reduced the value of knowledge and expertise in areas such as travel and retail and expects other areas such as healthcare and marketing to offer future growth for this area of technology.

Generally, Ben Rogoff remains constructive on equity markets. He believes that technology sector valuations are undemanding and are underpinned by companies' strong balance sheets. His conviction in a new technology cycle is also rising and he expects the pace of innovation and adoption to increase. This is likely to be helped by modest growth in corporate IT budgets. The expectation is that this new cycle will benefit small and mid-cap companies and that existing incumbents will need to use free cash flow to pursue strategic M&A. This has benefited portfolio holdings such as Kenexa (acquired at a 42% premium) and Acme Packet (24% premium), which were acquired by IBM and Oracle respectively.

Winterflood conclude "the fund's long-term performance record is strong, although recent performance has been quieter. We rate Ben Rogoff highly and he makes a compelling case for the emergence of the next technology cycle and the disruptive effect that this is likely to have on many of the sector's existing large cap incumbents." They continue "However, with the shares currently trading at NAV, we believe that the fund's peers offer better relative value."

We do worry that Ben's compelling arguments – which he always presents with great gusto – might not be translated into great returns in the near-term. We're considerably more sceptical about the chances of a positive outcome for the subscription shares, but whichever view you take, anecdotal information and a sweeping view of the technology landscape are not tremendously helpful for the real question at hand here – what are the chances of these subscription shares achieving any value on expiry? To answer that question we turn to options theory, to the Black-Scholes model, and to the delta. This statistical indicator provides us with a rough estimate of the likelihood of the subscription shares having value at expiry. To get started, we need to calculate a figure for the volatility of the underlying ordinary shares, and taking a three-year timeframe we calculate the historical volatility to be 18.07%. We then plug this information into a Black-Scholes model together with the share price, exercise price, and time remaining, plus the interest rate. The actual valuation that comes out for the subscription shares is 12p – somewhat

higher than the market price – but the real interest for us lies in the delta, which is 0.31. This implies there is a 31% chance of the subscription shares finishing with value, and therefore a 69% chance of worthless expiry. Those odds don't look great to us at present, although a quick rally in the ordinary shares could easily tilt the balance. For now, we are NOT CONVINCED by the prospects.

Last month we reported on an update from **Worldwide Healthcare Trust,** and our conclusion was that we could happily continue to hold the trust's subscription shares (WWHS). That's been a good call over the month, as the subscription shares have risen by a further 23%, but we noticed a dissenting voice this week. Panmure Gordon issued a research note on 1st August rating the ordinary shares a 'sell' on valuation grounds. The brokers said "we initiate coverage of Worldwide Healthcare Trust with a sell rating driven by the current tight discount (1.8%); the shares have flirted with parity in recent weeks. WWH ordinary shares have risen 19.4% since 5th March 2013, materially outpacing the NAV which rose 13.2%; the discount narrowed by almost six percentage points. We believe the current rating could come under pressure given the ownership profile and lack of yield focus. We recommend investors take some profit, having enjoyed a total shareholder return of almost 40% since November 2012 (start of the equity market rally). If the fund's discount grows we will review our rating given the manager's enviable track record, which has delivered a compound annual NAV total return of c.15% since inception (April 1995)." Of course the gearing on the subscription shares means the profits are considerably larger on those.

It's a fair point though, we think. No matter how strong the fundamental case for a trust might be there is always a risk of a setback, and if the rating is high, the risk is also heightened. Panmure suggest that some of the trust's institutional shareholders are likely to be discount-sensitive, and they highlight as well that the dividend could be cut in the coming year, providing a possible catalyst for a de-rating.

If the subscription shares were on a high rating as well, we might well agree that it could make sense to trim positions, particularly after such a good run higher. In reality though, the subscription shares look cheap on technical grounds, trading on a small discount to their intrinsic value. In our view this balances the comparatively high share price rating, and provides something of a cushion against sharp price falls. At 452.5p we still rate the subscription shares a STRONG HOLD, although we think they may also be worth watching for any weakness. If you don't have one already, a rolling stop-loss set at a level 10%-20% below the current price might not be a bad idea.

LEVERAGED ETFs / ETCs / ETPs

By way of a follow-up to our introduction last month, we noticed the product provider Boost ETP was keen to trumpet the performance of some of is products over the month of July. It said the best performer over the month was the **3OIL WTI Oil 3x Leverage Daily ETP,** which rose by 28.1%. Subscribers will have heard us refer to Brent Crude Oil much more often, but WTI Oil is the other major benchmark measure of the oil price. WTI stands for West Texas Intermediate, a slightly lighter oil than Brent Crude, and because of its lower sulphur content it is also referred to as being 'sweeter.' As the name suggests, WTI is produced in the US, and because of different supply and demand conditions, its pricing differs from Brent Crude. Typically, the price of Brent Crude is higher than WTI, although the disparity has shrunk over time. Current forecasts from the US Energy Information Administration suggest that the spread between the two should average around US$9 for 2013. Interestingly, the price of WTI surged in July because of falling inventories at the Cushing, Oklahoma delivery point for New York futures. Bloomberg reports this is because of pipelines in Alberta being shut after flooding caused a leak in June, and new refining capacity coming online at a BP plant in Indiana that is taking some of the oil that might otherwise go into the stockpiles. The current prices we have now are US$105.72 per barrel for WTI and US$108.20 for Brent Crude – a very narrow gap that could easily widen out again, and likely will do so according to forecasts. This means that bulls of oil might be

better served with Brent Crude calls/longs, and bears with WTI puts/shorts. There were also strong performances in July from the three-times daily leverage products on the **Eurostoxx 50 Index** (3EUL), **Gold** (3GOL), and the **FTSE 100 Index** (3UKL), each up by a little over 20%.

TECHNICAL MERIT

This 'technical merit' section is devoted to a brief overview of some of the corporate warrants which have been highlighted by our computer model as undervalued or overvalued. We should just stress that this valuation is not based upon a full analysis, but solely upon 'technical merit' - ie: premium, time to expiry, capital fulcrum point and gearing factor. Our undervalued selections have outperformed our overvalued selections in 238 out of 285 months to date, an 84% success rate. The massive rise in Myanmar Investments warrants sealed the result last month, but we would still have comfortably outperformed without it.

Undervalued Warrants	Shares	Warrants	Exercise	Expiry	Prem	Gearing	CFP
BlackRock Greater Europe	231.5p	20.25p	248p	30-Apr-16	15.87%	11.4	6.05%
Ground Rents Income	103.5p	8p	100p	31-Aug-22	4.35%	12.9	0.51%
Henderson Int'l Income	117.125p	18.875p	100p	31-Aug-14	1.49%	6.2	1.67%
JPMorgan Emerging Mkts	565.25p	66p	543p	31-Jul-14	7.74%	8.6	8.94%
JPMorgan Indian	330.35p	41p	291p	02-Jan-14	0.50%	8.1	1.41%
JPMorgan Japan Smaller	192.5p	28.5p	174p	31-Mar-14	5.19%	6.8	9.59%
JPMorgan Overseas	927.5p	52.25p	986p	30-Oct-15	11.94%	17.8	5.49%
Myanmar Investments	US$1.20	US$0.45	US$0.75	27-Jun-18	0.00%	2.7	0.00%
Platform Acquisition	US$10.15	US$0.525*	US$11.50	31-Aug-16	18.47%	19.3	5.97%
Polar Capital Glbl Financials	107.375p	14.625p	115p	31-Jul-172	0.72%	7.3	5.55%
Polar Capital Glbl Healthcare	152.375p	47.5p	100p	31-Jan-14	-3.20%	3.2	-9.35%
Raven Russia	69.125p	48.75p	25p	25-Mar-19	6.69%	1.4	3.70%
Standard Life Equity Income	388.5p	82p	320p	31-Dec-16	3.47%	4.7	1.27%
Vietnam Holding	US$1.335	US$0.10	US$1.196	25-Sep-13	-2.92%	13.4	-21.26%
Worldwide Healthcare	1150p	452.5p	699p	31-Jul-14	0.13%	2.5	0.22%

Performance last month: average change +26.69% (11 rises out of 16 selections).
** this is the price for three warrants, required to exercise into one share*

Overvalued Warrants

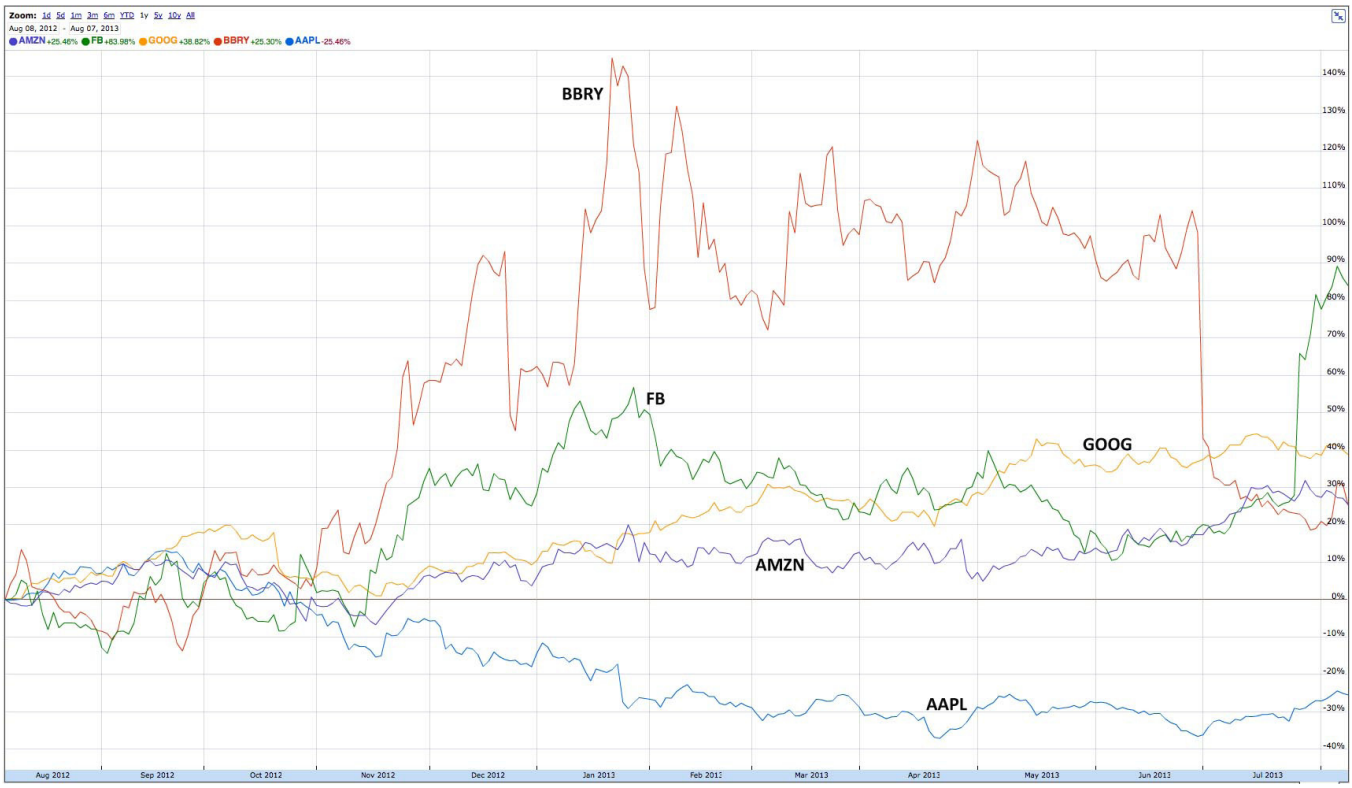
We consider the following warrants to be overvalued on technical grounds, so if you are interested in the following companies then we would suggest the shares rather than the warrants (capital fulcrum points in brackets): BCB Holdings 2014 (n/a); Golden Prospect Precious Metals (129.70%); Invista European (313,539.82%); Marwyn Management Partners (20,561.20%); New City Energy (210.06%); Praetorian Resources (163.77%); Premier Gold (n/a).
Performance last month: average change -2.39% (0 rises out of 7 selections).

NEW COVERED WARRANT ISSUES

After its big launch of more than a hundred warrants in mid-June, SG has taken a breather and has not issued any more tranches in July. We have spoken to the bank and understand this is just a temporary hiatus. We expect normal service to resume shortly, with many more covered warrants to come in the months ahead.

In America now, 44% of homes are estimated to have a tablet computer, and it is not likely to be very different in the UK. Ofcom reckons more than half of UK adults own a smartphone and that the average household now owns more than three types of internet-enabled device, with one in five owning six or more such devices. Men aged between 25 and 34 spend an average of 47 hours and 42 minutes online per month, according to the Ofcom survey. Love them or loathe them, electronic devices and the internet have very quickly become an important part of most of our lives. As you'll know too, the dominant companies in this realm are American. Many of us will use Apple devices (in fewer cases, a Blackberry) to Google for information, interact with friends on Facebook, or shop on Amazon. The good news is that you can take a position in all of these stocks using covered warrants, investing in sterling on the London Stock Exchange. We thought it might be handy to have an update on how the shares and the warrants are currently positioned.

We'll start with a busy chart showing the one-year performance of all of these stocks together. This should provide some context, if you can distinguish one line from another. The figures for the one-year performance show Amazon +25%, Apple -25%, Blackberry +25%, Facebook +84%, and Google +39%.



It doesn't surprise us too much that **Amazon** is in many respects the steadiest of these companies, with the performance most closely correlated to the Nasdaq index. It is a reasonably mature company with a well-defined offering that is not changing too much now. We know it well as the established international behemoth of online retailing. It also manufactures and sells the Kindle book readers. What is surprising though is that its share price performance seems to have very little link with the company's actual reported profitability. For the last quarter the company posted a small loss. Investors were not troubled by this though, as they saw stronger-than-expected revenue growth. Effectively the company is giving up profit margin at present to strengthen its market share, and this is what the company is all about. The company freely admits it is focused on long-term value creation rather

than near-term profits. The shares did fall below US$300 on the profits – or rather the loss – announcement in late July, but at US$297.45 now they are not far below their peak of US$313.

Bernstein Research analyst Carlos Kirjner has just raised his price target on Amazon to US$375 a share from US$350, saying in a research note that the online retailer is continuing to grow its Amazon Prime business. Lazard has also increased its price target from US$310 to US$340, but we would have to say this is a tricky science for a company that is not focused on profits, as many traditional metrics make no sense. There is little point in looking at the P/E ratio. Arguably, valuing the company on its revenue growth instead makes for a less volatile ride, and we also think it makes the company somewhat less attractive for covered warrants investment, as it is so difficult to take a view. It might just be better to stick with covered warrants on a market index such as the Nasdaq 100 Index.

Bears of the stock cannot currently take a position with covered warrants, but there are two calls available. The **SB07 Amazon 300 20-Jun-14 calls** with 3.6 times effective gearing are more volatile than the longer-dated **LC70 Amazon 350 18-Dec-15 calls** with 2.3 times gearing, but maybe this second series makes more sense to us. We can see the logic in holding Amazon as a medium-term play, although we would have to say we are still not all that keen on these warrants at £0.407.

There is a constant danger that people – both investors and consumers – might fall out of love with **Apple,** the largest technology company in the world. Investors might just fret about falling growth rates and slowing innovation, while there is always the danger that familiarity might breed contempt for end-users. It is harder to believe your new gadget is 'cool' and exciting when everyone else has exactly the same thing. Certainly iPhones and iPads are a very common sight as the company continues to shift millions of units, and these seem not to have lost much appeal even though the improvements in each upgrade cycle now seem to be minor increments. It's a few years since Apple came up with a new blockbuster product, but it does perhaps have an iWatch up its sleeve, or some televisual products, and it has been clever about segmenting its markets. It is happily able to sell at premium prices to wealthier customers who must have the latest version of its products, but it is also shifting more emphasis towards cut-price offerings of older or lower-specification models. In the last quarter, for example, the company's results beat expectations because of strong iPhone sales, and in particular the 'old' iPhone 4 and 4S models that are far cheaper than the iPhone 5. Apple said the iPhone 4 was selling well in India, and it works in other markets as well to attract first-time buyers to the Apple platform.

Those sales figures helped Apple shares to jump by 5% on the day, and the shares are up by almost 11% over the last month, up to US$463. That is still well shy of their record of US$705, set almost a year ago, but there are decent signs that the trend could be turning upward again now, and Tim Cook, Apple's chief executive has promised a "busy" end to the year. Against thoroughly muted expectations for the next upgrade cycle, we could certainly see Apple spring a positive surprise or two.

The same applies for the stock, set against falling expectations and price targets. Standpoint Research reduced the stock from 'buy' to 'hold' last week. Their analyst was quoted as saying "my guess is that Apple eventually will come back towards the pack (US$300bn) as opposed to separating itself further from the pack. US$700/share last year was probably as good as it will ever get for Apple. There was an over-reaction in April when shares dropped below US$400 and I got what I was looking for … a 15%-20% bounce off that over-reaction low point." Jefferies analyst Peter Misek has cut his price target on Apple's stock to US$405 from US$420, citing a reduction in iPhone build plans, caused by slowing sales. Oppenheimer & Co's Ittai Kidron has also cut his price target, down to US$460 from US$480. He cites wavering demand for the iPhone 5, which may already be compromised a bit by customers delaying purchases as they wait for its successor. Of course the company does have a history of confounding lowered expectations, but we have no insight into whether it can do so again in the coming quarters.

As befits a stock of this size and prominence, SG has a good range of warrants available, 18 in total. On the call side these include some with strike prices of US$1000, US$1100, and US$1200 that now look unattainable, but there are also a number of more sensible choices. One that merits a mention by virtue of being unusual is a deep in-the-money call with a strike price of just US$300 and a long expiry date. The **LC60 Apple 300 18-Dec-15 calls** at £1.317 have a very keen dealing spread of £1.312-£1.322. They offer 1.85 times effective gearing with a delta of 0.82. The implied volatility is still high though, so we thought it best to run some more calculations. First of all, the intrinsic value per warrant is US$463 minus US$300, or US$163. Adjusting for the parity of 100 that becomes US$1.63, or £1.05. Another way of thinking about it, effectively grossing up the warrant price by the parity and converting it into dollars, you are paying the equivalent of around US$204 for the warrant, with US$163 of intrinsic value. This implies 2.3 times simple gearing and a CFP of 6.44%. We reckon that's not bad for exposure to a company's with Apple's pedigree. If, conversely, you feel that Apple has already reached its peak and that competitors such as Samsung will erode its market position, SG offers three put warrants on the stock. All are out-of-the-money, but the most reasonable is the **SB17 Apple 400 20-Jun-14 puts** at £0.243 with effective gearing of 3.5 times and a delta of -0.29.

We'll move on now to **Blackberry,** the joker in the pack. When we last wrote about the company in detail it had just launched its new revolutionary Z10 and Q10 handsets, and the jury was out on whether they might succeed in rejuvenating the company. It seems not. According to a recent industry report from Kantar Worldpanel, BlackBerry's share of the smartphone market in the US has practically disappeared. According to the research firm, during the three months ending May 2012, the once-dominant cell phone maker had a market share of 4.6%. By May 2013 this had plunged to 0.7%. Reports suggest that while the firm's new models may have boosted the firm's sales compared to what sales might have otherwise been, the models have not seen anywhere near the success the company needs to stage a comeback in the smartphone market. It has some value from its infrastructure, perhaps, but the shares are trading at half of their recent peak level at US$9.165. They fell sharply at the end of June when poor quarterly results made it clear the relaunch had not worked. Now Blackberry's future looks bleak as an operating business, and any value in the shares is really in the residual assets.

According to Scotiabank analyst Gus Papageorgiou, Blackberry has US$5.90 per share in net cash and patents that are worth another US$4.26 per share. With the stock trading below US$10 per share, he noted that leaves the company's other businesses and opportunities valued at zero. The worry is that as time passes, so the cash and patents slowly diminish, leaving absolutely nothing. You never know, perhaps an opportunistic bid in an industry where overpaying for assets is not uncommon might rescue some value here, but we seriously doubt it. The shares seem completely speculative to us, and we could not recommend any of the three series of call warrants with strike prices of US$16, US$20 and US$25.

If Blackberry has been the loser of late, **Facebook** has been the winner. The company has bounced back from its bodged IPO and has now recovered its launch price of US$38 per share, doubtless to the relief of many. The catalyst seems simple enough – Facebook has started to 'monetize' its massive user base, to actually find ways of making cash from its site. In the last quarter its average revenue per user (ARPU) moved ahead, and was up 25% compared to the same period last year. It was still only US$1.60 per user – hardly a fortune – but the good news is that comparatively few users have deserted the site now it features more advertising and sponsored links. The particularly good news is that mobile revenues account for 40% of the total ad revenues as well. Some analysts believe the company has cracked the market, and that revenue should be able to grow rapidly from here. Aaron Kessler of Raymond James called Facebook his top large-cap pick in the internet space and sees the potential for estimates to move higher given the improving advertising revenues. Facebook shareholder Larry Fishelson of Dynalink also is bullish and expects the stock to reach US$50 this year. "A lot of people stay away from technology investing because it's about the new-new product," he said. "This is evergreen advertising, e-commerce, and it will continue to drive. Time to get in." The counter-arguments seem fairly valid as well though, focusing on both value

and on the stock's history. Aswath Damodaran, a professor at New York University Stern School of Business, who focuses on investment valuation, is more bearish. Facebook is too richly valued at US$38, he said, adding that his work suggests that the shares should trade at US$24 to US$28. There is also a simple technical case to be made for Facebook's rally to sputter now that the stock is back at its IPO price, said Carter Worth, chief market technician at Oppenheimer. A lot of angry shareholders want their money back after enduring the stock's yearlong swoon. "You have to be concerned with overhead supply" of Facebook shares, Worth said. "So day-to-day, we think there's little upside. It will be stuck here for weeks at least."

We don't know which argument will win out, although we do understand the reasoning behind the case for a quieter period of trade around the current price of US$38.60. Facebook shares have had a quick run up from the US$25 mark, and unless they can build on this quickly, we can imagine a fair bit of relieved selling as investors retrieve their initial stakes. The two call warrants on the shares are both in-the-money now. The **SA59 Facebook 30 20-Dec-13 calls** have performed particularly well, jumping from £0.13 a month ago to £0.673 now. The **SB44 Facebook 25 20-Jun-14 calls** are even further in-the-money now, with longer to run as well, but their implied volatility is a very high 66%, so these are not cheap warrants to buy and hold. We think Facebook call warrants are best treated as shorter-term trading instruments. On the put side, the sharp rise in Facebook shares has left the existing puts well out-of-the-money, so we would be very wary of them, with strike prices of US$20 and US$25.

Last but by no means least is **Google.** We'll state up front that this is our favourite of these stocks, the one that has shown the most consistent share price progression, and which seems to have the most solid growth prospects. Its shares are up 39% over the last year to US$890, although they are off their recent peak of US$928 after second quarter earnings failed to meet market estimates. Of course Google is best known for its internet search engine, but it has its fingers in plenty of other pies as well, including mobile phones, hand-held tablets, and smart glasses. By far the main revenue source though is advertising on its own internet (search) pages, and this is what is most important for profits at this stage. Earnings were a little disappointing in the last quarter, with Google reporting US$9.56 earnings per share against consensus estimates of US$10.78. This led to some price target downgrades, for example from Citigroup down to US$1005, and BMO Capital Markets, down from US$915 to US$890; but others upgraded, such as UBS, up from US$945 to US$1020, and Canaccord Genuity, up from US$890 to US$940. The stock is bound to attract a variety of opinions. According to the survey we saw though, Google has a consensus rating of buy and a consensus price target of US$972.95.

In the past it has paid to buy Google shares on setbacks, so this is what we would look to do now. Perhaps the slight fall in late July was not sufficient, but if the shares were to suffer another shock, or if the US market has the jitters, we would probably be keen to buy in. We might prefer to wait for an opportunity to buy with the shares closer to US$800, but it is as well to have some call warrants in mind, should that circumstance arise. SG has seven calls available with strike prices between US$800 and US$1000. Our current preference would probably be the middle range **SB64 Google 900 20-Jun-14 calls,** currently £0.756. On the downside there are two put warrants available, both out-of-the-money with strike prices of US$750 and US$800. For bears we would say the **SB66 Google 800 20-Jun-14 puts** would not be an unreasonable choice with a delta of 0.29.

We must say it is quite tricky to establish firm opinions about the likely direction of this group of shares. Of course they are all market-sensitive, but beyond that they seem difficult to value because traditional profitability and cash flow measures seem largely redundant. It seems more important to assess their growth prospects and the surrounding market sentiment, which is certainly difficult to gauge. These stocks are followed by a large number of investors and analysts, so there is bound to be a wide spread of opinion and valuation. Nevertheless, there may well be news or events that lead you to hold an opinion, even if it is a temporary one, so it is useful to know whether suitable warrants might be available. The range is not bad.

Our currency bets may not have performed too well over the last month, but at least we made a good call on the European banking sector (with the help of that persuasive analysis from Polar Capital). It has been rising, and more people are now beginning to sit up and take notice. An article on the Wall Street Journal's 'moneybeat' blog this week suggested "August is typically a month of rest in Europe, but as the continent heads out on vacation, investors should stay put and take a closer look at its financial sector." The article notes "several lenders, including a few in troubled Spain and France, released decent earnings. At the same time, Barclays PLC and Deutsche Bank AG, two of the most stubborn opponents to regulatory demands to raise capital, finally gave in. And even British ward Lloyds Banking Group PLC said it would soon start talks with watchdogs over paying its first dividend since 2008. After being battered and bruised by the deep economic crisis afflicting the region, many EU banks are finally starting to feel better." Banking indices have been rising, and Morgan Stanley is advising clients to add more European banks to their portfolios, noting that the continent's financial stocks are cheap relative to other sectors. The **Eurostoxx Banks** sector index has risen sharply over the month from 101.5 to 117.29, boosting the value of the **SB43 Eurostoxx Banks 110 20-Jun-14 calls** from £0.959 to £1.614 – that's a big jump of 68.3%. We'll see if it prospers further from here – we wouldn't want to bet against it. For those of you wanting to check on the current technical position of these warrants, we'll just run through the calculations again. We start by multiplying the price by the parity of ten to reach £16.14. We then multiply it by the GBP/EUR exchange rate of 1.1635 to get to EU18.78. By our reckoning this means the covered warrants are trading with simple gearing of 6.25 times and a CFP of 11.90%. We can check this is consistent with SG's data by multiplying that simple gearing of 6.25 by the delta of 0.60, which gets us to 3.75, exactly in line with the effective gearing (leverage) quoted on the SG website. This rating has moderated significantly over the last month as the underlying index has risen into-the-money, and offers DECENT VALUE in our view.

Staying with this theme, we know that many seasoned warrant investors more used to the corporate and investment trust warrants market do prefer to think in terms of the capital fulcrum point – the CFP – when considering valuations. Just to recap quickly, the CFP provides a measure of how quickly the underlying asset must rise in annual percentage terms for you to be better off with the warrants, ignoring income. The lower the CFP, the better, and amongst the long-dated covered warrants available from SG we think there are a number that look very reasonably priced. We'll just mention half a dozen. First of all, we'll start where many investors do, with the **FTSE 100 Index.** This is by far the most commonly traded of all underlying assets. If we look at the trade data for May, for example, the last month available, we note that three of the top five covered warrants ranked by the number of trades were on the FTSE 100 Index (the others were on gold and on Brent Crude oil). More conservative warrant investors might be attracted by the in-the-money **LC11 FTSE 100 6500 18-Dec-15 calls** at £6.10 with simple gearing of 10.8 times and a CFP of 3.56%. For those of a more bullish persuasion, we also reckon the **LC12 FTSE 100 7500 18-Dec-15 calls** offer decent value at £3.412 with gearing of 19.3 times for a CFP of 7.99%.

In terms of single-stock covered warrants we would not expect to find quite such value, as the volatility input is almost inevitably higher (an index naturally smoothes out the volatility of individual components). Even so, the figures are not bad in our opinion. In the banking sector you could buy the in-the-money **LC15 HSBC Holdings 675 18-Dec-15 calls** at £1.2585 with gearing of 5.7 times and a CFP of 6.15%, or the well in-the-money **LC17 Lloyds Banking 50 18-Dec-15 calls** at £0.2902 with 2.6 times gearing and a CFP of 3.99%. Elsewhere, there is also the **LC30 Vodafone 200 18-Dec-15 calls** at £0.2214, offering gearing of 9 times for a CFP of 5.39%; or the **LC32 William Morrison Supermarkets 325 18-Dec-15 calls** at £0.3546 with gearing of 8.2 times and a CFP of 10.99%. We don't think any of those ratings are too frightening, and the December 2015 maturity is longer than that offered by a large number of the investment trust warrants due to expire next year.

Your next newsletter is published on Saturday, 7th September.