The Challenge of Investing

Bill Johnston Editor

If you've come this far I trust that you will have read and enjoyed Malcom Howard's piece on AIM companies.

In broader terms a Daily Telegraph article by Nigel Wilson earlier in the month pointed out that since the FTSE 100 was formed thirty years ago, 90% of its original constituents no longer figure in the index. Mr Wilson' s point was that we need to invest in assets for the long term not concentrate merely on share-holders' gains.

To be fair to him, the article has as much depth as you would expect and concentrates on objectives which few would quarrel with. But something grates with me. It seems that the unforeseen and unforeseeable changes in the world that brought the giants of thirty years ago to their knees (or changed their form) is the very name of the game and makes long-term asset formation a much riskier proposition than the sonorous reassurance implicit in the suggestion.

To go back to Malcolm Howard, I remember when the annual shindig of making awards to AIM companies was close to obtaining the Queen's Award as a harbinger of trouble ahead. Over the years however, I have noticed that more cautious judgements are extended.

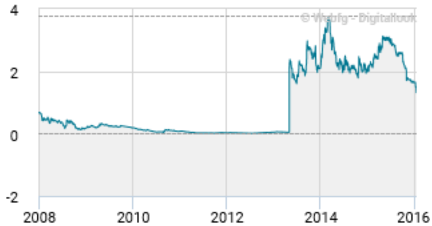
The 2015 awards highlight the charms of **Imperial Innovations Group**, **Victoria plc** (which has made a presentation to UKSA members, **Ideagen**, **Advanced Oncotherapy**, **Optimal Payments**, **ASOS**, **Hutchison China Meditech Ltd**, **Clinigen** and **CVS Group**.

How about that then for a mini-portfolio? The cynic might draw attention to the erratic record (at best) of technology transfer companies (Imperial Inno-vations) the link between new house building and buying carpets (Victoria), a forward earnings multiple that would give you a nosebleed (Hutchison) and the fact that although the record of ASOS makes it an AIM star (if not *the* AIM star) many small investors who participated in the lovefest which drove the shares to unsustainable heights are nursing heavy losses. Having said that the clutch of companies looks good. But maybe that's the problem.

I've just had a look at the AIM Awards for 2007 - just as things were turning pear-shaped.

There were ten companies honoured. I expected to see a great deal of carnage but that would be putting things too strongly. Four of the companies performed very well - financial specialist **Mattioli Woods**, engineer **Hamworthy**, insurance broker, **Jelf Group** and **Spice plc.** It should be noted however, that the latter three are no longer quoted, having been subject to successful bids.

Others still standing from that 2007 list are **Silence Therapeutics**, **Griffin Mining**, and **Lamprell.** Silence Therapeutics has lost £50 million over the last four years and is pencilled in to lose £20 million more in the two years to December this year. Griffin Mining, a truly pioneering effort to open and run a zinc mine in China is profitable, but even before signals emanated from the PRC that - at least - the major period of capital investment may have passed its apogee, showed disappointing variations in its fortunes. Gulf-based rig specialist engineer Lamprell, quite apart from the risks which arise from its location, its trade and the well-known characteristics of capital-goods investments has had some alarming balance sheet yaws as well.



Silence Therapeutics - the all-time share price graph does show that despite what I say, patient shareholders had at least one beautiful pay day.

The AIM Transaction of the Year Award for 2007 went to **Mecom Group** an ambitious and apparently solid group of Continental newspaper titles, once regarded as assets of very high quality (c.f. Warren Buffett). Alas the march of time in the form of the decline of print advertising eroded the investment base and there were few tears shed when the ownership reverted back to its Continental home. A different homeland but very much the same sentiments accompanied the International Company of the Year Award and self-proclaimed leader in the provision and maintenance of cellular networks, **Leadcom Integrated Solutions—**now quoted iTel Aviv. And **Neuropharm Group,** having been adjudged to be the Best Technology Company of the Year wound itself up a scant three years later.

What strikes me bout all this is that the winners were never 'bad' (i.e high risk companies) - nor did they look it. For the rest (with the possible exception of Mecom) investors were buying the story and hoping that *their* favourite would belie the odds stacked against it. That's not investment but gambling –and it's the bookies that make all the money.

Bill Johnston