

The STAR Guide to Equity Investment

Section 10 – Monitoring and Evaluation

10 Monitoring and Evaluation

10.1 Why Monitor your Investments?

As the Investosphere and the businesses operating within it are subject to continual change it is necessary for diligent investors to monitor and evaluate their portfolios on a regular basis and change their investments according to their pre-determined objectives. Although there is a strong case to be made that one should avoid continual meddling with long term investments as opposed to short term trades, there is a happy medium route by which the components of equity portfolios should be monitored weekly or at least every month.

10.2 Basic Portfolio Management

The two tier screening methods developed by STAR enable valuation and monitoring to be achieved quite easily. Indeed this was the original basis of the first STAR screens that were published in the early 1990s. The concept was that once the initial shares had been chosen to make up a long term portfolio of ten or twenty shares the constituents should be monitored on a monthly basis. Sales of individual holdings would be made if the outlook for the underlying business deteriorated. This was triggered if the estimated consensus earnings over the next two years declined by more than 20% over the previous couple of months.

An additional value protection method that is followed by many successful investors is that of exercising stop-loss signals. Setting a moving stop-loss that automatically triggers a sale if the share price falls by more than 20% or 25% below the current price can indeed be an effective preserver of wealth. This is probably more effective if the stop-loss is related to the underlying movement in the wider market such that a fall of 20% in an individual share that occurs in a market that has fallen by 10% might better be activated after a further 10% fall in the share's price.

It was also recommended that share portfolios should be re-balanced at the start of each calendar year by replacing all shares that no longer appeared in the latest top ten or twenty purchase lists with those that had replaced them. The long term performance of the basic, first stage, screened lists has always been monitored on a monthly basis.

In reality I have found it difficult to persuade myself to sell holdings that I feel still have potential for recovery even though the evidence is that businesses that suffer major downturns in trading and issue profit warnings should almost always be ditched in favour of better alternatives.

10.3 Evaluating Performance

The STAR share templates have been recorded month by month since the early 1990s. The example below shows the performance of the STAR UK main market listed twenty growth share selections between January 2021 and September 2021.

The method of valuation that has been used for all the share selection templates that have been developed by the basic STAR screening methods is to compare the nominal investment of £1,000 into each of twenty shares on the date shown (in the table below it was January 5th 2021) without taking into account the buying or arbitrage costs (difference between buying and selling prices) and to value these each month at the mid market price on each subsequent month. The reason for excluding dealing costs is that these valuations were originally intended to do no more than compare the usefulness of the the STAR methodology against the index. A further problem with using dealing costs is that these fall dramatically with deal size when using the low costs services. On the other hand this

valuation approach also excludes the benefit of any dividends received and with average dividend yields of approximately 2% on this portfolio the overall result at the end of each year using this simple approach varies little from the fully costed version.

The STAR Twenty Growth Share Selections as at January 2021

EPIC Sector	EPIC Code	STAR Twenty Growth 2021 Company	Shares	Cost Price (p)	Cost (£)	Jan Price Price (p)	Current Value (£)
Leisure Goods	GAW	Games Workshop	9	11460	1000	11460	1031
Financial Services	LIO	Liontrust Asset Managem	75	1330	1000	1330	998
Mining	POLY	Polymetal International PL	54	1842	1000	1842	995
Travel & Leisure	Dom	Dominos Pizza	307	326	1000	326	1001
Industrial Transport	AVAP	Avation	794	126	1000	126	1000
Financial Services	CLIG	City of London Investment	222	450	1000	450	999
Real Estate Investment	LMP	Londonmetric Property	427	234	1000	234	999
Media	GOCO	GoCo Group	763	131	1000	131	1000
Pharmaceuticals	DPH	Dechra Pharmaceuticals	28	3548	1000	3548	993
Industrial Metals	EVR	Evrax	203	492	1000	492	999
Travel & leisure	888	888 Holdings	338	296	1000	296	1000
Support Services	SNN	Sanne Group	158	632	1000	632	999
Mining	Kaz	Kaz Minerals	150	666	1000	666	999
Electronic	LUCE	Luceco	385	260	1000	260	1001
Mining	CEY	Centamin	746	134	1000	134	1000
Mining	HOC	Hochschild Mining	446	224	1000	224	999
Software & Computers	AVST	Avast	188	533	1000	533	1000
Support Services	DPLM	Diploma	45	2220	1000	2220	999
Electricity	GLO	ContourGlobal	461	217	1000	217	1000
Software & Computers	TRB	Tribal Group	1124	89	1000	89	1000
Totals					20012		20012
Start date	5th Jan	Performance in Year			Change %		
		FTA ASI		3749	0.0	3749	
		STAR			0.0		

Alterations to the portfolio at the start of the year are made month by month. In the example we use here there were only two share switches between January and end August 2021 as shown in the tables below.

Movements in the STAR Twenty Growth Share Selections during 2021

Month	Company	Shares	Unit Price	Proceeds	Purchase	Shares	Unit Price	Cost
Feb	GoCo	763	134	1020	Rightmove	170	599	1020
May	KAZ	150	850	1304	CMC Markets	286	456	1304

Observant readers may notice that the proceeds received from the disposal of Kaz Minerals at 850p per share would have amounted to £1275 but this particular disposal included a dividend of that amounted to £29 and as it resulted from a corporate acquisition the dividend was included as proceeds of sale.

The valuation of the 2021 main market portfolio as at end August is shown in the table below.

The STAR Twenty Growth Share Selections as at end August 2021

EPIC Sector	EPIC Code	STAR Twenty Growth 2021 Company	Shares	Cost Price (p)	Cost (£)	September Current Price (p)	September Current Value (£)
Leisure Goods	GAW	Games Workshop	9	11460	1000	11720	1055
Financial Services	LIO	Liontrust Asset Managemen	75	1330	1000	2338	1754
Mining	POLY	Polymetal International PL	54	1842	1000	1481	800
Travel & Leisure	Dom	Dominos Pizza	307	326	1000	413	1268
Industrial Transport	AVAP	Avation	794	126	1000	95	754
Financial Services	CLIG	City of London Investment	222	450	1000	511	1134
Real Estate Investment	LMP	Londonmetric Property	427	234	1000	263	1123
Software & Computers	RMV	Rightmove	170	599	1000	698	1187
Pharmaceuticals	DPH	Dechra Pharmaceuticas	28	3548	1000	5275	1477
Industrial Transport	EVR	Evrax	203	492	1000	598	1214
Travel & leisure	888	888 Holdings	338	296	1000	407	1376
Support Services	SNN	Sanne Group	158	632	1000	932	1473
Investment Banking	CMCX	CMC Markets	286	456	1000	423	1210
Electronic	LUCE	Luceco	385	260	1000	497	1913
Mining	CEY	Centamin	746	134	1000	100	746
Mining	HOC	Hochschild Mining	446	224	1000	154	687
Software & Computers	AVST	Avast	188	533	1000	597	1122
Support Services	DPLM	Diploma	45	2220	1000	3108	1399
Electricity	GLO	ContourGlobal	461	217	1000	196	904
Software & Computers	TRB	Tribal Group	1124	89	1000	106	1191
Totals					20012	23785	
Start date	5th Jan	Performance in Year		Change %			
		FTA ASI		3749	9.8	4115	
		STAR			18.9		

10.4 Portfolios using the Double Screened Selections

The shares that have been profiled using the STAR secondary screening process may be added to the basic primary screened selection or used to build up individual portfolios from scratch. The general guideline for the latter is to gradually add shares that score 60 or more points out of the maximum of 100. The objective would then be to build up your portfolio, month by month, until you have reached the desired number of shares or until you have no more cash to invest. Thereafter shares are sold when they appear on the monthly danger list or are swapped for higher rated replacements that appear in subsequent newsletters.

So far, that is up to end 2021, we do not have sufficient resources to evaluate shares that are not listed on the London market so the secondary rating process is currently limited to UK-based companies.