

We have seen the sharpest falls in history in recent months as global stock markets moved into bear territory – a grisly fall from peak of more than 20%, in just three weeks.

The covid-19 pandemic blindsided the investment community as nearly half the world's population has been in lockdown and large swathes of industries, notably in the leisure and tourist sectors, were forced to close their doors.

As long term investment managers, we have experience of market crashes. In situations such as this, the first thing we try to do is stay calm and have faith in the quality of the companies we hold, checking if there are any where we believe the picture might have changed so materially that they could even go out of business.

Second, we look to sell those holdings where the price has held up but where we believe a further wave of selling could put pressure on the price, in effect playing a catch up of sorts.

After this, we can then sit back with the relative comfort of holding some extra cash while we await opportunities to invest in companies raising money by selling new shares. In the main these will be businesses who are simply bolstering their balance sheets enough to see them through the crisis, and perhaps adding some further capital to take advantage of the recovery when it arrives, by taking market share from weaker competitors or even acquiring them at rock bottom prices.

This is where we have seen the most attractive opportunities in the early stages of this current recession.

Good examples are retailers such as WH Smith, ASOS, Hotel Chocolat and travel concessions operator SSP, who have all tapped investors by issuing new shares, cognizant that whilst they are all strong, market leading businesses, the unknown length of the shutdown, could still potentially put their companies at risk.

Oliver Brown examines the best options for investors looking to minimise losses in the current bear market and re-build their wealth as recovery takes shape

Put your faith in quality



In all these cases, management have put themselves firmly on the front foot by raising money early in the downturn, providing investors with confidence the companies have the financial resources to not only weather a lengthy shutdown but to come out stronger on the other side.

Buying opportunities

As long term investors, we favour buying into high quality, market-leading companies, at attractive levels. However, one obvious issue is that valuing companies is currently harder than normal as there is less visibility on earnings and the asset value of any business.

To make matters worse, many companies have had to withdraw 'market guidance' as they genuinely do not know when their sales will start to recover.

Whilst we cannot profess to have a crystal ball to answer this, what we can do is look through the current turmoil and make a judgement as to whether we see sales and profits returning close to previous levels once 'normality' returns and hazard a guess as to how long this may take.

If we are confident that a particular company will recover, then investing now at low levels whilst uncertainty is high, gives us a good opportunity to make attractive returns over the long term.

In the shorter term, news flow may continue to be dire and shares may drift lower, but the very fact that we have bought into a company at the time it has raised money gives us confidence that it is not suddenly about to implode as we (along with other institutional investors) have just provided the company with capital to keep it going!

One such company is Hays, a FTSE 250 recruitment firm, which has recently raised £200m to strengthen its balance sheet. This was quite a surprise to the market, as it was viewed as a strong company with significant headroom on its debt facilities.

Nonetheless, its management felt it sensible to go into the

downturn with a substantial liquidity buffer and whilst it is too early for them to determine the impact of covid-19, they have assumed a 70% fall in revenue in the next four months, followed by a gradual recovery.

To us, this is prudent, sensible, strong management where they have taken precautionary action to protect their business. These are exactly the types of business we want to invest in, ones where management has a strong grip on all the potential scenarios and a strategy in place for each.

We predict that Hays will ultimately be a beneficiary of the downturn as, given the strength of its balance sheet, it should ultimately take market share from weaker rivals. In the shorter term it should benefit from aiding clients with their shifting recruitment needs.

Companies offering essential services such as food and medical supplies are, not surprisingly, seeing a spike in demand and therefore are recruiting temporary workers. Hays can use its market presence to help fill these roles.

One small cap that we purchased at IPO last year is Essensys, which provides IT and software services to the flexible workspace sector. This is an area that was already growing before the lockdown and we expect increased demand for flexible workspace as more and more businesses realise that they can function perfectly well without the majority of employees being in an office.

We anticipate companies increasingly wanting more flexibility with regard to how much office space they have, with long term leases for offices perhaps becoming a thing of the past. With this in mind, Essensys raised some £7m in April to fund the roll out of its services with flexible working space providers such as Jones Lang Lasalle and Cushman & Wakefield.

Also, as the impacts of the coronavirus on the economy

become clearer, we expect to see a growing number of severely impaired companies launch 'rescue' rights issues.

Obvious suspects are businesses such as airlines that will run out of money, or highly indebted companies whose banks may force them to raise equity in return for advancing further debt facilities. In our view these opportunities should be treated with greater care than the stronger, market leading examples mentioned earlier.

Before you invest in companies that are struggling to stave off bankruptcy, it is important to have confidence that the business will still be in existence in years to

come. What may look like a bargain entry price on the face of it, could well turn out to be anything but the case! However, if you are able to identify those companies that have a long term future, then there is serious potential to make many times your initial stake as you are buying in at such a distressed level.

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Sale prices

Many investment opportunities have arisen and will continue to arise as a result of the covid-19 impact on the economy. We do not anticipate a smooth recovery and there will be unexpected bumps along the way but, with the sharp falls experienced by equity markets, on the plus side there are now market leading companies available to buy at sale prices.

Those investors willing to take a longer term view of over three years should be well rewarded for the initial discomfort they will inevitably feel when investing in what are unquestionably worrying and turbulent times. ■

Oliver Brown is lead manager of the MFM Primary Opportunities fund and investment director of RC Brown Investment Management.