9 March 2006

Global Equity Strategy

"The little note that beats the markets"

In his bestselling 'Little Book' Joel Greenblatt shows that buying good companies at cheap prices is a great idea. We have backtested his recommended approach in the US, Europe ex UK, UK and Japan. On average we find the Little Book strategy beats the markets by around 7% p.a. between 1993-2005, and with lower risk than the market! Value plus quality seems to make sense.

- Joel Greenblatt has done the world a service. He has distilled the essence of value investing into a mere 155 pages. Some 615 pages shorter than Graham and Dodd's *Security Analysis* and 471 pages shorter than Graham's *Intelligent Investor*, *The Little Book That Beats the Market* is a powerful guide to the ideas of value investing.
- In the Little Book, Greenblatt uses a simple screening technique combining value and quality. The basic idea is to rank the universe on return on capital and by earnings yield, and then to buy the thirty stocks with the best combined score, i.e. good companies at bargain prices.
- The results of our backtest suggest that Greenblatt's strategy isn't unique to the US. We tested the Little Book strategy on US, European, UK and Japanese markets between 1993 and 2005. The results are impressive. The Little Book strategy beat the market (an equally weighted stock index) by 3.6%, 8.8%, 7.3% and 10.8% in the various regions respectively. And in all cases with lower volatility than the market! The outperformance was even better against the cap weighted indices.
- Greenblatt argues that EBIT/EV is a better measure of value than the simple earnings yield since it explicitly incorporates the amount of debt deployed in the creation of operational leverage. We find that in all regions using EBIT/EV beats the simple earnings yield (expect Japan where it is effectively equal honours).
- In general we find that the EBIT/EV value strategy is very powerful. For instance in the UK, it outperforms the equally weighted market by nearly 13% p.a. over our sample! Performing even better than the Little Book strategy! A pure value strategy based on this modified earnings yield seems to perform particularly strongly in the US and UK.
- However, pure value strategies may have added career risk for professional investors. We show that a pure value strategy suffered far worse during the bubble years, than the Little Book strategy. So a fund manager following the Little Book strategy was unlikely to have been fired whilst a pure value fund manager would have found their life very uncomfortable.
- Greenblatt suggests two reasons why investors will struggle to follow the Little Book strategy. Firstly, following a quant model is relatively boring, not meeting company management or brokers takes some of the fun out of investing! Secondly, because this is a value strategy it requires patience. There will be years when the strategy doesn't work (although it rarely results in absolute loses). Warren Buffet may well have been right when he said "Investing is simple but not easy".

James Montier
+44 (0) 20 7475 6821
james.montier@drkw.com

Sebastian Lancetti
+44 (0) 20 7475 3807
sebastian.lancetti@drkw.com

Global Investment Strategy
Research Analysts
Global Asset Allocation
Albert Edwards
+44 (0)20 7475 2429
albert.edwards@drkw.com

Global Equity Strategy
James Montier
+44 (0)20 7475 6821
james.montier@drkw.com

Global Sector Strategy
Philip Isherwood
+44 (0)20 7475 2435
philip.isherwood@drkw.com

European & UK Strategy
Karen Olney, CFA
+44 (0)20 7475 2651
karen.olney@drkw.com

"The little note that beats the markets"

On a recent trip to the US I was afforded the rare luxury of perusing a book store. I didn't even have to venture to the business section to be accosted by Joel Greenblatt's best seller – *The Little Book That Beats the Market*. Being a sucker for value stories I couldn't help but buy a copy (after all the book was a value play in its own right costing a mere US$20).

I wasn't disappointed. Greenblatt has captured the essence of value investing perfectly. Some 615 pages shorter than Graham and Dodd's Security Analysis, and 471 pages shorter than Graham's Intelligent Investor, the Little Book represents one of the shortest but wisest books I have ever had the good fortune to stumble across. As Greenblatt writes "You must understand only two basic concepts. First, buying good companies at bargain prices makes sense… Second, it can take Mr. Market several years to recognize a bargain".

Yes the book is written so that an 11 year old can understand it, yes it does have a habit of repeating itself, but are either of these traits really so appalling? Certainly aiming for as wide an audience as possible is surely only sensible. As a behaviouralist, I am well aware of people's very limited capacity to learn, so repetition is no bad thing either.

Now I must confess to a degree of confirmatory bias whilst reading the book. I am known as an investor who places value above all else, so it is little wonder that I found Greenblatt's book comforting. I also regularly expound the virtues of quantitative analysis as a partial remedy to behavioural ills, so a book with a quant driven screen at its heart was bound to find favour with me.

However, being a sceptic by nature I also wanted to check Greenblatt's findings, and more importantly see if the same approach worked in other markets as a check on the robustness of the screen. So upon my return from the US I began to pressure Sebastian Lancetti of the Quant team to run the numbers. Now poor Sebastian has the misfortune to have to sit next to me, a situation which resulted in my near constant nagging of the poor lad. Eventually my persistence paid dividends, Sebastian decided the only way to shut me up was to run the numbers.

Sebastian did however manage to extract a revenge fitting for a quant. He gave me an enormous amount of very exciting data/results, which left me in a quandary as to how best summarise it. So here is my best shot.

The methodology and the data

We decided to examine the US, Europe ex UK, UK and Japan. The universe utilised was a combination of the FTSE and MSCI indices. This gave us the largest sample of data. We analysed the data from 1993 until the end of 2005. All returns and prices were measured in dollars. Utilities and Financials were both excluded from the test, for reasons that will become obvious very shortly. We only rebalance yearly.

In the Little Book, Greenblatt uses a simple screening technique combining value and quality. This is something we have written about in the past (see *Global Equity Strategy*, 16 March 2005). The basic idea is to rank the universe on return on capital (where 1 is the company with the highest ROC), and by earnings yield (where 1 is the company with the highest earnings yield), and then sum the two ranks to give a combined score. Then Greenblatt recommends buying the 30 highest ranked stocks.

Return on capital is defined as EBIT/(net working capital + net fixed assets). EBIT is used to level the playing field across companies using different levels of debt and facing differing tax rates. Net working capital and net fixed assets (combined to give tangible capital employed). As Greenblatt notes “Net working capital was used because a company has to fund its receivables and inventory… but does not have to lay out money for its payables… In addition…a company must also fund the purchase of fixed assets necessary to conduct its business.” Together these two give an estimate of how much capital a company is using to generate its business.

The earnings yield that Greenblatt deploys is not the standard upside down PE. Instead he prefers to use EBIT/Enterprise value. Again this, he argues, takes account of the amount of debt a company is using to generate its earnings. Effectively, Greenblatt takes almost a private equity view of a company.

To test the importance of particular definitions, we also ran a more common earnings yield (referred to as PE in the text below) and return on asset (ROA) version of the model. We also ran separate tests on all the variables to see if, say, the earnings yield was really driving the results or if ROA had an important role to play.

The Results

The Little Book Works

The table below shows the results from buying the top 30 ranked stocks versus an equal weighted ‘market’ index for each of the regions we investigated. The results certainly support the notions put forward in the Little Book. In all the regions, the Little Book strategy substantially outperformed the market, and with lower risk! The range of outperformance went from just over 3.5% in the US to an astounding 10% in Japan. Those eager to know which stocks the Little Book strategy currently recommends should see the stock lists on p11.

The Little Book strategy (1993-2005)

Global summary	Top 30	Market	Outperformance	Relative risk vs market
US	17.1	13.5	3.6	0.92
Europe ex UK	22.0	13.3	8.8	0.95
UK	17.0	9.7	7.3	0.91
Japan	18.1	7.3	10.8	0.87

Source: DrKW Macro research

However, as a value investor I have always believed that buying bad companies at very low prices is also a perfectly viable strategy, provided, of course, they don’t go bankrupt. So how does the Little Book strategy stack up against a straight value strategy of buying the highest earnings yield stocks using Greenblatt’s definition of yield?

Value works

The answer is shown in the table below. In general, the return on capital seems to bring little to the party in the UK and the USA. In all the regions except Japan, the returns are higher from simply using a pure EY filter than they are from using the Little Book strategy. In the US and the UK, the gains from a pure EY strategy are very sizeable. In Europe, a pure EY strategy doesn’t alter the results from the Little Book strategy very much, but it is more volatile than the Little Book strategy. In Japan, the returns are lower than the Little Book strategy, but so is the relative volatility.

EBIT/EV value strategy (1993-2005)

Global summary	Top 30	Market	Outperformance	Relative risk
US	19.7	13.5	6.3	0.66
Europe ex UK	22.2	13.3	8.9	1.12
UK	22.6	9.7	12.9	0.78
Japan	14.5	7.3	7.2	0.70

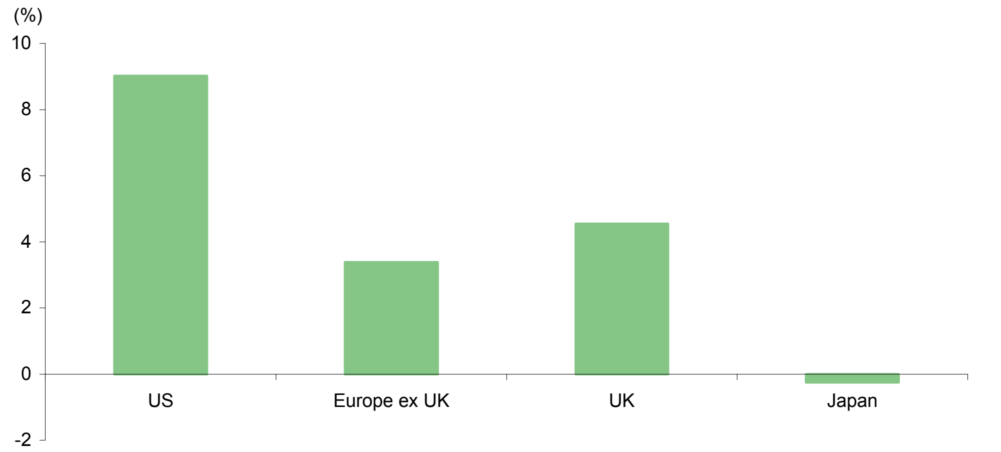
Source: DrKW Macro research

EBIT/EV better than simple PE

How does the Greenblatt modified earnings compare to a standard inverted PE? Is there extra information contained in the EBIT/EV calculation that is of use to investors relative to a simple trailing E/P?

The answer would generally appear to be a resounding yes. The chart below shows that the EBIT/EV earnings yield significantly outperformed the standard earnings yield strategy everywhere except Japan – where it made essentially no difference. The extra return was delivered with very little extra risk (indeed in the US, the modified EY was actually lower risk than the normal E/P!). So EBIT/EV would seem to be a better indicator of value that the simple E/P.

Highest decile EBIT/EV minus highest decile E/P return (1993-2005, average, %)



Source: DrKW Macro research

Quality matters for value

At the end of the *Little Book*, Greenblatt suggests that a strategy using a standard earnings yield and return on assets should give results that relatively closely mimic those of his own preferred methodology. The table below shows the results of our backtest of this hypothesis. In general the returns are lower than the Little Book strategy, but of a similar magnitude. This again suggests the findings of the Little Book to be robust.

PE and ROA strategy (1993-2005)

Global summary	Top 30	Market	Outperformance	Relative risk
US	17.2	13.5	3.8	0.80
Europe ex UK	18.8	13.3	5.5	0.90
UK	16.2	9.7	6.5	0.90
Japan	16.6	7.3	9.3	0.60

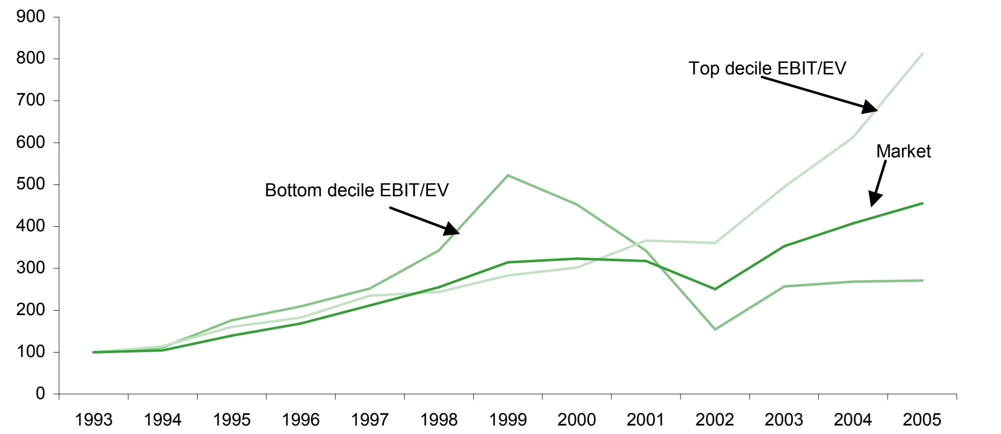
Source: DrKW Macro research

Interestingly, unlike the situation discussed earlier where the ROC didn't seem to add a huge amount to performance when the base was EBIT/EV, the ROA component does add a lot to the simple E/P. In all our regions the returns on the E/P + ROA were at least equal (and often higher than) the returns on the E/P approach on its own (see the region reports on pp8 onwards for details).

Career defence as an investment strategy

The charts below suggest a reason why one might want to have some form of quality input into the basic value screen. The first chart shows the top and bottom ranked deciles by EBIT/EV for the US (although other countries tell a similar story). It clearly shows the impact of the bubble. For a number of years, during the bubble, stocks that were simply cheap were shunned as we all know.

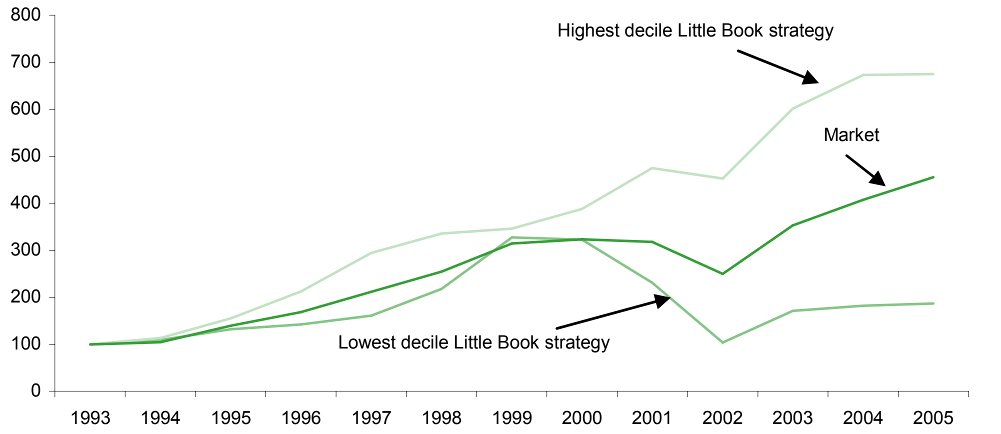
Top and bottom value decile performance using EBIT/EV



Source: DrKW Macro research

However, the chart below shows the top and bottom deciles using the combined Little Book strategy again for the US. The bubble is again visible, but the ROC component of the screen prevented the massive underperformance that was seen with the pure value strategy. Of course, the resulting returns are lower, but a fund manager following this strategy is unlikely to have lost his job.

Top and bottom value decile performance using EBIT/EV plus ROC



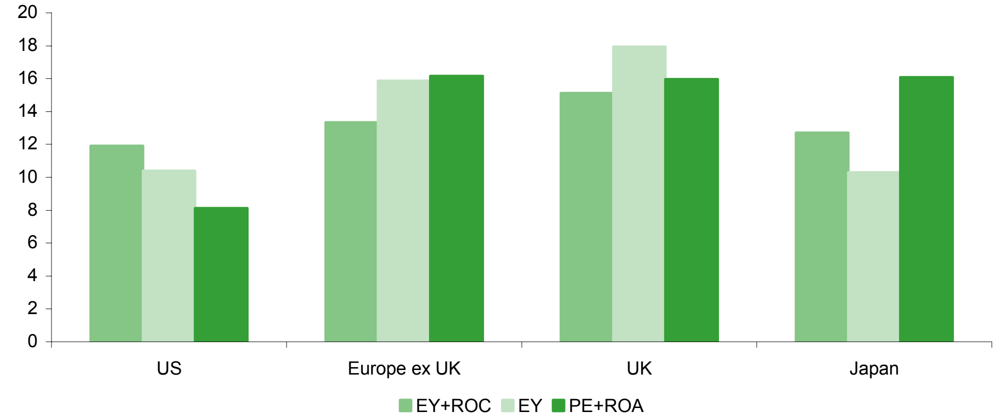
Source: DrKW Macro research

What about the long short view?

So far we have really only concerned ourselves with the long only strategies – buying the top 30 ranked companies by the various criteria. Although in the previous section we did highlight the performance of the bottom deciles. Could this strategy be deployed by those in hedge fund land?

In theory, yes. The chart below shows the spread in performance between the highest and lowest deciles for various criteria we have tested. All show very high potential alpha. None is clearly any better than the rest across all regions but most suggest a value plus quality strategy should be a viable option for those of the long short persuasion. However, it should be noted that we only computed annual returns. The monthly profile may be less attractive for a hedge fund perspective (more on this below).

Spreads between the highest and lowest deciles across strategies (1993-2005)

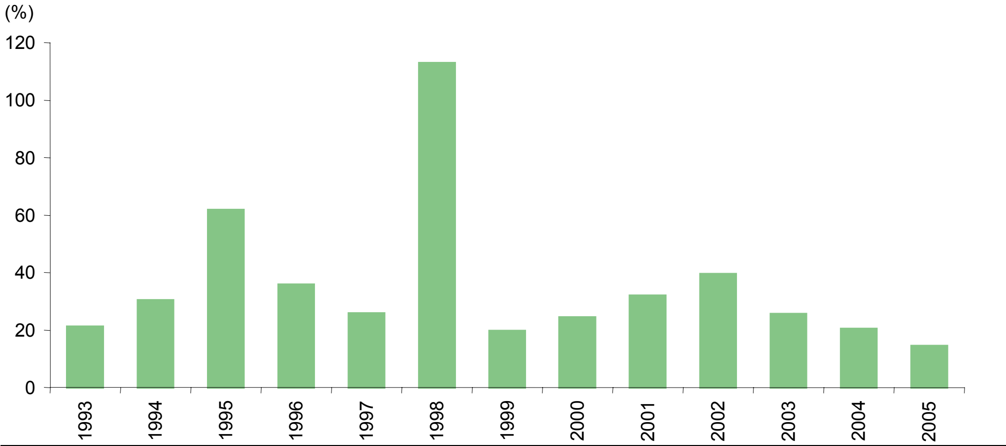


Source: DrKW Macro research

The future for the Little Book

What does the future hold for the Little Book strategy and its related ilk? Well, as Greenblatt points out the ranking tool is obviously a call on relative performance so in theory it should continue to generate returns over fairly long periods of time. As we have pointed out before, as the spread between the extremes in terms of value narrows so do the likely returns from such a strategy, but as long as the spread is positive, then in general it pays to continue to have a value tilt (see *Global Equity Strategy*,19 July 2005).

European EBIT/EV spread – high vs low decile (1993-2005)



Source: DrKW Macro research

Greenblatt suggests two reasons why investors will struggle to follow the Little Book strategy. Both ring true with us from our meeting with investors over the years. The first is "investing by using a magic formula may take away some of the fun". Following a quant model or even a set of rules takes a lot of the excitement out of stock investing. What would you do all day if you didn't have to meet companies or sit down with the sell side?

As Keynes noted "The game of professional investment is intolerably boring and over-exacting to anyone who is entirely exempt from the gambling instinct; whilst he who has it must pay to this propensity the appropriate toll".

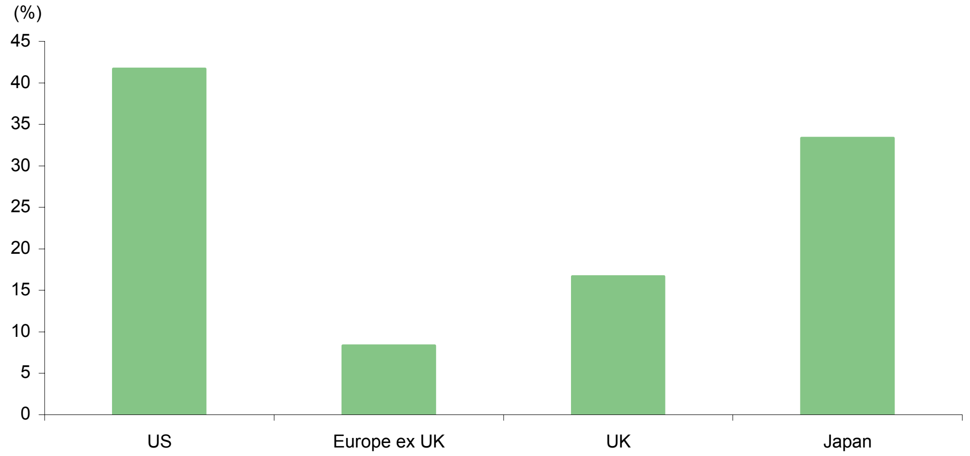
Secondly, the Little Book strategy, and all value strategies for that matter, requires patience. And patience is in very short supply amongst investors in today's markets. I've even come across fund managers whose performance is monitored on a daily basis – congratulations are to be extended to their management for their complete mastery of measuring noise! Everyone seems to want the holy grail of profits without any pain. Dream on. It doesn't exist.

Value strategies work over the long run, but not necessarily in the short term. There can be prolonged periods of underperformance. It is these periods of underperformance that ensure that not everyone becomes a value investor (coupled with a hubristic belief in their own abilities to pick stocks).

As Greenblatt notes "Imagine diligently watching those stocks each day as they do worse than the market averages over the course of many months or even years… The magic formula portfolio fared poorly relative to the market average in 5 out of every 12 months tested. For full-year periods… failed to beat the market averages once every four years".

The chart below shows the percentage of years within our sample where the Little Book strategy failed to beat the market average in each of the respective regions. Both Europe and the UK show surprisingly few years of historic market underperformance. However, investors should bear in mind the lessons from the US and Japan, where underperformance has been seen on a considerably more frequent basis.

% of years in which the Little Book strategy failed to beat the market average



Source: DrKW Macro research

It is this periodic underperformance that really helps ensure the survival of such strategies. As long as investors continue to be overconfident in their abilities to consistently pick winners, and myopic enough that even a year of underperformance is enough to send them running, then strategies such as the Little Book are likely to continue to do well over the long run. Thankfully for those of us with faith in such models, the traits just described seem to be immutable characteristics of most people. As Warren Buffet said "Investing is simple but not easy".

Regional results

The tables and charts below present the summary details on the various strategies tested.

EY+ROC = The Little Book strategy

EY = EBIT/EV

ROC = Return on capital as defined above

PE + ROA = simple trailing earnings yield plus return on assets

PE = simple trailing earnings yield

ROA = return on assets

US

Summary of tested strategies – top decile characteristics (1993-2005)

	Average annual return (%)	Risk (%)	Return/Risk	Beta
EY+ROC	18.1	15.2	1.2	0.6
EY	19.8	13.4	1.5	0.3
ROC	17.0	19.7	0.9	0.4
PE+ROA	18.8	14.0	1.3	0.7
PE	12.1	17.4	0.7	0.8
ROA	19.7	27.3	0.7	1.2
Market	14.7	16.9	0.9	1.0

Source: DrKW Macro research

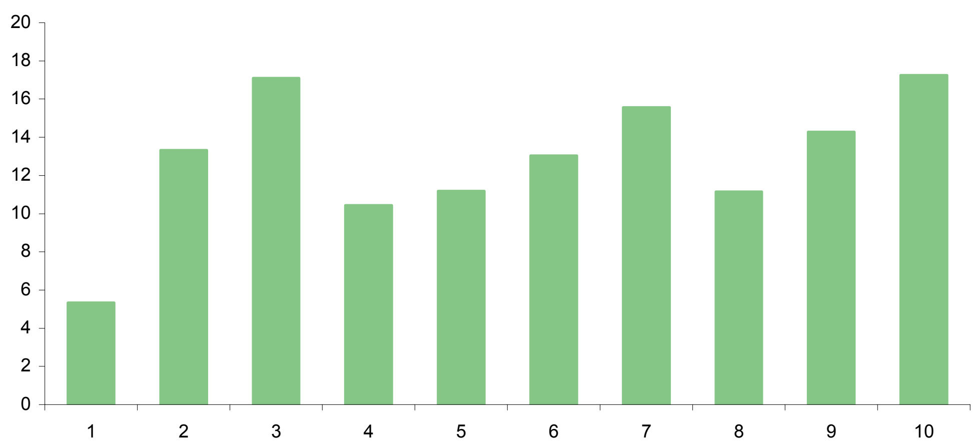
The long short view (CAGR,%) (1993-2005)

	High decile	Low decile	Spread
EY+ROC	17.2	5.3	11.9
EY	19.1	8.7	10.4
ROC	15.5	10.4	5.1
PE+ROA	18.0	9.8	8.1
PE	10.8	10.0	0.8
ROA	16.7	8.2	8.5

Source: DrKW Macro research

The chart below shows the return by decile for the Little Book strategy. For those who have read Greenblatt's book, our deciles don't look as even. His show a monotonically increasing relationship. However, this results from his choice of the Russell 3000 as a universe. We have a much smaller universe of around 750 stocks, so in our equally weighted portfolios each stock matters more. Hence the very strong performance of decile 2 and 3 is actually down to only a couple of stocks in a single year.

The Little Book strategy by decile – CAGR (1993-2005)



Source: DrKW Macro research

Europe ex UK

Summary of tested strategies - top decile characteristics (1993-2005)

	Average annual return (%)	Risk (%)	Return/Risk	Beta
EY+ROC	21.8	20.3	1.1	0.9
EY	24.3	21.6	1.1	0.8
ROC	18.4	23.3	0.8	0.7
PE+ROA	22.7	19.0	1.2	0.8
PE	22.5	24.3	0.9	1.1
ROA	21.8	25.8	0.8	1.1
Market	15.0	20.8	0.7	1.0

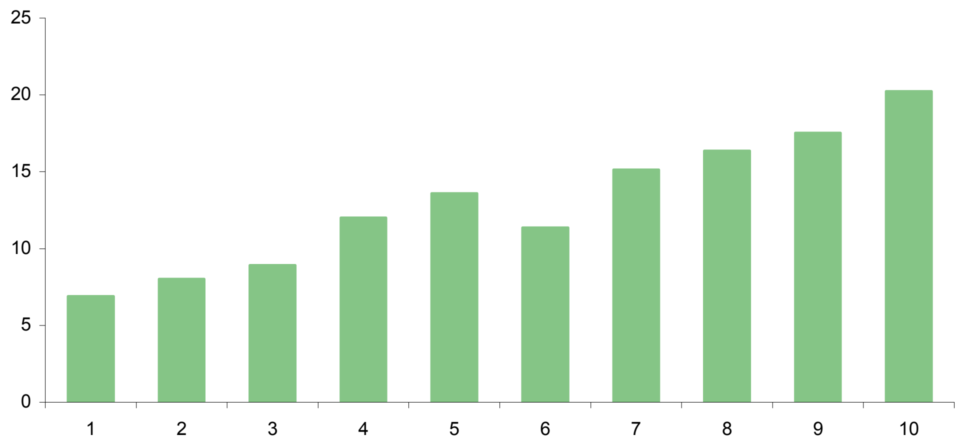
Source: DrKW Macro research

The long short view – CAGR returns % (1993-2005)

CAGR	High decile	Low decile	Spread
EY+ROC	20.2	6.9	13.3
EY	22.7	6.9	15.9
ROC	16.0	6.8	9.2
PE+ROA	21.3	5.2	16.2
PE	20.4	4.9	15.5
ROA	19.0	7.9	11.1

Source: DrKW Macro research

The Little Book strategy by decile – CAGR (1993-2005)



Source: DrKW Macro research

UK

Summary of tested strategies – top decile characteristics (1993-2005)

	Annual average return (%)	Risk (%)	Return/Risk	Beta
EY+ROC	18.7	21.5	0.9	0.8
EY	23.3	21.1	1.1	0.5
ROC	15.3	27.8	0.6	0.6
PE+ROA	18.2	21.6	0.8	0.8
PE	18.9	21.5	0.9	0.8
ROA	16.4	30.9	0.5	1.2
Market	12.0	24.3	0.5	1.0

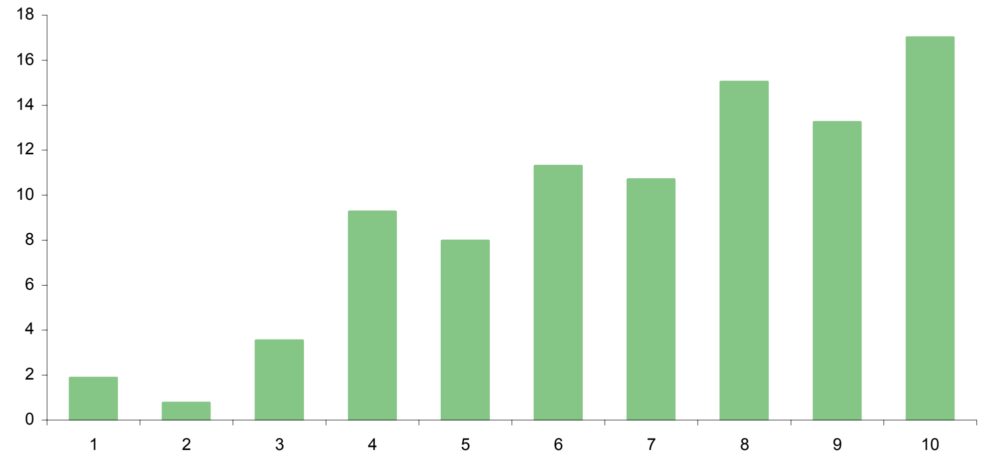
Source: DrKW Macro research

The long short view – CAGR % (1993-2005)

	Highest decile	Lowest decile	
EY+ROC	17.0	1.9	15.1
EY	21.8	3.8	17.9
ROC	12.4	5.4	7.0
PE+ROA	16.5	0.5	16.0
PE	17.5	4.1	13.3
ROA	12.7	-2.6	15.3

Source: DrKW Macro research

The Little Book strategy by decile – CAGR (1993-2005)



Source: DrKW Macro research

Japan

Summary of tested strategies - top decile characteristics (1993-2005)

	Annual average return (%)	Risk (%)	Return/Risk	Beta
EY+ROC	17.6	17.8	1.0	0.6
EY	15.6	18.2	0.9	0.6
ROC	10.2	19.0	0.5	0.3
PE+ROA	17.1	13.3	1.3	0.4
PE	15.4	18.1	0.9	0.6
ROA	14.2	22.6	0.6	0.7
Market	9.9	24.8	0.4	1.0

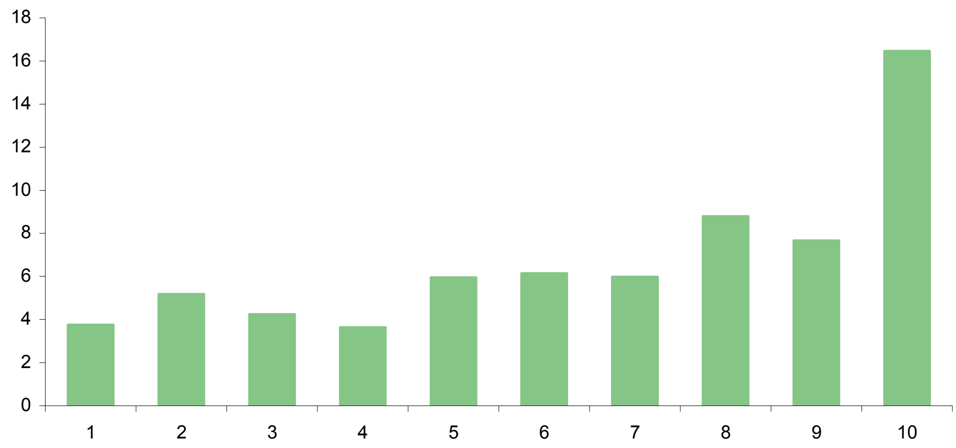
Source: DrKW Macro research

The long short view – CAGR % (1993-2005)

	High decile	Low decile	Spread
EY+ROC	16.5	3.7	12.7
EY	14.2	3.9	10.3
ROC	8.8	4.6	4.1
PE+ROA	16.4	0.4	16.1
PE	14.1	-2.8	16.9
ROA	12.2	3.9	8.3

Source: DrKW Macro research

The Little Book strategy by decile – CAGR (1993-2005)



Source: DrKW Macro research

US Little Book Strategy stock list

Stock selection for Little Book strategy

Name	Sector (FTSE)	Price (local)	Market Capitalisation (US$)
Brown-Forman Corporation	Beverages	44.59	2,876,768,440
Sherwin-Williams Company (The)	Construction & Building Materials	43.56	5,963,625,360
3M Company	Diversified Industrials	72.38	54,646,103,820
Ingersoll-Rand Company Limited	Engineering & Machinery	41.3	13,524,841,400
Paccar Inc	Engineering & Machinery	69.07	11,692,929,370
General Mills, Inc.	Food Producers & Processors	48.96	17,438,621,760
Abercrombie & Fitch Co	General Retailers	57.5	5,038,897,500
COVENTRY HEALTH CARE, INC.	Health	58.1	9,439,158,400
IMS Health Incorporated	Health	24.69	4,919,309,670
Black & Decker Corporation (The)	Household Goods & Textiles	87.3	6,755,710,500
Jones Apparel Group, Inc.	Household Goods & Textiles	29.49	3,367,875,960
Mattel, Inc.	Household Goods & Textiles	17.04	6,624,129,600
V. V. Corporation	Household Goods & Textiles	53.79	5,980,210,830
Gannett Co., Inc	Media & Entertainment	60.77	14,467,878,520
News Corporation Limited (The)	Media & Entertainment	17.55	18,069,076,350
Tribune Company	Media & Entertainment	30.4	9,190,892,800
Westwood One, Inc.	Media & Entertainment	11.69	1,008,449,540
Freeport-Mcmoran Copper & Gold Incorporated	Mining	48.49	8,924,342,050
Ashland Inc.	Oil & Gas	64.1	4,568,086,500
ConocoPhillips	Oil & Gas	59.55	82,091,282,850
Marathon Oil Corporation	Oil & Gas	69.53	25,504,229,770
DST Systems Inc.	Software & Computer Services	56.92	4,076,553,480
H&R Block, Inc.	Speciality & Other Finance	22.15	7,257,181,700
Accenture Limited	Support Services	31.53	17,947,506,600
Apollo Group Incorporated	Support Services	49.8	8,621,226,600
Career Education Corporation	Support Services	34.07	3,345,231,090
Servicemaster Company (The)	Support Services	12.6	3,688,965,000
Altria Group, Inc.	Tobacco	72.65	151,284,107,850
Reynolds American Inc.	Tobacco	106.6	15,722,220,800
Ust Inc.	Tobacco	41.26	6,748,898,200

Source: DrKW Macro research

Europe ex UK Little Book Strategy stock list

Stock selection for Little Book strategy

Name	Sector (FTSE)	Price (local)	Market capitalisation (€)
Aktieselskabet Dampskibsselskabet Torm		289.5	1,413,147,214
Compagnie Maritime Belge		25.39	888,650,000
Ford Otomotiv Sanayi A.S.	Automobiles & Parts	11.3	2,453,180,145
Renault (Regie Nationale Des Usines) Sa	Automobiles & Parts	79.85	22,752,219,450
Trakya Cam Sanayii A.S.	Construction & Building Materials	5.25	739,242,308
Unilever N.V.	Food Producers & Processors	57.75	33,008,514,000
Mondi Packaging Paper Swiece S.A.	Forestry & Paper	59.7	767,205,312
PPR SA	General Retailers	95.6	11,502,974,400
Fresenius AG	Health	135.77	3,467,158,490
Puma Aktiengesellscaft Rudolf Dassler Sport	Household Goods & Textiles	295.4	4,923,431,800
Turkiye Sise Ve Cam Fabrikalari A.S.	Household Goods & Textiles	5.6	1,467,224,920
Vestel Elektronik Sanayi Ve Ticaret A.S.	Household Goods & Textiles	5.1	501,990,628
Hyatt Regency Hotels & Tourism (Thessaloniki)	Leisure & Hotels	11.2	940,800,000
Opap S.A.	Leisure & Hotels	31.3	9,984,700,000
Independent News & Media plc	Media & Entertainment	2.65	2,003,808,100
Mediaset	Media & Entertainment	9.814	11,592,571,592
Schibsted ASA	Media & Entertainment	181	1,563,073,709
Norsk Hydro ASA	Oil & Gas	796	25,566,765,313
Statoil ASA	Oil & Gas	174	47,510,780,317
Total SA	Oil & Gas	208.9	128,497,732,400
Turkish Petroleum Refineries Corp.	Oil & Gas	25	3,873,134,142
L'Oreal	Personal Care & Household Products	74	48,748,388,000
Orion OYJ	Pharmaceuticals & Biotechnology	18.39	1,515,372,780
sanofi-aventis	Pharmaceuticals & Biotechnology	72.65	98,316,736,450
Eregli Demir Ve Celik Fabrikalari T.A.S.	Steel & Other Metals	7.7	2,324,084,273
Ssab Svenskt Stal Aktiebolaget	Steel & Other Metals	326	817,912,728
TNT NV	Support Services	26.97	12,394,333,200
France Telecom	Telecommunication Services	18.41	47,882,679,460
Mobistar SA	Telecommunication Services	62.2	3,935,642,800
Philip Morris CR A.S.	Tobacco	16810	1,116,847,645

Source: DrKW Macro research

UK Little Book Strategy stock list

Stock selection for Little Book strategy

Name	Sector (FTSE)	Price (local)	Market capitalisation (£)
European Motor Holdings plc	Automobiles & Parts	4.0775	222,048,418
Imperial Chemical Industries plc	Chemicals	3.3	3,932,497,800
Balfour Beatty plc	Construction & Building Materials	3.7975	1,621,205,915
Costain Group plc	Construction & Building Materials	0.4975	177,748,790
McCarthy & Stone plc	Construction & Building Materials	7.45	764,682,900
Morgan Sindall plc	Construction & Building Materials	12.15	514,321,650
Foseco plc	Engineering & Machinery	1.74	294,321,000
Unilever plc	Food Producers & Processors	5.94	17,141,598,540
Alexon Group P.L.C.	General Retailers	2.5575	146,375,955
Carpetright plc	General Retailers	11.465	777,292,605
Clinton Cards plc	General Retailers	0.68	140,588,640
French Connection Group plc	General Retailers	2.4525	234,049,433
Halfords Group plc	General Retailers	3.19	727,406,130
Land of Leather Holdings PLC	General Retailers	1.955	99,362,875
Next plc	General Retailers	16.54	4,070,494,000
SCS Upholstery plc	General Retailers	4.78	161,573,560
Amstrad plc	Household Goods & Textiles	1.965	162,623,400
Games Workshop Group plc	Household Goods & Textiles	2.97	92,453,130
Hornby plc	Household Goods & Textiles	2.135	79,654,715
Psion plc	Information Technology Hardware	1.9	264,485,700
Telent plc	Information Technology Hardware	4	838,828,000
Johnston Press plc	Media & Entertainment	4.67	1,340,612,230
Trinity Mirror plc	Media & Entertainment	5.71	1,672,624,590
Antofagasta plc	Mining	19.57	3,858,636,470
Hays plc	Support Services	1.4975	2,227,682,498
John Menzies plc	Support Services	5.715	333,378,810
Telecom Plus plc	Telecommunications Services	1.285	87,852,880
Braemar Seascope Group plc	Transport	4.0275	79,647,840
Clarkson plc	Transport	8.52	139,804,680
Go-Ahead Group plc (The)	Transport	18.21	904,709,220

Source: DrKW Macro research

Japan Little Book Strategy stock list

Stock selection for Little Book strategy

Name	Sector (FTSE)	Price (local)	Market capitalisation (JPYm)
Arisawa MFG. Co., Ltd.	Chemicals	2415	88,193
Bosch Corporation	Automobiles & Parts	536	240,375
Canon Incorporated	Electronic & Electrical Equipment	7320	6,505,650
Circle K Sunkus Company Limited	Food & Drug Retailers	2815	242,605
CSK Holdings Corporation	Software & Computer Services	5510	426,738
Daito Trust Construction Company Limited	Construction & Building Materials	5450	705,001
Familymart Co Ltd	Food & Drug Retailers	3530	344,821
Funai Electric Co., Ltd.	Household Goods & Textiles	11850	427,714
Glory Limited		2455	182,249
Hisamitsu Pharmaceutical Co., Inc.	Pharmaceuticals & Biotechnology	2840	270,269
Inpex Corporation	Oil & Gas	1060000	2,035,200
Kawasaki Kisen Kaisha Ltd	Transport	719	426,940
Koei Co., Ltd.	Software & Computer Services	2420	166,135
Kubota Corporation	Engineering & Machinery	1120	1,475,229
Lawson INC.	Food & Drug Retailers	4420	462,332
Mitsui O.S.K Lines Limited	Transport	793	955,890
Nidec Copal Corp	Electronic & Electrical Equipment	1416	89,144
NOK Corporation	Automobiles & Parts	3340	578,284
NS Solutions Corporation	Software & Computer Services	2880	152,637
NTT Docomo Incorporated	Telecommunication Services	169000	8,230,300
Ono Pharmaceutical Co Ltd	Pharmaceuticals & Biotechnology	5690	699,409
Pasona Incorporated	Support Services	238000	103,054
Ryoshoku Limited	Food Producers & Processors	3030	124,321
Sankyo Co., Ltd. (6417)	Household Goods & Textiles	7670	748,577
Showa Shell Sekiyu Kabushiki Kaisha	Oil & Gas	1292	486,890
Square Enix	Software & Computer Services	3060	338,785
Takeda Pharmaceutical Company Limited	Pharmaceuticals & Biotechnology	6720	5,975,908
Tokyo Steel Manufacturing Co Ltd	Steel & Other Metals	2220	344,242
Uniden Corporation	Information Technology Hardware	1704	107,591
Yamaha Motor Co Ltd	Automobiles & Parts	2620	749,163

Source: DrKW Macro research

Disclosure appendix

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Hold	186	33%	19	10%
Sell/Reduce	81	14%	10	12%
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Source: DrKW

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