MVAM Newsletter

‘Is party time good for your wealth or health?’ February 2017

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Look out for champagne this summer at the London Stock Exchange, as the 21st birthday of AIM (the Alternative Investment Market) is celebrated in June. AIM was launched in 1995 to address the needs of smaller companies, helping them raise money more easily. It offers lower costs and less onerous regulation than the main London stock market. From just 10 companies at its launch, AIM boasted 982 by end 2016, valued at £80bn. Since inception 3,700 companies have been listed on AIM, raising £100bn of new money. What’s more, it is an international and sector-diverse market, with the companies operating in over 100 countries and 40 sectors. In short, an abundance of choice for investors. This is undoubtedly something to celebrate for the Stock Exchange and many of the AIM-listed companies, but is it something to celebrate for investors?

The simple answer is “maybe”. The headline AIM index is 10% below the level of 1996!! While the FT-All Share is up over 100%. If you included dividends you could probably double that difference!! However, this masks many stellar returns from individual companies. This highlights that stock-picking is more important on AIM than on the main London market. The reasons may be simple: there is inherently more risk and reward buying immature companies on AIM and furthermore some 30% of the stocks are in the resource sectors, often positioned at the speculative end of the market. If Shell suffers a dry oil well it will not matter in the grand scheme of things, but that might spell the end for a tiny AIM oil exploration company. AIM also has the tendency to embrace fads - such as the internet bubble - which always burst in the end.

Of course, many of AIM’s greatest success stories are “stolen” by the main market, as the stars often graduate up, feeling they have outgrown the junior market. This is not always the case and currently seven companies on AIM are valued at over £1bn, led by ASOS, the online fashion retailer, where shrewd (or maybe just lucky!) investors could have enjoyed a return of over 1,000% during the past decade. So there are plenty of successful companies out there, the problem is having the time, skill and patience to find them. It’s a full-time job, but there are good reasons why investors should put some of their savings to work on this junior market.

One of the big attractions of AIM are the tax breaks and, in particular, the possibility of 100% relief from Inheritance Tax (IHT). Many AIM companies qualify for Business Property Relief (BPR) and exemption from IHT, currently payable at 40%. This represents a material financial opportunity for estate planning. This tax break has encouraged wealth managers, such as ourselves, to launch IHT products. We offer clients a portfolio of 20 AIM-listed companies that should qualify for BPR and the focus here is on investing in growth companies across a range of sectors, staying clear of the speculative end of the market. Since the launch of the portfolio on 1 June 2016 it has delivered a return of over 40%*. This is one example of why there are good reasons for many investors to join the LSE party in June.

* This level of gain will not be sustainable and such a focused portfolio does entail considerable risk and volatility, making it only appropriate for certain investors.

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