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Citigate Dewe Rogerson

'UK economy could not recover for more than five years'

Fund manager Mark Slater of MFM on why we could be waiting until after 2017 for growth. Mark Slater is part of a City dynasty in the making. Son of legendary stock picker Jim Slater, Mark has apparently inherited his father's knack for returns. Slater junior managed the almost-impossible last year capital preservation. This was good news for investors, especially those who had reaped the 76pc returns of 2010.

Mark Slater's MFM Slater Growth fund may be up by 9pc already this year, but he's far from a raging "bull". He explains the problems he foresees. Cautiously optimistic although we expect markets to remain volatile as perceptions of the macroeconomic outlook will chop and change. Most investors were very bearish at the start of the year, which we found encouraging, especially compared with the over-optimism we saw at the start of 2011. Markets were strong in January and February and might cool off short term, but we are finding good value and UK equities remain attractively priced compared with most other assets. The deleveraging process [cutting debts] that started at the end of 2009 will continue for many years. If this was a "standard" deleveraging process, it would be on course to end in 2017, but there is nothing normal about so many countries being forced to deleverage at the same time, so it could take longer.

Deleveraging will represent a significant headwind for many years and will make anything more than paltry growth difficult to achieve. With governments and central banks adopting aggressive tactics, I would not be surprised if economic cycles were far shorter than in recent decades. We look for businesses with strong growth prospects and resilience which are available at attractive prices. Resilience is good news, but not at any price. Although the growth companies we own operate in a range of areas, they tend not to be exposed to government or consumer spending, for obvious reasons. It is far from resolved as the eurozone's competitive imbalances have not been addressed, and the steps to refinance the weaker nations are probably not sufficient. But after the 2011 panic investors will be difficult to shock, so it's possible the impact on investor sentiment will be less dramatic. That's absurd. Of course many funds engage in closet index tracking but plenty do not. Our fund portfolios bear almost no relation to any index or other funds. Our returns since we started the business in 1994 are also very different we have outperformed massively. We had a very strong 2010, but last year's result was particularly pleasing [the fund returned 0.3pc, compared with sector average losses of 7pc] because it was such a tough environment. We have been pursuing a very pure growth methodology since the latter part of 2009. We screen for companies with above average earnings growth rates and strong cash flows, which we can buy cheaply.

The other thing we look for which is very difficult to find are businesses that operate in a fast-growing global niche market with an identifiable tail wind driving growth. We like Hutchison China Meditech, our largest holding for a long time. Its key activity is health care in China. Oxford Instruments is typical of the type of company we like nichey but global. It is heavily exposed to the nanotechnology space, where spending is being prioritised all over the world. Similarly, Andor Technology makes cameras with very high specifications, primarily for research laboratories.

These companies are not directly exposed to economic problems at large. They are either in demand or they're not at the moment, they are. I am the largest investor in MFM Slater Growth, MFM Slater Income, MFM Slater Recovery and our hedge fund, Northglen Aggressive. Run profits and cut losses. It sounds obvious, but it is supremely important. Ignore the noise and focus on the fundamentals. Back your own judgment with conviction. When in doubt, sell. And it is a cardinal sin to treat those rare, truly exceptional, growth businesses like other investments you might own. Professionally, I have several very big wins. Buying 3pc of Cape, the oil and gas service provider, between 17p and 20p in 2009 and selling for between 400p and nearly 600p two years later.

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Investing in Galahad Capital, where I became chairman, delivered massive returns between 2002 and 2007. I have also invested in several long-term positions which became "tenbaggers" stocks rose to 10 times their purchase price. I've had a few horror stories. The worst was an investment in Bullers in 1994. It proved a very expensive lesson in trusting people and not putting enough emphasis on my research. The company failed within a year or two. My children are young, but, should they want to go into fund management, I would offer what I advice I could. The five year-old has already proved himself to be astute in the middle of the crisis he said: "Daddy, I want cash." I thought, that's probably the best option right now.
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