Mail Online

Saturday, May 10th 2014 6PM 12°C 9PM 9°C 5-Day Forecast

MARK SLATER: Why discipline and the Zulu Principle approach to growth investing is still relevant today

By MARK SLATER
PUBLISHED: 13:21, 10 May 2014 | **UPDATED:** 13:21, 10 May 2014

In 1992 my father, Jim Slater, published The Zulu Principle after I had asked him to recommend a guide on investment.

After searching his mind and then the bookshops, he was unable to find anything, so he set about authoring one himself. The upshot became the best-selling investment book ever written by a British author.

Its investment philosophy worked for many thousands of amateur investors, its formula was watched and copied by professionals and the core concepts of the Zulu Principle are still very much followed by me and the team at Slater Investments.

Family affair: Mark Slater, right, is one of Britain's top fund managers and explains why The Zulu Principle written by his father Jim, left, more than 20 years ago is still relevant today.

Part of the appeal of the Zulu Principle is that it gave amateur investors, as well as professional pickers, a specific formula and set of rules to apply when buying growth shares.

MARK SLATER

Mark Slater is the manager of the **MFM Slater Growth** fund, which has been running since 2005, he also runs the **MFM Slater Income**fund and **MFM Slater Recovery** fund.

Markets may change, dotcom bubbles burst, recessions hit – but for somebody who is prepared to dedicate a little time to their investment portfolio and understanding the market, the formula holds good today.

The Zulu Principle advocates focus.

When investing, don't aim to be jack of all trades, better to specialise in a narrow area and become relatively expert in it. It can take a little time to do the necessary research, but it will pay dividends in the long run.

As professional fund managers, Slater Investments spends a great deal of time and focus researching the market and really getting under the skin of the companies we invest in.

Do some digging, read between the lines and interpret the information.

And whilst we take an agnostic approach to sectors when selecting shares - sifting the entire market from tech and media to pharmaceuticals and financial services - we are very specific when it comes applying our investment formula to companies which fit our criteria.

Looking for growth at a reasonable price

The Zulu Principle recommends that investors start by looking for shares with a proven track record of earnings growth.

When looking at stock, a low P/E (price/earnings) ratio may make it look like a good buy, but when you factor in the company's growth rate to get the stock's PEG (price-to-earnings-growth) ratio, it may tell a different story.

This is still one of our key indicators when looking at stocks, and back-testing by Irish stockbrokers Merrion, has shown this criterion, when coupled with other selection criteria, can help the private investor beat the market substantially.

Since I founded Slater Investments Ltd in 1994, the company has followed the core concepts of the Zulu Principle, in particular looking for growth stocks on a low PEG and focusing on cash flow.

In addition to the PEG ratio, the Zulu Principle proposes that it is even better to apply a combination of several sensible criteria for share selection which Jim Slater refers to as his 'quiver full of arrows'.

These additional selection criteria include companies with:

- A strong growth record in earnings with at least two years' past growth to determine whether the growth is real as opposed to recovery from a setback
- An optimistic future outlook and forecast
- Strong cash flow per share well in excess of earnings per share to avoid the creative accounting of the likes of Enron
- Positive relative strength in the previous year

Mark Slater's tips: Don't time the market, invest in growth but don't overpay for it

How we apply this to the fund

We launched the MFM Slater Growth Fund in 2005. A relatively concentrated portfolio of between 25 and 50 stocks, primarily UK listed companies. The fund adopts the 'tried and tested' investment approach based on the Zulu Principle of 20 years ago.

The fund's primarily focus is to identify dynamic growth companies at sensible prices with the investment objective of achieving long-term capital growth for its investors.

Our primary valuation measure is the PEG – we want to buy growth relatively cheaply, combining the best of growth and value and building a margin of safety into the process. We also insist on healthy cash flow.

In particular, the fund invests in those companies that operate in growing niches with dominant market shares and that exhibit competitive advantage. We like to see identifiable drivers of higher profits to ensure that growth will be reliable and sustainable – some sort of tail wind.

The approach continues to work very well today. The MFM Slater Growth Fund has performed well, ranking second in the UK All Companies sector over the last twelve months, 38th over three years and first over five years.

Over five years, the Fund has returned 267 per cent, more than 171 per cent more than the average for the sector. (Figures from FE Trustnet 10 May 2014)

TWO SHARES THAT FIT THE ZULU PRINCIPLE BILL

Utilitywise

Utilitywise is a rapidly growing independent utility cost management consultancy. The scaling up of its consultancy arm is fuelling its rapid growth with 170 energy consultants at IPO in 2012 forecast by broker Finncap to reach 400 by July 2014.

With both energy procurement and energy cost saving solutions Utilitywise also has good cross-selling opportunities.

Management is upbeat as evidenced by recent heavy share buying by directors. Despite rising from a low of 91 pence in 2013 to a high of 332 pence in 2014 the stock is still a low PEG growth stock with a 12 month rolling forward provisional PEG of 0.46.

Pressure Technologies

Pressure Technologies is benefiting from a boom in the deep water oil and gas market where there is strong demand for its high pressure stainless steel cylinders and its valve wear parts for both subsea and surface use. Customers are seeing strong levels of order intake giving good visibility of revenues.

The company also has a big potential opportunity in the shale gas transportation market in the US as well as a strong and rapidly growing order pipeline for its products serving the biogas purification market in the UK, a market where biogas is injected directly into the UK's gas grid.

Most recently the company has made a significantly earnings enhancing acquisition via an oversubscribed placing.

Despite rising from a low of 159 pence in 2013 to a high of 710 pence in 2014 the stock still represents 'growth at a reasonable price' and still qualifies as a low PEG growth stock with a 12 month rolling forward PEG of 0.38.