

## David Schwartz: Monday afternoon blues

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What a funny year 2009 is turning out to be. Many investment funds are struggling to turn a profit. But many small investors are making oodles of money. It is often the other way around.

The indices explain why. Thanks to last week's rally, the FTSE 100 finally crept slightly above the breakeven line for 2009. This is the arena in which institutions must concentrate because of their need for large liquidity pools.

By contrast, the FTSE Fledgling index, which tracks the 197 smallest UK-listed companies, hit its bear market low on December 5 and has been rallying ever since. It has gained a whopping 41 per cent since the start of the year.

Some investors blame banks for the Footsie's underperformance. They are wrong. Banks currently have a low index weighting. The Footsie's problem is more widespread. Just one in five of all FTSE 100 companies gained more than 10 per cent since 2009 began. Double this figure for the fledglings. Some fledgling gains were eye-popping. Advances in excess of 100 per cent were turned in by almost two dozen small companies since the year began.

My own trading has been profitable in recent months because of my small company focus. A 1940s American bank robber once remarked that he robbed banks because "that's where the money is". His comment obviously pre-dated the current banking crisis. Even so, I follow the spirit of his advice.

One issue that concerns me is the huge level of Monday morning trading triggered by weekend press comments. This is a perennial issue but recent volume spurts for some shares are larger than I have ever seen. Some investors appear to be blindly following weekend press leads without thinking through the consequences of their actions.

I fear that many Monday morning trades are money-losers.

Monday traders often forget that marketmakers read the same weekend newspapers. Opening price quotes are frequently boosted and then reduced later in the day after buying volume tapers. The result is that many Monday morning trades are in the red by the end of the day.

Another point often ignored is the trading philosophy of the weekend columnist. My column last week about Innovation Group is a good example. The company is involved in a legal wrangle with one of its clients, the Canadian insurance affiliate of US giant Allstate.

I gave little weight to this issue last week for two reasons. I assumed that worried investors had already fled when news of the conflict broke. I also thought it curious that Allstate continues to do business with Innovation. My conclusion was that the litigation posed no significant short-term threat.

Things might change in a few months or years from now if and when the conflict comes closer to trial. But I am a short-term trader and will be long gone by then. A longer-term investor might have a different perspective about Innovation.

The moral of the story is an obvious one. Think twice before rushing on Monday morning to follow someone else's lead.

Turning to my recent trading activity, I made a speculative bet last week on Sinclair Pharma. I usually avoid long shots, especially if there is a wide gap between the bid and ask price. But the Fledgling index has been red hot lately so I decided to chance it.

Sinclair shares were badly beaten in the last two years, losing more than 90 per cent of their value at one point. The City feared the company would run out of cash. These fears were recently addressed with a successful fundraising but no one took any notice.

Private investors also have little interest in Sinclair. Daily trading volume is low and there are no recent comments to be found on any online bulletin board. This company is off everyone's radar screen.

But in spite of this lack of investor interest, the chart suggests to me that the price trend may be bottoming out.

Sinclair is a niche player in the pharmaceutical industry with two dozen products in the dermatological and oral health categories. It also has a batch of new products in late-stage development.

It recently broke into profit (excluding a further £3m of foreign exchange gains) and is optimistic about its future.

Revenues come from three categories: licensing agreements with larger drug companies, sales by its own sales force and independent distributors in 80 different countries. Roughly one-third of the revenue stream comes from each source.

The company will issue an interim management statement on Thursday May 14. I shall read it with great interest.

Licensing revenues are sporadic and unpredictable so my main focus will be on the other two more predictable revenue streams.

Given that inventory de-stocking has hit many companies recently, I would not be surprised if Sinclair suffers as well. But it recently stated that revenues from third-party distributors are rising at a rapid rate.

I shall judge the company to be on a long-term growth track if revenue growth from foreign distributors compensates for any de-stocking problem. Hopefully, next Thursday's statement will shed light on this important issue.

Stock market historian David Schwartz is an active short-term trader. Send any comments or suggestions to [tradersdiary@ft.com](mailto:tradersdiary@ft.com)

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