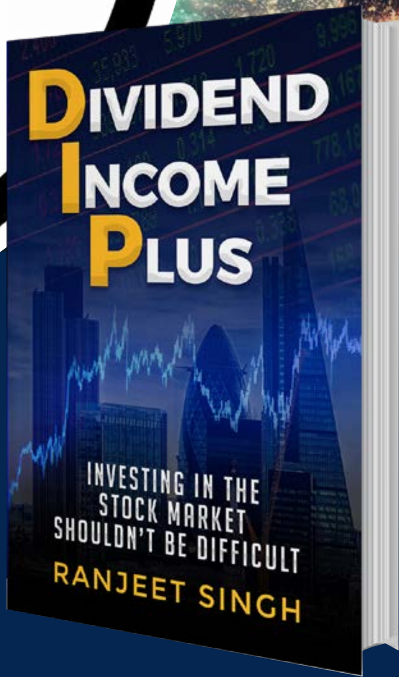
MARKET INSIDER

WHERE KNOWLEDGE MEETS PROFIT



DATE	COMPANY	TRADE SUMMARY
Dec 10, 2024	Legal & General	Legal and General BUY Price 222p 81% Score Rating

Market Price = **232p**
Buy Price = **222p**

Stop Loss = 6% = 209p
Profit = 18% = 262p

Below Market Value (BMV = 23%)
Estimated True Value = **122p**

Return to Risk = 3:1

HEADLINE RESEARCH

POSITIVES	NEGATIVES	SCORE RATING
FTSE 100 (Low Risk)	Low Dividend Cover	STRONG BUY 81%
Technical Support	Negative Free Cash Flow	
Progressive Div. Policy		
Excellent Dividend Yield		
Bottom of Trading Range		

IMPORTANT NOTICE:

THE OPPORTUNITY

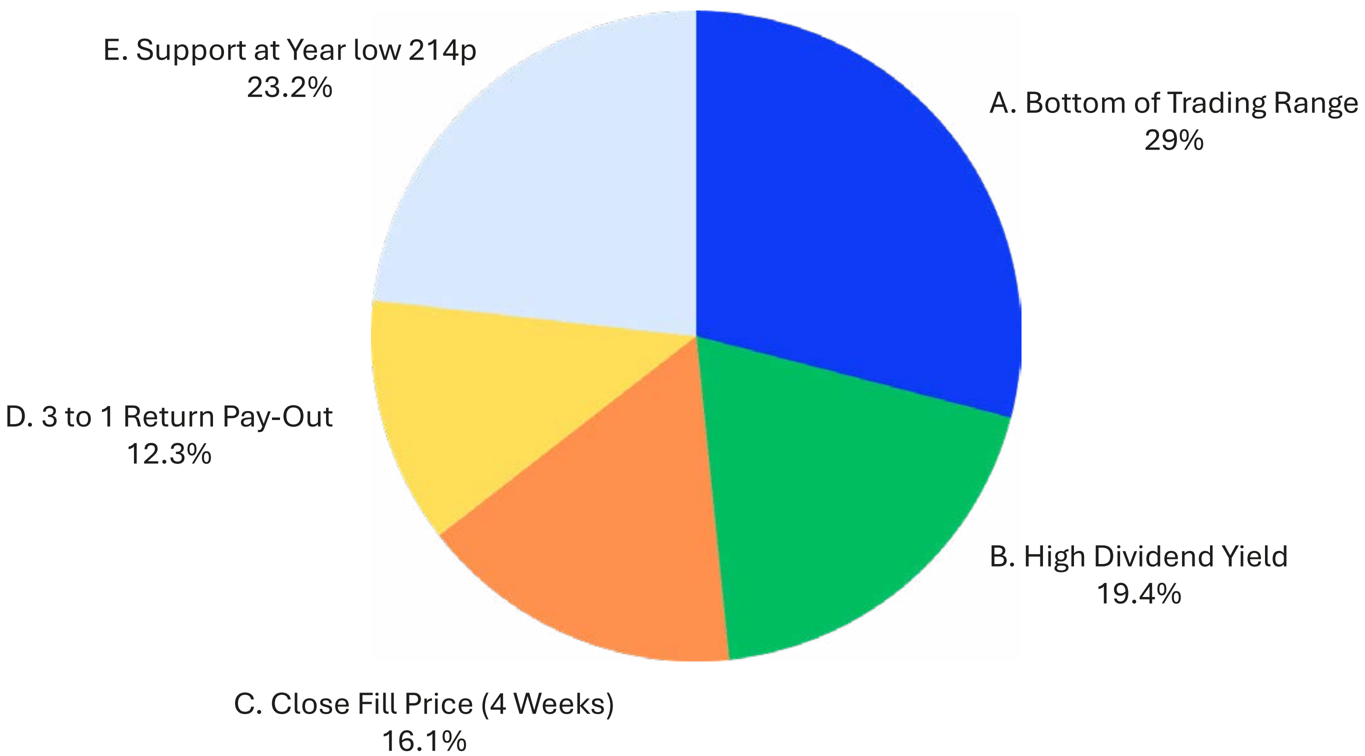
Legal & General Group (LGEN) is a major financial services company and a constituent of the FTSE 100 index. It specializes in life insurance, pensions, investment management, and general insurance, serving millions of customers worldwide. As one of the UK's largest asset managers, it plays a key role in retirement solutions and long-term investments.

Legal & General (LGEN) is one of our top DIP Trading Stocks, offering investors the potential for exceptional dividend income within a relatively controlled risk environment. Unlike many high- dividend-paying companies with elevated risk profiles, as reflected by high 'beta' values (e.g., mining stocks), LGEN has consistently demonstrated long-term stability.

Although the company does not exhibit consistent growth, partly due to its focus on generating higher income - it provides a unique opportunity for investors to 'trade' the stock within relatively predictable ranges. This reliable pattern makes LGEN particularly appealing for dividend- focused trading strategies.

KEY METRICS

We assign specific weightings to the most critical variables influencing our Buy decision, guided by our 5-Step DIP System. This structured approach ensures that each factor is evaluated according to its importance and impact on the overall investment rationale.



KEY METRICS BROKEN DOWN

A. Bottom of Trading Range

The proposed buy price is near the bottom of the trading range. As shown in the LGEN chart, the support level is critical because it attracts natural buying interest from investors. In the absence of significantly poor company data, prices are more likely to 'bounce' from support levels, particularly around yearly low.

B. High Dividend Yield

One of the primary reasons for investing in LGEN is its exceptional dividend yield. Despite a low dividend cover, the company has consistently supported shareholders over the past decade. Notably, during the Covid-19 pandemic, when many companies cut or suspended their dividends, LGEN maintained its dividend payouts, demonstrating resilience and shareholder commitment.

C. Close Fill Price

The proposed buy price of 223p is only about 10p (4%) below the current price of 233p, indicating a reasonable chance of executing the trade within the next few weeks. Unlike typical DIP Strategy trades that often require waiting for prices 10% or more below market levels, this setup offers a relatively short waiting period for execution.

D. 3 to 1 Payout Ratio

The DIP Strategy usually targets a 2:1 return-to-risk ratio, but due to the stop loss being set at a modest 6%, the payout ratio improves to 3:1. This higher ratio represents an excellent risk-reward opportunity.

E. Strong Support at Year Low (214p)

The 12-month low is approximately 214p, which allows us to use a support price of 201p and keep the stop loss at 6%. This approach enhances the payout ratio. If the 214p support level fails, having a stop loss at 200p would be ineffective. Setting the stop loss near the year low is technically sound and aligns well with the overall strategy.

PHASE 1

5 RISK PILLARS

The DIP Strategy employs a 5-Step Risk Assessment Process designed to pinpoint the most influential factors affecting share value and future price action. While there are potentially hundreds of variables to consider, our research indicates that only a few have a disproportionate impact.

By focusing on the 5 Key Risk Pillars, the DIP Strategy works backward to reverse-engineer the optimal purchase price, ensuring investors are properly compensated for the risks they take.

For more information about this strategy, please contact us.

RISK PILLAR 1

DIVIDEND COVER

Dividend	Pence	Notes
Final Dividend for 2023	14.63	Paid 6 June 2024
Interim Dividend for 2024	6	Paid 27 Sep 2024
TOTAL Dividend	**20.63**	
Earnings Per Share (Year ended 2023)	7.35	
Forecast Dividend Cover	**0.35**	Earnings Per Share/Dividend = 7.35/20.63
RISK PILLAR SCORE		**1**

DATA RATIONALE:

The analysis is based on annual data, with the most recent data for the year ending 31st December 2023. While half-yearly results are available, they are less comprehensive which is why annual data has been taken.

Since this data is now over 11 months old, it's essential to be aware that some of it may be outdated. As with all analysis, maintaining flexibility and adjusting for market conditions and other variables is crucial. This has been taken into consideration.

A dividend cover of 0.35 for Legal & General indicates that the company's earnings are only 35% of the amount needed to cover its dividend payments. This means that Legal & General is paying out more in dividends than it earns, which is a highly unsustainable position.

From a technical perspective, a dividend cover below 1 (like 0.35) suggests the company is relying on reserves, borrowing, or asset sales to maintain dividend payments, rather than using current earnings. This poses significant financial risk, especially if earnings continue to decline or if there's pressure on cash flow, making future dividends uncertain.

However, we feel that this is an opportunity. A low dividend cover is likely to put off investors, but as the data shows, LGEN has continued to increase its dividends year on year since 2014 (with the exception of 2020 where it kept it on hold during Covid). Therefore our view is that the risk of LGEN cutting its dividend is relatively low, despite the low cover.

Year	Interim	Final	Total for year
2024	6.00	15.36	21.36
2023	5.71	14.63	20.34
2022	5.44	13.93	19.37
2021	5.18	13.27	18.45
2020	4.93	12.64	17.57
2019	4.93	12.64	17.57
2018	4.60	11.82	16.42
2017	4.30	11.05	15.35
2016	4.00	10.35	14.35
2015	3.45	9.95	13.40
2014	2.90	8.35	11.25

RISK PILLAR 2

MARKET CAPITALISATION

	Billion (£)	Notes
Market Capitalisation	13.67	Approximately 5.89 billion shares x 232 pence
Market Capitalisation of average FTSE 100 constituent	24.6	
Rank amongst FTSE 100	38	Is in the 2nd ⅓ (33-66) bracket
RISK PILLAR SCORE		**2**

DATA RATIONALE:

The firm is ranked 38 out of 100 placing it comfortably within the 2nd third tier. The average market capitalisation of the FTSE 100 is £24.6 billion.

The FTSE 100 Index exhibits a market capitalisation bias, where a small number of companies account for a disproportionately large share of the index's total market capitalisation. For instance, as of 2024, companies like AstraZeneca and Shell had market capitalisations of approximately £178 billion and £170 billion respectively, significantly outweighing many other constituents.

As of December 2024, the total market capitalisation of all companies listed on the London Stock Exchange (LSE) was over £3.52 trillion. The FTSE 100, representing the 100 largest companies, accounts for a substantial portion of this total, though exact figures can vary.

A large market capitalisation is often associated with lower investment risk because larger companies typically have more diversified operations, stable revenue streams, and greater resilience during economic downturns. This financial stability can make them more reliable investments compared to smaller, more volatile companies.

RISK PILLAR 3

FREE CASH FLOW (FCF)

	Free Cash Flow (£M)	Notes
2019	-3,374	
2020	4,137	
2021	-374	
2022	20,277	Positive Cash Flow - Significant Change from 2021
2023	-2.45	Another large Reversal from 2022
FCF Per Share	4.5	14.481 Billion / 5.9 Billion Shares
RISK PILLAR SCORE 1		

DATA RATIONALE:

Legal & General's Free Cash Flow (FCF) fluctuates significantly, ranging from a positive £20.277 billion in 2022 to a negative -£14.481 billion in 2023.

- Negative FCF Years: 2019, 2021 and 2023 - Periods where capital expenditures and operational costs exceeded cash inflows.
- Positive FCF Years: 2020 and 2022 - Periods where cash generation exceeded operating expenses and capital investments.

It's important to note that negative FCF is not unusual for Legal & General. This pattern is typical within the insurance and financial services sector, where companies often engage in large-scale investments, acquisitions, or strategic initiatives. Such expenditures may result in negative FCF during certain periods but are generally intended to support long-term growth and profitability.

That said, a negative FCF must score -1 on the pillar rating.

RISK PILLAR 4

MANAGEMENT

Experienced Board of Directors

A stable and experienced board of directors is instrumental in fostering a company's long-term success. Long-standing board members possess a deep understanding of the company's operations, culture, and strategic objectives, enabling them to make informed decisions that drive sustainable growth.

Research indicates that boards with longer average tenures positively influence firm performance, with benefits peaking around nine years of service. In contrast, companies experiencing frequent turnover in leadership positions often face challenges such as strategic inconsistency and diminished investor

confidence, which can hinder performance.

Legal & General (L&G) exemplifies the advantages of board stability. The company was led by CEO Sir Nigel Wilson, who served from 2012 until his retirement in early 2024. His 12-year tenure provided

consistent leadership and strategic direction.

Additionally, non-executive directors Lesley Knox and Philip Broadley each completed nine-year terms, contributing significantly to L&G's governance and oversight. This continuity in leadership has been

associated with L&G's robust performance and resilience in the financial services sector.

Share Buy Back Programme

Legal & General (L&G) continues to demonstrate its commitment to a progressive dividend policy, aiming for consistent annual dividend growth. Earlier in 2024, L&G announced plans to increase the

dividend per share by 5% for the full year 2024, with a target of 2% annual increases thereafter. Additionally, the company introduced a £200 million share buyback in 2024, indicating its intention to enhance shareholder value further through similar buybacks between 2024 and 2027.

This strategy reflects L&G's dedication to delivering steady returns to shareholders while maintaining sufficient financial flexibility. The combination of planned dividend growth and share buybacks highlights the company's balanced approach to rewarding investors and ensuring long-term financial resilience. Investors will be looking for confirmation of these commitments when the 2024 year-end results are released in early 2025.

RISK PILLAR SCORE 2

RISK PILLAR 5

TRADING RANGE

12 MONTH CHART - LEGAL AND GENERAL

RATIONALE:

The share price last reached this level on 13th This is a compelling reason to buy Legal and General, and we assign 29% of our overall rationale to this risk pillar. This is because it has so many complementing factors, including a positive return to risk ratio, strong support at the year low, a lower stop loss of just 6% (compared to the usual 10%). There is further technical analysis factors to consider, including the potential 'triple' bottom that would occur if the price dropped back to the 215p level.

The stock has already hit 215p on two occasions and bounced back strongly in both instances. Therefore this is now a strong level of support, particularly as it is also the annual low price.

This is a relatively low risk trade given it's price range.

Compared to the FTSE 100 index, which remains range-bound but is positioned within the upper 50% of its range, acquiring a high-quality stock like LGEN at what is considered fair value presents an attractive opportunity. Based on our analysis, we estimate that LGEN is trading approximately 12-14% below its intrinsic market value. From our entry price of 222p, this gives an estimated valuation of 253p.

However, as is often the case with market behaviour, investors tend to overshoot price targets during upward movements, just as they do during declines. Therefore, setting an exit target of 18% above our entry price is considered prudent. While LGEN may surpass this target, the diminishing returns for each additional percentage point are not justified by the increased risk.

If our trade is successfully executed, we will continually assess the position, taking into account price movements, company announcements, dividend payouts, and macroeconomic data. Adjustments to our exit strategy will be made as necessary to ensure optimal risk-reward balance.

PHASE II

MEAN RISK RATING

RISK PILLAR SCORES

RISK PILLAR 1	DIVIDEND COVER	☑ 1 Poor 2 Average 3 Good
RISK PILLAR 2	MARKET CAPITALISATION	1 Poor ☑ 2 Average 3 Good
RISK PILLAR 3	FREE CASH FLOW	☑ 1 Poor 2 Average 3 Good
RISK PILLAR 4	MANAGEMENT	1 Poor 2 Average ☑ 3 Good
RISK PILLAR 5	TRADING RANGE	1 Poor 2 Average ☑ 3 Good
TOTAL RISK	1 + 2 + 1 + 2 + 3	**TOTAL = 9**
MEAN RISK RATING (MRR)	9 / 5	**MRR = 1.8**

MEAN RISK RATING (MRR) TABLE

The Mean Risk Rating (MRR) Table identifies the appropriate dividend yield investors should expect as compensation for the level of risk associated with a particular stock. This risk assessment is derived from our 5 Key Risk Pillars. Lower-scoring pillars indicate higher risk, necessitating a higher yield to justify the investment.

The MRR Table is specifically designed for a select group of companies within the FTSE 100 and 250. It is not universally applicable to all shares, so we carefully adopt those that align best with our DIP System's methodology.

Total Risk Points	Mean Risk Rating (MRR)	Risk Level	Buy Compensation Yield (BCY) (%)
5	1	Very High	8
6	1.2	High	7.5
7	1.4	High	7
8	1.6	Medium-High	6.25
9	1.8	Medium	6
10	2	Medium	5.75
11	2.2	Medium	5.5
12	2.4	Low-Medium	5.25
13	2.6	Low	5
14	2.8	Low	4.5
15	3	Very Low	4

PHASE III

BUY COMPENSATION YIELD

DIVIDEND BIAS WEIGHT (DBW)

From the MRR we are able to deduce that we require 6% of income to suitably compensate us for the risk of buying Legal and General.

We now must add the DBW. This is the extra income that we require given that Legal and Generally typically pays a much higher income than the benchmark index. The DBW is the risk-adjusted income return.

Average Dividend Yield for Legal & General (LGEN) and FTSE 100

YEAR	LGEN. - Yield (%)	FTSE 100 - Yield (%)
2021	5.9	3.3
2022	7.5	4.1
2023	7.8	3.9
3 Years	**LGEN Average Yield**	**FTSE 100 Average Yield**
2021, 2022, 2023	**7.1 %**	**3.8 %**

DBW

7.1 - 3.8 = 3.3%

Dividend Yield

6% + 3.3% = 9.3%

This is the optimal yield that is required to compensate an investor to buy LGEN.

The DIP System identifies using the 5 Risk pillars, the MRR Table and BCY equation that LGEN should pay circa 6% in income. A further 4.1% is added to reflect the bias of this company to pay on average 4.1% more than the FTSE100 index per year. **This gives a total yield requirement of 9.3%**.

PHASE IV

REVERSE ENGINEER BUY PRICE

DIVIDEND YIELD = DIVIDEND / PRICE

If we want a dividend yield of 9.3%, we can work backwards to figure out the price we need to pay to achieve that yield.

PRICE = DIVIDEND / DIVIDEND YIELD

If the dividends paid is 20.3p and we want a dividend yield of 9.3%, we can work that out.

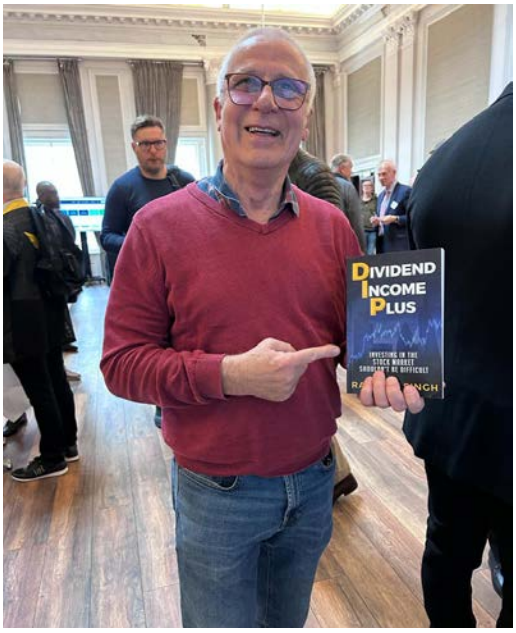
CALCULATIONS	BUY PRICE	LIMIT ORDER
Dividend Yield = 9.3% Dividends (2023) = 20.3p Price = Dividend/Yield	Price = 20.63/9.3% Price = 222p	Enter buy order at price, then be patient and wait for order to be filled.

TRADE SUMMARY

COMPANY	BUY PRICE (p)	CURRENT PRICE (p)	STOP LOSS (p)	TAKE PROFIT
Legal and General (LGEN)	**222**	232	210	264

DIP RESEARCH TOOLS

The DIP Strategy is built on a solid foundation of carefully selected core fundamentals, developed and refined over several years. While these principles form the backbone of the strategy, flexibility remains essential to achieve the best results.



Our research shows that the most successful trading outcomes are achieved by combining proven fundamentals with the ability to interpret market news and adjust strategies when necessary.

Effective trading is not about blindly following automated rules; rather, it requires a thoughtful, adaptable approach where established principles are applied alongside real-time market insights. This balance between structure and flexibility is why we believe the DIP Strategy is particularly effective.

We continue to improve the DIP Strategy as we find better ways to apply it. For example, we now use a ranking system to measure Risk Pillar II, Market Capitalisation, though using this method is optional.

There are different ways to follow the DIP Strategy, and the metrics can be adjusted to suit your style. There's no single correct approach. Each method has its own strengths and weaknesses. The key is to stay consistent once you choose your way.

If you have any questions about the strategy or how it works, please do not hesitate to contact us.

1) RISK PILLAR CALCULATIONS

This is the foundation of the DIP Strategy. After analysing hundreds of different variables, we found that these five factors are especially effective in assessing risk, particularly for dividend-paying FTSE 350 companies.

The ranges can be adjusted based on the client's individual risk tolerance, investment goals, and current market conditions. For example, a buy-and-hold investor looking for fewer but higher-quality trading opportunities can make the scoring system stricter. This approach results in

RISK PILLAR	RED	YELLOW	GREEN
DIVIDEND COVER	< 1.5	1.5 < 2	> 2
MARKET CAPITALISATION (£ Billion)	0.5 - 5	5 - 20	> 20
FREE CASH FLOW (Per Share)	0 < 75	75 - 150	> 150
MANAGEMENT	**Poor**	**Average**	**Good**
TRADING RANGE	Top of Range (Quartile 1: 75-100%)	Mid-Range (Quartiles 2-3: 25<75%)	Bottom of Range (Quartile 4: 0-25%)

2) MRR CALCULATION

Using the DIP 'Traffic Light System', we calculate a total score by adding the points for each of the five risk pillars. This total is then divided by the number of pillars (5) to determine the average or 'mean' risk level.

This approach helps us evaluate the overall risk associated with the company, with a particular focus on the likelihood of the company cutting or suspending its dividend.

RISK VARIABLE	RED 1 High Risk	YELLOW 2 Medium Risk	GREEN 3 Low Risk
DIVIDEND COVER		2	
MARKET CAPITALISATION	1		
FREE CASH FLOW			3
MANAGEMENT			3
TRADING RANGE		2	

$$\text{MRR} = \frac{\text{Total points}}{5}$$

$$\text{MRR} = \frac{11}{5}$$

$$\text{MRR} = 2.2$$

3) BUY COMPENSATION YIELD (BCY)

The table outlines the dividend yield required for each level of risk. A company with a high Mean Risk Rating (MRR) would require a higher dividend yield to adequately compensate investors for the additional risk.

This is a common pitfall for many DIP Investors. It's unrealistic to expect this table to apply to all companies, as each one follows its own unique dividend policy. Instead, we have identified 20-30 companies within the FTSE 350 where this table is most applicable, and we disregard the rest.

Adjustments can and should be made to the BCY and this is where previous investment experience and knowledge can be helpful. If you have little or no previous experience then you should stick to the table more rigidly.

Total Risk Points	Mean Risk Rating (MRR)	Risk Level	Buy Compensation Yield (BCY) (%)
5	1	Very High	8
6	1.2	High	7.5
7	1.4	High	7
8	1.6	Medium-High	6.25
9	1.8	Medium	6
10	2	Medium	5.75
11	2.2	Medium	5.5
12	2.4	Low-Medium	5.25
13	2.6	Low	5
14	2.8	Low	4.5
15	3	Very Low	4

CONTACT INFORMATION

Our goal is to help you succeed in the stock market. With our knowledge and experience, we aim to guide you through the market noise and help you focus on the most critical information that is most likely to assist you in predicting future price action.

While the **DIP Strategy** has a strong built-in risk management framework and focusses exclusively on low to medium-risk companies that pay dividends, it's important to remember that there are no guarantees. For this reason, you should only invest capital you can afford to risk.

You're part of our team now, and we're here to support your growth. If you would like to speak with our research team about this company or any of our stock reports, please email us, and we will gladly arrange a call at your convenience.

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RESEARCH ONLY - NOT ADVICE

If you are considering an investment in this company, we highly recommend seeking guidance from a qualified financial advisor. Please note that we are not regulated by the Financial Conduct Authority (FCA) and do not provide investment advice. Our analysis is generated through our proprietary DIP Trading System and is intended purely for research purposes.

Any application of this research should be carefully tailored to your individual investment objectives, risk tolerance, and financial circumstances. It is essential to conduct your own due diligence and consult a financial advisor before making any investment decisions.