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MICRO CAP MARVELS: TOP TIPS FROM STAR FUND MANAGER

A shock to Trump them all

New twist in American elections as Clinton starts to lose the edge in the polls

After months of bitter and divisive campaigning our American cousins will go to the polls to elect their next president on 8 November.

The race has been given new life by the intervention of FBI director James Comey, suggesting that Donald Trump still has a chance of winning.

CONTROVERSIAL MOVE

The polls were already tightening before Comey made his controversial move which arguably left Hillary Clinton with a red face.

He notified Congress about a batch of messages which could potentially be pertinent to an investigation into Clinton's use of a private e-mail server while she was secretary of state.

I've got to admit when my colleague Daniel Coatsworth wrote his excellent feature on the US elections for last week's issue I was sceptical it was even worth addressing the implications of a Trump win, so unlikely did it seem.

Turns out he was right not to write Trump off and the chances of another political earthquake to follow June's EU referendum result are now significantly heightened.

BREXIT TIMES 10

Trump says, in typically low key fashion, a win for him could be 'Brexit times 10' (previously he was content with a factor of five). It is a shock which like the Brexit vote is not being priced in to global stock markets.

One of the big trading platform providers had a binary product leaning 78% towards a 'Remain' vote the day before the Brexit result. A similar instrument on the US election currently shows a very similar weighting to the perceived status quo outcome, with 76% on a Clinton victory.

A key strand of last week's feature on the US election was to discuss a likely sell-off in response to Trump's election followed by a rapid recovery.

The best advice for long-term investors is probably to do nothing. After all, anyone who reacted too hastily to the panicked sell off in late June will have crystallised heavy losses – and they subsequently missed out on a big rally in the intervening months.

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

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The Fundsmith Emerging Equities Trust (FEET) research team searches the world to find companies that make their money from a large number of everyday, repeat, predictable transactions and will benefit from the rise of the consumer in developing economies. You may never have heard of them, despite their scale.

For example, Indofood sold 9 billion packets of Indomie noodles last year, Magnit welcomed 11 million shoppers a day, Brazilians bought 78 million bottles of Ambev's beer and Dabur's Hajmola tablets were taken 26 million times a day in India.

All can be found in the FEET portfolio.

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FEET Share Price	+16.4	-11.8	+11.8
FEET NAV	+20.0	-7.8	+9.8

Source: Financial Express Analytics. Inception: 25th June 2014

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Clinton, Trump overshadows Fed

US election outcome could impact interest rate options

Hillary Clinton and Donald Trump's race to the White House means US non-farm payrolls due 4 November are unlikely to budge interest rate expectations.

Market expectations of an increase at the US Federal Reserve's final meeting of the year (14 Dec) are running close to 80%, largely predicated on a Clinton win on 8 November, because of rising real wages and early signs of a pick-up in inflation.

Jobs numbers are closely followed by the Fed and under normal circumstances tighter labour market conditions would indicate rates should rise to prevent the economy from overheating.

But that could change if Trump wins the presidential vote. While Trump has claimed interest rates are currently too low, the Fed would most likely hold interest rates at current levels after a Trump victory to stave off concerns over economic and financial instability, in *Shares* view.

Counter to this, research by AXA Investment Managers indicates no relationship between changes in election polls and market expectations of Federal Reserve policy.

Any potential change in Federal Reserve's approach to monetary policy would only come when Janet Yellen's mandate as Fed chair ends in 2018, AXA's research and investment team argue.

Analysts expect a 178,000 gain in net new jobs for October, up from 156,000 in September. That is just over half the 295,000 number of jobs created in the same month last year. (WC)

CLINTON-TRUMP

Equities impact - Sector-by-sector

	Clinton	Trump (constrained)	Trump (both chambers)
Financials	-/+	-/+	-/+
Healthcare	+	+	neutral
Energy	-	+	+
Consumer Staples	+	neutral	-
Construction	+	+	+
Pharmaceuticals	-	+	-
Technology	neutral/+	+	+
Industrials	+	+	+

Source: AXA

Shell beats while BP cuts eat into profits

Contrasting third quarter fortunes for oil majors ahead of OPEC summit

INVESTORS IN **BP (BP.)** and **Royal Dutch Shell (RDSB)** will have little time to relax in the wake of their respective third quarter updates on 1 November. A looming OPEC meeting scheduled for 30 November could have a major impact on oil prices and oil equities.

OPEC is a cartel of oil producers. While it has tentatively agreed to curb production, there are considerable obstacles to sealing a final agreement. Failure could result in a renewed downturn for oil prices and trigger volatility in BP and Shell's shares.

BP is on course to rebalance its organic cash flow in 2017 at $50 to $55 per barrel. The global benchmark Brent is currently just below that $50 mark.

A $10bn cash flow boost at Shell delivered by new projects is predicated on an average $60 per barrel price.

Shell posted underlying net income of $2.8bn in the third quarter, some 60% ahead of expectations. It also maintained the dividend.

Strictly speaking, BP beat earnings forecasts although this was down to a one-off UK tax credit.

A key concern was underlying production down 2% year-on-year to 2.11 million barrels per day with oil production down 7% year-on-year. This implies spending cuts are beginning to have an impact on output. Both Shell and BP are continuing to scale back spending despite that risk. (TS)

SHARES SAYS: ↗
BP remains one of our top picks at 474p but there is a risk of near-term volatility.

BROKER SAYS 11 14 2

Van Elle IPO wins over City's finest

Cyclical construction and infrastructure outfit looks a risky option

DESPITE A SOLID shareholder register and a reasonably priced initial public offering (IPO) we are unconvinced by the investment case behind earthworks contractor **Van Elle (VANL)**.

Nottinghamshire-based Van Elle attracted an all-star list of fund managers including Ruffer, Hargreave Hale, Blackrock and Miton when it raised £40m to join the stock market on 26 October.

Decent earnings and a reasonable balance sheet are among the other attractions. At 101p a share, the business is worth around £81m versus sales in the year to 31 April 2016 of £84m, profit-before-tax of £10.7m and net debt of around £8.4m, according to Van Elle's prospectus.

While investors appear to be receiving the business on the cheap, it's worth considering fellow groundworks specialist **Keller (KLR)** trades at a similarly lowly multiple of earnings, though most of its business is overseas.

Chief executive Jon Fenton is keen to downplay Van Elle's cyclicality and comparisons to peers, saying 'the only similarity we have with Keller is that we drill holes in the ground'. Fenton argues Van Elle's resilience is demonstrated by performance in the 2008 and 2009 recession when it remained profitable.

Efforts to diversify into the rail engineering market and other less cyclical sectors are bearing fruit, Fenton adds. (WC)

Sage under pressure

Limited real progress could hurt loftily-rated shares

Accountancy software supplier **Sage (SGE)** may struggle to cling on to its current lofty share price rating. There are likely to be limited signs of accelerating growth when it reports full year 30 September results on 30 November, and there is even the risk of missing vital 6% organic revenue growth expectations.

According to calculations by analysts at Canaccord Genuity, organic revenue expansion could come in at nearer 5.3% after currency oscillations. Such a narrow miss may appear small but the market is unlikely to see it that way given that it 'seems to have convinced itself that Sage's growth is poised to accelerate.'

Sage has enjoyed a two-year share price run since CEO Stephen Kelly was installed, doubling to the current 716.5p. That puts the price to earnings multiple at 22.7-times, based on consensus earnings per share estimates of about 31.6p for the year ahead to 30 September 2017.

While Kelly has received almost universal praise the way he has refocused the FTSE 100 company's sales strategy and driven cloud-based products, limited real financial gains have been made, with anticipated full year operating margin estimates of 27% unchanged since late 2014.

SHARES SAYS:

Analysts remains split on Sage but we side with the more cautious view, despite the group's solid cash generating attractions.

BROKER SAYS 9 5 7

Rolls corruption reports

INVESTORS SEEM RELAXED for now about corruption allegations circling aerospace engineer **Rolls-Royce (RR.)**. A *BBC* and *Guardian* investigation suggests the company made secret payments of around £10m to an unregistered Indian agent. We discussed the uncertain prospects for the aerospace sector in general in last week's issue (see *Talking Point*, 27 Oct).

FreeAgent looks for £8m

THE LONDON IPO market has not completely dried up, accounting solutions and apps to micro-businesses **FreeAgent** has started talking to investors about raising £8m of growth funding. It wants to float with a market cap of £31m to £35m, or after adjusting for net cash, an implied £26m to £31m enterprise value. FreeAgent isn't forecast to make its first profit until 2018. (SF)

Christmas gift for Tesco

FRESH FROM APPARENTLY winning the Marmite war with **Unilever (ULVR)**, Britain's biggest retailer **Tesco (TSCO)** has been handed another PR coup by rival ASDA. The **Wal Mart-owned (WMT:NYSE)** supermarket's nationwide card payments system crash could drive irate shoppers into the arms of Tesco, which returned to growth for the first time in five years according to the latest Kantar Worldpanel grocery share figures (18 Oct). (JC)

Don't get too excited by Anglo spin-off talk

Rumours fly about miner's plans for asset demerger or sale

There is growing talk that FTSE 100 miner **Anglo American (AAL)** is trying to demerge or sell its South African coal and iron ore businesses. It has already announced plans to focus primarily on diamonds, platinum and copper.

Anglo's share price has risen 284% year to date thanks to improving commodity prices and a reduction in the miner's costs. 'A restructuring for Anglo could lead to further near-term upside to the share price,' says investment bank Jefferies. The question is whether it can pull off such a move.

The South African assets are worth $3.2bn but Anglo may only get $2bn or so from an outright sale, given it is seen as a desperate seller in order to repair its balance sheet.

At the start of 2016 it targeted $3bn to $4bn of asset disposals this year, but has only so far got $1.7bn for the niobium and phosphates business.

A spin-off could unlock value, depending on structure and valuation says Jefferies. It isn't entirely convinced that the assets can be sold and worries about valuation if Anglo opts for a demerger.

We're inclined to agree that a corporate shake-up of the business won't be easy to achieve – otherwise it would have already happened.

BHP's decision to spin off non-core assets into the vehicle now known as **South32 (S32)** didn't seem too wise when the latter's share price more than halved in the six months following the demerger in 2015.

However, South32 has outperformed its former parent this year thanks to the surprise recovery in coal prices – one of its key commodities. (DC)

1.1 million

DIAMONDS MAY BE a girl's best friend but they have not been particularly accommodating to shareholders over recent years.

Signs that might be about to change came from **Petra Diamonds (PDL)** last week as shares surged on news of a 1.1m carat diamond haul at the west Africa-focused miner in the last three months as well as solid industry pricing.

Other major producers include FTSE 100 outfit **Anglo American (AAL)**, which has a majority stake in De Beers – its shares are up 395% since January this year.

£1m

SMALL BUSINESS FRANCHISE provider **Franchise Brands (FRAN:AIM)** is on the acquisition trail after sealing a £900,000 deal to buy dog-sitting business Barking Mad.

Franchise Brands raised £3.5m in an initial public offering in August to start a buy-and-build strategy in the sector.

Existing brands include Ovenclean, which licences operators to run oven cleaning businesses, and Chipsaway, which repairs car paintwork.

£629k

FARMER-TURNED-HEDGE fund manager Luke Ellis spent £628,555 buying shares in **Man Group (EMG)** after taking over as chief executive at the asset manager.

As well as buying new shares Ellis also received around £1.6m of options shares as the former JP Morgan executive and amateur farmer builds up an ownership stake from scratch. Ellis' purchase was one of the largest of the past week.

Elsewhere, **Berendsen (BRSN)** chairman Iain Ferguson bought £103,000 of shares after a profit warning at the industrial textiles outfit. Ferguson previously owned no Berendsen shares.

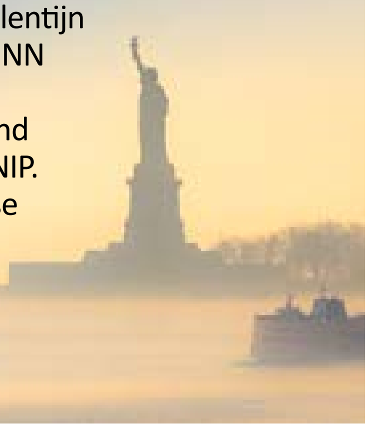
5

EARNINGS PER SHARE (EPS) at US-listed businesses look set to end a year-and-a-quarter losing streak, according to results announced so far.

Around 75% of companies which have already reported third quarter earnings beat expectations, according to Valentijn van Nieuwenhuijzen, head of multi asset services at NN Investment Partners.

Sales beat expectations by an average of 1% and earnings by 5%, according to the research by NNIP.

Higher commodity prices have helped stabilise earnings in the energy sector, bank earnings improved and global economic may be accelerating, adds Nieuwenhuijzen.



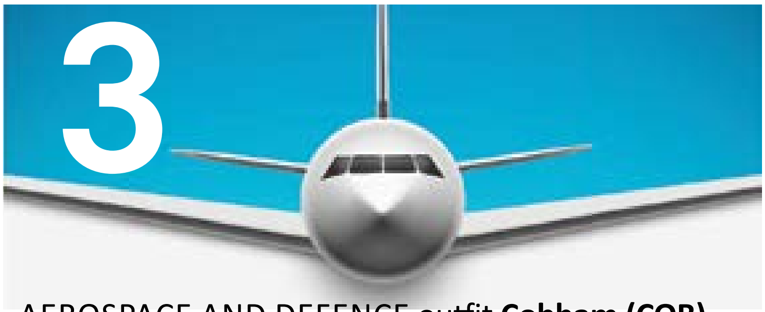
2 MILLION

ENGINEERING AND infrastructure play **Stobart (STOB)** says it is on track to deliver 2m tonnes of waste wood biomass fuel by 2018.

Biomass is a key part of Stobart's aim to deliver £40m in earnings before interest, tax, depreciation and amortisation (EBITDA) from its Energy and London Southend Airport assets by 2018.

Stobart, which also owns a 49% stake in the logistics business of the same name, aims to produce 50% of the biomass it is under contract to supply through its own facilities. Plant is under construction in Widnes, Tilbury, Yorkshire and the North East.

3



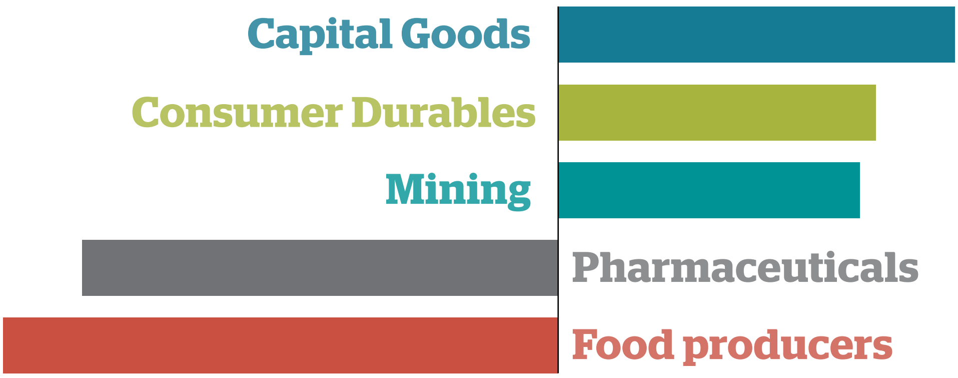
AEROSPACE AND DEFENCE outfit **Cobham (COB)** saw another 20% wiped off its share price after a third profit warning in less than 12 months.

Weakness in Cobham's maritime and satellite communications unit and delays to contracts in its refuelling gear business saw profit expectations downgraded in the region of 10% by analysts.

Around a third of the entire UK-listed sector delivered profit warnings in the three months to 30 June 2016, according to research produced by Ernst & Young.

Which stocks gain when interest rates rise?

Correlation with US 10-year yield since 1998 (selected)



Source: UBS. Note: Positive correlation means sector rises as yields rise

BEST & WORST - REVENUE GROWTH ESTIMATES 2017

Fund	Year-to-date (%)
Oil & Gas	20.9%
Health Care	8.1%
Technology	6.6%
Consumer Goods	6.5%
Telecoms	5.6%
Basic Materials	5.1%
Industrials	4.6%
Consumer Services	3.7%
Financials	2.5%
Utilities	2.4%

Source: Peel Hunt

FTSE 350 12 MONTHS

BEST PERFORMERS

	COMPANY	(%)
1	Hochschild Mining	242.58
2	Acacia Mining	153.77
3	Evraz	147.78
4	KAZ Minerals	147.66
5	Centamin	126.56
6	Petra Diamonds	116.86
7	Glencore	111.78
8	Fresnillo	109.9
9	Anglo American	95.29
10	Electrocomponents	88.91

WORST PERFORMERS

	COMPANY	(%)
1	Essentra	-41.27
2	Stagecoach	-41.38
3	Thomas Cook	-42.41
4	easyJet	-46.19
5	Restaurant Group	-46.36
6	N. Brown	-48.92
7	Capita	-53.54
8	Laird	-56.86
9	Sports Direct International	-58.58
10	Countrywide	-61.38

* Excluding Equity Investment Instruments, Nonequity Investment Instruments
Date to 31 October 2016
Source: Thomson Reuters Datastream

TLA is back in the game

Baseball agent and sports marketing play looks cheap after shunning a takeover

Sports marketing and baseball player agent **TLA Worldwide (TLA:AIM)** looks attractively valued after an abortive 65p bid for the company from **Atlantic Alliance Partnership (AAPC:NDQ)**.

TLA pulled its recommendation for AAPC's bid in September. It believed investor demand wouldn't be as strong for the suitor's shares as previously expected, so there wouldn't be much point accepting a takeover.

That shifts the focus back on TLA's own capability to deliver knock-out returns for shareholders. We think it looks match fit as an investment.

The shares look cheap trading on 7.5 times earnings forecasts for 2017. Investors should also enjoy a nice dividend, yielding 3.2%. We believe there's a good chance the payout will grow fast.

ON COMMISSION

TLA raised £12 million when it floated on AIM at 20p in December 2011. It has since expanded by acquiring Peter E Greenberg, a baseball representation business with a particular niche in representing Spanish-speaking clients.

In May 2015 it paid $19.5m for Elite Sports Properties, a leading athlete and event management company in the UK and Australia.

The baseball representation business has attractive fundamentals thanks to the enduring appeal of Major League Baseball (MLB) in the US and the long-term guaranteed income from commission on players' contracts.

The company invested in this area by hiring new senior agents in 2016, increasing its roster of MLB clients by 19% in the first half of 2016. This expenditure will constrain profitability in the 2016 but, in turn, should provide a material boost in 2017.

Profit from baseball representation was down year-on-year in the first half of the year but this reflected the timing of signing bonuses. Normally signed in the second half at the end of the regular playing season, TLA unusually signed one in the first six months of 2015, resulting in tough comparatives.

BIG EVENTS

The sports marketing side doubled its number of events to six in 2016 with the latest and last of these coming in November. The New Zealand rugby union team or All Blacks will line up against an Irish side which should enjoy plenty of local interest and support in Chicago.

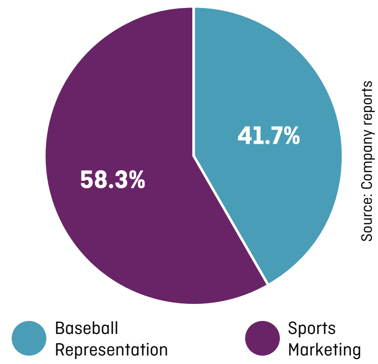
The division, which also represents athletes from sports outside of baseball, saw a 24% increase in operating income to $10.5m in the first six months of 2016.

The working capital required to put on sporting events has seen an increase in net debt to $25.8m and the balance sheet seems the main risk to weigh for investors. (TS)

TLA WORLDWIDE
BUY
(TLA:AIM) 39p
Stop loss: 31.2p

Market value: £56m
Prospective PE Dec 2016: 8.3
Prospective PE Dec 2017: 7.5
Dividend yield: 3.2%
Analyst price target: 63p (Numis)

2015 OPERATING PROFIT SEGMENTAL SPLIT



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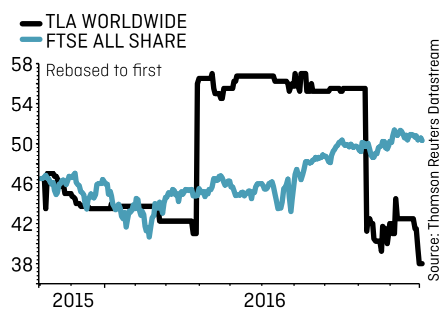


Shares Investor Evenings are designed to showcase a number of presentations from dynamic companies.

Join us in London on November 17th and 29th.
Book early to secure your place! Register now free

November 17th

Sponsored by AJBell Youinvest

Companies presenting

AB Dynamics (ABDP) Tim Rogers, MD
The Group is engaged in the design, manufacture and supply to the global automotive industry of advanced testing and measurement products for vehicle suspension, brakes and steering both in the laboratory and on the test track. With over 90% of sales to export, the Group's products are used for research, development and production quality control. The Directors believe that the Group is one of the leading UK suppliers in its market.

C4X Discovery (C4XD) Clive Dix, CEO
C4X Discovery brings a new dimension to drug discovery. Using its unique NMR-based technique to determine 3D molecular structures with high accuracy, C4X Discovery is focused on optimising the design and development of medicines and partnering with the pharmaceutical sector to generate better, safer products.

More to follow...

...and on November 29th

Companies presenting

Bacanora Minerals (BCN) Peter Secker, CEO
Bacanora Minerals Ltd is an explorer and developer of industrial minerals in Mexico with a primary focus on Borates and lithium. It was incorporated in Alberta, Canada in September 2008 and is listed on the TSX Venture Exchange (ticker = BCN). Although listed in Canada, we are proud to consider ourselves a Mexican Company. Bacanora Minerals strives to replicate this tradition of skill and dedication to quality in its own operations.

Kennedy Ventures (KENV) Giles Clarke, Chairman
Kennedy Ventures plc is an investing company listed on AIM, focused on principally, but not exclusively, in the resources sector. The Company has made a first investment in African Tantalum (Pty) Ltd, a Namibian based operation producing tantalite concentrate. In view of the attractive opportunities in tantalum, the Company is likely to initially focus on related projects located in Southern Africa.

Valirx (VAL) Dr. George Morris, Chief Operations Officer
Valirx Plc is an oncology-focussed Biopharmaceutical Company, developing treatments and diagnostics. Technologies are selected by using rigorous clinical and commercial processes to address unmet market needs.

Why attend?

The chance to network with other private investors, wealth managers, private client brokers, fund managers and financial institutions.

For any enquiries, please contact:
Chris Williams, Spotlight Manager
chris.williams@sharesmagazine.co.uk | 0207 378 4402

Event details

Location: Novotel Tower Bridge, London EC3N 2NR

Presentations to start at: 18:30
Complimentary drinks and buffet available after presentations

Register now free
www.sharesmagazine.co.uk/events

Savannah red hot after fantastic copper discovery

AIM's best-kept secret produces stellar exploration results

A tiny AIM-quoted mining company on 31 October published some of the best exploration results we've ever seen for a copper project on the UK stock market.

It's not a one-off discovery, either. **Savannah Resources (SAV:AIM)** has been churning out amazing results for some time which gives us confidence there is plenty of high-grade mineralisation across its project in Oman.

IMPECCABLE TIMING

Savannah hopes to start production late next year. Its timing is impeccable. Investment bank UBS has just turned bullish on the outlook for the copper price, saying there are clear signs that Chinese demand for the metal is improving.

UBS believes the copper market will shift from surplus to deficit in 2017 which theoretically means the metal price should increase in value.

It forecasts $5,732 per tonne for 2018 which should be when Savannah is comfortably producing copper from its Middle East project. That is 18% higher than the current metal price of $4,841 per tonne.

Savannah has interests in three very large exploration blocks in Oman. 'Block 4' contains several old copper mines; 'Block 6' is an early stage project. The most exciting, in our view, is 'Block 5'

which contains two prospects called Mahab 4 and Maqail South. Both were the subject of the latest drill results which caught our attention – and they will be the first projects it brings into production.

OUTSTANDING METAL GRADES

Mahab 4's latest results included copper grades between 6% and 10% in multiple holes. Maqail South's drilling unearthed one assay containing an astonishing 32% copper and 30% zinc, albeit over a short distance. 'These are some of the highest grades in the world with extraordinary levels of zinc,' claims Savannah chief executive David Archer.

For those not sure what's deemed good and bad with copper grades, it is fair to say that 1% is good. Some operating mines have 0.5% copper which is workable if there is significant volume and costs aren't too high. A deposit with average grade in excess of 2% could be considered excellent.

Mahab 4 currently has 2.1% average grade; Maqail South has 3.8%. Savannah will publish a new resource statement by the end of 2016, confirms Archer.

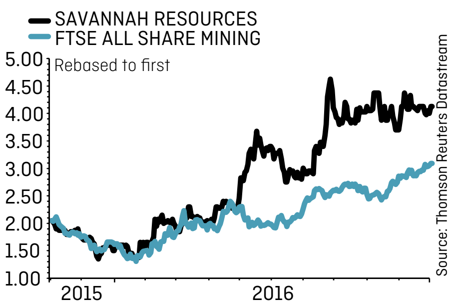
MORE NEWS ON ITS WAY

A resource update on Savannah's Mozambique mineral sands project is also due in the next few months. Investors should expect a smaller number that previous estimates. Savannah is focused on getting the best returns and is only interested in higher grade areas.

The miner also has lithium interests in Finland, but these are early stage so not central to the investment case. (DC)

SAVANNAH RESOURCES ↗ BUY
(SAV:AIM) 4p
Stop loss: 2.8p

Market value: £18m



TRIBAL
(TRB:AIM) 56.75p

Gain to date: 20.1%
Previous Shares view:
47.25p, 19 May 2016

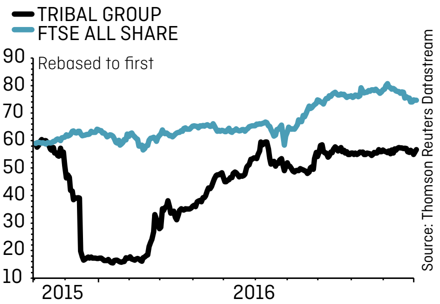
TRIBAL (TRB:AIM) CHIEF executive Ian Bowles says the business is capable of delivering operating margins in excess of 20% after a turnaround is complete.

Tribal struggled with lumpy revenue flow and problem contracts during 2015 – culminating in a profit warning and dilutive equity raise.

In a bullish assessment of the education support services business' prospects after taking the reins early this year, Bowles said key performance indicators during his tenure would focus around staff and customer retention as well as margins.

'I am encouraging shareholders to think 20% margins at a group level which will be a good achievement from where we started,' said Bowles.

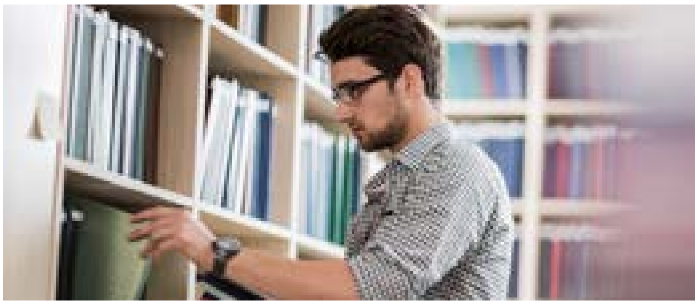
But I would not see it ending there because good software companies can earn more than that.'



Tribal delivered adjusted operating profit of £2.9m on revenue of £107m in 2015 for a 2.7% margin. (WC)

SHARES SAYS: ↗
Bowles' targets are a long way off but promise great returns if they can be delivered.

BROKER SAYS: 1 0 0

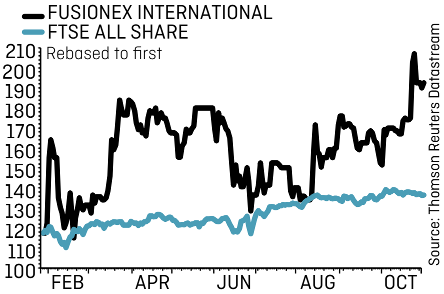


FUSIONEX
(FXI:AIM) 192.5p

Gain to date: 63.8%
Previous Shares view:
175p, 1 Sep 2016

ANOTHER SHOT IN the arm for investors in data analytics suite supplier **Fusionex (FXI:AIM)**, putting out a positive trading update (24 October) covering its full year to 30 September. The company anticipates revenue in line with MYR 90.4m consensus estimates (it reports in Malaysian Ringgits, so about £17.7m) and will run up 'significantly' lower losses despite its well-flagged and hefty invest to grow plans.

This is very much strategic doing, not just talking, and shareholders should be really pleased. The market may have been shocked by the company's initial steer for a spell of losses as the company goes through the growth gears, but there can be little doubt that strategic progress has been marked since, and the shares have rallied as we thought they might.



The launch of the scaled down *GIANT 2016* suite is looking an increasing master stroke. (SF)

SHARES SAYS: ↗
Peel Hunt analysts reckons the shares should hit 220p inside of the next year, the consensus says 274p, according to Reuters data. We think both targets could prove conservative.

BROKER SAYS: 2 0 0

INVEST IN YOUR KIDS' FUTURE

PROFIT FROM THE TRENDS FACING THE NEXT GENERATION

What sort of world will the infants of today experience when they reach adulthood? Will we be flying to work, holidaying on Mars, wearing super-sensory foil suits?

Probably not, but we may well be desalinating huge quantities of sea water for drinking, eating more biologically enhanced super foods grown in urban farms, speeding through the city streets in self-driving cars, and wearing gadgets that monitor our health and predict emergencies.

The megatrends of the future can provide interesting long-term opportunities for parents or grandparents investing for children through a Junior ISA.

LONG-TERM PREDICTIONS

It's a curiosity of forecasting the future that it can seem easier to take a longer-term view, say 15 or 20 years, than make relatively near-term predictions. Technology analyst Richard Holway has been lauded as a man who has regularly got it right on the shape of the future, but even he admits that 'predicting what was going to happen in the next one to five years I have found to be extremely difficult.'

'But the next 20 years is a bit easier as everything that will become mainstream in 20-plus years time is around today,' he says.

When you're investing over a 20-year period or more you don't need to concern themselves too much with volatility, short-term market fluctuations or current market sentiment. More important are the macroeconomic megatrends which will drive commercial activity in the future.

WHAT IS A MEGATREND

Megatrends are the powerful, transformative forces that could change the global economy, business and society. They have the potential to affect all of our personal lives and influence the outcome of our investment decisions.

'These anticipate changes in the world we live in be they demographic, technological, social, environmental or geopolitical,' say analysts at Pictet Asset Management. They believe that megatrends are dynamic systems of change that have emerged from the interaction of multiple, discrete micro-level trends, events and conditions, or in other words, forces of change that have gathered their own self-sustaining momentum.

'Cynics might dismiss megatrends as the stuff of think tanks and policy makers,' says asset manager BlackRock. 'We believe that the use of megatrends in investment processes offers real investment opportunities and the potential for attractive risk and return profiles.'

Some megatrends have been with us for many years, others are at an earlier stage in terms of their impact on the world. Popular themes include conservation, the earth and the steady depletion of basic resources, such as food, water and energy. Others relate to innovation concepts, genetics, automation, machine learning and robotics, for example. Then there are those megatrends that are about us ourselves, global demographics. Aging populations and better healthcare provision, improved economic equality, emerging economies and growing middle classes.

BIGGER AND STRONGER

Some megatrends promise to be more powerful than others, argue Pictet analysts. They point to changes unfolding in the make-up of the global population. Their data suggests that by 2020 the world will add 475 million people, 83% of them in Africa and Asia. While the European workforce will shrink, the African workforce will grow by 30% 'but the new sources of large scale employment remain to be found,' says Pictet. 'Hyper-urbanisation, meanwhile, will continue at such a pace that by 2050, 70% of humanity will live in cities, some of them sophisticated smart cities and others sprawling slums.'

JUNIOR ISA CHEAT SHEET

- **No tax on capital growth or dividends**
- **Annual contribution limit is £4,080 in the 2016/17 tax year**
- **Can be held until age 18, when it converts to an ISA**
- **Cash and Stocks & Shares versions are available**
- **Child can take control of the account at age 16, but can't withdraw money until they turn 18**

'By 2030, demand for energy will increase by more than 30%, food by 50%. Water scarcity will affect 1.4 billion people if current trends continue.'

But this may not come to pass. Investment in resource innovation will continue to intensify to capitalise on these fundamental demand patterns with potentially transformative results. Pictet's analysts argue that nowhere is the scale of change more radical than in technology where, for example, the number of devices connected to the internet is expected to grow by more than 25% annually for the foreseeable future.

'This, in tandem with the stunning growth in social data, predictive analytic capabilities and super-computing will fundamentally alter supply chains and business models.'

Shares has highlighted three megatrends that we believe offer the long-run thematic investment potential to suit those with a 15 or 20 year horizon, or even longer, with accompanying investment suggestions within the equities, funds and investment trusts space.

Some investors may want to consider employing the skills of an active fund manager to select stocks that provide exposure to a particular theme, as long as they are prepared to pay the associated costs that come with such investments. Others may want to consider an index approach, investing in funds that offer exposure to themes by tracking specially-constructed indices. (SF)

BLACKROCK'S 4 MEGATRENDS

- **Changing economic power**
- **Climate change and resource scarcity**
- **Technological breakthrough**
- **Rapid urbanisation**

Source: BlackRock

INVESTORS WITH THE ability to think through the implications of a growing – and also ageing society – and an investment time frame long enough to ride out the ups and downs can find the makings of a megatrend in demographics. Biotechnology and infrastructure funds are among the ways to play this through a Junior ISA.

Demographics is a broad trend because many underlying trends like, for example, healthcare, resource scarcity, food and technology feed into it.

REGIONAL VARIATIONS

Geography is important because population change will vary across regions – for example, by 2050 50% of global population growth is expected to be accounted for by Africa. And the make-up of demographics is also important: the over-65 age group is expected to be a significant driver of overall growth as healthcare improves and life expectancy rises, according to ETF specialists at iShares.

Positioning an investment strategy to capture demographic dividends is not straightforward, according to analysts at investment bank Berenberg.

'Since publishing our major report on demographics in June, we have met circa 600 investors,' writes Berenberg analyst Nick Anderson.

'The idea that interest rates could still be at 0% in 2030 and that valuations will continue to stretch saw almost no pushback. Investors' main concern was whether our arguments were relevant in the short term. Post-marketing, our conviction that demographics matters, a lot, and that Japan is the playbook has strengthened.'

Anderson says Japan's two decade long stagnation is in part a result of a static working age population which has dragged on economic growth and pushed interest rates down to zero.

Were Japan to be the playbook in other wealthy countries – lower interest rates for a longer period of time would imply expanding price-to-earnings ratios on equities, other things being equal.

So-called bond proxies – stocks with stable earnings and some growth potential should do well in such an environment: utilities stocks and infrastructure-style investments are natural beneficiaries in theory.

THE OVER-65 AGE GROUP IS EXPECTED TO BE A SIGNIFICANT DRIVER OF OVERALL GROWTH

WAYS TO PLAY

Investment themes to benefit from demographics may also include areas like natural resource or water scarcity, healthcare and biotechnology funds or technology.

Themes including biotechnology and genomic research can be accessed through the **AXA Framlington Biotech fund (GB00B784NS11)**, among a number of options in the healthcare arena. Investors looking for diversified utilities or infrastructure investments could look at **iShares Global Infrastructure ETF (INFR)**.

There also a range of open-ended funds and investment trusts which invest in infrastructure assets.

In water, **iShares Global Water ETF (DH20)** invests in the world's 50 largest companies involved in water-related business, while **Pictet Water (LU0448836600)** is also well respected in this area. (WC)

FEED THE WORLD'S EXPANDING POPULATION

THE ANTICIPATED SURGE in the world population from 7.4bn to 9.2bn by 2050 presents a major challenge – and opportunity – for the agricultural industry. Food producers and agriculture companies could therefore be interesting additions to a Junior ISA.

Patrick Dixon, author of *The Future of Almost Everything*, believes we will see more genetically modified crops in many regions, with crops resistant to disease, drought, and able to grow in salty soil.

Dixon also believes many African nations will embark on a 'green revolution' similar to India in the 1970s and 1980s, given added momentum by China which is buying huge areas of fertile African land to secure food supplies.

FROM 7.4BN TO 9.2BN THE WORLD POPULATION PRESENTS A MAJOR CHALLENGE AND OPPORTUNITY FOR THE AGRICULTURAL INDUSTRY

TIME TO GO FISHING

Demand for fish is anticipated to grow faster than for meat, reflecting increasing wealth as well as the battle against obesity and heart disease. Genetics group **Benchmark (BMK:AIM)** has salmon breeding expertise. **AquaBounty Technologies (ABTU:AIM)** recently secured permission to sell genetically-modified salmon in Canada.

Citizens in emerging markets are becoming richer too. Consultancy firm McKinsey estimates that, in China and India alone, about 1.1bn people will have joined middle class income groups between 2005 and 2025. This will drive a huge increase in meat consumption and a dramatic expansion in demand for grazing pastures and animal feedstock.

Carr's (CARR) is one of our top picks for playing the food theme. The Carlisle-based group is investing in its R&D-backed international animal supplements business in the UK, Europe and US.

While feed block sales volumes in the UK are under pressure due to well-documented challenges in the agriculture market, Carr's is seeing excellent volume growth in the US, reflecting continued market growth and market share gains.

We also like agricultural inputs supplier **Wynnstay (WYN:AIM)**. Its agricultural activities span the manufacture of feeds for farm livestock to the supply of seeds, fertiliser and agro-chemicals as well as grain trading.

BANGERS AND MASH

Devro (DVO) supplies collagen casings for sausages, salamis and hams. Each year it produces enough collagen casing to stretch to the moon and back several times. We believe Devro offers a compelling long term play on burgeoning global demand for collagen casings linked to higher protein consumption in emerging markets.

Investment funds relevant to the food theme include **Sarasin Food & Agriculture Opportunities Fund (GB00B2Q8L643)**. Fund manager Henry Boucher seeks to achieve long-term capital growth through investments in food and agriculture companies from across the world. (JC)

'WE STAND ON the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another.' So wrote Klaus Schwab in January 2016, the founder and executive chairman of the World Economic Forum. 'In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before.'

Schwab was referring to what he calls the 'fourth industrial revolution,' a combination of digital technology, super-connectivity and human behavioural change that has far-reaching implications for everyone.

This new digital industrial revolution has the potential to raise global income levels and improve the quality of life for populations around the world.

UNPRECEDENTED PROCESSING POWER

The possibilities of billions of people, businesses and organisations connected by mobile devices, with unprecedented processing power, storage capacity, and access to knowledge are, seemingly, unlimited.

Emerging technology breakthroughs in fields such as artificial intelligence (AI), robotics, the Internet of Things (IoT), autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, quantum computing are coming thick and fast and, as with past seismic changes to how we live, are creating enormous opportunities to design, build, use and invest.

'Technology can create significant disinflationary pressures, increase price discovery, reduce labour costs and create operational efficiencies,' explain analysts at investment manager BlackRock.

Ordering a cab, booking a flight, buying a product, making a payment, listening to music, watching a film, playing a game - any of these can now be done by almost anyone, almost anywhere today.

WINNERS AND LOSERS

Importantly, rapid technological development 'also differentiates losers and winners and encourages the formation of asset-light businesses with low overheads,' add BlackRock's experts. According to PwC analysis of Facebook data from 2014, if Facebook were a country, it would be the second most populous in the world (after China).'

THE POSSIBILITIES OF BILLIONS OF PEOPLE AND BUSINESSES CONNECTED BY MOBILE DEVICES ARE UNLIMITED

Accessing such vast potential market opportunity is perhaps done most efficiently through funds, providing entry to a swathe of technological opportunities through the expert eyes of an experienced and proven manager. Investment trusts such as **Allianz Technology Trust (ATT)**, run by Silicon Valley-based manager Walter Price, and the **Polar Capital Technology Trust (PCT)**, managed by London-based Ben Rogoff, are good options.

An emerging alternative is the **Neptune Global Technology Fund (GB00BYXZ5N79)**. It has been running for a little less than a year so there is a limited track record to judge it by.

Investors looking for an even greater top down approach might consider using trackers. BlackRock has collaborated with STOXX and Factset to set up several megatrend indices of shares. Options include **iShares Healthcare Innovation (HEAL)**, **iShares Automation & Robotics (RBOT)** and **iShares Digitalisation (DGTL)**. (SF)

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Number of profit warnings a surprise

Despite high profile casualties and Brexit concerns, the number of firms downgrading earnings guidance is below average

Research produced by consultants at Ernst & Young (EY) shows there has recently been a below-average number of profit warnings. You may think that sounds odd, given a spate of bad news from listed companies.

Results over the last four years in KPMG's Profit Warnings report shows there are an average of 73 profit warnings every three months – more than one every trading day.

However, the third quarter of 2016 saw fewer than normal with 'just' 68 profit warnings.

The start of the fourth quarter may suggest Q3's low result is merely a blip.

Profit warnings came thick and fast in October with some of the larger victims including **Amec Foster Wheeler (AMFW)**, **Berendsen (BRSN)** and **Capita (CPI)**.

WATCH OUT FOR SUPPORT SERVICE COMPANIES

While profit warnings are fairly common on the stock market according to EY analysis there are some trends within the data. Profit warnings at Berendsen and Capita are part of a wider theme of difficulties in the business support services sector, for example.

Thirty-eight companies in this section of the market delivered profit warnings in the past year,

27% of the entire sector.

'Contract issues – slips, delays and cancellations – are a perpetual problem for the sector and feature in a quarter of business support services profit warnings in the last 12 months,' says Lee Watson, restructuring partner at EY.

'They've also been the catalyst for significant reputational damage, as we've seen in a number of high profile cases. Public sector contracts in particular have attracted high levels of scrutiny given their high profile position in the public domain and ongoing scrutiny of government spending.'

RETAILERS ALSO LOOKING FRAGILE

Retailers were another sector which struggled during a third quarter which also included the UK's vote to leave the EU. Nine profit warnings issued by the sector was the highest since late 2011 and the third-highest since 2008.

While sales are rising, pressure on margins is one of the main sticking points for many retail businesses.

'Although Brexit wasn't the main driver for profit warnings this summer, its secondary effects have the potential to tighten the margin vice even further as we move into 2017,' said EY's head of retail restructuring Jessica Clayton.

'It's this pressure on retailers' margins that leaves them vulnerable to shocks like adverse weather conditions – and Brexit's economic fallout looks set to tighten the vice even further. The impact of weakened sterling may be delayed by currency hedges but at some point something will have to give at the till – or further down the supply chain.'

PROFIT WARNINGS LOSING STRENGTH

Not only were there fewer profit warnings in the third quarter, those which were delivered resulted in lower average share price declines than the three months to 30 June.

Average share price declines

after a company reduced its profit expectations were 9.5% in the third quarter, down from 16.6% in the three months earlier. Over five years the average is around 10%.

Early indications are that profit warnings have been more severe during October, the first month of the final quarter of 2016, as witnessed by heavy declines at **Laird (LRD)**, Capita and Amec Foster Wheeler.

But investors will need to wait until early 2016 before EY updates its data for the final quarter of 2016.

PROFIT WARNINGS

Third quarter - Warnings as a percentage of FTSE sector

	No. of Companies	% companies warning
Aerospace & Defence	10	30%
Mobile Telecommunications	10	20%
Oil Equipment, Services & Dist.	11	18%
Banks	13	15%
General Retailers	57	12%
Support Services	146	10%
Technology Hardware & Equip.	21	10%
Travel & Leisure	69	10%
Chemicals	22	9%
Electronic & Electrical Equipment	33	9%
Media	70	9%
Food & Drug Retailers	12	8%
Personal Goods	12	8%
Construction & Materials	36	6%
Industrial Engineering	36	6%
Health Care Equipment & Services	35	3%
Software & Computer Services	110	3%
General Financial	128	1%
Real Estate Investment & Services	70	1%

Source: Ernst & Young

TWO THIRDS DON'T BLAME BREXIT

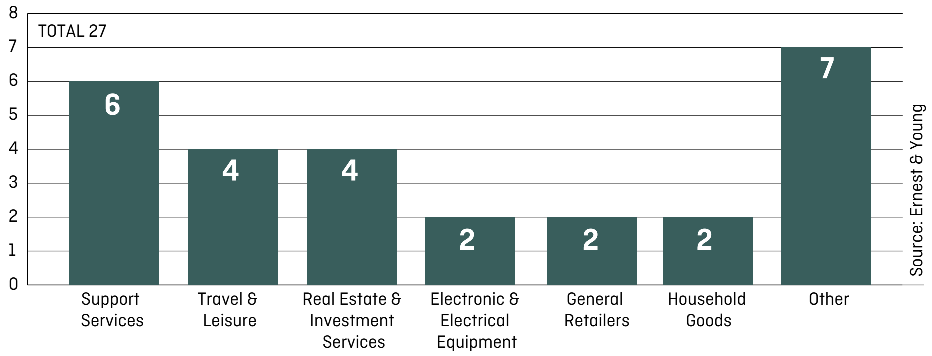
EY notes that only 30% of profit warnings in the third quarter cited Brexit. While the economic and commercial impact of the UK's vote to leave the EU appears to have been limited so far, the report says the second half of 2015 was a low base for comparison. Investors should therefore treat the results with caution.

'The 14% year-on-year third quarter fall in UK profit warnings needs to be seen in the context of last summer's market turmoil and a year of plunging expectations,' says EY's report.

'Profit warnings spiked last summer as the fall in commodity prices passed down the supply chain and worries over China's growth and US interest rates amplified economic uncertainties.

'Earnings forecasts were already falling, but fell sharply again as profit warnings reached a post-credit crisis high in summer 2015 and remained high into the final quarter. Those expectations continued to fall through into 2016 — albeit not as rapidly — creating a low earnings bar for companies to beat in the third quarter of 2016.'

SECOND & THIRD QUARTER - PROFIT WARNINGS CITING BREXIT



BRACE YOURSELF FOR ECONOMIC SHOCKS

The report adds: 'What happens next depends on how (Brexit's) secondary effects spread through the economy. Many currency hedges run out in early 2017 and business confidence will be influenced by the complexities of working towards a bespoke trade deal with the EU and the cushioning provided by monetary and fiscal policy.

'Given the extent of market volatility and the many unknowns, market expectations may swing too far either way, given us some peaks and troughs in the number of profit warnings.' (WC)

RELX and enjoy benefits as publisher scales up

Three reasons why you need this FTSE 100 stock in your portfolio

Specialist publisher **RELX (REL)** is on an accelerated growth track and investors should get on board with this quality company.

Recent third quarter numbers (27 Oct) confirm the upwards trajectory. The company posted underlying revenue growth of 4% in the first nine months of the year.

It is likely to see full year numbers flattered by a currency tailwind thanks to ongoing sterling weakness. Nearly 85% of its revenue is derived from outside the UK, with more than half coming from the US.

ATTRACTIVE VALUATION

RELX – previously known as Reed Elsevier – has consistently delivered excellent performance over a long period. As such a 2017 price to earnings ratio of 17.6 and dividend yield of 2.5% look attractive.

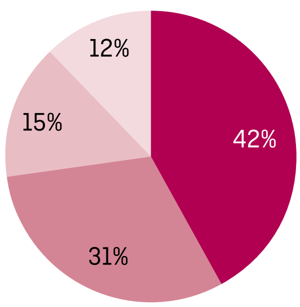
The company is a publisher and provider of information solutions for professionals. It is made up of the following divisions: Scientific, Technical & Medical; Legal; Risk solutions; and Exhibitions.

A significant part of its business involves the publication of scientific journals. The company has a dual-listing in the UK and the Netherlands.

A corporate reorganisation in 2015 helped tidy up a slightly messy share and company structure and makes a compelling investment case easier to understand.

ACCELERATING GROWTH

Investment bank Berenberg, which has a 'buy' recommendation and £17 price target on the stock,



Source: Company Reports.

comments: 'The company has demonstrated the ability, on an underlying basis, to deliver around 3% top-line growth, 5% operating profit growth and 7-8% earnings per share growth in recent years.

'Scaling the footprint of its electronic information businesses should provide scope for sustainable acceleration in the mid-term,' it adds.

This transition has been evident in the Risk division which sells banks tools to help detect risks such as financial fraud. Risk saw growth hit 9% for the first nine months of 2016 with increasing demand in the key US market.

The main area of concern which has weighed on the shares in recent years is open access. This is the principle of giving away publicly-funded peer-reviewed research for free. However, it appears most global governments are adopting policies which are friendly to the large subscription publishers. (TS)

SHARES SAYS: ↗

It boasts excellent returns on capital, strong margin performance and dividend growth. Buy RELX at £14.64.

BROKER SAYS: 11 8 2

Plant Impact eyes 2018 profit

Bounding sales growth could soon outstrip cost base says broker

Sales momentum at agrichemical supplier **Plant Impact (PIM:AIM)** could help the business hit profitability in 2018, according to estimates from broker Peel Hunt.

Results in the year to 31 July 2016 showed the Herfordshire-based business grew its top line 60% to £7.2m.

As well as offering a rare UK-listed play on agriculture markets, Plant Impact has a number of other attractive features, in our view:

• Growth in a difficult economic environment:
When top-line growth is hard to deliver across the stock market and interest rates are near zero, companies like Plant Impact should be all the more attractive to investors.

Revenue is expected to grow a similar amount in 2017 as it did in 2016, according to estimates by Peel Hunt analyst Charles Hall. Chief executive John Brubaker says Plant Impact has only delivered 40% to 50% of its expected penetration in Brazil through its soya bean enhancement spray Veritas.

On top of that, it plans to launch the product in Argentina and the US which, while incurring more up-front cost, should improve growth prospects further.

In a world where interest rates are zero or even negative in some geographies, investors should arguably be more relaxed about absorbing Plant Impact's up-front losses – provided these investments deliver expected results.

• High quality technology:
Economic benefits to farmers using Plant Impact's crop sprays indicate the business has a very strong product. Brubaker says Veritas enables growers to generate $70 to $100 (£57 to £82) of extra revenue per hectare by paying for a product which costs only $20 to use. Customers are currently trialling the product in sections of their farmland and Brubaker is banking on expanded use of the product among new and existing customers as these benefits start to be proved.

As well as Veritas, Plant Impact is working on introducing new products to the soya market and other initiatives in crop enhancement products for cocoa and wheat.

• Strong management:
Chief executive Brubaker, former global head of business development at Arysta LifeScience, an agrochemical life sciences business with revenues in excess of $2bn, says the business is focused on making careful investments.

Where projects can be indentified which would increase shareholder value, raising more equity would be considered, Brubaker said. Under current plans, that should not be necessary despite ongoing research and development and sales and marketing costs, Brubaker said. Cash burn in the 12 months to 31 July 2016 was around £2m and Plant Impact has £5.6m in cash.

Peel Hunt estimates Plant Impact will deliver adjusted pre-tax profits of £600,000 in the next financial year, rising to £3.1m a year after (EPS: 3.9p). (WC)

SHARES SAYS: ↗
Investing in loss-making stocks is a risky pursuit but we like the medium term potential for profit and margins at 50.2p.

BROKER SAYS: 1 0 0

Double down on DekelOil

West African palm oil minnow could be next takeover target

A premium-priced bid for Indonesian palm oil producer **M.P. Evans (MPE:AIM)** offers a positive read-across for smaller peer **DekelOil (DKL:AIM)**, the operator and 86% owner of a profitable palm oil project in Cote d'Ivoire.

M.P. Evans has received majority shareholder support to reject (26 Oct) the £360m offer from Kuala Lumpur Kepong on the grounds it undervalues the company's unique position and future growth potential. Given rising global demand for vegetable oils including palm oil and the scarcity of expansion land in Indonesia and Malaysia, bidders attentions are turning towards West Africa, where DekelOil has completed the construction of its Ayenouan mill and profitability is rising.

DekelOil's refinancing (31 Oct) of a major proportion of its debt on improved terms will pare interest costs and boost profitability further. Accordingly, Cantor Fitzgerald Europe has raised its forecasts for 2017 and beyond and upgraded its price target from 24p to 28p, implying almost 140% potential upside. For the year to December, the broker forecasts a sharp rise in pre-tax profits from €0.1m to €3.8m ahead of €7.6m PBT in 2017. (JC)

SHARES SAYS:
We're staying positive on DekelOil at 11.75p for its profit growth potential and as a likely bid target.

BROKER SAYS: 1 0 0

Gateway to Asia

BACK OFFICE OPTIMISATION software specialist **EG Solutions (EGS:AIM)** has secured its first ever direct Asia Pacific contract, a win that the company hopes will trigger future new business in the region. EG will supply its operational intelligence suite to a consumer banking organisation in Singapore, earning an initial £0.5m, with the potential for a deeper relationship down the line. (SF)

Firing Statpro growth gun

ANALYSTS AT N+1 Singer believe **Statpro (SOG:AIM)** is closing on its first meaningful growth in years. The software supplier to asset managers has been investing in a switch from licence fees to a subscriptions model. The broker is forecasting a 28% hike in 2017 pre-tax profit to £3.5m. (SF)

Jersey prepares for big well

SHARES IN AIM-quoted oil exploration and production company **Jersey Oil & Gas (JOG:AIM)** have risen by more than 50% since late October to 98.5p as its partner **Statoil (STO:STLO)** begins to shoot seismic on its North Sea licence P2170. The data is being acquired with a view to drilling a well on the Verbier prospect in 2017. (TS)

WELCOME TO 'YOUR VIEWS'

This is your platform to talk about key investing issues.

Each week we will pose a question and publish the best comments in a future edition of *Shares*. You can comment on our Facebook page, send us an email or interact via our Twitter account.

This week's question...

What sectors do you perceive as too complex to invest in?

I avoid AIM-quoted technology stocks. The risks are too high. A company is promising you that its technology is a) worth something big in the future; b) works properly; and c) different from something that's already on the market. But you are investing purely on the basis of faith until the technology is fully developed, there are contracts in place, and the company is earning money.

B.Cramer, via Email

This is an easy one. I avoid banks. Any company that breaks its financial results up into more than one part is automatically too complex, in my book. Why should I have to trawl through hundreds of pages of material just to work out if earnings are going up or down? Many of the insurance companies would also fall into this category as well.

Peter Bucati, via Email

Biotech, oil and gas, mining, software – if you need a glossary to understand the terminology, then I don't invest directly. However, I do appreciate the benefits of having exposure to these sectors so I leave it up to experts to pick the stocks. I buy a relevant fund and let someone else spend hours trying to work out the difference between SAAS, JORC and LAN.

Montgomery Richards, via Email

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1) Financials. This is due to a lack of transparency. I find it almost impossible to weigh up what risks they are taking.

2) Metals and mining. The problem is that the price that they will be able to sell their products for in a year or two is very unpredictable.

Paul, via Email

@SharesMagDan
@SharesMagJames
@SHARESmag
Tech sector!! ' too many variables and uncertainties!!!!

@bishoproberthol, Twitter

THE BIG QUESTION FOR NEXT WEEK

What's the one bit of advice you would give someone new to investing? Feel free to explain your decision in detail.

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Gulf Keystone is reborn

Kurdistan oil company targeting production increase after rescue refinancing

New management, a restructured balance sheet and a more regular payment schedule for its crude exports makes now the perfect time to reappraise former retail favourite oil stock **Gulf Keystone Petroleum (GKP)**.

Through a period which has seen the company nearly go bust and its share price fluctuate between little more than a penny and more than £4, one thing has remained consistent about the company: the quality of its asset.

'THREE TIMES THE SIZE OF THE SHARD'

The Shaikan field in Kurdistan, northern Iraq contains an 'oil column three times the size of the Shard' according to chief executive Jon Ferrier. 'The asset is fantastic with a huge in place resource and recoverable reserves delivering steady production,' he adds.

The plan is to boost output from the current 33,000 barrels of oil per day (bopd) to 55,000 bopd which Ferrier explains is the upper limit at which it would no longer be feasible to truck crude.

This is not a cost issue, chief financial officer Sami Zouari says the unit cost of trucking its oil is as low as $2 per barrel but rather a safety and environmental consideration given the number of trucks on the road required to carry this amount of crude oil.

Realising the full 100,000 bopd potential of the field therefore means tapping into a pipeline instead. Ferrier believes there could be progress on this front as early as next year.

PRODUCTION UPLIFT

Cannacord analyst Charlie Sharp explains how the company can achieve the uplift in production: 'We believe that achieving this 60% or more production growth through application of straightforward technology - new drilling, placement of pumps in wells, debottlenecking of surface facilities - should have several important impacts.

'It would increase the cash flow stream to provide a strong internal financing source for full field development, which is expected to result in gross production of 110,000 bopd around '21; substantially reduce field operating costs to less than $4 per barrel; and demonstrate the field's scale and quality to market and industry alike.'

Ferrier intimates that by discovering Shaikan the previous entrepreneurial management bit off more than they could chew and its certainly true that a company of Gulf Keystone's size would never gain access to a field of this scale in a more stable postcode.

Sharp at least seems confident that the Ferrier and Zouari are up to the job: 'In our view, this team is now fit for the scale of the company and the tasks ahead.'

VOLATILE POSTCODE

Located just 50 miles from the battle raging between the Iraqi army and Kurdish Peshmerga militants to regain control of Mosul from Islamic State militants, it is noteworthy that for all the other issues which have dogged Gulf Keystone in recent years its operations have never been affected by security issues.

Kurdistan is controlled by the semi-autonomous Kurdistan

Regional Government (KRG) which after years of wrangling now exports significant quantities of crude through a pipeline network to the port of Ceyhan in Turkey.

The reserves downgrades and poor production performance endured by fellow Kurdistan operator **Genel Energy (GENL)** on its Taq Taq field could set alarm bells ringing but Ferrier points out Shaikan is producing from a completely different reservoir.

Among the other risks prospective investors in the stock have to weigh is that an indebted KRG may struggle to maintain regular payments for Gulf Keystone's crude exports. Ferrier says it is not in the interests of the KRG to place its key producers under financial stress.

THE BACKGROUND

We have tracked Gulf Keystone's progress for a number of years, previewing the results from the initial discovery well at Shaikan in August 2009 when the shares were trading at 12p. In January 2011 we interviewed then-CEO Todd Kozel and suggested investors should steer clear at 173.2p.

In early 2012 the shares moved higher on bid talk and further bullish drilling reports and briefly topped 400p. It has been downhill since then as progress in securing export payments from the Kurdistan Regional Government (KRG) stalled and oil prices collapsed, putting extreme pressure on the balance sheet. Against this backdrop we also said to sell at 70p in November 2014.

The company managed to avoid liquidation through a debt-for-equity swap which completed in October 2016 but this did dilute existing shareholders down to 15% of their original stake. The company's borrowings fell from $600m to $100m, putting the company in a modest net cash position once you factor in the $108.9m of cash on the balance sheet.

Ferrier acknowledges the pain felt by shareholders and says among the most difficult parts of his job has been dealing with investors who are both emotionally and financially invested in the story. He says this was the best outcome he could achieve for all parties.

PLANETS ALIGNED

His predecessor John Gerstenlauer made the same argument and the KRG is still missing some monthly payments but Zouari says 'the planets are aligned as never before' for a consistent payment schedule, conceding higher oil prices would help underpin this.

Longer term the company hopes to negotiate a production sharing contract or PSC which would see it market its own crude.

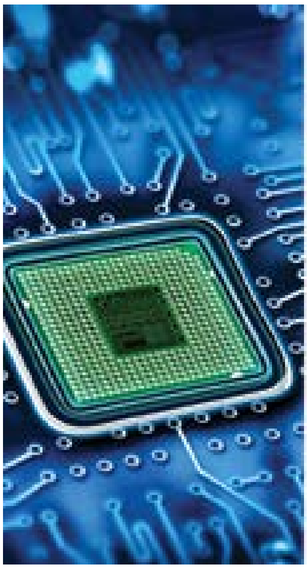
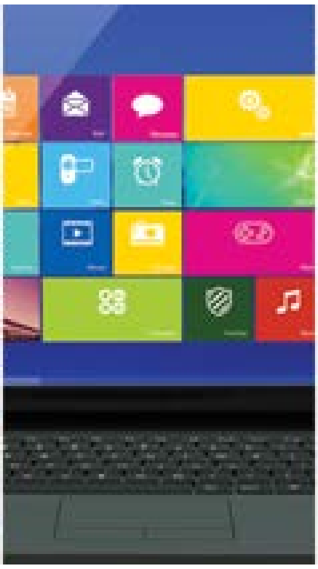
SHARES SAYS:

We are positive on the relaunched Gulf Keystone. Canaccord has a price target of 2.6p, implying more than 100% upside at the current 1.26p.

BROKER SAYS: 2 0 0

HINT goes global in hunt for yield

Investment trust offers way to achieve portfolio diversification


Low interest rates and rising inflation pose a very real threat to UK savers and yield-starved investors.

But the post Brexit vote plunge in the pound should continue to provide a boost to the performance of funds that invest overseas, since the earnings and dividends they generate in international markets become more valuable when translated back into sterling.

Given an uncertain UK outlook following the surprise vote for Brexit and the threat of dividend cuts looming large for UK-focused trusts, the growing and sustainable yield offered by the **Henderson International Income Trust (HINT)**, which has just raised its quarterly dividend to 1.2p, up 4.3% quarter-on-quarter, looks increasingly compelling.

DIVERSIFIED VEHICLE

'We are the only global investment trust that invests exclusively outside the UK,' explains Ben Lofthouse, manager of the £223 million net assets trust, which trades at a 3.38% discount to estimated NAV and offers a 3.21% yield at the time of writing. This looks attractive when you consider the diversification benefits and the trust's strong track record of growth in net assets and rising dividend distributions.

'HINT is a diversified vehicle for UK investors designed to reduce stock and sector specific risk,' explains Lofthouse, who adds that 'economic and political risk in the UK has become much higher following the EU vote' and flags 'a big kicker to the NAV performance' due to the weakness in sterling seen since the referendum.

Significantly, HINT combined assets with Henderson Global Trust earlier this year, doubling the size of the trust. This increase in scale enabled HINT to reduce its ongoing charge and pare the management fee from 0.75% to 0.65% of net assets from 26 April.

'HINT's' objective is to provide a high and rising level of dividends as well as capital appreciation over the long-term from a focused and internationally diversified portfolio of around 60 shares.

Fast Fund Facts

Henderson International Income Trust
Ticker: HINT
AIC Sector: Global Equity Income
Benchmark: MSCI World ex UK
Share price: 145p
Estimated NAV: 150.08p
Discount: -3.38%
Yield: 3.21%

Source: Henderson Global Investors

TOP TEN HOLDINGS (AS AT 30 SEP 2016)

Novartis (NOVN:SWX)	3.6%
Roche (RO:SWX)	3.4%
Microsoft (MSFT:NDQ)	3.4%
Taiwan Semiconductor Manufacturing (2330:TW)	2.7%
Orange (ORAN:PA)	2.6%
Cisco Systems (CSCO:NDQ)	2.5%
Deutsche Telekom (DTEGN:DE)	2.5%
Natixis (KN:EURONEXT)	2.5%
ING Groep (INGA:EURONEXT)	2.4%
Icade (ICAD:PA)	2.3%

Source: Henderson Global Investors

Top ten positions include the likes of cash-generative software giant **Microsoft (MSFT:NDQ)**, defensive drugs giants **Novartis (NOVN:SWX)** and **Roche (RO:SWX)**, not to mention strong performer **Taiwan Semiconductor (2330:TW)**, 'a world leading producer of semiconductor chips which increased the dividend by 33% this year and by 50% last year'.

'One of the things that HINT does for people is diversify,' says Lofthouse, whose fund has roughly 40% exposure to the eurozone, just under 40% in North America, an attractive source of quarterly dividends for the trust to harvest, and the balance in Asia Pacific. 'You'll have to wait a bit longer for the dividend cover on the trust to benefit,' says Lofthouse, 'but the longer the pound stays down here, the more we are going to earn.'

PORTFOLIO ACTIVITY

'Over the past year, the biggest change is that we've reduced the US exposure,' says Lofthouse, who has taken profits on strong performers and recycled proceeds into some European names. 'We sold out of **Reynolds American (RAI:NYSE)**,' says Lofthouse of the second largest player in the US cigarette market, which subsequently received a $47 billion offer from **British American Tobacco (BATS)** for the shares BAT does not already own, 'because it had done very well.'

Ben Lofthouse

'We also reduced positions in security and aerospace giant **Lockheed Martin (LMT:NYSE)**, theme parks operator **Six Flags (SIX:NYSE)** and information protecion-to-storage services group **Iron Mountain (IRM:NYSE)**,' explains the canny manager.

NEW ADDITIONS

'But we've added a variety of companies,' continues Lofthouse, ever-alert to attractively valued dividend growth stocks from around the globe. 'We haven't held European banks for years, but in the last sell-off, we bought **ING Groep (INGA:EURONEXT)** and **Natixis (KN:EURONEXT)**. These are both trading well below their book value and are both well capitalised banks with strong balance sheets that are enabling them to pay large dividends,' comments Lofthouse.

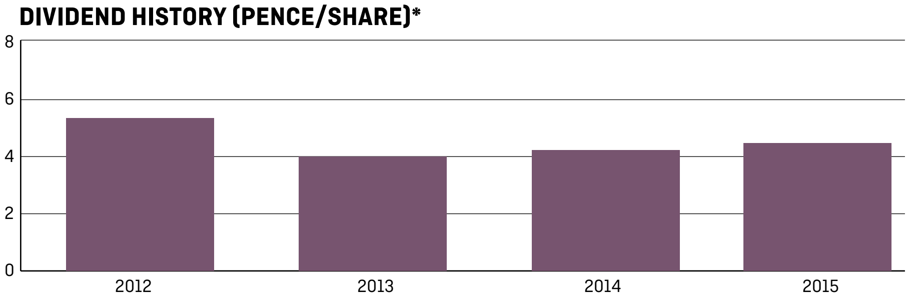
'ING and Natixis don't need to use their balance sheets too much to grow and they've got a strategy of improving returns by focusing on niches. In the Netherlands and Belgium, ING is a household name in terms of being a retail bank,' says Lofthouse. 'The Netherlands is quite a consolidated market, which means the entry barriers are higher and pricing for ING is better,' says Lofthouse, who also highlights Natixis attractive yield – 7.62% according to Morningstar – and scope for special dividends too.

Another interesting recent purchase is **Panasonic (6752:TSE)**, the Japanese electronics goliath which is growing its dividend quickly and has a net cash balance sheet which should limit any potential downside.

A long-standing battery partner of Elon Musk's **Tesla Motors (TSLA:NDQ)**, Panasonic is already working with the US electric cars maker to supply batteries for the Model 3, Tesla's first mass-market car, though the 'buy' case is based on the company selling batteries to multiple global automotive makers.

Panasonic has also now agreed to manufacture solar cells and panels for Tesla, contingent on shareholder approval of the Musk-led auto-innovator's acquisition of **SolarCity (SCTY:NDQ)**. (JC)

DIVIDEND HISTORY (PENCE/SHARE)*



*In the 2012 financial year, five interim dividends were paid over a 15-month period totalling 5.4p. Please note that this chart could include dividends that have been declared but not yet paid.
Source: Hendersons

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Play the emerging opportunity

Emerging markets investment trusts are making a big comeback

It has been a remarkable 12 months for the global emerging markets with the share prices of the 11 investment trusts in the sector increasing by an average of 35.8%. This was a welcome reversal of fortunes after years of underperformance culminating in a sharp sell-off in the run up to the first increase in US interest rates in December 2015.

Analysis by Lazard Investment Management suggests that the fundamentals are improving with fewer downward revisions to consensus bottom-up earnings per share (EPS) forecasts for the companies in the MSCI Emerging Markets index.

They also point out that the decision by the US Federal Reserve to delay any further interest rate hikes in 2016 has taken the pressure off the emerging market currencies and helped the commodity exporting economies to stabilise. Many of these countries have significant levels of dollar denominated debt which is expensive to service when the dollar appreciates.

Despite the recent strong performance the global emerging markets investment trusts are still trading at an average discount to net asset value (NAV) of 11.7%, with only the Fundsmith Emerging Equities Trust, with its large retail investor base, valued at a premium.

FRESH START

Anthony Leatham, an analyst at Peel Hunt, says that whilst not a pre-requisite, some presence on the ground in the emerging markets can provide equity investors with an edge in this region, given how localised risks and opportunities can be.

'The investment process should be clear, repeatable and differentiated – particularly as investors can now buy the emerging market story via an index tracker or ETF for a very low cost. The performance track record should be sufficiently long to be able to assess the efficacy and value-added.'

He recommends the £1.7bn **Templeton Emerging Markets Investment Trust (TEM)** and says that it has been just over 12 months since Carlos Hardenberg took over from Dr Mark Mobius.

'The new lead manager brings with him 14 years of experience with the Templeton Emerging Markets Group, supported by over 50 dedicated portfolio managers and analysts across 18 offices globally. The style is fundamental stock picking with a long investment horizon and a value-bias.'

Hardenberg has made a series of portfolio changes, including a move to diversify away from the mega-caps, reducing the concentration in the largest holdings and adding frontier market exposure. These have really paid off as the fund has delivered an NAV return of 46% over 12 months, which is 9% ahead of its benchmark with the same level of risk, yet it continues to trade on a 14% discount, one of the widest in the sector.

ACTIVE APPROACH

Emma Bird, a research analyst at Winterflood Investment Trusts, says that an assessment of the volatility of a fund's NAV can be particularly important for emerging markets investment trusts, due to the inherently

EMERGING MARKETS INVESTMENT TRUSTS						
Global Emerging Markets	Market cap (£m)	Discount/ premium (%)	Gearing (%)	Share price total return (%) 1yr	Share price total return (%) 5yr	Share price total return (%) 10yr
Aberdeen Emerging Markets	258.5	-13.6	0	33.5	25.7	73.7
Aberdeen Frontier Markets	104.2	-7.6	0	25.7	55.7	N/A
Ashmore Global Opportunities	10.1	-20.6	0	3.7	-39.3	N/A
Ashmore Global Opportunities USD	20.7	-30.8	0	-6.1	-46	N/A
BlackRock Frontiers	212.0	-2.8	4	36.9	114.9	N/A
Fundsmith Emerging Equities	241.4	0.8	0	22.9	N/A	N/A
Genesis Emerging Markets	805.7	-12.9	0	32.3	36.9	139.2
JPMorgan Emerging Markets	887.1	-13.3	1	36.7	48.7	145.7
JPMorgan Global Emerging Markets Income	348.2	-4.8	4	34.8	48.2	N/A
Templeton Emerging Markets	1,657.8	-14.1	0	41	17.7	142.7
Utilico Emerging Markets	444.4	-12	17	33.9	75.9	151.8
Weighted sector average		-11.7	2	35.8	39.5	139.1

Source: AIC using Morningstar as at 14 October 2016

higher risk profile of the underlying assets.

'We believe that considerable importance should be placed on an active fund manager with experience of investing in the region as the range of companies and potential investment themes continues to increase. Investors should also consider the level of diversification, the size and secondary market liquidity of the fund and whether the manager is making use of gearing or investing in more illiquid assets.'

She recommends **JPMorgan Emerging Markets (JMG)**, which has been managed by Austin Forey since 1994 and over the period has delivered a NAV total return of 441%, significantly outperforming the 295% returned by its MSCI Emerging Markets benchmark.

'Forey takes a long-term investment approach and is a genuinely active manager. While this may lead to periods of underperformance compared with the benchmark, we believe that the fund's emphasis on high quality growth companies will allow it to outperform over the long run.'

BIGGER PICTURE

Another option would be to invest in the Asia Pacific ex Japan region, which has a high degree of overlap with the emerging markets. There are 15 investment trusts operating in the sector, with Alan Brierley, director of the investment companies team at Canaccord Genuity recommending **Pacific Assets (PAC)**.

He says that it has been just over five years since the appointment of Stewart Investors to run the fund and that this has completely transformed the performance. 'The manager has a clear and distinct investment philosophy with long-term sustainability themes a key driver of a bottom-up stock selection process.'

Before investing in any of these funds it is important to appreciate that the emerging markets will always be a volatile area and likely to experience sharp swings in value. There are also important risks such as political corruption and the need for structural reforms that are less of a concern in the more developed nations.

If you are uncomfortable with this you might prefer a global fund with a large allocation to the emerging markets such as **Murray International (MYI)**, which is on the Winterflood recommended list.

The majority of the fund's 15% fixed income exposure is in emerging market debt, consisting of corporate and sovereign bonds, denominated in both local currencies and US dollars. A further 16% of the fund is invested in Latin American and emerging market equities, with another 25% in Asia Pacific ex Japan and 1% in African equities.

'Bruce Stout, the manager, currently views emerging markets as a more attractive place to invest than the developed markets, due to the familiarity of monetary policy conditions and the ability to attempt to predict future policy reactions and their effects,' explains Bird. (NS)

Marlborough maestro fizzes ahead

Seasoned stockpicker Giles Hargreave has the micro cap midas touch

Giles Hargreave and Guy Feld co-manage the star-performing **Marlborough UK Micro-Cap Growth Fund (GB00B02TPH60)**, with the support of an investment team of around a dozen people. The £643.4 million unit trust's objective is to deliver a total return of capital and income in excess of that achieved by the FTSE Small Cap Index (ex investment companies) over the medium to long term.

This is achieved through investments in the superior long-term growth potential of some of the UK's smallest listed companies, many of which are highly innovative businesses or niche players. According to Morningstar, Marlborough UK Micro-Cap Growth is the best performing fund in the UK Small-Cap Equity category on a ten year annualised return basis.

Hargreave and Feld invest primarily in companies with a market capitalisation of £250m or less at the time of purchase and a considerable proportion of their top-performing portfolio is invested in sub-£150m companies. The charismatic Hargreave believes AIM is 'a falsely criticised market' and delights in putting money to work with tomorrow's future corporate stars; around 75% of the portfolio is in AIM stocks.

'There's lots of high quality companies on AIM that are performing very well,' says the seasoned small caps specialist, among the first to identify the potential of premium carbonated mixers marvel **Fevertree Drinks (FEVR:AIM)** and posh chocolates maker and retailer **Hotel Chocolat (HOTC:AIM)**, backing both at IPO. He also put money to work with ten-pin bowling operator **Hollywood Bowl (BOWL)** as an investor at flotation.

HEALTHY SPREAD

Hargreave argues one of the advantages of investing at this end of the market cap spectrum is the sheer number of companies to choose from. The AIM, FTSE SmallCap, FTSE Fledgling and FTSE techMark indices are home to well over 1,000 companies operating in diverse fields ranging from 'big data' management and software development to luxury soft drinks and pharmaceuticals.

'We're differentiated because of the spread,' says Hargreave. 'Marlborough UK Micro-Cap Growth is a very diversified fund and this diversification means

Fast Fund Facts

Marlborough UK Micro-Cap Growth
Type: Unit trust
Co-managers: Giles Hargreave, Guy Feld
IA Sector: UK Smaller Companies
Launch date: 04 Oct 2004
Fund size: £643.4 million (as at 30 Sep)
No. of holdings: 267 (as at 03 Oct)

TOP TEN HOLDINGS (AS AT 03 OCTOBER 2016)

Next Fifteen Communications (NFC:AIM)	1.8%
Accesso Technology (ACSO:AIM)	1.6%
Fevertree Drinks (FEVR:AIM)	1.5%
Quixant (QXT:AIM)	1.5%
Smart Metering Systems (SMS:AIM)	1.4%
GB Group (GBG:AIM)	1.4%
Clinigen (CLIN:AIM)	1.4%
IG Design (IGR:AIM)	1.4%
Johnson Service (JSG:AIM)	1.3%
Clipper Logistics (CLG)	1.2%

Source: Marlborough Fund Managers

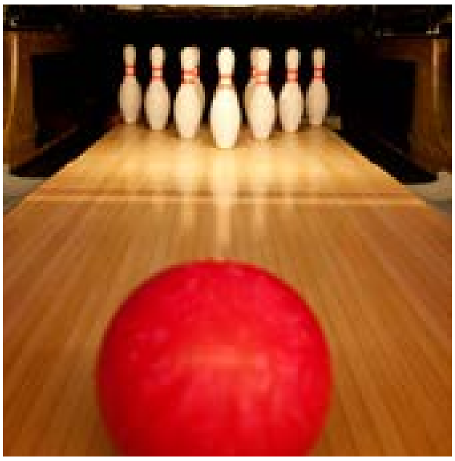
that when you get a disaster, its not catastrophic for the fund,' says Hargreave.

The size of the team means Hargreave and tech sector savvy colleague Feld have the resources to manage a highly diversified portfolio of around 250 stocks, with even the largest positions rarely representing 2% of the fund. Initial positions will usually be less than 1% and Hargreave will then average up as he sees evidence of a company successfully implementing its strategy. This diversification helps to manage stock-specific risk, with volatility below average for the IA UK Smaller Companies sector.

Hargreave, whose biggest holding is specialist marketing business **Next Fifteen Communications (NFC:AIM)**, a PR firm with exposure to the high-growth US tech sector, explains 'we start with small positions then increase them as we go along.' Using their own primary research and meeting management teams face to face, Hargreave and Feld identify businesses with growth potential not yet reflected in the share price. Small caps have grown their earnings faster than larger companies historically – fleas can leap, elephants don't gallop - and the pair see no reason why this trend should not continue.

ACTION MAN

'We prefer growth to value and we like a bit of action,' says Hargreave, adding 'we don't mind if a stock is expensive in the short term. We try very hard not to average down and tend to average up. On the good ones, you will make lots of money and



on the bad ones, you'll only lose your money once. From time to time, things can go wrong, which is why we have the spread.'

High-quality high flyers in the portfolio include the aforementioned Fevertree: 'We still do like it, as its a fantastic international brand, but we have taken some off the top,' Hargreave notes.

Another strong contributor to the fund's performance is **Keywords Studios (KWS:AIM)**, the computer game translation specialist bought at an entry price of 123p in July 2013 that has rocketed north to 445p at the time of writing, Marlborough having averaged up at various prices along the way.

A further winner, albeit the shares have pulled back a bit of late, is **Smart Metering Systems (SMS:AIM)**, an operator in the industrial and commercial gas meter market. Hargreave is excited by the key opportunity for SMS, which is the opening up of retail smart metering.

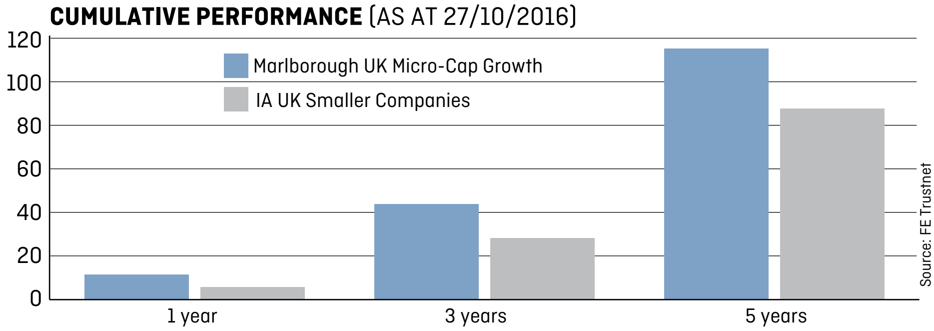
'We're all going to have to have smart meters in our homes and Smart Metering is a roll-out story – the market loves roll outs,' says Hargreave, who highlights that beyond the roll-out phase, Smart Metering 'will have fantastic cash flow'.

NEW ADDITIONS

'We don't have any housebuilders in this fund,' says Hargreave, addressing the Brexit theme, 'and we have also done well out of **Highland Gold Mining (HGM:AIM)**.' The manager also highlights a new purchase in **GB Group (GBG:AIM)**, the identity security management specialist, and says 'we've also just bought **GAMES Workshop (GAW)** – it looked very cheap and had a big yield on it.'

Hargreave adds: 'We tend to invest in most of the best-performing small cap stocks. If we see something moving, we'll go have a look at it and buy it.' A terrific example of this is **Gear4music (G4M:AIM)**, the web-based musical instruments purveyor whose shares have 're-rated explosively' with the help of a weak sterling tailwind. 'We've woken up to the fact that this is a really successful online retailer,' he says. (JC)

CUMULATIVE PERFORMANCE (AS AT 27/10/2016)



Fire up financial whizz-kids

Top tips on how to get your children interested in money

Explaining the ins and outs of investing to an apathetic teenager doesn't sound like the most enjoyable way to spend a Sunday afternoon, but it is possible to make money fun and relevant for your children.

Nobody's suggesting talking to your six year-old about interest rates and compounding, but this is considered an ideal age to introduce the concept of money. A lot of parents start giving pocket money to their children from age six – and if you link it to tasks around the house they can begin to understand that there is a connection between work and money.

'Starting too early is likely to be unproductive but introducing pocket money at around six to eight years-old can be a good way of getting them thinking about money and realising that they can then decide for themselves whether to make a purchase or not. If they want extra money, paying them to do jobs can help them learn that money needs to be earned,' says Charlie Musson, spokesperson for AJ Bell Youinvest.

For slightly older children you could consider an Osper card – a pre-paid debit card for kids aged between eight and 18 years-old. The card is linked to an app which lets children track their spending and saving each month. Parents get their own

app which enables you to set an allowance, oversee spending, load emergency money and lock the card if it gets lost or stolen.

Most banks offer children's savings accounts, which can be a useful way of teaching your kids about the benefits of saving as well as some basic principles around interest – although this concept is difficult in the extremely low-interest rate environment.

If you start early, by the time your children reach their teenage years they will already have seen how powerful saving up can be – especially if they've managed to buy the things they desperately want.

MAKING IT RELEVANT

Teenage years are also a good time to introduce the idea of investing. Given that it's a pretty dry subject, it needs to be made relevant to their current interests.

Holly Mackay, founder and chief executive of Boring Money, says people tend to over-complicate the stock market, whereas it's all down to supply and demand. She references Theo Walcott and a cupcake when she gives talks to children at schools.

'Why does one earn £4 million a year, and one cost 50p? Supply and demand. Supply: there's only one Theo Walcott but even I can make a cupcake. Demand: practically everyone on earth apart from me would rather have Walcott than a cupcake. Once we understand the impact of supply and demand, desire and perception and scarcity – well that's basically it.

'Another example is to get them to discuss whether they would buy **Microsoft (MSFT:NDQ)**, which makes *Xbox*, or **Sony (6758:T)**, which makes *PlayStation*, and what the impact on the share price would be if I invented an equivalent that I could sell for £5.

'As with all of us, it's about jumping beyond the dull graphs and making it real and relevant to the audience,' Mackay explains.

Lee Goggin, co-founder of Findawealthmanager.com, uses a light-touch approach when he speaks to his own teenage sons about investment. If they are interested in a particular product, Goggin encourages them to look into the company behind it.

'They both like **Apple (AAPL:NDQ)** because they use the devices all the time and it looks like **Samsung (005930:KS)**, Apple's main rival, has some issues with batteries in its latest phones exploding.

'About 18 months ago, they wanted to invest in Sony because it makes *PlayStation*. We looked under the bonnet, I explained the basics, we weighed up the pros and cons of investing and decided that it wasn't a great share to own. It has gone down since then.

'Even so, they are relatively free to choose what they invest in. The younger of the two wanted shares in **Tesco (TSCO)**, for example. That looks like one we'll be holding for a while. It's all part of a learning curve though and, at 13, he's got plenty of time on his side as an investor,' says Goggin.

LOOKING AHEAD

If you've opened a stocks and shares Junior ISA on behalf of your child, it's a good idea to explain what you're investing in and why. You can also try to teach the concept of long-term investing – how you're building a valuable fund for your children for when they turn 18 and head off to university.

'There may be firms that they interact with on a daily basis that you could invest in on their behalf, such as **Disney (DIS:NYSE)**, **Facebook (FB:NDQ)**, **Amazon (AMZN:NDQ)** or **Google (GOOGL:NDQ)**,' says Musson.

'If you don't want your child to have access to the funds when they are 18 or you want to teach them about very long-term planning, you can open a Junior SIPP on their behalf and introduce them to investing that way,' he adds.

In terms of investment principles, Andrew Craig, founder of Plain English Finance and author of *How to own the world*, suggests showing your children how they can own assets in every major region of the world. This starts to introduce the concept of diversification. Your children might find it pretty exciting to realise they're investing in exotic countries like India and China – for example through a multi-asset fund.

You can also demonstrate how important and effective regular investing is. 'It will be fun if every now and then they can take the money they've made and buy themselves a great present with the proceeds – but not with all of what they've saved,' adds Craig. (EP)

What to look for in Autumn Statement?

Could the new Government shift the emphasis away from ISAs and back towards pensions?

With the future of the UK post-Brexit continuing to dominate the political landscape, the Autumn Statement provides the Government with an opportunity to set out its domestic reform agenda.

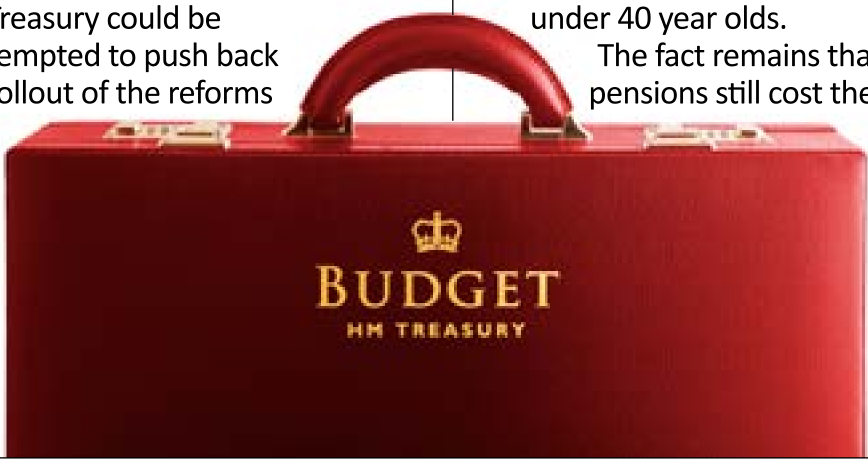
So what should savers and investors look out for when Philip Hammond delivers his first big speech as Chancellor on 23 November?

THE LIFETIME ISA

A number of investment platform providers, including AJ Bell Youinvest, will be ready to offer the Lifetime ISA if it launches in April 2017.

However, the product also has powerful enemies - most notably Baroness Ros Altmann in the House of Lords – who argue it risks undermining automatic enrolment. Furthermore, several major providers have said they won't be ready to launch in April next year.

Given this backdrop, the Treasury could be tempted to push back rollout of the reforms by 12 months to give the market breathing space to develop propositions.



PENSION TAX RELIEF AND ISA ALLOWANCES

Since 2010 savings policy has closed the incentives gap between pensions and ISAs, and momentum was certainly with ISAs under the previous Government.

It will be interesting to see whether the new administration decides to continue this trajectory in the Autumn Statement or start tipping the balance back in favour of pensions.

If it favours ISAs, now would be the perfect time to take stock and unwind the slightly tangled cord of ISA variations that now exist. The Chancellor could, for instance, scrap all six of the current ISA brands, including the Lifetime ISA and move forward with one ISA product, with a help-to-buy Government bonus on the first £4,000 of savings for under 40 year olds.

The fact remains that pensions still cost the Government more than ISAs and so it would be no surprise to see pension tax allowances further pared back.

Options include cutting the lifetime allowance further or reducing the amount people can pay into pensions each year. Hammond could even do away with the 25% tax free lump sum people are entitled to when they retire, although this would be hugely unpopular with core Conservative voters.

VENTURE CAPITAL TRUST/ ENTERPRISE INVESTMENT SCHEME ALLOWANCES

Investors are already encouraged to invest in small businesses through VCT and EIS schemes. Investors in VCTs currently receive income tax relief of up to 30% on investments up to £200,000 a year, while dividends are tax-free and there is no tax on capital gains.

EIS schemes also offer tax relief of up to 30% on investments of up to £1m in qualifying start-up ventures. Both require investments to be held for minimum periods to qualify for the benefits.

The Government could well be tempted to boost the tax incentives associated with one or both of these schemes in order to prop up the economy.

TOM SELBY
AJ Bell Analyst

FRIDAY 4 NOVEMBER

RESULTS	
Interims	
Paddy Power Betfair	PPB
TRADING STATEMENTS	
Informa	INF
Kennedy Wilson Europe Real Estate	KWE
AGMS	
Jupiter Energy	JPRL
ECONOMICS	
US	
Non-Farm Employment Change	
Unemployment Rate	

MONDAY 7 NOVEMBER

RESULTS	
Finals	
Oncimmune	ONC
TRADING STATEMENTS	
Hiscox	HSX
HSBC	HSBA

HSBC
HSBC (HSBA), the UK's largest-listed bank, is looking to break a three-year sequence of earnings downgrades as it reports third quarter results (7 Nov). Solid market positions in geographies where interest rates are rising could provide a boost to HSBC's net interest income.

Dignity	DTY
ECONOMICS	
US	
Consumer Credit	

TUESDAY 8 NOVEMBER

RESULTS	
Finals	
Associated British Foods	ABF
Ceres Power Holdings	CWR
Imperial Brands	IMB
Punch Taverns	PUB
Interims	
AVEVA	AVV
Marks & Spencer	MKS
Trifast	TRI
TRADING STATEMENTS	
BBA Aviation	BBA
Direct Line Insurance	DLG
Jardine Lloyd Thompson	JLT
AGMS	
Global Petroleum	GBP
ECONOMICS	
UK	
BRC Retail Sales Monitor	
NIESR GDP Estimate	
US	
Mortgage Delinquencies	
IBD/TIPP Economic Optimism	

WEDNESDAY 9 NOVEMBER

RESULTS	
Interims	
Arrow Global	ARW
Burberry	BRBY
Experian	EXPN
FlyBe	FLYB
Sainsbury J	SBRY

J SAINSBURY
Sainsbury's (SBRY) interims (9 Nov) will be closely watched for an update on the integration of Argos, the audacious deal designed to morph Sainsbury's into a multi-product, multi-channel business fit for the future.

Sophos	SOPH
SSE	SSE
Wizz Air	WIZZ
Workspace	WKP
TRADING STATEMENTS	
Esure	ESUR
Novae	NVA
Synthomer	SYNT
Tullow Oil	TLW
AGMS	
Hansard Global	HSD
Redrow	RDW
ECONOMICS	
UK	
RICS House Price Balance	
Industrial Production	
Manufacturing Production	

THURSDAY 10 SEPTEMBER

RESULTS	
Interims	
3i	III
AstraZeneca	AZN
Auto Trader	AUTO
Dairy Crest	DCG
Halfords	HFD
Mercia Technologies	MERC
National Grid	NG.
Vedanta Resources	VED
TRADING STATEMENTS	
Derwent London	DLN
Hikma Pharmaceuticals	HIK
IMI	IMI
ITV	ITV

ITV
The focus will be on advertising revenue when ITV (ITV) updates on third quarter trading (10 Nov). The free-to-air broadcaster saw its shares come under pressure after pay-TV rival Sky (SKY) warned of soft advertising revenue in its own trading update on 12 October.

Super	SGP	
UBM	UBM	
EX-DIVIDENDS		
Abcam	ABC	6.56 p
Aberdeen Asian Smaller Co Inv Trust	AASC	1.75 p
Brunner Investment Trust	BUT	3.3 p
Craneware	CRW	9 p
DX	DX.	1.5 p
Go-Ahead	GOG	67.52 p
JPMorgan Smaller Companies Investment Trust	JMI	18.3 p
Jupiter European Opportunities Trust	JEO	5.5 p
Revolution Bars	RBG	3.3 p
Swallowfield	SWL	2.3 p
AGMS		
Swallowfield	SWL	
Tlou Energy	TLOU	
Urals Energy	UEN	
ECONOMICS		
US		
Unemployment Claims		

FRIDAY 11 NOVEMBER

RESULTS	
Interims	
TBC Bank	TBCG
AGMS	
Galliford Try	GFRD
Ludgate Environmental Fund	LEF
ECONOMICS	
UK	
Construction Output	
US	
Prelim UoM Consumer Sentiment	
Prelim UoM Inflation Expectations	

For complete diary go to www.moneyam.com/forward-diary

Decoding broker research

What do the terms used by analysts mean?

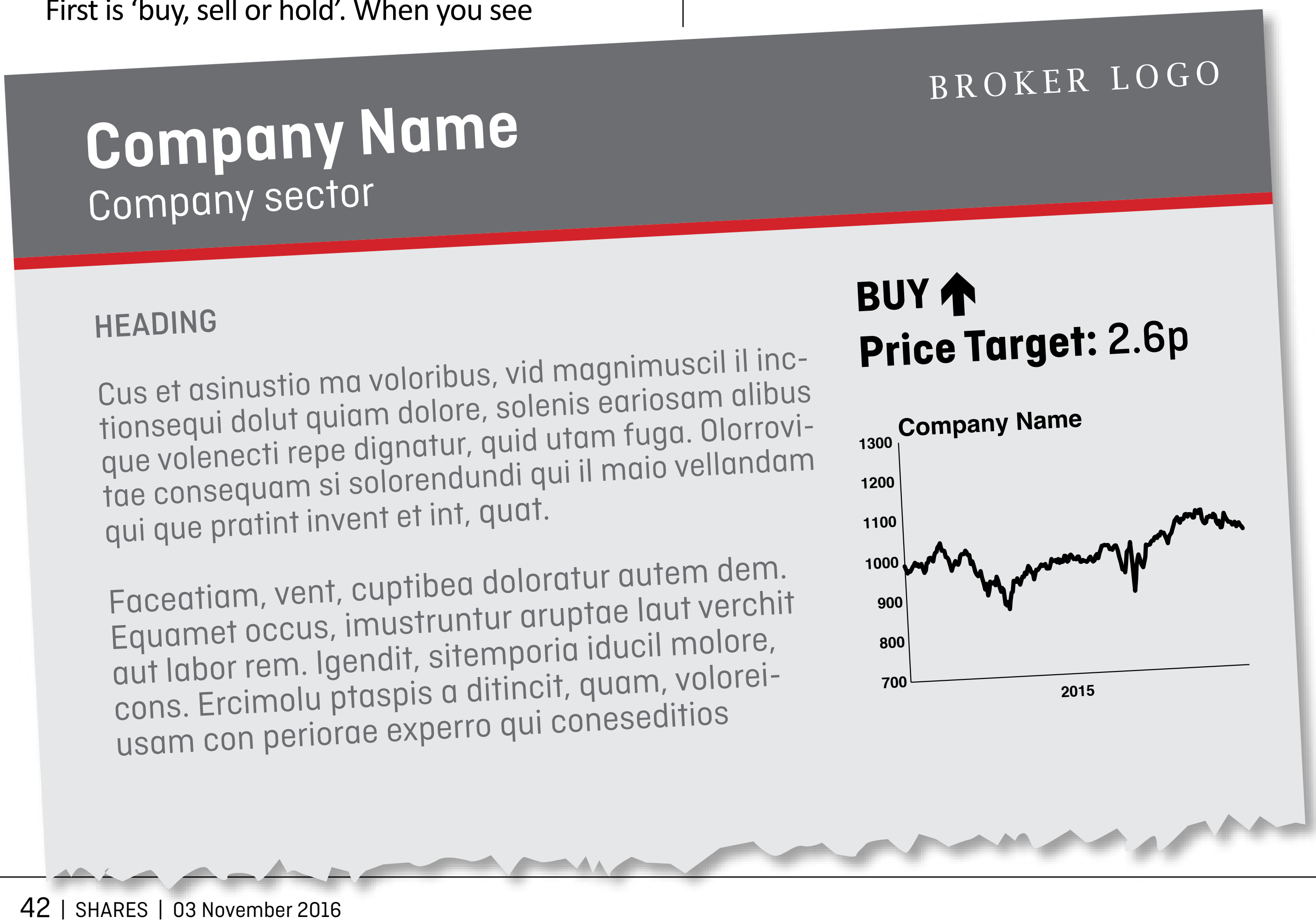
Equity analysts are employed by investment banks and stockbrokers to research companies and provide investment ideas to their clients. Their work is not always freely available to the public but snippets do regularly appear in the financial press. These can provide an insight into the market's opinion on a company and provide a useful basis for further research. But first you need to understand what all the elements of an analyst's research mean.

RATING AND SLATING

Analyst's ratings fall into two categories, in general.

First is 'buy, sell or hold'. When you see price targets alongside buy, sell or hold recommendations - the broker believes the shares will hit that level within the next 12 months. Those price targets are used to determine the share price recommendation.

A buy tends to be when a broker believes the share price will rise by more than 10% from the current price over the next 12 months. A hold is when they believe the share price will either rise by less than 10%, or fall by less than 10%, versus current price. Sell is when they think the shares will fall by more than 10% versus the current price. The rules are subjective and vary from broker to broker in terms of the exact percentages



used. You might also see 'neutral' - which is essentially the same as 'hold'.

WEIGHING IT UP

The second method is to rate a stock using 'overweight, equal weight and underweight'. This is comparing the predicted share price performance of a company relative to its sector.

For example Engineer X might have an 'overweight' rating if the broker thinks it will materially outperform the broader engineering sector.

'Corporate' is used when a so-called 'house' broker has a policy of not using a 'buy, sell or hold' rating. A house broker is appointed by the company to help drum up interest in the stock. As such their view is not independent, and may show some bias towards their client.

Some house brokers take the view that it would be inappropriate for them to have a 'buy, sell or hold' rating on a company who is also paying them for broking services. The 'Corporate' rating is used on research notes instead of 'buy, sell or hold'.

THE PRICE IS RIGHT

Most price targets are based on a one-year time horizon. These predictions have had at best a varying degree of success. A 2012 global study by the University of Waterloo and Boston College found the accuracy of target prices averages around 18% for a three-month horizon and 30% for a 12-month one.

An advantage of a price target is it offers a degree of precision that is not possible with a crude 'buy' or 'sell' recommendation. Targets are typically based on some measure of intrinsic or relative value and the methodology used to calculate them will depend on the relevant sector and maturity of the company.

The absolute, or intrinsic value of a company is usually established using a discounted cash flow (DCF) calculation. Cash flow is the ultimate driver of value and DCF models are used to work out what the future cash flows of a company are worth in today's money, or their net present value (NPV). It is a useful tool when looking at a company which is at the pre-revenue stage and is developing a long-term project. The four key elements that go towards making up a DCF are:

- A basic operating free cash flow calculation (OpFcF).
- Establishing forecasts for OpFcF over a long-term period, perhaps the next 10 years.

- Determining the weighted average cost of capital (WACC). WACC calculates a firm's cost of capital where each category of capital, be it long-term bank debt, equity or bond financing is proportionately weighted.
- Discounting future OpFcF using the WACC to establish an intrinsic value for the equity.

For some companies it can be appropriate to use a NAV calculation to generate a price target. The NAV per share – also known as book value (BV) – is arrived at by dividing 'shareholders equity' in the balance sheet by the number of shares in issue. Shareholders equity is total assets less total liabilities and is an expression of the net worth of a company. The future value of assets is usually calculated using a DCF.

RELATIVE VALUE

When a company is already generating profits and cash an analyst has the option of employing an earnings or cash flow-based metric to help them generate their price target. Often this will be used to determine if it is trading at a discount or premium to the average for its sector. The simplest metric is the price/earnings (PE) ratio. This is calculated by dividing the share price by the forecast after-tax earnings per share (EPS) number.

Another benchmark used by analysts is enterprise value (EV). This is derived by adding a company's forecast debt and subtracting its forecast cash from the market capitalisation. This figure effectively tells you how much it would cost to acquire the firm.

It can then be used against a measure of earnings or cash generation to give a relative valuation. This includes the EV/EBITDA (earnings before interest, tax, depreciation or amortisation) and EV/OpFcF ratios – the latter of which can be used to come up with a free cash flow (FCF) yield. (TS)

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- AIM
- Overseas Market
- Fund
- Investment Trust
- Exchange-Traded Product
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