STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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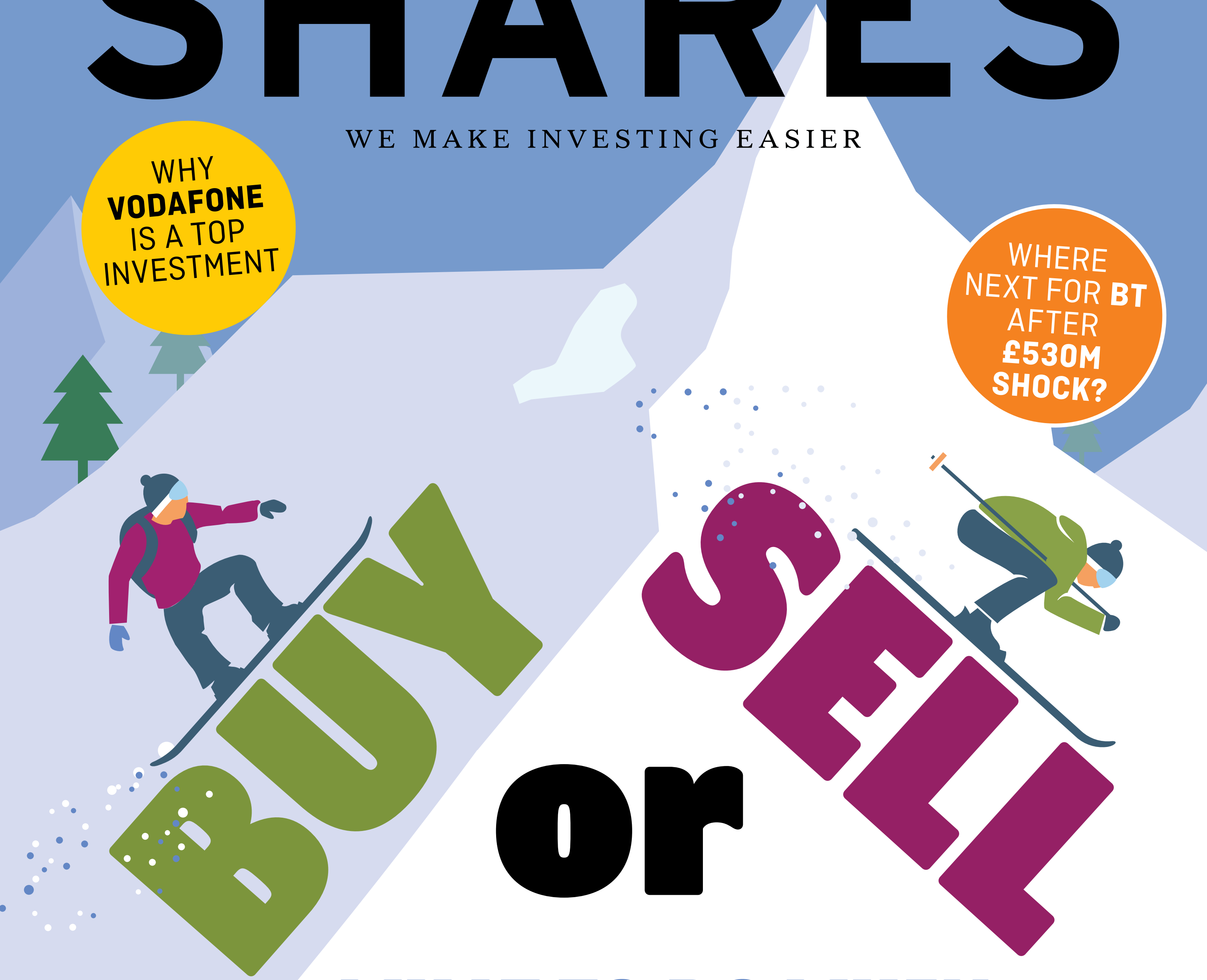
SHARES

WE MAKE INVESTING EASIER

WHY **VODAFONE** IS A TOP INVESTMENT

WHERE NEXT FOR **BT** AFTER **£530M SHOCK?**



BUY or SELL

WHAT TO DO WHEN A PRICE FALLS

Markets start to doubt Trump

Assets to beat inflation

Best deals for your cash

How to cut your pension tax bill

Stock market scandal heads to the cinema

Bre-X investment fraud is the inspiration behind new film

A stock market scandal is heading for the silver screen next month in the UK. If you've any interest in mining stocks, I'd highly recommend you check out the film.

Elements of its story may sound familiar to investors who've dabbled in natural resources companies or listened to presentations by miners insisting they've found the biggest discovery for many years. I will certainly be making a trip to the cinema to see it.

INSPIRED BY REAL EVENTS

Matthew McConaughey's movie *Gold* is inspired by the Bre-X investment fraud.

Two decades ago, a Toronto-listed small cap mining business claimed it had found an enormous gold deposit.

Bre-X Minerals was a struggling business until it bought a property in the Borneo jungle. It declared the project was outstanding and the estimated amount of gold in the ground grew from 2m ounces to 70m ounces in less than five years. At that point the company was valued at more than $4bn.

In reality the gold wasn't there and the fraud was uncovered in 1997.

One of the company's geologists committed suicide and a prospective mining partner subsequently said its analysis of Bre-X's drill core samples didn't find any significant amounts of gold. An independent company found some of the samples to include shavings from gold jewellery.

Bre-X went bust and investors lost everything.

The Canadian 43-101 reporting standard was created in response to this fraud to protect investors from unsubstantiated mineral project disclosures. It is similar to the JORC reporting standard used by UK-quoted mining companies.

HYPE MERCHANTS

Sadly neither 43-101 nor JORC will protect you from losing money with mining stocks. The industry is still tainted by some small cap promoters eager to over-hype projects, particularly those without enough information to produce a 43-101 or JORC-compliant resource statement.

I've lost count of the hot air being produced by promoters in the 11 years I've been writing about the mining sector.

A promoter can give a compelling yarn, but you need to base your investment decisions on hard facts – be it metal grade, the ability to extract economically, geopolitical risk, accessibility and so on.

Gold will no doubt be an entertaining few hours at the cinema; just remember not to get swept away by the investment excitement offered by a mining company until you see the evidence backing up their claims. (DC)

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BT's £530m Italian black hole

Huge accounting malpractice discovery smashes profits

The market is in shock after telecoms giant **BT (BT.A)** admitted the cost of dodgy accounting at its Italian business is far bigger than first thought (24 Jan).

The group's own investigation has uncovered an accounting malpractice bill of around £530m, more than three-and-a-half times the £145m initially forecast.

This huge write-down, plus slowing public sector and international work, means a substantial hit to revenues, profits and cash flow this year to 31 March 2017, which will spill over into the next financial year too.

This year's earnings before interest, tax, depreciation and amortisation (EBITDA) will come in around £300m lower than expected, at about £7.6bn, with roughly £175m due to the Italy fiasco. It gets worse, with an estimated £600m to £700m hit to previously anticipated free cash flow of £3.2bn, and a rough £500m hit next year.

While the Italian operations are relatively small, accounting scandals go down particularly badly with investors. The share price collapsed by nearly 18% in trading on 24 January, plunging to 314.95p, its lowest point since May 2013.

That implies that nearly £7bn has been swiped off the market cap at a stroke, as shareholders also sweat over the impact on BT's bonds and £14.2bn pension deficit. BT has at least confirmed that it still expects to grow dividend per share by 10% both this year and next.

Some analysts speculate that the bleaky-worded warning has an ulterior motive designed to show BT's weakest possible hand as it continues negotiations with watchdog Ofcom over the future of its Openreach infrastructure network. (SF)

Don't expect another bumper year for special dividends

New report suggest companies won't be as generous in 2017 as last year

THE AMOUNT OF money paid in special dividends to UK investors could fall in 2017, according to Capita Asset Services' latest study of shareholder rewards.

Companies on the UK stock market more than doubled the amount of money paid in special dividends in 2016 to £6.1bn. That is the second largest haul on record. Capita believes it will be hard to repeat this feat in 2017.

Special dividends are one-off payments by businesses which have no other requirement for cash that's built up on their balance sheet. They are unpredictable in nature and should not be confused with 'ordinary' dividends paid by companies typically every six months.

Halfords (HFD) is the latest company to announce a special dividend, saying it will pay 10p per share in February given it has spare cash and no plans to make acquisitions.

InterContinental Hotels (IHG), **GlaxoSmithKline (GSK)**, **ITV (ITV)** and **Prudential (PRU)** are among the large cap companies which paid special dividends in 2016.

The rewards tend to be associated with companies that have low capital expenditure requirements, such as insurers.

Special dividends can also occur when a company sells a major asset. An example being **Carr's (CARR)** last year when it sold its flour milling arm.

National Grid (NG.) is to return a large chunk of cash to shareholders in the second quarter of 2017 after selling a 61% stake in its gas distribution networks. (DC)

Leisure industry offers rich pickings

Earnings upgrade scope and M&A upside are reasons to like the sector

While sterling depreciation following the vote for Brexit will hit consumers in the pocket, it may also fatten the wallets of savvy leisure sector investors. Broker Canaccord Genuity for one believes the online gaming sub-sector remains ripe for further consolidation.

SPORTING LOSSES

Key constituent **Paddy Power Betfair (PPB)** shrugged off adverse sports results in late 2016 and assured investors (23 Jan) full year earnings will come in at the mid-point of its previously guided £390m to £405m EBITDA range.

The sports betting and gaming group formed through February 2016's mega-merger said that since its third quarter update, it had continued to see good sportsbook staking growth, although it was hit by the US election result and unfavourable football scores.

'Betfair's sportsbook, Paddy Power's sportsbook and the over-the-counter sportsbooks in Paddy Power's 600-plus shops all lost money on football during the month of December,' says Davy, albeit sticking with its 'outperform' rating on the shares.

The broker seems confident 2017 earnings forecasts will have to be revised upwards as the year progresses. It notes prospects are good in Europe and Australia, where the Sportsbet arm 'exited the year with good top-line momentum'.

POTENTIAL TARGETS

Canaccord Genuity highlights **888 (888)** as a prime leisure sector bid target.

Online gaming is an industry with significant economies of scale which is currently facing rising regulatory and marketing costs; this fact lies behind the recent Paddy Power/Betfair, Ladbrokes/Coral, GVC/bwin and Amaya/PokerStars mergers.

'888 looks the most compelling target, in our view – unusually, it owns its own technology (outside Sportsbook), meaning it has lower margins but conversely offers greater potential cost

synergies to acquirers,' says Canaccord.

'It also boasts a best-in-class CRM platform and online marketing capabilities which could drive potential revenue synergies.' The broker reckons **Ladbrokes Coral (LCL)**, **William Hill (WMH)** and **Rank (RNK)** are potential suitors, while 'a tie-up with **GVC (GVC)** would also generate material synergies.'

M&B VULNERABLE?

Canaccord also believes pubs-to-restaurant business **Mitchells & Butlers (MAB)** looks vulnerable to a bid, mindful that UK tax exile Joe Lewis owns 26.6% and made a failed takeover in 2011 at the 230p level.

'He may be tempted to bid again, given the persistent weakness of the share price. It's also possible that, following Heineken's recent decision to bulk up its pub estate, other brewers could look to M&B,' says Canaccord. (JC)

Stadium mulls payout hike

£5m extra funding could fuel growth ambitions and higher dividend

Electronics manufacturer **Stadium (SDM:AIM)** could be set to lift 2017's forecast dividend payout of 3p per share by as much as a third.

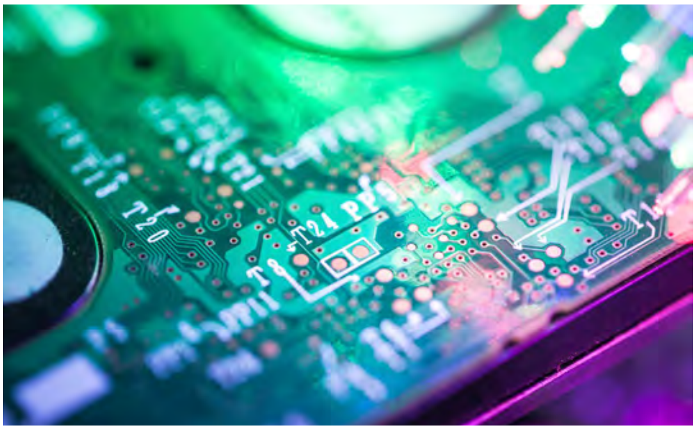
At the root of the move is a tidying up of its balance sheet to release around £5m of funding currently tied up in a share premium account.

Stadium says this process 'would create additional distributable reserves which would provide the company with further flexibility in relation to the payment of future dividends.'

However, CEO Charlie Peppiatt has told *Shares* that some of the funds released would likely be used to continue the company's expansion into higher margin growth markets, such as power supply, wireless components and human-machine interface technology.

Stadium has already won the backing of shareholders, who voted in favour at a meeting on 19 January. Next the company must apply to the High Court for permission, although that appears to be little more than a box-ticking exercise.

Assuming this proves the case, a dividend increase to a 4p per share looks well within



Stadium's funding capacity, in our view.

It would imply a dividend cash commitment of a little more than £1m a year, comfortably covered by operating cash flows.

SHARES SAYS: ↗
The share price has already started moving, rising from 84p to 95p this year. A 4p dividend would equate to 4.2% yield based on the latest share price. (SF)

BROKER SAYS 0 0 0

Photo-Me blinded by mobile threat to earnings

Any hit to profit unlikely to be as bad as implied by share price collapse

ONE FIFTH OF **Photo-Me International's (PHTM)** market value was wiped off at the start of the week following news that the Home Office will accept photos taken on mobile phones for passports.

Investors assumed this would render Photo-Me's UK fleet of photo booths as worthless. The company replied by saying it believed accepting photos from mobile phones for official documents was 'incompatible with developing security requirements'.

Analyst Simon Davies of investment bank Canaccord Genuity remains a fan of Photo-Me, saying share price weakness is a buying opportunity.

'The UK is trialling potential changes to passport applications, potentially allowing adults aged over 26 to use mobile photos to renew their passport, but only if the photos are of the requisite standard (set by ICAO and ISO), something which is very hard to achieve,' he comments.

Photo-Me's UK photo booths only account for an estimated 5% of group profit, so a decline in income from this area of the business wouldn't have a major impact.

Davies notes Europe is shifting towards more sophisticated security photos including 3D imaging and iris scanning. Therefore he believes there is a chance the UK Passport Office could rethink its stance towards pictures from phones. (DC)


Are you still overlooking ‘the most successful growth market in the world’? [1]
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[1] Source. London Stock Exchange
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Where to save your cash for unexpected events

We look at some of the best rates available on Cash ISAs

Every person should hold some cash alongside investments to guard against unexpected expenses or periods of unemployment. Cash can also be useful for making investments when opportunities in the stock market arise.

Most investment platforms pay very small levels of interest on cash balances held in a Stocks & Shares ISA, if at all. Therefore you may wish to keep any part of the cash not destined for the stock market in a bank or building society account offering higher interest with the view that you may not need the money for some time.

Cash accounts range from easy access to ones that charge a penalty if you want to access the money before a certain term is up.

As we're talking about preparing for unexpected scenarios, you might be better off sticking with easy access Cash ISAs that do not impose any penalty on the first few withdrawals each year.

We've looked at some of the best buy products on the market at present, ignoring accounts which require you to be an existing customer or meet other specific criteria such as geographic location.

NS&I has the highest level of interest at 1%, closely followed by Virgin Money at 0.95%. Admittedly these aren't very generous; but they are better than nothing. (TS)

Cash machine fee debate points to contactless payment danger

A shift in consumer spending habits could lead to debt bubble

LAST WEEK'S NEWS about possible fees for withdrawing cash from machines in the Link ATM network puts the spotlight back on the UK's cash usage.

Many people were outraged at the thought of having fewer free-to-use cash machines in the UK. Yet the public reaction was divided.

Half were angry; the rest said it wasn't relevant given how many people use cards to pay for everything in their life.

Contactless cards, in particular, are changing our paying habits with alarming pace. A quarter of all card payments are now contactless, according to new figures from The UK Cards Association. You can pay for something under £30 without having to type in your PIN number.

The shift in spending method could benefit pubs, small ticket retailers and leisure firms.

Previously you'd judge whether to buy something under £30 by whether you'd had any spare change or a few tenners in your pocket. Now many people tap their card on the machine with little thought to how much is in their account. Pay now, worry later.

Is this an accident waiting to happen?

The rise in contactless card payments could result in higher

consumer debt, in our opinion. It could see people dip into money they'd normally use to buy groceries or even regular savings and potentially leave them in a pickle when the important bills need settling. (DC)

Beware the pension tax taper trap

We look at why you should think very seriously about enhancing your retirement savings

The Government has had an insatiable appetite for tinkering with pension tax perks.

George Osborne when he was chancellor continually hacked away at the lifetime allowance – the limit the Government sets on how much you can have saved in all your pensions. It went from £1.8m to £1m.

He also oversaw two reductions in the annual allowance – the amount you can save in a pension tax-free each year. The allowance currently stands at £40,000 for most people.

CUTS CUTS CUTS

There are two scenarios in which your annual allowance will be lower than £40,000.

A separate Money Purchase Annual Allowance (MPAA) was introduced by the Government to stop savers 'recycling' cash through their pension.

The MPAA means anyone who has accessed their pension flexibly from age 55 is subject to a reduced annual allowance of £10,000.

The Government has proposed reducing this allowance to just £4,000 from April this year.

However, it is the devilishly complex pensions tax 'taper' – a third limit on annual pension saving – I want to focus on here.

WILL YOU BE AFFECTED BY THE TAPER?

Do you have total 'adjusted income' – which includes all income and employer pension contributions – of £150,000 or more? Are you planning on paying into your pension between now and the end of the tax year in April? If so, the taper might affect you.

Under rules set out by Government, for every £2 of adjusted income above £150,000 your annual allowance will be reduced by £1, right down to a minimum of £10,000 for anyone with adjusted income above £210,000.

Any contributions over your annual allowance will be hit with a tax charge – unless you have 'carry forward' available from previous years.

Carry forward rules allow you to use any unused allowances from the previous three tax years to minimise your tax bill.

It's worth noting that if your 'threshold income' – that is your total income less any personal pension contributions – is less than £110,000, you will not normally be subject to the tapered annual allowance.

Talk to a regulated financial adviser if you are unsure about your personal situation.

HOW THIS WORKS IN PRACTICE

Georgina has salary of £130,000 and investment income of £10,000 in the 2016/17 tax year. Her employer makes a £30,000 contribution and she personally makes a contribution of £10,000.

Her adjusted income is £170,000 (£140,000 income chargeable to income tax + £30,000 employer pension contribution).

Georgina's threshold income is £130,000 (£140,000 income minus £10,000 personal contribution).

As both her threshold and adjusted income are above the Government limits, Georgina is subject to the taper and her annual allowance is reduced by £10,000 to £30,000.

As her total pension contributions were £40,000, she will be subject to a tax charge on the £10,000 excess, unless she has carry forward available.

TOM SELBY
Senior analyst, AJ Bell

Absolute return funds are not living up to their name

Is there any merit in investing in this product class given poor performance?

The dire performance of absolute return funds in 2016 has lent a lot of weight to the saying, 'If it sounds too good to be true, it probably is'.

These funds aim to deliver positive returns in any market condition. Even if the stock market has plummeted, the funds should keep on growing – or at the very least record a flat performance after fees. They're designed to add a degree of capital protection to your portfolio.

Unfortunately, several well-known absolute return funds didn't succeed in their aims last year and suffered huge losses.

Financial advice firm Chase de Vere has analysed 3,071 investment funds and found three of the bottom four performers belonged to the targeted absolute return sector in 2016. **FP Argonaut Absolute Return (GB00B7FT1K78)** lost 25.6%, **CF Odey Absolute Return (GB00B55NGR79)** lost 17.8% and **Old Mutual UK Opportunities (GB00BBQ2T214)** lost 11.6%.

EXCESSIVE RISK

Patrick Connolly, head of communications at Chase de Vere, says some absolute return funds are taking on too much risk and exposing investors to 'major and unexpected losses'.

'It is astonishing that funds which supposedly aim to provide a positive absolute return can lose so much. This is not what investors in this sector would expect and the performance of these funds is doing absolutely no favours to the sector as a whole or to the investment industry in general,' he says.

Connolly has called for funds taking on excessive risk to be removed from the absolute return sector and reclassified elsewhere.

A spokesperson for the Investment Association (IA), which is responsible for categorising funds, says absolute return funds are not guaranteed to produce positive returns in any market condition.

In the absence of a name or sector change, investors have to make do with the association's monitoring tool, which shows how many times a fund has achieved or failed to deliver returns greater than zero after charges over 12 months.

HIGH FEES

Several financial advisers think investors should stay firmly away from the sector. Peter Chadborn, director at Plan Money, says he has never felt comfortable with the promises made by such funds and therefore does not recommend them.

'We believe there are more effective methods of controlling risk, not least because absolute return funds can be very expensive,' he adds. For example, CF Odey Absolute Return has an ongoing charge of 1.4%.

Mike Gordon, technical director at Rutherford Wilkinson, suggests investors would be better off diversifying at a portfolio level and investing over the longer term to reduce risk, rather than relying on outcome-oriented funds.

'These returns still rely on the manager making the right calls, which has obviously not happened with some of these funds, highlighting the risks managers have taken on,' he adds.

Joshua Gerstler, financial adviser and company director at The Orchard Practice, says his firm sometimes use absolute return funds in its portfolios, but it limits exposure to between 5% and 10%.

An absolute return fund on The Orchard Practice's recommended list is **Newton Real Return (GB00B7VVXF60)**, which grew 4.03% in the year to 31 December 2016 compared to the sector average of 1.06%.

PORTFOLIO DIVERSIFIER

Ryan Hughes, head of fund selection at AJ Bell, believes absolute return funds do still have an important role to play. He says they offer excellent diversification in a portfolio, which could be particularly useful in the current environment in which fixed interest investments are likely to deliver negative real returns when taking into account inflation.

'There is a wide range of investment strategies to select from, some of which are likely to be appropriate for lower risk investors as a way of looking for returns in excess of cash.

'The last year has shown the need for careful analysis and selection – just because the words "absolute return" are in the name, doesn't mean these investments can't lose money," Hughes adds.

If you're considering investing in an absolute return fund, take a good look at the underlying investment strategy. Hughes says that because FP Argonaut Absolute Return increased by nearly 40% in 2013, investors should realistically expect it will fall by the same amount in another year.

'There is no such thing as a free lunch and it is important to remember that in order to generate returns above the amount you can get in the bank on cash, you must take risk,' he explains. (EP)

WHAT DO THE FUND MANAGERS HAVE TO SAY?

OLD MUTUAL UK OPPORTUNITIES

'THE FUND FOLLOWS a market-directional strategy, and has been clearly marketed as such. In other words, unlike many of the funds in the IA Targeted Absolute Return Sector, it is by its very nature designed to express a view on the prospects for the market as a whole, whether that view is positive or negative.

'The fund's clearly stated objective is to "deliver an absolute return over rolling three year periods". As such, the fund's aim is to generate a positive absolute return across the market cycle, rather than in any individual rolling 12-month period. Given the difficulty of timing markets, the fund's directional views can lead to meaningful capital drawdowns at times.

'We believe there are important differences between expressing a view on the potential direction of the stock market within a market-directional fund, and taking on "excessive investment risk". Individual positions within the fund were, and remain, proportionate, with no single view making an outsized negative or positive contribution to performance in 2016.'

FP ARGONAUT ABSOLUTE RETURN

'THE PERFORMANCE IN 2016 was very disappointing, but put in perspective it is the first year in seven since launch where the fund has not made a positive return. It has also been a year in which most long/short European managers often with differing strategies and market views have struggled. The fund's long term track record is still amongst the best in the sector.'

CF ODEY ABSOLUTE RETURN

Declined to comment.

Funds to protect against rising inflation

It only takes a few steps to strengthen your portfolio now the cost of living is going up

Inflation is racing ahead, so what does this mean for your savings and investments?

UK consumer price inflation (CPI) hit its highest level for two and a half years in December 2016 according to the latest figures from the Office of National Statistics (ONS).

Inflation can eat into your saving and investment returns, and thereby erode the real value of your assets.

The CPI figure of 1.6% was 0.2% north of the consensus figure as the sharp fall in sterling pushed up import prices.

WHY SHOULD I CARE ABOUT A MERE 1.6% INFLATION?

The Bank of England has long targeted for 2% inflation, so why all the fuss about a figure 0.4% below this level? The latest inflation figure is important because it is rising fast – and could easily exceed the BoE's goal in the very near future.

We warned several times in *Shares* last year of the impending rise in the cost of living. The situation is now becoming very real.

The weak pound has made it more expensive to buy goods from abroad and these extra input costs are either being passed on to consumers or eating into corporate profit margins.

Shilen Shah, Bond Strategist at Investec Wealth & Investment, still believes inflation is likely to overshoot the BoE's inflation target in 2017, however the near term determinant will be the reaction of sterling and the domestic demand.

Top picks to beat inflation include:

- **Artemis Income**
- **Capital Gearing Trust**
- **Evenlode Income**
- **Fundsmith Equity**

I THOUGHT THE UK HAD A HEALTHY ECONOMY?

Consumer demand has generally been robust since the Brexit vote last summer. The latest GDP figures are due to be published today (26 Jan).

The economy still looks susceptible to reduced business investment and/or a slowdown in job hiring as Brexit negotiations start to take shape.

SO WHERE SHOULD I PUT MY MONEY?

'Traditionally, equity investment has been seen as a good counter to inflationary pressure if that pressure is caused by a strong growing economy,' says Andrew Summers, Head of Collectives, Investec Wealth & Investment. '(That could lead to) higher profits and willingness by investors to buy riskier companies which will drive share prices higher.'

He suggests assets which may do well in a high economic growth environment include property (where values could benefit from rising rents) and corporate bonds (where values benefit from increased demand for risk assets in general).

'In contrast, government bonds are a bad investment as both the coupons paid (interest) and the principal (initial sum) to be returned is fixed and thus lose value through inflation.'

Other investments suitable for an inflationary environment include commodity producers. Gold has historically provided a hedge against inflation and funds are ideal for anyone who wants the upside of backing a gold miner but does not want to buy individual stocks.

For instance, exposure to multiple companies through a single product is on offer through **BlackRock Gold & General D Acc (GB00B5ZNJ896)**.

Inflation-linked bonds should also appeal in an inflationary environment. You may find it easier to buy a fund or investment trust that already has such bonds in its portfolio, with **Capital Gearing Trust (CGT)** being one example.

LOOK FOR INVESTMENTS WITH DIVIDEND GROWTH

Stocks that can grow their dividend payments at least in line with inflation, such as utility companies or those blessed with considerable pricing power, should also be on your shopping list.

A good fund in the investment trust sector for dividend growth is **Perpetual Income & Growth (PLI)**, run by Invesco Perpetual fund manager Mark Barnett.

In the open-ended funds universe, we like **Evenlode Income (GB00B40Y5R17)**. Its lead manager Hugh Yarrow focuses on sustainable real dividend growth generated by companies with high returns on capital and strong free cash flow.

The fund has returned 91.5% on a cumulative five year basis versus 64.5% for the IA UK All Companies sector according to Trustnet.

Top 10 holdings feature a range of companies with pricing power. They include consumer goods powerhouse **Unilever (ULVR)** and *Tampax* tampon seller **Procter & Gamble (PG:NYSE)**.

TOP PICK FOR EQUITY INCOME

Ryan Hughes, head of fund selection at AJ Bell, believes a high quality equity income fund should sit nicely alongside the aforementioned investment trusts. His top choice is **Artemis Income (GB00B2PLJJ36)**.

'This fund has been one of the most consistent funds in the equity income sector over the past decade with experienced fund manager Adrian Frost expertly navigating almost everything markets have thrown at him over this period,' says Hughes.

'The fund is well diversified and looks to produce a rising income ensuring that it focuses on companies that offer dividend growth rather than just an outright high yield which helps offset the impact of rising inflation.

'That said the current yield of 4.2% looks attractive with the manager finding opportunities in larger UK companies such as **BP (BP.)** and **GlaxoSmithKline (GSK)**. Over the years, the manager has also shown skill in finding opportunities in mid and small companies and occasionally looks overseas should attractive opportunities become apparent.'

BACK SOME QUALITY NAMES

Fundsmith Equity (GB00B4MR8G82) puts corporate quality at the heart of its strategy. Managed by Terry Smith, the fund has a concentrated portfolio with strict investment criteria which should help investors beat inflation. It has delivered over 150% return over five years, twice the level from the IA Global sector.

Top holdings include technology giant **Microsoft (MSFT:NDQ)** and tobacco titan **Philip Morris International (PM:NYSE)**. (JC)

[DISCLAIMER] Daniel Coatsworth, who edited this article, has an investment in Fundsmith Equity

5 years

European companies' profit decline

EUROPEAN UNION listed companies look set to complete 2016 with their fifth consecutive year of earnings per share (EPS) declines.

But Morgan Stanley says their fortunes could be about to change. Analyst estimates show fourth quarter earnings updates, to be reported over the next few weeks, should register the first quarterly EPS gains in six quarters.

'As the fourth quarter is likely to mark a return to positive EPS growth, we think results season is likely to surprise to the upside,' say the analysts.

'After five years of EPS declines, we think EU earnings are highly likely to grow strongly in 2017.'

2,500 tonnes

REVOLUTION BARS GOES ICE ICE CRAZY

BEHIND THE SCENES of every establishment owned by **Revolution Bars (RBG)** is a network of ice machines pumping out blocks of frozen water.

The company says it produced more than 2,500 tonnes of ice in 2016 for use in its cocktails which typically sell for £9 a pop.

Chief executive Mark McQuater says Revolution can make 70% to 80% gross profit margin on its cocktails. He also says it is easy to add a bit to the selling price if raw material prices go up, as customers wouldn't notice in the same way they'd spot a price hike on a pint of beer.

-1.2% Republican returns

INVESTORS HOPING FOR a strong stock market run following Donald Trump's inauguration may be disappointed.

First year returns on the S&P 500 after the election of a Republican president average -1.2%. And comparisons between Trump's election and the 1980 incumbent Ronald Reagan are even less appealing.

The US stock market index fell 9.2% in Reagan's first year though rallied 27.7% on the president's re-election for a second term in 1984. Average gains in the first year of Democrat presidential wins were 13.2%.

£60,000

NOT QUITE THE MILLIONS PRICED INTO FITBUG'S SHARES

INVESTORS WERE ECSTATIC when **Fitbug (FITB:AIM)** won a one-year contract with an Asian financial services company with 14,000 staff for its health monitoring kit, prompting the share price to rise 467% in a day (18 Jan) from 0.164p to 0.93p.

Its market value went from £2m to £11.4m; that's until the shares were suspended pending an announcement.

The following day Fitbug issued a statement that said the contract was only worth £60,000, prompting the shares to lose nearly all the previous day's gains.

SIX-AND-HALF

GATWICK AIRPORTS

THIS IS THE equivalent area covered by the logistics-focused **Tritax Big Box REIT's (BBOX)** 18.2 million square foot portfolio. Tritax owns and rents out huge warehouses to well-known companies including **Amazon (AMZN:NDQ)** and **Tesco (TSCO)**. A 19 January update suggested demand continues 'unabated'. It could soon have a larger rival with private equity firm Blackstone reported to be looking to list warehouse business Logicor on the London Stock Exchange this year, potentially attracting a value in the region of £11bn.

44% drop

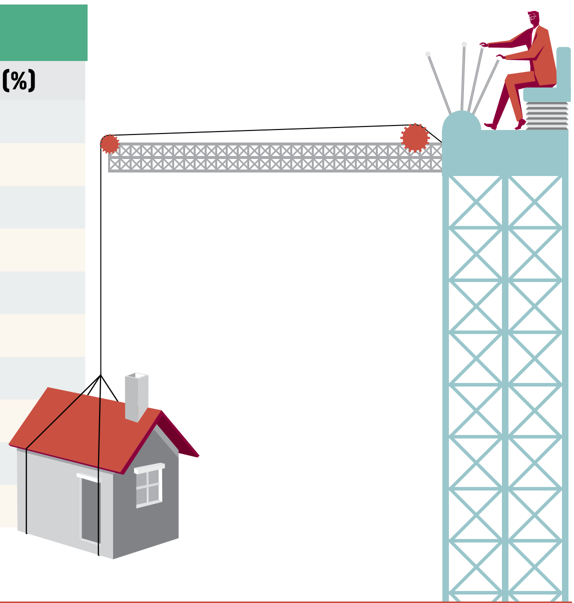
Coal goes up in smoke

THE COKING COAL price has over the past two months lost approximately half of all gains seen in 2016. It was the surprise commodity performer of last year, jumping from $75 per tonne in February to hit $308 per tonne in November. Coking coal, which is used in steel manufacturing, is now in rapid retreat. Analysts believe prices have further to fall from the $172 per tonne level as mining companies ramp up production.

TOP 10 SUB-£100M PERFORMERS

Stock	Year-to-date gain (%)
Petro Matad	220
Edenville Energy	160
React Energy	160
Kodal Minerals	150
Kennedy Ventures	130
Uranium Resources	130
Powerhouse Energy	130
HaiKe Chemical	120
Parallel Media	110
Greatland Gold	97

Source: SharePad, as at close 23 Jan 2017



HOUSEBUILDERS SINCE THE BREXIT VOTE

Company	EPIC	1 month performance (%)	3 month performance (%)	7 month performance (%)
Barratt Developments	BDEV	3.6	1.6	-16.0
Bellway	BWY	2.4	0.9	-8.7
Berkeley	BKG	-0.8	15.0	-14.0
Bovis Homes	BVS	-4.1	4.7	-20.0
Countryside Properties	CSP	-3.0	-1.3	-12.0
Crest Nicholson	CRST	5.7	18.0	-16.0
Galliford Try	GFRD	1.8	-1.1	0.5
McCarthy & Stone	MCS	5.0	-0.7	-31.0
Persimmon	PSN	10.0	12.0	-7.3
Redrow	RDW	3.3	12.0	3.1
Taylor Wimpey	TW.	9.6	16.0	-12.0

Source: SharePad, as at close 23 Jan 2017

The market has got it wrong on Howden Joinery

Kitchen seller has the right tools to beat the Brexit blues

There are some bargains to be found among UK domestic-focused stocks if you believe the economy won't deteriorate sharply in 2017.

One company that's caught our eye is FTSE 250 kitchens seller **Howden Joinery (HWDN)**. Its share price has fallen 28% since the Brexit vote in June 2016, yet it has an excellent track record of managing costs in more difficult economic times in order to protect profits.

It has a very strong balance sheet with £182.7m net cash position as of June 2016 which was the last set of reported accounts.

Howden only sells to trade customers via a network of 600+ depots in the UK. In 2015 it supplied more than 400,000 kitchens, 2.4m doors and 750,000 appliances to UK homes.

WHY THE SHARES ARE DOWN

Investors fear the Brexit process could weaken consumer confidence and hurt the property market. Fewer house sales could dampen one of the biggest catalysts for getting a new kitchen.

The sharp drop in sterling also has a negative impact on Howden. Investment bank Liberum believes one third of Howden's costs associated with making its products are priced in overseas currencies.

The weaker pound means

HOWDEN JOINERY
BUY
(HWDN) 368.9p
Stop loss: None

Market value: £2.36bn

Forecast dividend yield 2017: 3%

these raw materials more expensive to buy, so Howden will need to raise its selling prices to recoup these extra costs.

In light of these issues, one could suggest the market has been right to discount its share price given the risks. We think the market is too pessimistic.

SIMILAR BUSINESSES SAY TRADING IS HOLDING UP

There were some positive signs from the builders' merchant and broader construction sectors early in January 2017 which have positive read-across to Howden.

Paints-to-plumbing equipment retailer **Grafton (GFTU)** said sales growth had picked up in the last three months of 2016. Insulation products provider **SIG (SHI)** said trading had stabilised following problems last year. Brick maker **Forterra (FORT)** said sales volumes had increased in both November and December 2016.

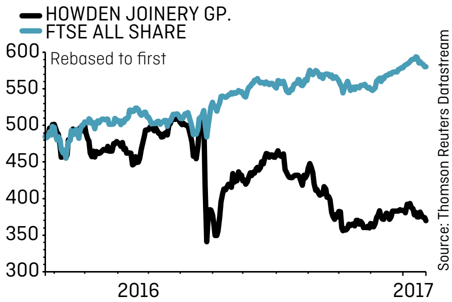
A decline in the property market wouldn't necessarily be completely bad news for Howden, should it happen. We believe families would think

about doing up their property instead of moving.

Liberum believes Howden's current share price weakness presents 'an excellent opportunity' to pick up shares in a market leading business. It also believes the company will keep growing its dividend despite the uncertain backdrop.

Achieving the forecast 11.2p per share payout in 2017 would mean Howden had delivered a 30.1% compound annual dividend growth over five years.

BROKER SAYS: 5 8 0



Building the case for Ibstock

Brick maker reliant on construction volume not price of new homes

Leading UK brick manufacturer **Ibstock (IBST)** is a worthy building block for any ISA or SIPP (self-invested personal pension) ahead its full year results on 7 March 2017.

We believe there are positive signs in the UK brick market not reflected in its undemanding equity valuation.

Based on consensus forecasts the stock trades on a 2017 price-to-earnings ratio of 10.4 and yields more than 4%.

Despite being priced as a 'value' stock, Ibstock is actually showing strong momentum.

It enjoyed earnings upgrades in the wake of a decent trading statement in November 2016 and the same again in January 2017.

Management said: 'Growing housebuilder activity supported a stronger second half and national brick imports declined significantly over the year.'

This chimes with the number two player in UK bricks, **Forterra (FORT)** which pointed to brick sales volumes up in November and December 2016.

IBSTOCK BUY
(IBST) 180.5p
Stop loss: None

This encouraging commentary offers a good snapshot of overall sector conditions given that Ibstock and Forterra account for 70% of the market.

Broker Davy says: 'The evidence would suggest that the brick sector starts 2017 on the front foot, particularly boosted by the robustness of the new housing market.'

In 2013 and 2014, a spike in the housing market caused 'panic buying' of bricks by housebuilders, reducing UK stocks to around 339m.

Brick prices spiked some 16% in both 2014 and 2015 and housebuilders began to import supplies because of fears the domestic industry may not be able to maintain supply.

Government statistics show stocks are now down 14% on their most recent peak in May 2016 at 544m, helped by reductions in domestic production and fewer imports on the back of sterling weakness making it more expensive to buy from abroad.

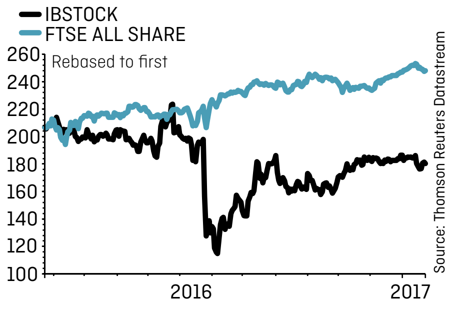
This implies greater pricing power for the brickies in the UK domestic market and should dispel investor concerns around over-stocking of bricks by the housebuilders.

LOWER RISK EXPOSURE

In some respects, brick makers offer lower risk exposure to the housing market. Because they represent a modest proportion of the overall cost of building a house, their fortunes are dictated more by the volume of new house sales than the price.

There is a need to build more homes to address a growing shortfall. The House of Lords Economic Affairs Committee recently recommended 300,000 new homes should be delivered a year against the 120,000 built in 2016. That offers confidence on demand for bricks. (TS)

BROKER SAYS: 0 0 0



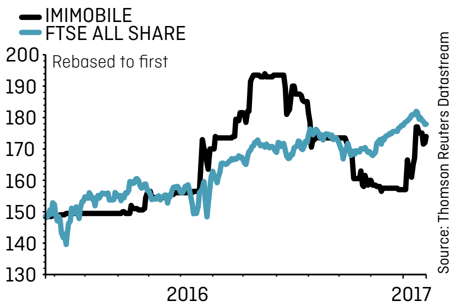
IMIMOBILE
(IMO:AIM) 174p

Gain to date: 9.8%

Original entry point:

Buy at 158.5p, 8 December 2016

THIS NEWS MIGHT have been missed by many investors but **IMImobile (IMO:AIM)** is cleaning up its shareholder and capital structure. That might not seem meaningful but we think that getting shot of the old B shares could remove an obstacle that may have prevented some investors taking a stake. If so, expect further support to the rising share price. Effectively, the company has raised £5.4m at 159p to buy shares from two founders (Viswanatha Alluri and Shyamprasad Bhat) and swap them for ordinary shares. The pair will have a combined 13% stake in the business going forward. The new simplified capital structure comprises about £105m of equity, at the current 174p, plus about £10m of net cash, giving an enterprise value (EV) of approximately £95m. That's about 7.9-times the £12m of EBITDA (earnings before interest, tax, depreciation and amortisation) forecast by Investec for the year to 31 March 2018.



SHARES SAYS: ↗

Good quality technology businesses regularly trade on EV/EBITDA multiples in the low to mid-teens. IMImobile has grown consistently and at the half year posted EBITDA growth of 17% on 16% organic revenues, with 94% on a recurring basis. (SF)

BROKER SAYS: 1 0 0

AMERISUR RESOURCES
(AMER:AIM) 26.1p

Gain to date: 0.4%

Original entry point:

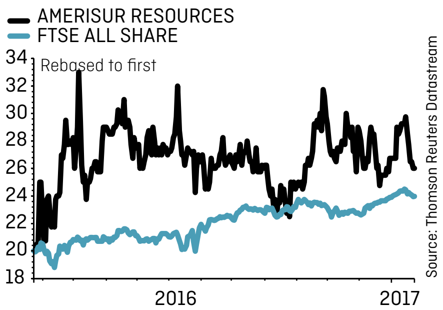
26p, 21 Jul 2016

OUR TRADE ON Colombian oil producer **Amerisur Resources (AMER:AIM)** continues to tread water but we see scope for the shares to gather some steam in 2017. Gains are likely to be driven by a combination of oil price strength and low-risk production growth.

On 24 January the company announced the results of the latest well on its flagship Platanillo block, delivered ahead of time and under the $2m budget. Platanillo-24 is an infill well aimed at increasing recovery from the field.

With a tie-in to the Ecuadorean pipeline system up and running, a key rationale behind our positive call, the company should be able to ramp up Platanillo's production which remains some way below its full capacity.

There is an active work programme in place for the coming months which includes the Platanillo-22 appraisal wells and the commencement of exploration drilling on its CPO-5 licence.



Cantor Fitzgerald analyst Sam Wahab reiterates his 'buy' advice and 45p price target. He says: 'With a near term step change in cash flow generation through the de-bottlenecking of its production base, underpinned by a fully funded appraisal and high impact exploration programme in Colombia, we believe Amerisur's shares offers a compelling entry point for investors.'

SHARES SAYS: ↗

Keep buying at 26.1p. (TS)

BROKER SAYS: 5 2 1

SHARES CENKOS

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Proceedings kick off at 9am at the Business Design Centre in Angel, opposite Angel tube station and a short bus journey or taxi ride from Kings Cross and Euston stations.

JAYWING TAKES FLIGHT

Among the presenters is digital marketing business **Jaywing (JWNG:AIM)**.

First half results in November showed earnings up 12% on an organic basis and that net debt almost halved from £6.4m to £3.4m on strong cash flow.

The results have helped underpin recent strength in the share price.

The company aims to put 'data science' at the centre of its business model, providing integrated digital marketing and e-commerce services to a wide range of clients. It is backed by entrepreneur and former Conservative Party backer Lord Ashcroft.

This investment trust may not stay cheap for long

Grab a bargain before mainstream investors spot big changes

'Uncertain' is a benevolent description of the outlook for 2017. Unknowns range from how Donald Trump may govern in the US to the result of Brexit negotiations. Against this backdrop, trusts with international dimensions and impressive, inflation-beating dividend track records should be on shopping lists.

One exemplar is **Scottish Investment Trust (SCIN)**, trading at an 8.2% discount to net asset value (NAV) that has scope to narrow. We think now is a good time to buy at 794p as the market has only just started to cotton on to major changes.

WHY WE LIKE THE TRUST

Founded in 1887, this self-managed global equity trust aims to provide investors with above-average returns and dividend growth ahead of UK inflation.

It invests in a diversified portfolio of international equities, while achieving dividend growth ahead of UK inflation. Dividends have been maintained or increased every year since 1982.

It has cut costs in recent years to have one of the lowest ongoing charges (0.45%) among its peer group.

Edison Investment Research's Sarah Godfrey said last November that investor perceptions of the investment trust may still focus on a longer-term lacklustre performance record.

Godfrey says more recent performance has been strong, helped by sterling depreciation which has increased the value of overseas assets. The shares are up nearly 20% over the past six months and twice as good over the past 12 months.

CHANGE IN STRATEGY

The trust switched to a contrarian stance in October 2015. Manager Alasdair McKinnon seeks to exploit the behavioural biases of investors and in the words of Warren Buffett, 'be greedy when others are fearful and fearful when others are greedy'.

Edison's Godfrey notes that stocks are split into three main categories. 'Ugly ducklings' are the most out-of-favour companies such as **GlaxoSmithKline (GSK)** and Macau casinos operator **Sands China (1928:HK)**.

'Transformers' are those where operational improvements are underway but the market doubts the sustainability of the recovery. Stocks include largest holding **Treasury Wine Estates (TWE:ASX)**.

'Improvers' are stocks viewed favourably by the market yet where the scale of the opportunity remains underestimated, including **Microsoft (MSFT:NDQ)** and **Severn Trent (SVT)**. (JC)

TOP TEN HOLDINGS

Treasury Wine Estates	4.3%
Sands China	3.4%
Severn Trent	3.3%
GlaxoSmithKline	3.3%
Microsoft	3.3%
Rentokil Initial	3.2%
ING	2.2%
Royal Dutch Shell	2.2%
Kingfisher	2.2%
Standard Chartered	2.2%

Source: Scottish Investment Trust
Data as of Dec 2016

FINSBURY GROWTH & INCOME TRUST PLC

Why we are sticking to quality names in 2017

We were bullish about the outlook for UK equities at the start of 2016 and remain so today. So it was pleasing for us to see the FTSE make double digit gains last year, despite the pessimism of many commentators.

Equity bull markets proverbially "climb a wall of worry" and this bull is no different. But there was a disappointment for us in 2016. This was that the portion of our portfolio we usually expect to do best in a rising stock market actually performed rather poorly.

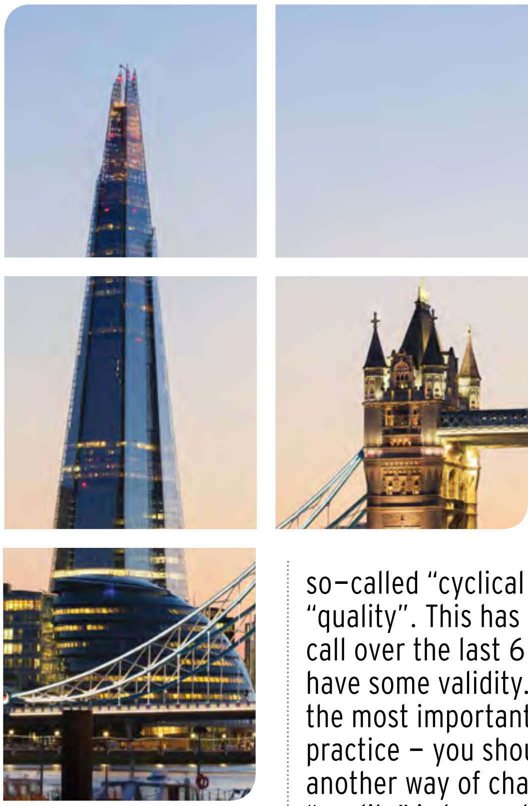
This portion – around 25% of the whole – comprises what we call "stock market proxies". These are companies whose business and share price should in theory do well when markets do well (which, after all, is more often than not).

Big positions for us here include fund management companies Hargreaves Lansdown and Schroders and an investment in the London Stock Exchange itself – the best proxy of all on the fortunes of the stock market.

In a year when UK stocks prospered Hargreaves' shares finished down nearly 20%, Schroders was up less than 1% and the LSE up just 6% – the latter despite being in receipt of a, still active, merger proposal. Meanwhile we note that all our "market proxies" had good years as operating businesses – if only because a rising market pushed up the value of the assets entrusted to them.

It seems to us that if we're right still to be optimistic for the market in 2017 then we should be doubly optimistic for this group of 2016 laggards.

A common theme in New Year strategy pieces we have read is the advice to buy



NICK TRAIN

so-called "cyclical value" stocks and sell "quality". This has certainly been a good call over the last 6 months and may still have some validity. But – and this is one of the most important "buts" in all investment practice – you should never forget that another way of characterising "value" and "quality" is to use the simpler definitions: bad companies and good companies.

Investors are being encouraged to sell their holdings in the good to catch a rally in bad. Now this is a generalisation and grossly unfair in individual cases. But there's enough truth to it to make it worthwhile repeating another truism – you make the best stock market returns by holding good companies for the long run, not by trading. And you don't want to end up holding a parcel of bad companies when the music stops.

Finsbury Growth and Income Trust continues to add to its holdings in Diageo, Heineken and Unilever. It's nice to be able to buy more of a good thing at a cheaper price.

Can Germany repeat 2016's economic success?

The country delivered its best GDP growth for five years

Germany is often referred to as Europe's powerhouse and with good reason. It is the largest European economy and the fifth biggest in the world measured by Gross Domestic Product (GDP). The latest numbers confirm its success.

The economy last year expanded by 1.9%, the best performance since 2011. The unemployment rate in the country is at a record low and the number of citizens in work is at its highest level since the Berlin Wall came down in 1989.

WHAT TO EXPECT IN 2017

This all sounds very positive, so does it suggest there are more rosy times to come for the German economy?

State spending contributed to the recent growth, rising by 4% in the most recent quarter. Notably, consumer spending, investment and construction activity all increased in the year.

The country's economy clearly has good momentum, but the risks for Germany – and plenty of other countries – in the years ahead should not be underestimated.

The past few months have seen inflation creep up from rock-bottom levels; that could have an impact on the nation's spending. That state spending figure is also likely to fall too.

SOLVING THE PUZZLE

The bigger, and more obvious, risks are political. Close to home there is the UK's decision to leave the EU. After the US and France, the UK is Germany's biggest export market.

This year is going to be a period of trade negotiation. Neither side at the moment seems to know what that will look like, so uncertainty could impact business confidence.

The great unknown for many countries is the US. Like many nations, America is Germany's biggest export partner. If President Trump follows through on pledges to put America first, limit imports and adopt an overall more protectionist stance, that's obviously going to have an impact on major trading economies like Germany.

Growth was better than expected in 2016 for Germany, so it is better placed than many countries to navigate the uncertain political waters ahead. However, it is not immune to a slowdown due to the political upheavals we have seen. (DJ)

ECONOMIC PREDICTION

GERMANY'S GDP GROWTH could slow to 1.3% in 2017, according to investment bank UBS. It cites headwinds for consumers from higher inflation, weaker public spending growth and only moderate export growth without acceleration.

It says 2016 was a year when 'many things went right' such as low oil prices, fiscal stimulus and exceptionally low interest rates. UBS believes 2017 may not be so lucky.

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

BUY OR SELL? WHAT TO DO WHEN A PRICE FALLS

MARKETS START TO DOUBT IF TRUMP CAN DELIVER

WHY VODAFONE IS A TOP INVESTMENT

YOU NEED THIS STUDENT ACCOMMODATION BUILDER IN YOUR PORTFOLIO

HIDDEN GEMS AMONG SMALL CAP TELCOS

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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.

WHAT TO DO WHEN A PRICE FALLS

Buy low and sell high. Sounds simple, doesn't it? Investors following this advice have over the years become either extremely rich or flat broke.

So when should investors buy after a big market fall?

The challenge is deciding whether or not to top up on an existing holding without risking too much money on one stock or fund. You may need to make a tough decision and exit the investment, potentially at a loss.

HOW TO APPROACH THE SITUATION

We explore in this article the different ways to weigh up the situation when your investment has declined in value.

We explain how to consider the evidence in terms of trading or financial strength, as well as market sentiment.

Furthermore, we look at three stocks in detail where investors are currently deciding whether they should buy on share price weakness or avoid 'catching a falling knife'. These are cake maker **Premier Foods (PFD)**, invoice finance group **Tungsten (TUNG:AIM)** and platinum miner **Lonmin (LMI)**.

HOW TO AVOID LOSING MONEY

John Hempton, chief investment officer at Australian hedge fund Bronte Capital, recently sought to answer one of the most difficult questions investors face.

Hempton's advice is wise: 'Be careful'.

Averaging down is a process where investors buy more shares in a company or units of a fund they have already invested in after a price decline. This can quickly become extremely costly to a portfolio if a price keeps falling.

'Averaging down has been the destroyer of many a value investor,' writes Hempton on Bronte Capital's highly informative blog.

'Indeed averaging down is the iconic way in which value investors destroy themselves and their clients. After all, if you loved something at $40 a share and you were wrong, you might love it more at $25... and like it more still at $12. And you could be equally wrong.

'And before you know it you have doubled down three times, turning a 7% position [in your portfolio] into an 18% loss.'

He says you could easily be down 50% on your investment by averaging down on a few stocks. That could balloon to an 80% loss in a bad market, adds Hempton.

'And if you do not believe me, this has a name: (former Legg Mason fund manager) Bill Miller,' he states. 'Bill Miller assembled a startling record beating the S&P 500 every year for 15 straight years. And then it blew up.

'Miller had a (false) reputation as one of the greatest value investors of all time: he is one of the biggest stock market losers of all time and a model of how not to behave in markets,' claims Hempton.

'How not to behave is to be a false value investor, buying stocks on which you are wrong and recklessly and repeatedly averaging down,' he adds.

HOW TO AVERAGE DOWN

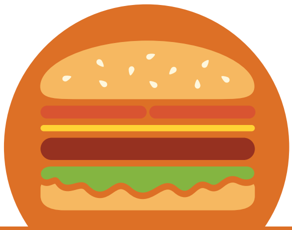
Hempton cites the example of Paul Tudor Jones, a US hedge fund manager who made his name by predicting the 1987 Wall Street Crash. This investor took a completely opposite approach to Miller.

Tudor Jones used to have a poster on his office wall that read 'Losers Average Losers', referring to the idea that averaging down was more likely to lose money than make money.

Is there a middle way between these two extremes?

Warren Buffett's approach to investment may offer some clues. The Berkshire Hathaway chairman says he is happy when stocks he is buying fall in value – it allows investors to buy the same number of shares at a lower price.

But that's because Buffett approaches buying a stock in the same way as he approaches buying anything else: whether it is an entire business – or even a hamburger.



WARREN BUFFETT BUYS STOCKS LIKE HE BUYS HAMBURGERS. HE BUYS MORE WHEN THEY ARE CHEAP

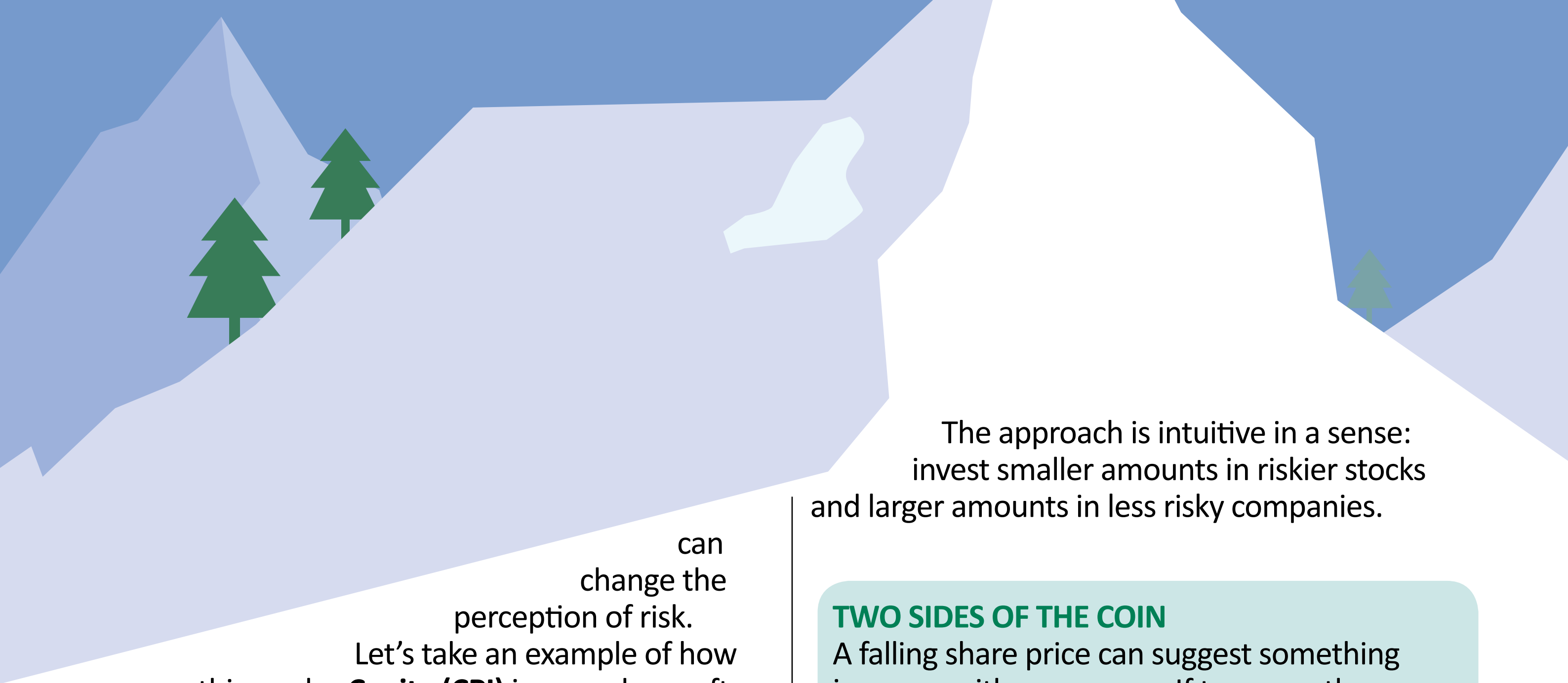
'When the price of hamburgers goes down there is joy in the Buffett household,' Buffett says.

'We eat well. When the price goes up, we don't buy so many. What is different about shares?'

AVERAGING DOWN EXAMPLE: CAPITA

Buffett's whimsical comments contain an important insight: shares are a reflection of a company's market value.

Investing in the stock market in the same way as you would if you were buying an entire business



can change the perception of risk.

Let's take an example of how this works: **Capita (CPI)** is a good one after its share price plunged from £13.20 in the middle of 2015 to 507p a share after a string of profit warnings in 2016.

Are shares in Capita riskier now than they were 12 months ago?

Investors who focus on Capita's share price might well say 'yes' – with justification. There are clear risks to the company's profitability and chief executive Andy Parker has said the UK's vote to leave the EU is a major headwind to the company.

Others highlight the company may need a rights issue to reduce its debt and Capita is also selling off profitable businesses to improve its balance sheet.

Clearly, Capita's share price could fall a lot further if more problems are identified.

IS CAPITA MORE OR LESS RISKY AFTER BIG PRICE DECLINES?

Now let's think how a private equity company or commercial rival might consider the risks and opportunity of an investment in Capita via a takeover. The question of risk becomes very different.

Capita's market value before its numerous profit warnings was £8.8bn at £13.20 a share. Today, its market value is £3.4bn.

By definition, it is less risky to buy all of Capita at £3.4bn than it is to pay £8.8bn: the buyer is risking less capital.

A company with £8.8bn to spend on acquisitions can now afford to buy Capita plus another business, if it so wished.

So how can investors make this different thinking work to their advantage?

One method – and investors should be clear that this is an unconventional approach – could be to scale positions in a portfolio along similar lines.

The approach is intuitive in a sense: invest smaller amounts in riskier stocks and larger amounts in less risky companies.

TWO SIDES OF THE COIN

A falling share price can suggest something is wrong with a company. If true, can the problem be fixed?

Share price weakness can also make the same company more attractive to a takeover bid. But is it worth buying, even at a lower price?

TURN VOLATILITY TO YOUR ADVANTAGE

Let's take the example of an investor with a £100,000 equity portfolio who invests across 20 stocks with an average invested in each stock at £5,000.

If you normally invest around £5,000 in each stock and are considering investing in Capita, why not turn the lower share price to your advantage?

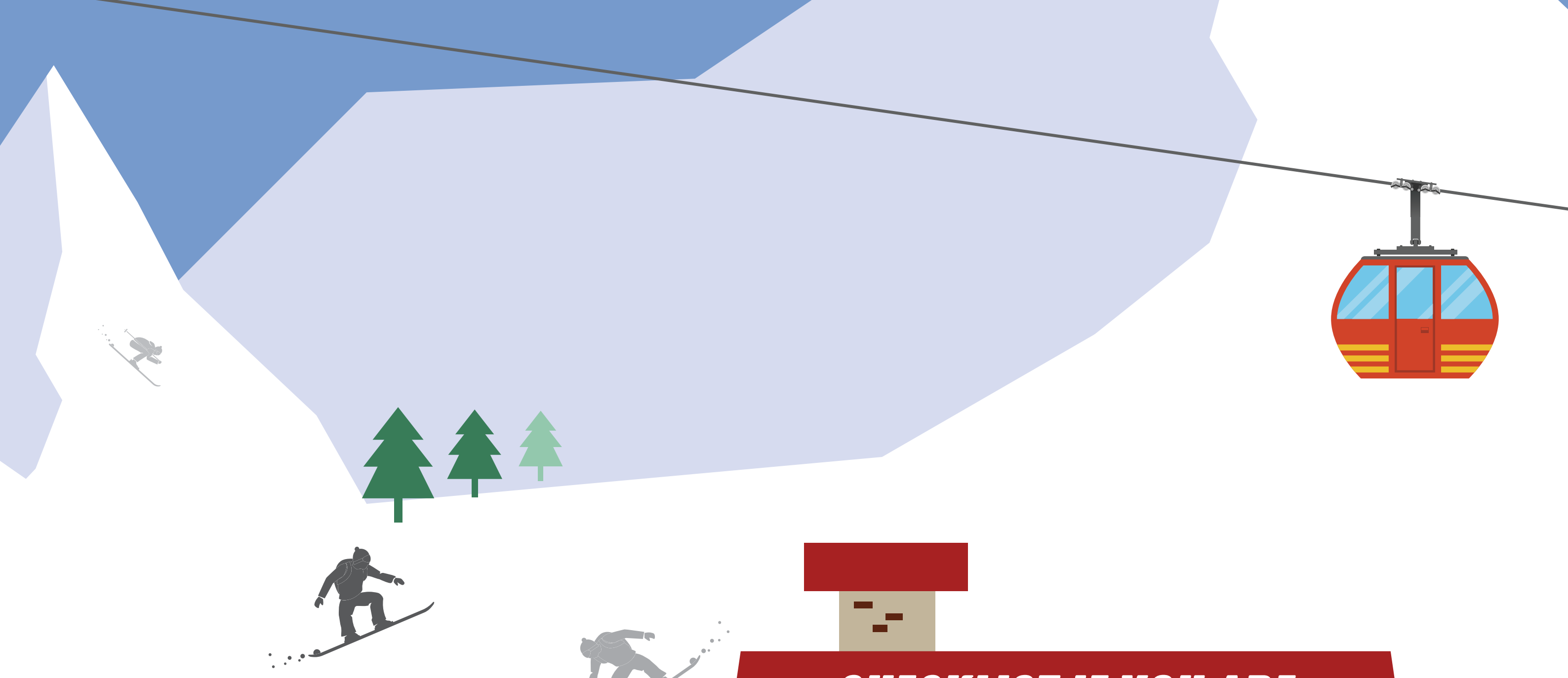
Capita's shares are down around 60% since 2015. One option could be to open a position that is 60% lower than your average, in this example around £2,000 and holding the rest of your cash in reserve or investing it in something else.

This would mean buying 394 shares in Capita – the same number you would have bought at £13.20 a share, but paying 60% less.

Now let's see what happens if Capita's share price falls again. If the stock price halves down to say 250p, it only costs £985 to buy another 394 shares.

And if it halves again, to 125p, it would only cost £493. Averaging down in this way, an investor keeps some of the upside but avoids overexposing themselves on the downside to one particular stock.

Even at this point, the maximum the investor could lose is £3,478, less than 5% of their entire portfolio.



SET LIMITS

Hedge fund manager Hempton at Bronte uses a similar approach. Each time a new stock is added to the Bronte portfolio, Hempton sets a maximum loss limit on each position. He makes the positions smaller on stocks which look riskier.

'The default at Bronte is that we have set the maximum percentage for a stock, typically 9% [of the portfolio] but often as low as 3% depending on how we assess the risk of the stock,' writes Hempton.

'As fund manager, I am allowed to spend that whenever I want but I am not allowed to overspend it. If we have a 6% [of the portfolio] position with a 9% loss limit and it halves, I am allowed to add three percentage points more to the exposure. But that is it.'

MEASURE YOUR RISK IN POUNDS

The key point is this: Investors that want to take advantage of falling prices should do so very conservatively. You should avoid becoming heavily overinvested in individual stocks or funds.

Investors who really like to buy as prices fall could consider the aforementioned approach: buying the same number of shares at lower and lower prices – while always ensuring the total amount of capital at risk is less than or in line with other positions in your portfolio.

Hedge fund manager Hempton also argues that companies which have a lot of debt are generally best to avoid averaging down on.

As Hempton says, don't let a 7% position in your portfolio lose 18% of your portfolio's value. But equally, don't be put off making a sometimes irrational stock market work to your advantage.

CHECKLIST IF YOU ARE CONSIDERING BUYING WHEN A SHARE PRICE HAS FALLEN

1 Why has the share price fallen? – is the problem linked to fears over inability to service debt, trading problems, accounting scandal, negative market backdrop, large investors selling chunks of shares?

These are some examples of factors that can weigh on a share price. A stock can be cheap; yet it can be cheap for a negative reason which means lower share prices do not always equate to being bargains.

You need to be able to identify how the company can fix problems and address the factors preventing its share price from rising.

2 If you cannot see a catalyst for fixing any problem, how can you be certain the share price will stop falling?

3 The optimal situation for value investors is to spot a stock where the market has incorrectly priced in certain risks that won't actually manifest into real problems. 'The market has got it wrong' is the best way of summarising this situation. It isn't easy to find stocks which fit the criteria; but it is certainly not impossible.

PREMIER FOODS (PFD) 41p

FOOD MANUFACTURER AND *Mr Kipling* brand owner Premier Foods has been a perpetually falling knife for the past decade.

Premier has become a ‘zombie’ company, according to Shore Capital analyst Darren Shirley, a term used to describe companies with no economic value that continue to survive via cheap loans.

That’s a bit unfair, in our view. While our retail expert James Crux has had a consistently bearish, and consistently correct, stance on Premier’s stock for many years, the company is not a poor business: it simply has an inappropriate financial structure. There’s a big difference.

WHY PREMIER IS STILL WORTH A LOOK

Premier’s core business is impressive. It has 17% operating margins and its return on tangible assets is 14%, much better than the average company on the stock market.

It also operates in relatively defensive markets. Premier’s problems revolve around its debt load which is £556m, some four times trading profit. It also has a pension deficit of £183m.

Add these liabilities together along with Premier Foods’ market capitalisation of £356m and you get an enterprise value of £1.1bn versus year-ahead trading profit estimates of £118m.

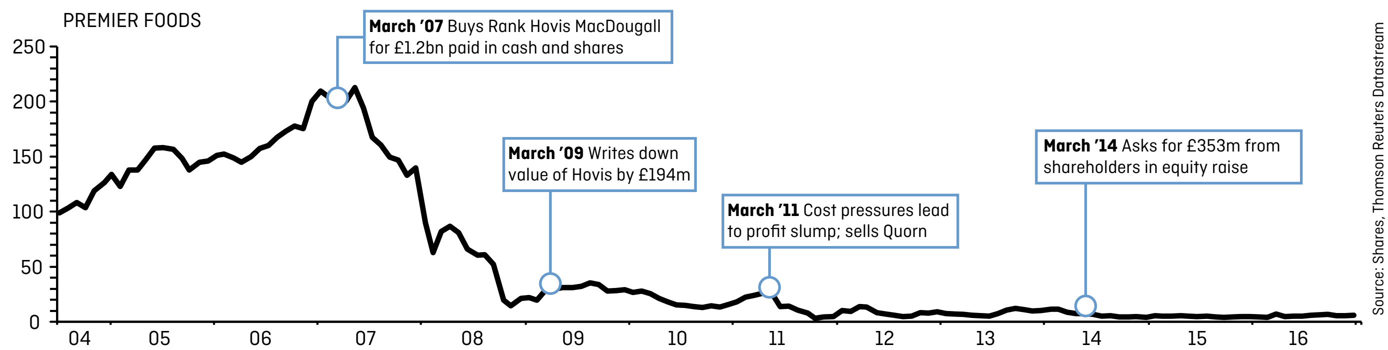
A company of Premier’s quality would trade at an equity value far in excess of £1.1bn if its debt and balance sheet liabilities were extinguished, in our view.

Comparisons across the industry provide a less bullish perspective.

Smaller rival **Finsbury Food (FIF:AIM)**, for example, trades at an enterprise value to operating profit of 10.2. On this basis, Premier Foods is only a little cheaper at 9.3 times the same ratio.

Still, Premier’s margins are triple those at Finsbury and it boasts a stable of attractive brands including *Oxo* and *Ambrosia*.

There is a lot to like about the business, in our view, but investors really need to do their homework on how much additional equity they would be willing to invest in this business via a potential rights issue, if needed.



TUNGSTEN (TUNG:AIM) 64p

LOSS-MAKING INVOICE discounter Tungsten has tumbled from highs of over 400p a share to 64p amid slower-than-expected progress on reaching break-even as well as board room angst.

Financier Edi Truell persuaded a constellation of high flying City bakers including Icap founder Michael Spencer to back Tungsten's IPO in 2013 at 225p a share.

Truell's pitch was simple: use the shift from paper to electronic invoicing to create a vehicle which not only automates the processing of invoices but also provides companies with new financing options.

Companies, after they have sold their products, want to turn invoices into cash as quickly as possible. Equally, investors are very keen to lend against the 'promises to pay' which they represent.

Making these transactions electronic not only improves administrative efficiency, it makes them much simpler to turn into financing agreements.

HOW DOES INVOICE FINANCING WORK?

- Sainsbury's buys a batch of *Mr Kipling* cakes from supplier Premier Foods
- Premier Foods ships the product and sends an invoice to Sainsbury's
- Sainsbury's approves the invoice and says it will pay within 30 days

At this point, investors can buy this approved invoice from Premier Foods at a slight discount to the amount which will be paid from Sainsbury's. This gives Premier Foods immediate access to the cash, minus a small discount. Sainsbury's pays the cash straight to the investors rather than Premier Foods.

In this way, an invoice has been turned into an interest-bearing financing instrument.

While it sounds great in theory, progress at Tungsten has been slower than expected.

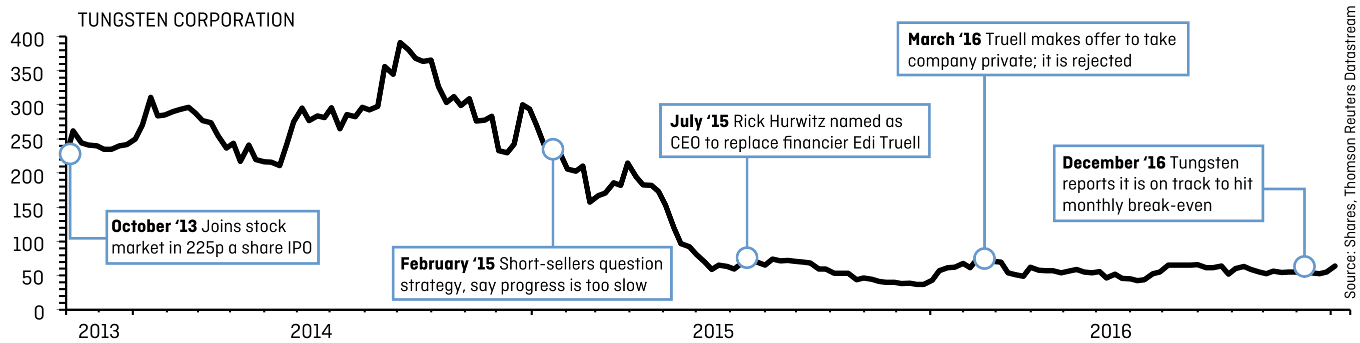
Spencer, who backed the IPO, left Tungsten's board and is said to have fallen out with Truell.

Then Truell also left the company, leaving it the hands of current chief executive Richard Hurwitz.

Tungsten now aims to hit monthly break-even sometime in the calendar year 2017.

It is also starting to see uptake in the financing product, which it says will start generating 'material increases' in revenue during its financial year ending in April 2018.

Patient investors could be rewarded handsomely if Hurwitz delivers on these initiatives.



LONMIN (LMI) 170p

FORMER FTSE 100 platinum miner Lonmin's fall from grace represents a stark warning for any investor thinking of averaging down on a falling share price.

Struggling companies can fall a long way quickly. Add a highly dilutive rights issue on top and you have a recipe for savage declines in shareholder value.

Shortly after Lonmin shares hit their all-time high in 2006, the South Africa-based mining company announced results which showed operating profit of $842m and net debt of $458m.

As the prices of precious metals started to weaken in the late 2000s, profit began to decline. Since 2009 Lonmin has run into a range of problems including strike action from employees which have seen it swing between small profits and heavy losses, racking up debt in the process.

Lonmin raised equity from shareholders for the first time in 2012, tapping up investors for $817m. It did the same again in 2015, asking for $407m via a 46 for one rights issue at 1p a share.

By the 2015 equity raise Lonmin was considered by investors to be virtually worthless. It was only the backing of South African state investment fund Public Investment Corporation which allowed it to raise sufficient money to survive.

Even after raising more than $1.2bn from shareholders over the last four years, Lonmin is valued on the London market at just £486m.

Regardless of your strategy around averaging down, there's no way to make money from a company which burns through shareholder capital and a stock price which drops like a stone.

DIDN'T MINING EQUITIES SURGE LAST YEAR?
Lonmin has returned to form more recently on the back of a rebound in commodity prices: its shares have more than quadrupled in the past year.

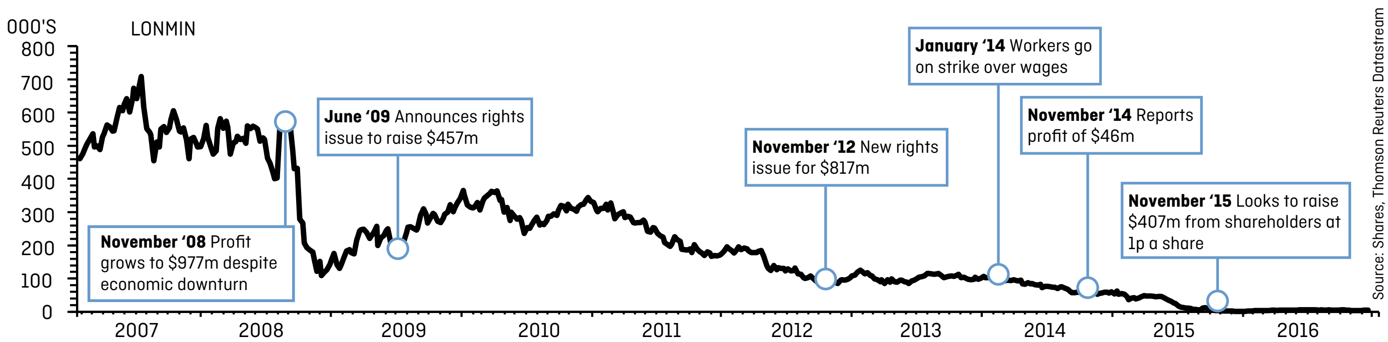
The commodities price rally still only helped the business register a break-even result in the year to 30 September 2016. Guidance for platinum output in the year ahead is lower than that achieved in the previous 12 months.

Optimists might see valuation upside if Lonmin can put its chequered recent past behind it.

Set up in 1909, Lonmin has a distinguished longer-term track record. Even after its recent troubles, the shares have delivered a total return of almost 7% annualised over the past half century. Admittedly most *Shares* readers won't have held the stock for 50 years.

But for a turnaround that is now more than a decade old and counting, Lonmin investors will need deep pockets if more equity is required.

There are also increased risks now a state-backed investment vehicle owns 29.9% of the company's shares. (WC)



Is the 'Trump Bump' for investors about to end?

The market could become disillusioned with the 45th US president

Donald Trump's presidential victory cost **Paddy Power Betfair (PPB)** £5m in lost bets. We doubt it will be the only left nursing losses under his administration. The dust is now settling from Trump's inauguration and the outlook for investors isn't necessarily all good news.

The initial reaction to Trump's election win in November 2016 was a big market bounce as investors focused on his supposed business acumen and his pledge to allocate $500bn to infrastructure spending. This confounded warnings of a stock market collapse if Trump was elected.

If those forecasts were too pessimistic, it's now starting to look like investors swung too far over to optimism.

Two months after the election on 8 November, the FTSE 100 had advanced by 5.4% and the S&P 500 was up 6.4%, having marked new records several times in the interim.

A week or so later, it seems clear the market's love affair with 'The Donald' is starting to wane after an unusually divisive inauguration speech (20 Jan) which disappointed expectations that the office of the presidency would bring the controversial candidate into line.

So far there has been no mention of the kind of fiscal stimulus Trump hinted at on the campaign trail and his inauguration has been met with furious protest across several major US cities.

Have investors become TOO OPTIMISTIC in terms of what Trump can deliver?

WINNING TRADES

We said on many occasions ahead of the vote in November that Trump had a viable chance of being president, despite the polls suggesting otherwise.

The 27 October 2016 edition of *Shares* included our portfolio of stocks to buy if you believed Trump would win.

We reappraised the portfolio following the election result and suggested taking profit on the healthcare stocks which had rallied following news that Hillary Clinton wouldn't be president and clamp down on drug pricing. The table (see *Trump Trades*) shows the remaining picks included some pretty shrewd calls and overall we achieved a return more than twice that of the overall market (as represented by the FTSE All-Share).

OUR TRUMP PORTFOLIO

COMPANY	PERFORMANCE (%)
Ashtead	26.8
BAE Systems	9.6
BlackRock North American Equity Tracker Fund	5.7
CF Miton US Opportunities	5.8
CRH	6.7
G4S	1.2
Gold	-4.9
Hill & Smith	9.8
Hunting	33.8
Meggitt	1.4
National Grid	-8.5
Ultra Electronics	3.7
Weir	28.4
Wood Group	12.2
Average	**9.4**
FTSE All Share	**4.6**

Source: SHARES, SharePad, Morningstar from close 8 Nov '16 to 23 Jan '17

It is now prudent to take some profit on our selection of oil service stocks. These are beginning to look over-extended and vulnerable to even a modest disappointment.

BETTER BACKDROP FOR GOLD?

Gold has drifted as the market moved firmly into 'risk-on' mode but could have renewed appeal against a more uncertain backdrop.

All commodities could get a boost if eroding confidence in Trump is reflected in the US dollar thanks to the traditional inverse relationship between the two.

Any benefit for UK-listed miners and oil and gas producers could be dampened, as dollar-denominated earnings would be worth less in sterling.

AMERICA-FIRST POLICY

Probably the strongest message to emerge from Trump's first major speech as president was an 'America-first policy'. This could be a major risk for the global economy if it leads to increased protectionism but is a likely boon to domestic US stocks, at least in the short-term.

Domestic stocks are well represented by small caps and there are several ways to play this section of the US market.

A handful of UK exchange-traded funds (ETFs) offer direct exposure to the Russell 2000 index, the cheapest of which is **SPDR Russell 2000 US Small Cap (R2US)** with a total expense ratio of 0.3%.

Mutual funds with a US small cap focus include **Aberdeen Global – North American Smaller Companies (LU0566484027)** and **CF Miton US Opportunities (GB00B8278F56)**. (TS)

LIFE UNDER TRUMP – WHAT THE EXPERTS SAY

WILTOLD BAHRKE – senior strategist, Nordea Asset Management:
'EQUITIES ARE discounting a significant growth pick up without meaningful monetary tightening spoiling the show. Confidence among small and medium-sized companies in the US is at the highest level since 2004 and US company earnings estimates for this year were not revised down at the end of last year like they normally are.

'However, scepticism is warranted, especially as some markets seem to be priced to perfection when it comes to the overall economic outcome for 2017.'

DAVID PAGE – senior economist at AXA Investment Managers:
'AS TRUMP DISCUSSED the "hour of action", the prospects for policy in the first 100 days continue to include the risks that we have flagged over the possibility of tariffs or other trade protectionism, with the coincident risk of retaliatory measures elsewhere around the globe.'

BEN GUTTERIDGE – head of fund research, Brewin Dolphin:
'THERE IS A CONSIDERABLE weight of expectation on the Trump Administration and it now must deliver on tax reform; cutting rates for both corporations and households... on balance, we remain very optimistic.'

TOM ELLIOTT – international investment strategist, DeVere Group:
'THE CLOCK STARTS ticking on President Trump's first 100 days. If in this period we hear conciliatory words from Trump on his more contentious policy ideas, and evidence that his advisors and Congress can control the impulsive side of the man, Trump may confound his critics and have a successful presidency. Markets will be relieved and the Trump rally on Wall Street will resume.'

Dial up Vodafone dividends

Market too gloomy on earnings and income potential

Stiff competition across Europe, a fierce price war in India and new spectrum investment demands on cash flow are putting **Vodafone (VOD)** dividends under scrutiny, one of the main reasons that thousands of investors and funds own the stock.

Yet analysts remain largely positive on the shares, arguing that the market has the balance between risk and return out of kilter.

Some City number crunchers believe that there is a substantial 33% upside on the table for shareholders this year. The stock currently changes hands for 205.85p.

Vodafone is one of Europe's largest mobile operators, with operations in the UK, Germany, Italy and Spain, plus India, South Africa, parts of the Middle East and Asia Pacific. It is also one of the most frequently traded stocks, with upwards of 40m shares regularly changing hands on a daily basis.

PAYOUT FEARS OVERDONE AT VODAFONE

DIVIDEND DEBATE

The £54bn group is emerging from a period of heavy capital investment, otherwise known as *Project Spring*, which has constrained earnings and made its dividend cover look particularly skinny.

According to Reuters data, the consensus of analyst forecasts for the mobile group stands at €0.15 per share for the full year to 31 March 2017, or about 12.9p per share at the current 0.862 euro/sterling conversion rate. Earnings per share (EPS) for the same year is pitched at less than half that amount, €0.07 (6.1p).

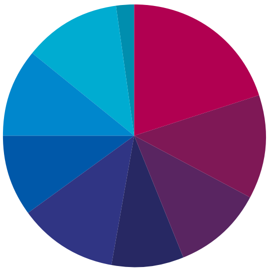
If those estimates prove right this year will be the third in a row that EPS has failed to cover the dividend, with borrowings used to support the payout.

The market's current view of the group's prospects means that this situation could persist for several years, meaning little or no growth in income for shareholders.

MARKET TOO NEGATIVE

But future prospects may not be anything like as bleak as they may appear. One source of encouragement came in interim results to 30 September, when Vodafone raised its half year dividend by 1.9% to 4.74c, or about 4.1p.

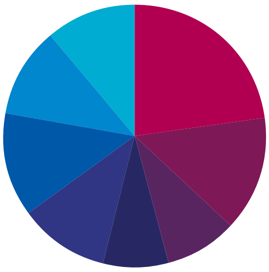
The main message from those results was



REVENUE BY REGION (FY 2017)

Germany	20%
UK	13%
Italy	11%
Spain	9%
Other Europe	12%
Vodacom (South Africa)	10%
India	11%
Other emerging markets	12%
Other Europe	2%

Source: UBS



EBITDA BY REGION (FY 2017)

Germany	23%
Italy	14%
UK	9%
Spain	8%
Other Europe	11%
Vodacom (South Africa)	13%
India	11%
Other emerging markets	11%

Source: UBS

of improving strength across much of Europe offsetting a decline in the UK, although even here the rate of reverse is slowing.

Since those results a growing army of City brokers and investment banks have highlighted what they see as over-played challenges for Vodafone, with precious little credit given for potential positive surprises. This growing weight of opinion includes analysts at Jefferies, Berenberg and UBS.

Previously troubled markets, such as Italy and Spain, are showing convincing signs of improved operating metrics.

'The Italian unit is looking to accelerate cost saving measures going forward,' say UBS analysts Polo Tang and Michael Hill, who also flag strong growth in fixed line in the region.

In Spain, UBS reckons Vodafone can increase its 20% market share within the low cost segment. 'We see scope for Vodafone to more actively promote its *Lowi* mobile brand in the value segment and start offering a no-frills converged fixed/mobile bundle,' the pair say.

EUROPEAN OUTPERFORMANCE

This implies that Vodafone's European operations may be capable of doing substantially better than the zero to low single-digit revenue and EBITDA (earnings before interest, tax, depreciation and amortisation) growth forecast for the next few years, after eight years of decline.

India has been a particularly fast moving mobile market, and troubling for Vodafone. It was recently forced to write-down its Indian business by £4.3bn. Adding to the pressure is **Reliance Industries (RELI:NS)**-backed Jio, which has been controversially providing all mobile services for free since its mass launch in September, a promotion that Vodafone and others have labelled anti-competitive.

Reliance reaffirmed its commitment to ongoing free Jio mobile services for the foreseeable future on 13 January.

This has prompted speculation of telecoms consolidation in India in which Vodafone would likely be a lead player. This could potentially kill two birds with one stone; addressing competition and increasing market share in this multi-billion pound market.

M&A BOOST

Merger and acquisition (M&A) activity could provide positive catalysts elsewhere, a combination with **Liberty Global (LBTYA:NDQ)**, the owner of Virgin Media, has often been mooted.

A merger was recently completed between their respective Dutch assets. 'We see a broader deal between the two as a value-accretive step,' explain UBS's Tang and Hill, a point on which Berenberg analysts agree. 'The move would create a leading converged fixed/mobile operator in Europe and potentially realise significant synergies.'

In addition, Vodafone should benefit from rising 4G penetration, growing mobile data usage, recent 'more-for-more' price changes and growth in fixed line services.

'We think recovery and operational gearing have been underestimated with the shares implying no top-line growth. We also see M&A upside potential from a broader deal with Liberty Global,' concludes UBS.

SHARES SAYS: ↗

We agree that the market is too gloomy over Vodafone as a whole and dividends in particular. The current above sector average income yield of 6.3% remains attractive. (SF)

BROKER SAYS: 16 8 3

You need Watkin Jones in your portfolio

Student accommodation specialist has attractive earnings visibility and a tasty dividend yield

CHEAP SHARES + ATTRACTIVE DIVIDEND

Decent earnings visibility on student accommodation builder **Watkin Jones' (WJG:AIM)** means its shares are too cheap.

The company's March 2016 IPO (initial public offering) saw the largest fundraising on AIM in two years at £131m. Furthermore, maiden financial results as listed company were very good.

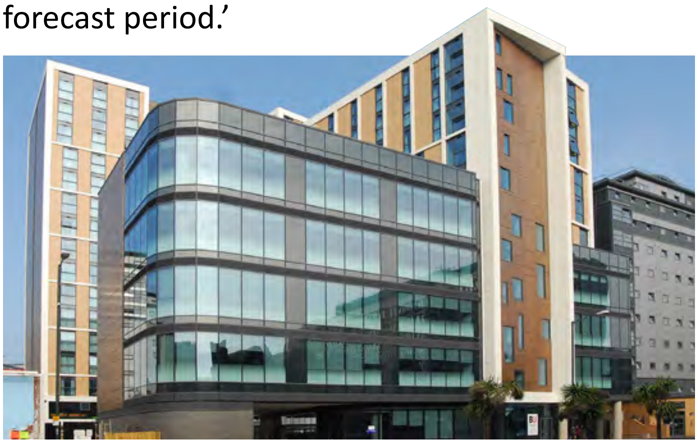
Operating profit for the year to 30 September 2016 increased by 16.7% to £37.9m excluding one-off costs mainly associated with its IPO.

MAKING SUBSTANTIAL PROGRESS

Since the financial year end, the company has announced the forward sale of five developments. Broker Zeus Capital estimates 70% of the current financial year's expected profit has already been secured by forward sale projects.

Analyst Andy Hanson says: 'Across the forecast period, Watkin Jones has currently secured circa 9,500 beds across 27 sites; 61.6% of these beds have been forward sold.' He says this figure increases to 87.2% when including beds that have planning consent.

'Assuming an annual delivery of 3,500, securing a further 1,000 beds for delivery in the year September 2019 would mean visibility on 100% of the beds due for completion across the forecast period.'



Despite the confidence this provides in earnings forecasts, the company trades on a prospective price-to-earnings ratio of 9.5 (too low, in our view). It also offers an attractive 4.8% prospective dividend yield.

The dividend also looks fairly safe when you consider the company's position. It is sitting on more than £30m net cash and has £50m of new bank lending facilities.

It also generated operating cash flow before IPO costs of £41.7m in the September 2016 financial year, up from £28.4m a year earlier.

A ninth-generation family-run business, Mark Watkin Jones is the current chief executive. Family businesses are often considered to be attractive to investors because typically they have an emphasis on the long-term; they are disciplined with their capital; and they tend to have a strong and consistent corporate culture.

RENTAL OPPORTUNITY

The company recently stepped out from its student focus to build a position in the private rental sector but the CEO is keen to emphasise to *Shares* the positive fundamentals which continue to underpin student flat market.

He notes Brexit is unlikely to have too much of an impact given only around 7% of the student population in the UK comes from the European Union (EU), while weak sterling could make the UK an attractive destination for non-EU students.

The company's Fresh Student Living arm is a growing student accommodation platform through which it plans to operate 18,000 student beds across the UK by 2020.

SHARES SAYS: ↗
Snap up the shares at 130p.

BROKER SAYS: 1 0 0

MySale's a momentum play

Shares are expensive for a reason

We are staying positive on **MySale (MYSL:AIM)** despite its punchy valuation. The operator of online 'flash sales' or time-limited sales events not only has positive momentum, but also the balance sheet to invest for future growth.

Investors have chased MySale higher for its improving trading performance and Brexit-busting credentials, being very much an international business.

A positive trading update (20 Jan) revealed underlying EBITDA doubled to a better-than-expected A$3m (£1.8m) in the six months to 31 December. Online sales, the core business excluding low margin, declining wholesale revenues, rose 18% to $126.5m, reflecting healthy growth in the active customer base.

With net cash approaching $30m (£18.1m), MySale has the balance sheet to invest behind its global flash sales brands and in selective acquisitions. Meanwhile, a new strategic partnership with gilt.com, part of department store operator Hudson's Bay, will boost its available product range.

N+1 Singer reckons MySale can reach 226p over the next 12-18 months, implying potential upside of 79%. For the year to June 2017, the broker forecasts pre-tax profit of $1.8m (2016: $1m) for 0.8 cents of earnings (0.49p) ahead of a surge to $4.1m and 1.9 cents the following year.

We agree with Panmure Gordon's Michael Stewart, who believes 'the shares justify a premium rating given that they are a recovery play and given that the company is operating on an inflection point of growth and profitability.'

SHARES SAYS: ↗
MySale's momentum means further upgrades are likely and we see upside from the current 126.25p. (JC)

BROKER SAYS: 1 0 0

Elecosoft beats profit forecast

CONSTRUCTION software minnow **Elecosoft (ELCO:AIM)** has shot the lights out for 2016, beating pre-tax forecasts by more than 20%. The earnings are so good that it has achieved 2017's forecast profit a year early. Record sales of £17.7m and sterling tailwinds from its Swedish and German operations have subsequently driven the strong operational performance. The shares have jumped 20% to 36p. (SF)

Bonmarche begins to blossom

RELIEF OVER THE reiteration (20 Jan) of full year profit guidance triggered a rally at women's fashion retailer **Bonmarche (BON)**. Third quarter sales grew by a better-than-expected 3.3% and margins strengthened in the key Christmas period, demonstrating some early progress with CEO Helen Connolly's turnaround, although a poor online showing will give pause for thought. (JC)

Wilmington's healthy expansion

PROFESSIONAL INFORMATION and events specialist **Wilmington (WIL)** is set to buy digital information and events business Health Service Journal from FTSE 250 media group **Ascential (ASCL)**. Announced on 19 January, stockbroker N+1 Singer describes the £19m deal as 'attractive' and estimates it will provide a 9% boost to Wilmington's earnings per share in the year ending June 2018. (TS)

THE UK'S LITTLE-KNOWN COMMUNICATIONS GEMS

LOOK BEYOND THE LARGE CAPS FOR INTERESTING TELCO SECTOR INVESTMENT OPPORTUNITIES

The UK telecoms and internet infrastructure industry is dominated by a handful of giants. Look a bit deeper and you'll find some lesser-known but very interesting players.

Most people associate this sector with the large companies such as **BT (BT.A)** and **Vodafone (VOD)**. They tend to be natural homes for income seekers thanks to good dividend yields backed by enormous cash flows, even in the face of equally vast debts.

Add in FTSE 100 satellites operator **Inmarsat (ISAT)** and consumer and business services supplier **TalkTalk (TALK)** and you've got around 90% of the sector's market capitalisation right there.

Further down the market cap spectrum is a handful of fascinating smaller companies bubbling under the surface. These businesses are barely known outside of a relative handful of fund managers, private investors and their own customers. Here you will find a network of very interesting investment opportunities.

NOT EVERY SMALL TELCO IS A DISASTER

The vast and rapid change in the telecoms environment has resulted in a fair few investment disasters. That might explain why many investors haven't bothered to seek opportunities among junior companies.

The market is very good at remembering companies that disappoint. For example, think of cash-strapped consumer satellite operator **Avanti Communications (AVN:AIM)**. Others might be familiar with payments network platform **Monitise (MONI:AIM)** or emerging markets app store failure **Mobile Streams (MOS:AIM)**. They've all had interesting stories to tell; sadly they've ultimately proved disastrous investments.

So why should I bother looking for opportunities, you might ask? Well, the answer is simple. You can't tar the entire sector with the same brush. Read on to discover our top hidden gems on the UK stock market.

WHY WE LIKE GAMMA

The first on our list is **Gamma Communications (GAMA:AIM)**. Regular Shares readers might recall Gamma's inclusion in our top stock picks for 2015 where were said two years ago to buy at 231.5p.

The shares now change hands for 481p, having traded as high as 528p in September last year. We still believe this is under the radar of most investors, despite the aforementioned share price gain.

Gamma is a technology-based supplier of communications solutions in the UK. Its cloud and call control products allow businesses to manage increasingly complex voice, data and mobility requirements.

It also provides best-in-class broadband, ethernet, mobile and data services.

Out-competing both large and small rivals for years, Gamma is a rare telecoms technology group as it is growing much faster than its peer group.

Earnings for both 2015 and 2016 beat forecasts. We will get confirmation of the exact figures for 2016 when it reports in late March 2017. Analysts expect pre-tax profit will move from £21.4m in 2015 to £24.5m in 2016; before moving ahead to £26.1m in 2017.

ON THE CUSP OF AN EARNINGS BREAKTHROUGH

Fibre networks designer and builder **CityFibre (CITY:AIM)** is another little-known operator in the UK telco industry, but we do not expect it to remain ignored for long.

CityFibre has used a combination of debt and equity funding to fuel its growth ambitions of a 100-city wide national UK network.

On 17 January CityFibre announced a contract award for the roll out of a public services network in Stirling, the fourth CityFibre gigabit city in Scotland and 41st nationally.

The seven year contract has been agreed with the local council who will act as an anchor tenant, putting up the cost of the network build and guaranteeing a minimum usage level.

Once up and running, CityFibre's model is to sell capacity access to local businesses and, eventually, residents.

PAYOUT MARGIN OF SAFETY

	EPS	FCF YIELD	DPS	COVER
KCOM (YE MAR 2018)	5.4P	-0.2%	6P	0.9X
MANX TELECOM (YE DEC 2017)	13.9P	6.0%	11.5P	1.2X

Source: broker concensus

Breaking into profit could act as the share price catalyst long desired by investors.

The company is approaching an earnings breakthrough three years after joining AIM on 17 January 2014.

Analysts expect the 2016 financial results will show a maiden positive EBITDA (earnings before interest, tax, depreciation and amortisation) figure for the 2016 financial results, when they are published around April time. It is forecast to report a maiden pre-tax profit figure in 2018.

TASTY DIVIDENDS

There are other interesting options for income seekers. **KCOM (KCOM)** and **Manx Telecom (MANX:AIM)** both act as incumbent operators in their respective local markets; KCOM in East Yorkshire and Humberside, Manx on the tax haven Isle of Man.

What the pair also share are ambitions to bolster their mature, low growth local markets operations with enterprise data, cloud and mobile services.

This is important for shareholders of the pair since both businesses pay out almost all earnings as dividends based on 5% to 5.5% income yields.

Both have their challenges. Failure to deliver growth from newer services could seriously limit each company's capacity to continue to increase dividends. This would be disastrous and would most likely trigger an investor exodus.

There are no risk-free opportunities in the telcoms space, as per the whole of the stock market. But there remains far more opportunities than many investors might imagine. (SF)

FRIDAY 27 JANUARY

FINALS	
ABERFORTH SMALLER COMPANIES TRUST	ASL
INTERIMS	
BT	BT.A
TRADING STATEMENTS	
THE PARAGON GROUP OF COMPANIES	PAG
AGMS	
NEKTAN	NKTN
ECONOMICS	
US	
REVISED UOM CONSUMER SENTIMENT	

MONDAY 30 JANUARY

INTERIMS	
CRANSWICK	CWK
FILTRONIC	FTC

TUESDAY 31 JANUARY

FINALS	
ABERFORTH SMALLER COMPANIES TRUST	ASL
OXFORD BIODYNAMICS	OBD
OCADO	OCDO
INTERIMS	
ALUMASC	ALU
TRADING STATEMENTS	
BRITVIC	BVIC
INTERMEDIATE CAPITAL GROUP	ICP
SSE	SSE
AGMS	
CYBG	CYBG
GREENCORE	GNC
ECONOMICS	
UK	
GFK CONSUMER CONFIDENCE	
MORTGAGE APPROVALS	
EU	
CPI FLASH ESTIMATE	
UNEMPLOYMENT RATE	

OCADO
Given the strong Christmas showing from supermarket rivals in a competitive market, CEO Tim Steiner's outlook statement will be first port of call for investors when Ocado (OCDO) issues full year results on 31 January. Before Christmas, the online supermarket disappointed with news of a near-3% contraction in average order size and a slowdown in sales for the final quarter to 27 November. The market still awaits a long-promised deal with an international retailer. (JC)

WEDNESDAY 1 FEBRUARY

FINALS	
FUTURE	FUTR
TRADING STATEMENTS	
TALKTALK	TALK
AGMS	
THARISA	THS
ECONOMICS	
UK	
BRC SHOP PRICE INDEX	
MANUFACTURING PMI	
EU	
FINAL MANUFACTURING PMI	
EU ECONOMIC FORECASTS	
US	
FINAL MANUFACTURING PMI	

THURSDAY 2 FEBRUARY

FINALS	
ASTRAZENECA	AZN

ASTRAZENECA
Pharma stock AstraZeneca (AZN) will become one of the first big FTSE 100 stocks to report 2016 earnings when its figures are published on 2 February. Look for an update on R&D spend, a priority for the newly installed management, and sales performance. Group sales fell 5% to $17.4bn in the first nine months of 2016. (TS)

CRANSWICK
Pork and poultry producer Cranswick's (CWK) third quarter trading update (2 Feb) could confirm a strong Christmas and continuing export growth for the gourmet sausages, bacon and fresh chicken supplier, augmenting robust organic growth through savvy acquisitions. The long-standing *Shares* favourite certainly had momentum entering the festive period, superb half year results (29 Nov) triggering yet another round of earnings upgrades. (JC)

TRADING STATEMENTS		
ABERDEEN ASSET MANAGEMENT	ADN	
COMPASS	CPG	
CRANSWICK	CWK	
VEDANTA RESOURCES	VED	
VODAFONE	VOD	
AGMS		
JP MORGAN ASIAN INVESTMENT TRUST	JAI	
EX-DIVIDEND		
AXIOM EUROPEAN FINANCIAL DEBT	AXI	1.65P
COHORT	CHRT	2.2P
CHRYSALIS VCT	CYS	3.25P
DOWNING DISTRIBUTION VCT	DDV1	3P
PENNON	PNN	11.09P
THE SME LOAN FUND	SMEF	0.6P
VICTREX	VCT	35.09P
ECONOMICS		
UK		
CONSTRUCTION PMI		
BANK OF ENGLAND INFLATION REPORT		
OFFICIAL BANK RATE		
EU		
PPI		
US		
UNEMPLOYMENT CLAIMS		

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Companies presenting

Guinness Asset Management Ltd Tim Guinness, CEO
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Versarien plc (VRS) Neill Ricketts, CEO
Founded in 2010, Versarien utilises proprietary technology to create innovative new engineering solutions that are capable of having a game-changing impact on a broad variety of industry sectors. Versarien plc's (VRS) impact on the graphene space continues - as it won a significant £100,000 order to supply high quality material to an unnamed European commercial customer.

Allianz Technology Trust PLC (ATT) Walter Price CFA, Portfolio Manager
ATT is managed by Walter Price who is a Managing Director and Portfolio Manager on the AllianzGI Technology Team in San Francisco, having joined in 1974. Walter is a current Director and past president of the M.I.T. Club of Northern California. He also heads the Educational Council for M.I.T. in the Bay Area and is a past Chairman of the AIMR Committee on Corporate Reporting for the computer and electronics industries.

SHARES are also going back to EDINBURGH for another important and interesting investor evening. With 5 exciting companies presenting on the 15th at The RADISSON BLU Hotel in the city centre.

For full details please follow this link

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Complimentary drinks and buffet available after presentations

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KEY

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