STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

MOTOR INSURERS BRACED FOR OGDEN HIT

THE RATIONAL INVESTOR: SPOT WHEN THE MARKET IS WRONG

My investment has **FALLEN IN VALUE**, can I get my **MONEY BACK?**

Why **FREEAGENT** could be the next big **DISRUPTIVE BUSINESS**

*WHAT TO **BUY** WHEN THE MARKET GETS **GRIZZLY***

Two ways to access the revival in corporate bonds

Fixed interest investments are back in fashion...but for how long?

In, out and back in favour: what is going on with the corporate bond market? US corporate bonds have rallied since the presidential election in November thanks to higher risk appetite and higher expectations for corporate earnings.

Also in swinging in favour of the bond market are reduced expectations for interest rate hikes in both the US and UK. Higher rates can make bonds less attractive versus equities, so no action on rates is positive for bonds.

Corporate bonds are like 'IOUs'. A company borrows money from investors in exchange for paying a fixed rate of interest and return of capital after a fixed term.

Microsoft (MSFT:NDQ), **Apple (AAPL:NDQ)** and **AT&T (T:NYSE)** are among the companies to have tapped debt markets so far in 2017 for significant amounts of cash.

Even UK-listed companies are part of this year's corporate bond frenzy including miner **Vedanta Resources (VED)** which launched $1bn worth of bonds in January.

general public in the UK in smaller portions for as little as £100 a time.

You can presently invest via its website in bonds from Enterprise Inns – whose shares now trade as **EI Group (EIG)** – as well as **AA (AA.)** and Virgin Media, among others. Wise Alpha says it hopes to expand its bond range in time.

Before you get carried away, there are downsides to this otherwise interesting proposition. Wise Alpha hasn't got permission yet to offer an ISA, so you can't hold bonds bought through its platform via a tax-efficient wrapper. You are therefore liable for income tax on the coupon payments. You also pay 1% a year in fees to Wise Alpha which further reduces your return.

Liquidity is another potential issue if you want to sell your bond before it matures. Wise Alpha says it has been able to buy back bonds from investors selling earlier as there have only been a handful of requests. What happens if there is a barrage of people wanting to exit at the same time? Wise Alpha makes no guarantee it will buy back the bonds 'on demand'.

HOW TO ACCESS THE MARKET

Many of the best corporate bond opportunities are restricted to institutional investors such as pension funds and investment banks. Corporate bonds often require a minimum £100,000 investment which is too high for most retail investors.

One solution is to use the services of Wise Alpha, an online platform which launched in 2016. It invests in corporate bonds typically yielding 5% to 8% and effectively resells them to the

TAKING A DIFFERENT ROUTE

An alternative, more tax-efficient way of investing in corporate bonds is to consider a fund like **Henderson Diversified Income (HDIV)**. It also provides exposure to secure loan assets.

You can hold the Henderson product in an and you should be able to sell whenever you like as its shares are quoted on the London Stock Exchange. It yields 5.5% at present, provides more diversity than investing in single bonds at a time (as per Wise Alpha) and has a 1.1% ongoing charge (DC).

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IMPORTANT

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Motor insurers braced for Ogden hit

Change to the way compensation payments are calculated could wipe millions off insurers' profit

The Government is poised to announce a change in the rate used by courts to work out compensation payments for victims of car accidents. This could have a significant impact on motor insurers and their share prices.

Our preferred name in this space, **Hastings (HSTG)**, looks relatively unaffected by the anticipated changes and could even benefit in some respects.

WHAT IS THE OGDEN RATE?

The Ogden rate is an assumption, used by the courts in determining compensations awards, on how much interest any money paid out will earn when it is invested.

The higher the rate, the lower the lump sum required. The rate has been set at 2.5% for nearly 16 years but with interest rates falling from more than 5% to a record low of 0.25% in the interim there has been clamour for a change.

In its annual report, **Direct Line (DLG)** says a one percentage point decrease in the Ogden rate would wipe £190m off its profits.

CRUNCHING THE NUMBERS

Investment bank UBS has made its own assessment of the sensitivities. The motor insurers have underperformed the market in recent weeks and UBS sees a reduction to 1% as being priced in, particularly as most of the insurers have already assumed a reduction in the rate when determining their capital buffers (see table).

Investors could expect any move beyond 1% to have a materially negative impact on share prices.

MOTOR INSURERS' OGDEN ASSUMPTIONS

Company	EPIC	Current assumption
Admiral	ADM	0.50%
Direct Line	DLG	1.50%
Esure	ESUR	2.50%
Hastings	HTG	n/d
Saga	SAGA	n/d

Source: UBS

'Based on disclosures, we estimate that reduction to 1% could lead to reserving additions of 3% to 5% of market capitalisation,' says UBS.

'However, we highlight future earnings could be at risk up to 13% depending on levels of ongoing reserve release expectations in future earnings, reinsurance arrangements and ability for insurers to pass on required (high single digits) price increases.'

WHO COULD BENEFIT?

We think Hastings will stand out from the crowd. Most of Hastings' policies are new and it does not have a backlog of liabilities which would be affected by changes to the Ogden discount rate.

We like the company for its low costs, well-integrated approach to price comparison sites and strong technology platform.

The insurer could also be a beneficiary if the change to the Ogden rate forces some of its rivals to increase their premiums, allowing it to capture market share more quickly.

Forecasts from Berenberg, which is a buyer of the stock with a 253p price target, imply a 2017 price-to-earnings growth (PEG) ratio of 0.5 times. A figure below 1.0 is generally considered to represent a cheap stock versus its growth potential.

SHARES SAYS: ↗
Buy Hastings at 233p.

Wait for return of China panic to buy miners

Resources analyst says mining stocks far too expensive at the moment

The best time to buy mining stocks is when the market is worried about China, according to Haitong Securities analyst Andrew Keen. And that is not now.

The analyst believes the mining sector is broadly 20% overvalued at present and 'vulnerable to deterioration in news flow from commodity markets in China'.

The market currently favours the sector, as evident by a strong rally at the start of this week from miners on the back of rising iron ore and copper prices. The much-hyped infrastructure splurge promised by Donald Trump in the US has also lifted metals producers.

Keen believes Chinese demand for metals is going to soften over the coming months. He also notes that Chinese demand is seven times higher for steel and four times higher for copper versus the US. Therefore, China really matters when it comes to influencing commodity prices.

The analyst has 'sell' ratings on **BHP Billiton (BLT)**, **Glencore (GLEN)** and **Antofagasta (ANTO)**, together with a 'neutral' rating on **Rio Tinto (RIO)**. He criticises Rio for cutting dividends at the start of 2016, only to then use spare cash to buy back stock 12 months later when the equity had doubled in price. He thinks special dividends would be a better use of the money.

In contrast, UBS believes Rio Tinto could be one of the highest returning stocks in the FTSE 100 this year. It believes the miner will boost shareholder returns by a material level in a year's time.

Record period for M&A

JANUARY 2017 saw the strongest start to a year on record in terms of mergers and acquisitions activity, according to Mergermarket. The financial information group says there were 1,137 deals in the month worth £254.5bn – which is 58.8% higher than January 2016. The consumer sector accounted for a third of the deals in January 2017 in monetary terms. (DC)

Learn from DX's dividend disaster

PARCEL DELIVERY business **DX (DX.:AIM)** says it will not pay dividends for the foreseeable future after issuing yet another profit warning (7 Feb). The news is a reminder not to trust super high dividend yields; in the vast majority of cases this is the market rightly guessing a dividend will be cut or suspended. DX was yielding more than 13% before this latest announcement. (TS)

Rolls-Royce's big loss is no surprise

SHARES IN **Rolls-Royce (RR.)** fell earlier this week after posting the biggest loss in its history for 2016. We believe the market will soon focus on the future. The £4.6bn loss encompassed a £4.4bn hit from weak sterling and a £671m fine to settle bribery charges. Underlying profit at £813m was actually 18% ahead of expectations. Free cash flow of £100m is expected to be similar in 2017 with 'modest' improvements in performance. (TS)

New fund will take stakes in depressed oil stocks

Investment trust is pinning its hopes on a sustained re-rating in the commodities sector

A new investment trust is being launched which will allow you to gain diversified exposure to the small cap oil and gas space.

Guinness Oil & Gas Exploration Trust is set to commence trading on the Main Market on 27 February. It hopes to raise between £30m and £100m.

The funds will be used to take advantage of an opportunity to invest in 'depressed junior oil and gas equities'.

The expectation is that these shares will recover as larger companies return to invest in pre-cash flow projects, noting in the last two significant 'up cycles' the FTSE AIM Oil & Gas Index saw significant gains. In particular, the index increased by 250% between January 2001 and April 2006 and by 200% between February 2009 and January 2011.

POTENTIAL FOR 25% ANNUALISED RETURN CLAIMS ASSET MANAGER

A repeat of this kind of performance on a five-year horizon would result in a gross annualised return of around 25%, according to parent Guinness Asset Management.

The fund will be managed by two former energy sector analysts from M&G Investments, Stephen Williams and Sachin Oza. No dividends are planned as the emphasis is firmly on capital growth.

Total costs and expenses are guided not to exceed 2% of net asset value and there is a performance fee of 20% of the excess return above 8% a year.

The emerging markets investment opportunity

Positive catalysts to outweigh dollar power

SEVERAL FUND managers and analysts are pointing out opportunities in emerging markets being missed by many investors

Donald Trump's presidential victory sparked worries for emerging markets investors because he had pledged to protect American interests and renegotiate the terms of international trade.

A stronger dollar is generally regarded as bad for emerging market countries with large debts denominated in dollars. Nations such as Turkey, South Africa and some Latin American economies have low domestic savings and high external debt levels, making them more vulnerable to a further strengthening of the dollar, but the two biggest markets, China and India, are much less vulnerable, according to investment experts at fund management firm BlackRock.

POSITIVE BACKDROP

Several catalysts are in favour of emerging markets, not least that stocks are trading at lower valuations versus developed markets peers. Stabilising commodity prices and fading US dollar strength would also be supportive, say economists at investment bank JP Morgan.

Recent 2016 figures from UK based emerging markets fund manager **Ashmore (ASHM)** showed a big spike in outflows around Trump's victory to around $700m. Were it not for those outflows, UBS analysts calculate Ashmore would have reported $1bn inflows in the last quarter of 2016.

Investors can play emerging markets through low-cost exchange-traded funds such as **iShares Core MSCI EM (EIMI)** as well as more traditional funds like **JP Morgan India (JII)**. (SF)

FRIDAY 17 FEBRUARY

FINALS	
Essentra	ESNT
Kingspan	KGP
Millennium & Copthorne Hotels	MLC
Segro	SGRO
ECONOMICS	
UK	
Retail Sales	

PEARSON (PSON)
Shares in academic publisher Pearson have started to recover following a profit warning on 18 January. The future direction of the share price could swing on the commentary which accompanies full year results on 24 February. Investment bank Liberum is a long-standing bear of the stock and expects the numbers to highlight further issues around cash flow conversion and goodwill write-downs.

MONDAY 20 FEBRUARY

Finals	
Hammerson	HMSO
Interims	
Sareum	SAR
Vedanta Resources	VED

TUESDAY 21 FEBRUARY

Finals	
Anglo American	AAL
HSBC	HSBA
InterContinental Hotels	IHG
Lighthouse Group	LGT
John Wood Group	WG
Interims	
BHP Billiton	BLT
Galliford Try	GFRD
Green Reit	GRN
Image Scan Holdings	IGE
Vernalis	VER

WEDNESDAY 22 FEBRUARY

FINALS	
Capital & Counties Properties	CAPC
Indivior	INDV
Lloyds	LLOY
Petrofac	PFC
Serco	SRP
UBM	UBM
Unite Group	UTG
Interims	
Barratt Developments	BDEV
Hays	HAS

THURSDAY 23 FEBRUARY

BARRATT DEVELOPMENTS (BDEV)
Investors will be keeping a close eye on housebuilder Barratt Developments when it reports its first half results on 22 February. A trading update in November 2016 was broadly reassuring on the impact of the Brexit vote on demand but was a little more downbeat than some of its peers. There may also be comment on the Government's recent white paper on the housing market.

LLOYDS BANKING GROUP (LLOY)
Lloyds Banking Group will announce 2016 results on 22 February. Investors will be most interested in any developments to the dividend policy. An anticipated special dividend was thrown into doubt in December 2016 when the company announced the £1.9bn acquisition of MBNA's consumer credit card business. That could consum cash previously mooted by analysts to fund additional dividends.

Finals		
BAE Systems	BA.	
Barclays	BARC	
British American Tobacco	BATS	
Centrica	CNA	
Glencore	GLEN	
Howden Joinery	HWDN	
Intu Properties	INTU	
Kaz Minerals	KAZ	
Macfarlane Group	MACF	
Morgan Advanced Materials	MGAM	
Mondi	MNDI	
National Express	NEX	
Playtech	PTEC	
Rathbone Brothers	RAT	
RELX	REL	
RSA Insurance	RSA	
Rentokil	RTO	
Greencoat UK Wind	UKW	
Interims		
Monitise	MONI	
Wilmington	WIL	
EX-DIVIDEND		
Alumasc	ALU	2.85p
Aberdeen Private Equity Fund	APEF	2p
Hollywood Bowl	BOWL	0.19p
Carnival	CCL	$0.35
Diageo	DGE	23.7p
EasyJet	EZJ	53.8p
GlaxoSmithKline	GSK	23p
Ideagen	IDEA	0.07p
Independent Investment Trust	IIT	2.5p
Rio Tinto	RIO	100.56p
Shoe Zone	SHOE	6.8p
Shoe Zone	SHOE	8p
Securities Trust of Scotland	STS	1.45p
S&U	SUS	28p
Utilico Emerging Markets	UEM	1.7p
ECONOMICS		
UK		
BBA Mortgage Approvals		
Second Estimate GDP		

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

PLATINUM
— MEMBERSHIP —

THE ULTIMATE EXPERIENCE

BECOMING A PLATINUM MEMBER PROVIDES YOU WITH THE COMPLETE HOSPITALITY EXPERIENCE; FOOD, DRINK AND FIRST CLASS FOOTBALL.

Arguably one of the leading stadiums in the world, Emirates Stadium is marking its tenth season since it open to supporters in 2006. When building the stadium, Arsenal had a desire to provide something special for fans looking for a new experience. Emirates Stadium's Club Level, houses the premium matchday restaurants and bars and is home to Arsenal's Platinum Members. The stadium's premium tier is considered to be one of the leading hospitality facilities in sport.

Whilst designing the new stadium, Arsenal sought to incorporate the club's history within its new surroundings and this is evident throughout.

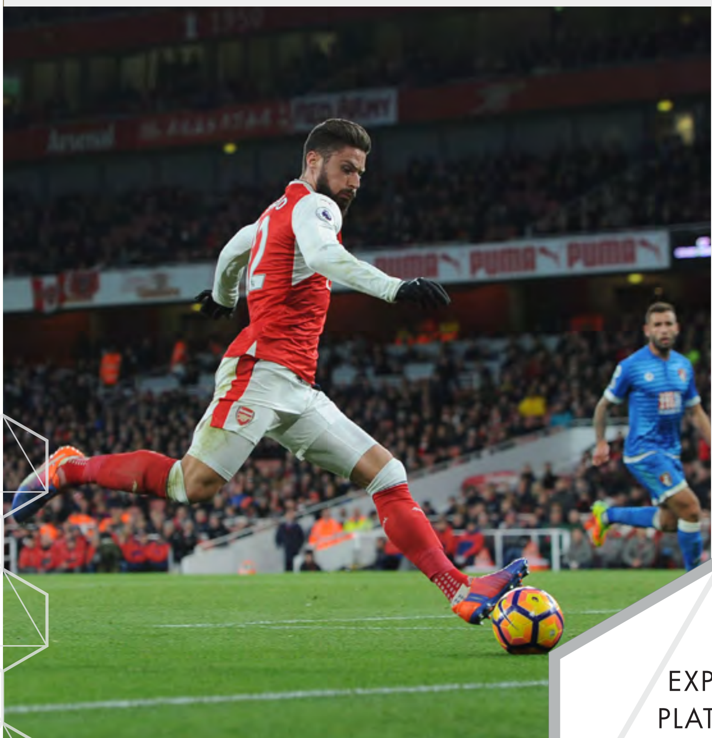
The Royal Oak, open to all Club Level guests, offers a Victorian-themed pub experience which pays homage to the pub where Arsenal Football Club was founded in 1886. Recently refurbished in the summer of 2015, the Royal Oak is a clear example of Arsenal's continued commitment to invest in its facilities, ensuring that they remain best in class. With family-friendly dining and pre-match entertainment, the Royal Oak is a firm favourite with Platinum Members.

Included in all Platinum Memberships, is access to Club Level's four corner bars, the Emirates Lounge, Legends Bar, Champions and 49ers, where Members can enjoy catching up with fellow fans, whilst sampling the matchday fayre on offer. Every matchday, Platinum Members are treated to a complimentary matchday programme as well as a half-time drink.

For Members looking for something more formal, Club Level has a number of seasonal restaurants including the WM Club. A private 'club within a club,' it was named after the revolutionary 3-2-2-3 formation introduced in the 1920s by Herbert Chapman and his team captain Charlie Buchan. This impressive restaurant is located on the halfway line and provides an exceptional five course à la carte dining experience along with a complimentary bar.

In contrast, The Foundry celebrates Arsenal's origins, contrasting modern furniture, lighting and finishes with the hand-crafted traditions of Arsenal's original era. The Foundry restaurant offers a luxurious four course buffet, paired with halfway line or midfield seats. With both restaurants, guests can enjoy a complimentary bar throughout the day and first-class football just a short walk away.

If you'd like to become a Platinum Member or would like more information, email Ben Hanafi at bhanafi@arsenal.co.uk or call 0207 704 4199.



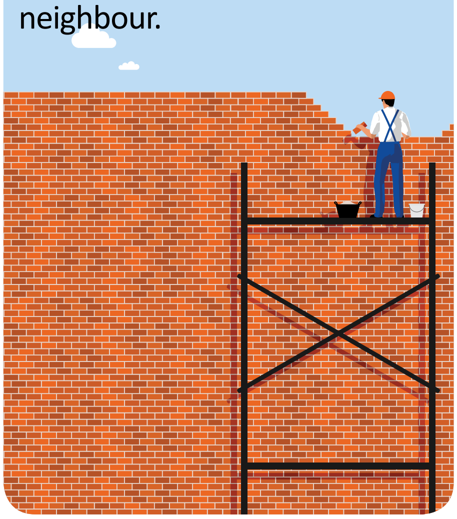
EXPLORE PLATINUM MEMBERSHIP AT EMIRATES STADIUM

$12BN-$25BN

TRUMPS' WALL COST ESTIMATES DIFFER WILDLY

US PRESIDENT Donald Trump is still insisting that he will get his 'Great Wall of Mexico' built but cost estimates for this project vary hugely, according to several sources.

Trump's own $12bn estimate is unsurprisingly the lowest yet even that would mean an average $31 for every one of the nation's near 384m population, it would top $65 a head on Bernstein Research's forecast. More than 1,250 miles of new fortification will be needed to completely seal the border with its southern neighbour.

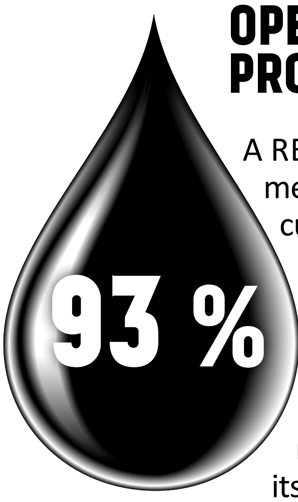


300,000

A NEW WAVE OF UK EXPORT EXPERTS

THIS IS THE number of places being made available in a new Skills Section of the Duke of Edinburgh Award scheme designed to create a new generation of UK export experts. The scheme will give young people in Britain the opportunity to be educated, trained and mentored on exporting every year. The idea emerged following a pioneering competition devised by Warrington-based global payment industry specialist, ICC Solutions. It challenged schools to think creatively and choose a product or service to export to a country that is involved in the Duke of Edinburgh programme, which celebrated its 60th anniversary in 2016.

OPEC MEMBERS COMPLYING WITH PRODUCTION CUTBACKS



A RECORD 93% of oil production cartel OPEC's members have complied with the major output cuts agreed on 30 November 2016. The largest contributor is Saudi Arabia with 496,200 barrels of oil per day cut in January. However, the impact on oil prices is being capped by a ramp up in drilling activity in the US. According to data from **Baker Hughes (BHI:NYSE)**, the number of rigs operational in the US is now at its highest level since October 2015.

30%

BETTER THAN EXPECTED SALES BY FIRESTONE DIAMONDS

LESOTHO-BASED **Firestone Diamonds (FDI:AIM)** has recommenced diamond sales with a bang. Shareholders have been without production for three years while Firestone raised a large amount of money and built a new processing plant at its Liqhobong mine.

Production recommenced in late 2016 and the first batch of diamonds have now been sold for prices up to 30% higher than expected, according to investment bank Mirabaud. Firestone generated $8.14m revenue including more than $1m for a single stone. The range included a number of yellow diamonds.

NINE YEAR HIGH

OCCUPANCY LEVELS IN THE LONDON HOTEL MARKET

THE BENEFITS of a weak pound are becoming clear in the leisure sector as tourists flock to the UK's Capital. The London hotel market at the start of 2017 saw its highest occupancy level for a January month since 2008, according to hotel data expert STR. Occupancy increased by 5.8% year-on-year to 70.5%.

Average daily rate increased by a similar level to £127.84, which is the highest for a January period since 1994.

Companies on the UK stock market with a presence in the London hotels industry include **Whitbread (WTB)**, **Millennium & Copthorne Hotels (MLC)** and **PPHE Hotel (PPH)**.

DEMAND FOR artificial grass for residential homes is forecast to grow by 15% a year in Europe out to 2019, according to AMI Research. That's good news for carpets manufacturer Victoria (VCP:AIM) which has just bought two Dutch artificial grass producers, Avalon and GrassInc. Artificial grass is a high margin business and its production is almost identical to carpet manufacturing, using the same machinery and similar fibres.

UK STOCKS: TOP FALLERS ON AIM MARKET SO FAR IN 2017

	Name	EPIC	Sector	Year to date decline (%)
1	Prospex Oil & Gas	PXOG	Natural Resources	-72.5
2	Grand Group	GIPO	Financial Services	-66.7
3	South African Property Opportunities	SAPO	Real Estate Investment & Services	-65.7
4	Jiasen International	JSI	Household Goods & Home Construction	-60.5
5	Strat Aero	AERO	Support Services	-60.0
6	DX Group	DX.	Industrial Transportation	-47.5
7	Graphene Nanochem	GRPH	Chemicals	-47.4
8	CloudTag	CTAG	Health Care Equipment & Services	-45.9
9	Nautilus Marine Services	NAUT	Oil & Gas Producers	-40.2
10	365 Agile	365	Electronic & Electrical Equipment	-40.0

US STOCKS: TOP RISERS ON DOW JONES INDUSTRIAL INDEX SO FAR IN 2017

	Name	EPIC	Sector	Year to date rise (%)
1	Apple	AAPL	Leisure Goods	15.1
2	Visa	V	Financial Services	10.8
3	Nike	NKE	Personal Goods	10.3
4	Merck & Co	MRK	Pharmaceuticals	10.0
5	International Business Machines	IBM	Software & Computer Services	8.1
6	Boeing	BA	Aerospace & Defense	7.9
7	American Express	AXP	Financial Services	6.5
8	Caterpillar	CAT	Industrial Engineering	6.2
9	El Du Pont de Nemours	DD	Chemicals	6.0
10	Cisco Systems	CSCO	Tech Hardware & Equipment	5.8

Source: SharePad

FreeAgent could be the next big disruptive firm

Discover why we think now is an ideal time to buy this fast-growth business

Now is the perfect time to buy accounting software supplier **FreeAgent (FREE:AIM)** as we believe a rotation is underway from short-term traders to more committed longer-term shareholders.

Many investors buy companies as soon as they join the stock market in the hope of making a quick 10%+ return. A lot of floats are priced below intrinsic value, so there is an opportunity to profit once they join the market as the price moves towards fair value (or beyond).

The rally and subsequent pullback in FreeAgent's share price since its IPO (initial public offering) in November 2016 is a textbook performance. We believe the next phase for the share price is more a sustained, albeit slower upwards rally.

WHY WE LIKE THE STORY

FreeAgent has the potential to significantly disrupt the small business accounting market.

Most of the big accounting software firms largely serve businesses with at least 20 employees. FreeAgent is focused on sole traders or firms with only a handful of staff.

An estimated 90% of small businesses still use basic spreadsheets to add up their sales. The taxman wants all businesses to comply with digital accounting by 2020. That presents a large opportunity for FreeAgent to sell its accounting tool kit.

FREEAGENT ↗ BUY
(FREE:AIM) 116p
Stop loss: 80p

Market value: £47m

The £47m cap's system provides 'real-time' tax liability tracking, invoicing and automated chasing, all seamlessly linked to a business' bank account. Its platform is easy to use but advanced enough to charge premium fees.

In addition to direct sales, the company has successfully partnered with accountants who act as resellers. This helped customer numbers more than double to 27,137 in the six months to 30 September 2016 year on year, compared to 15% growth to 16,724 customers in the direct channel.

Average revenue per user was £17.63 on average in the period for direct sales and £10.86 from the reseller channel.

Royal Bank of Scotland (RBS) has signed up to offer FreeAgent's software to its business bank account clients for free, paying the software firm an undisclosed licence fee.

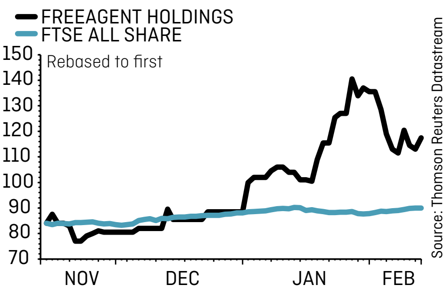
Investors shouldn't get carried away with this recent deal. **Barclays (BARC)** signed a similar partnership seven years ago which helped FreeAgent when still in its infancy. However Barclays' importance as a source of revenue stream has 'diminished' in recent years, according to FreeAgent's AIM admission document.

THE PATH TO PROFIT

FreeAgent's average customer lifetime runs at 66 months (direct) to 96 (channel) versus customer acquisition costs (CSC) of 14 to 17 months.

Its software-as-a-service model means revenues are virtually 100% profit beyond the CSC, or between £800 and £950 per account over the contract lifetime.

Analysts forecast maiden profit in the financial year to March 2019. (SF)



Treatt has all the ingredients for upside

Flavour-and-fragrance specialist would make a quality addition to any portfolio

Flavour and fragrance specialist **Treatt (TET)** has many ingredients of a high quality company. Guided by management with a pedigree in under-promising and over-delivering, low risk organic growth looks sustainable.

TREATT ↗ BUY
(TET) 258.93p
Stop loss: 207.14p

Market value: £133m

WHAT DOES IT DO?

Bury St Edmunds-based Treatt provides innovative ingredient solutions to the flavours, fragrance and cosmetics industries and to consumer goods companies.

The £133m cap's ingredient solutions are used by food ingredients companies within their formulations and by food and drink companies directly; typical end-products using Treatt's ingredients include soft drinks, craft beers, confectionery, soaps and shampoos.

Competitive strengths include Treatt's experience in sourcing and trading raw materials and its long-term and deepening relationships with customers. Since taking over in 2012, CEO Daemmon Reeve has transformed the business from a seller of flavour and fragrance-based commodities to a value added, higher margin ingredients supplier.

THIRST-QUENCHING OPPORTUNITIES

Treatt is a play on the growing clamour for products with better health credentials, many of which make use of its specialist ingredients.

With manufacturing sites in the UK, US and Kenya, a key growth driver for Treatt is beverages. This is a defensive sector seeing trends towards natural, clean label and calorie-free products. Sugar reduction is a focus for drinks customers. They work closely alongside Treatt's laboratory technicians, helping forge closer relationships.

Geographical exposure by revenue is diverse; the US is Treatt's biggest market, followed by the UK. China represents a major long-term growth opportunity.

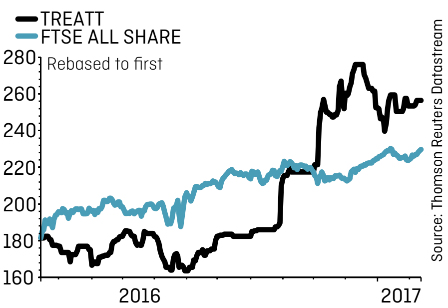
Record results for the year to September 2016 revealed an improvement in return on capital employed to 24.6% (2015: 22.1%).

Free cash flow grew to £8m from £6.2m, while the net operating margin nudged higher to 10.8%. Net debt fell from (£6.2m to £1.7m. This is an 11 year low and was achieved in spite of increases in key raw material costs such as orange oil and sterling depreciation against the US dollar.

One point to note is that Treatt has outgrown its Bury St Edmunds site and plans a costly relocation nearby. Research house Edison says the resulting £21m to £31m cash outflow over a two-to-three year period can be funded from existing facilities.

Edison forecasts £10.3m pre-tax profit in 2017 and £10.6m in 2018.

BROKER SAYS: 1 0 0



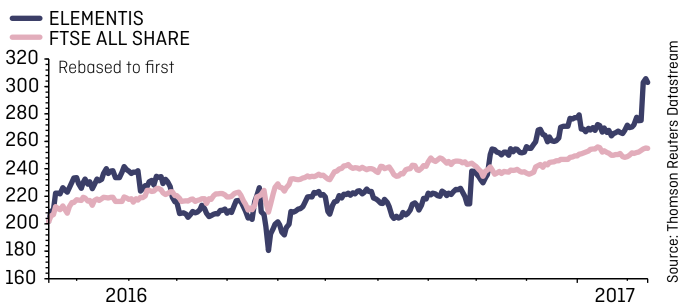
10 REASONS WHY OUR GREAT IDEAS ARE SHOOTING AHEAD

THERE HAS BEEN A SIGNIFICANT AMOUNT OF NEWS FLOW IN RECENT WEEKS LINKED TO OUR TOP STOCK TIPS

Major events in 2017 have fuelled our running 'Great Ideas' stock selections, as well as our '10 for 2017' annual share portfolio.

Acquisitions have certainly been on the agenda for many of our preferred stocks. Other catalysts have been trading updates and broker commentary.

FTSE 250 chemicals group **Elementis (ELM)** is to boost the size of its personal care business with the $360m acquisition of SummitReheis. This will give Elementis a strong position in the antiperspirant market as the target business provides critical components for this $13bn industry with customers including **Unilever (ULVR)**, **Proctor & Gamble (PG:NYSE)** and **L'Oreal (OR:EPA)**.



SHARES' GREAT IDEAS:
+15%
AVERAGE GAIN*
FTSE ALL-SHARE: +10.3%**
*12 MONTHS TO 13 FEB 2017
**OVER SAME 12 MONTH PERIOD IN WHICH OUR TRADES WERE/ARE LIVE

The deal is expected to be earnings and free cash flow accretive in the current financial year. The real kick to earnings should come in 2018 with broker N+1 Singer upgrading its earnings per share forecast by an impressive 15% to take into account a full year's contribution from SummitReheis.

Elementis is up 30% to 304.8p since we said to buy in November 2016. We believe the shares have much further to rise.

RECKITT'S BIG MOVE

We're supportive of *Durex*-to-*Cillit Bang* brand owner **Reckitt Benckiser's (RB.)** $16.6bn acquisition of US baby formula maker **Mead Johnson (MJN:NYSE)**.

The acquisition shifts Reckitt further into higher margin consumer health where infant nutrition is a category with low price elasticity, high barriers to entry and strong profitability. It also brings the Enfa family of brands into the fold and expands Reckitt's presence in developing markets, principally China.

Full year results (10 Feb) were solid; like-for-like sales were up 3%, gross margins in expansion mode and the dividend raised 10% to 153.2p.

TOP QUALITY SELECTIONS

Howden Joinery (HWDN) is an 'extraordinary stock at an ordinary price', proclaims investment bank Liberum. We are inclined to agree, having said to buy at 368.9p on 26 January in light of unjustified share price weakness. Liberum says the market is overestimating risks to the business and underestimating its strengths. The shares currently trade at 408.8p.

A strong third quarter update and an interesting acquisition have helped to drive up shares in cyber security business **Sophos (SOPH)** over the past week. The shares are now up 22.6% since we said to buy in July 2016.

Sophos signed up 3,000 new customers for its Intercept X solution in the last three months of 2016. Billings growth across its products increased by 16.1% in the period. There are also signs of better cross-selling, giving an operating profit of £1.7m from the previous year's equivalent $13.3m loss.

The $120m purchase of Invincea adds next generation malware protection to Sophos' skill base. We remain big fans of the company.

GOOD NEWS FOLLOWED BY MORE GOOD NEWS

RM2 (RM2:AIM) has had its glass fibre and resin pallets approved by one of the largest US retailers for use by its suppliers. This followed news in late December that low-cost manufacturing had begun in Mexico following a shift from uneconomic operations in Canada. We believe 2017 will be the year when RM2 finally convinces the market it has a credible business, so keep buying at 29.01p.

Our bullish call on British premium lifestyle brand **Joules (JOUL:AIM)** proved well timed. A strong Christmas trading statement (11 Jan) and superb half year results (31 Jan) acted as catalysts for recent share price appreciation. We're staying positive on this structural growth retailer for the potential of the brand across multiple channels, in the UK and overseas.

Gaming logic box designer **Quixant (QXT:AIM)** had an 'outstanding year', according to stockbroker FinnCap, after saying full year results would hit recently-upgraded earnings forecasts. Importantly, management remain as upbeat on the future as

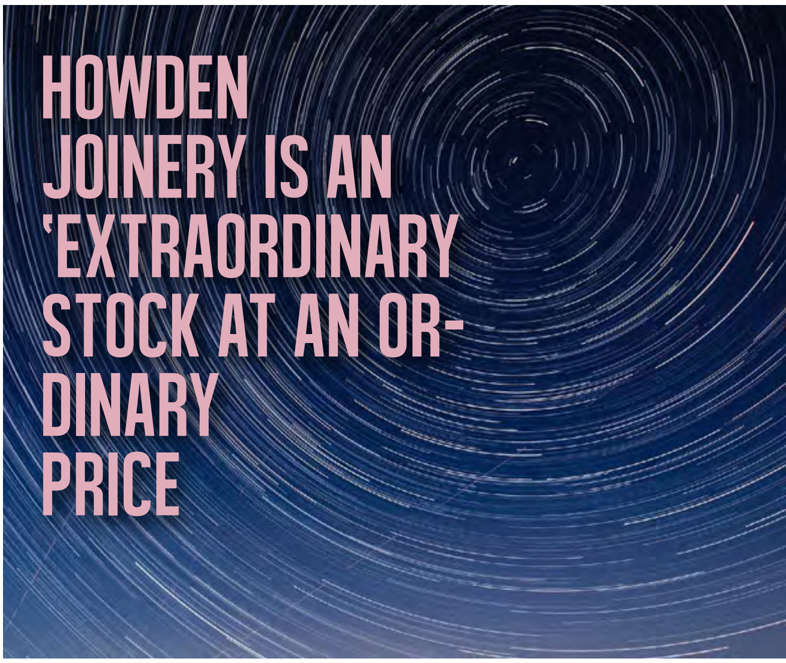
ever. An outstanding performer since we flagged its attractions on 20 October 2016 at 285p, the stock now trades at 367.5p.

TIPS OF THE YEAR UPDATES

FTSE 100 service group **DCC (DCC)** has made its largest ever retail transaction, buying Esso's petrol station network in Norway for £235m. Analysts believe this will boost group pre-tax profit by 2% in 2018 and by 8% in 2019. The ability to make earnings-enhancing acquisitions in the energy space was a core reason behind choosing DCC as one of our tips of the year.

Capital Drilling (CAPD) is up 22.2% to 61p since we said to buy in December 2016 thanks in part to a very positive trading update (6 Feb). Its rig utilisation hit 59% in December which is nearly twice as much as at the start of the year (34%). This proves the company is benefiting from mining sector resurgence which is central to our 'buy' case. Stockbroker FinnCap has lifted its price target to 95p.

The market is reacting positively to non-life insurer **RSA's (RSA)** deal to sell £834m worth of legacy insurance liabilities in the UK to Enstar Group. The shares are now up 5.5% since we said to buy in December 2016.



My investment has gone wrong, can I get my money back?

We explain the situations in which you might be able to claim for compensation

We've been asked by members of the public who invested without financial advice if there is a way to get a full refund if their stocks or funds fall in value.

Seasoned investors may think that is a silly question; for the less experienced it is fair question to ask.

Some people who made investment decisions themselves think there should be compensation because they didn't understand the risks associated with putting money into the stock market.

In defence of the finance industry, the risk warnings are very clear when you go to make an investment via a stockbroker or fund platform.

Just so everyone understands; you cannot get compensation if there is a fall in the value of an investment you made on your own and without financial advice. You are buying a slice of a company either directly or indirectly when investing, so you share that company's pain as well as the gain.

You cannot get compensation if your investee company says it is going to do something but fails to deliver on its promise.

However, you can get compensation if you were mis-sold an investment by your bank or another financial company.

'Mis-selling means that you were given unsuitable advice, the risks were not explained to you or you were not given the information you needed, and ended up with a product that isn't right for you,' says The Money Advice Service.

You can also seek compensation if the financial company holding your investments goes bust as long as it was authorised by a UK regulator.

HOW THE COMPENSATION SYSTEM WORKS

The Financial Services Compensation Scheme (FSCS) is the UK's statutory compensation scheme for customers of authorised financial services firms. It offers protection for up to £85,000 per person for cash deposits per financial institution.

Temporary high balances of up to £1 million held for six months or less and resulting from life events like a property transaction, redundancy payment, retirement benefits or inheritance are also covered.

Investment protection is limited to £50,000 per person, per financial institution. The main exception to this limit is pension assets managed in an insured pension which are fully protected.

'MIS-SELLING MEANS THAT YOU WERE GIVEN UNSUITABLE ADVICE, THE RISKS WERE NOT EXPLAINED TO YOU OR YOU WERE NOT GIVEN THE INFORMATION YOU NEEDED, AND ENDED UP WITH A PRODUCT THAT ISN'T RIGHT FOR YOU.'

Trust-based pensions are in theory only covered up to £50,000 if the pension company goes bust. In reality, the assets in the pension are ring-fenced as they're held on trust for you, not by the pension manager. So you'll still get your pension if the company managing the pension goes out of business.

This will be the position if you have a self-invested personal pension (SIPP) which is held as a trust, even if the SIPP trust sits on an investment platform. You may suffer some delay in terms of being able to buy and sell any investments if the pension provider goes bust, but you should eventually get the money.

Commenting on the FSCS, Alison Treharne, a chartered financial planner and principal of Shore Financial Planning in Plymouth, says: 'It covers if you were given bad advice, misrepresented or suffered poor investment management if the authorised firm is unable to pay the claim against it or has gone out of business and cannot return the money.

'Remember, it's not protecting you if the investment was a bad investment and its value goes down: that is investment risk and you take that on personally.'

WHAT HAPPENS IF I USED A FINANCIAL ADVISER?

If an investment goes wrong and you had sought financial advice, you may have recourse to the Financial Ombudsman Service (FOS).

If you feel the adviser made mistakes, either in the advice given or due to an administrative error, you must outline these clearly to the firm first and give them a chance to resolve the matter or answer your complaint. If you are not satisfied with the response you can write to FOS asking it to review the case.

HOW ARE DIY INVESTORS PROTECTED?

Investments you make via a stockbroker or fund platform are generally held in a nominee account.

'The investments are held in a nominee account and the creditors of the platform (if it goes bust) will be unable to touch these to settle any debts of the platform business,' says Treharne.

Assets held in unit trusts and open-ended investment companies are also ring-fenced away from the financial company. As these are held with an independent custodian, the money is safe even if the fund provider goes under.

The situation is more complex for investors who hold shares directly (outside a pooled investment fund), including investment trust shares (which are structured in the same way as public limited companies), and individual corporate bonds.

If a company is declared insolvent, a liquidator or receiver is appointed to realise the failed company's assets. The liquidation expenses are met first from the proceeds. Then there is a typical hierarchy that determines the order in which investors get paid: corporate bondholders, preference shareholders and then ordinary shareholders.

As bondholders own tranches of corporate debt, they are creditors of the failed company, whereas shareholders own equity and are not automatically owed anything; they may find it difficult to get any money back at all.

WATCH OUT FOR INVESTMENT SCAMS

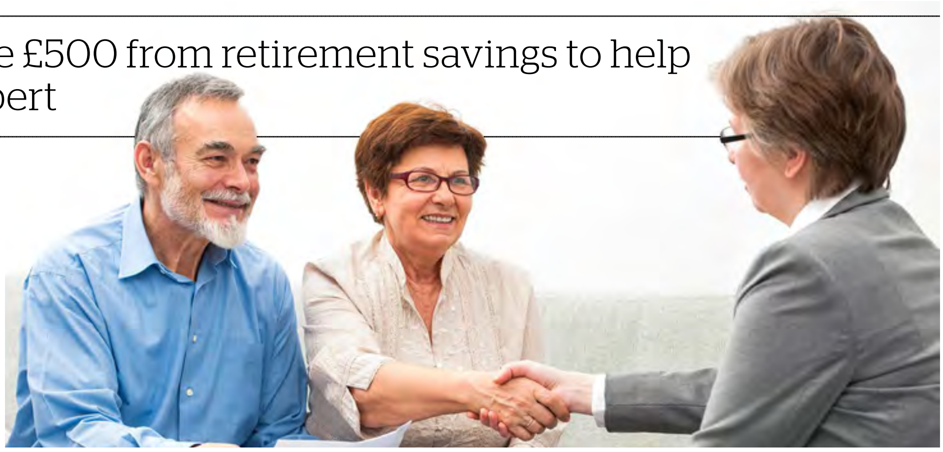
'As with any investment it's important to be on your guard against scams and to be wary of offers that come out of the blue,' says Kat Barry, expert advice lead at Citizens Advice.

'If you consult an independent financial adviser make sure they're certified and that the company you want to invest in is legitimate. You can check both of these by referring to the Financial Conduct Authority's (FCA) website.'

If you're worried an investment offer might be a scam contact the Citizens Advice consumer service on 03454 04 05 06 or visit the FCA's ScamSmart **website** for help. If you think you've been a victim of fraud contact Action Fraud on 0300 123 2040. (JH)

Should you dip into your pension pot to pay for financial advice?

New rules allow you to take £500 from retirement savings to help fund the services of an expert



Investors planning for a secure retirement face a complex financial maze of often baffling jargon, tax rules and investment options.

While some will feel confident enough to navigate a safe path solo, many could benefit from speaking to a UK regulated financial adviser.

Research by Unbiased, a UK-wide adviser directory, found individuals who seek retirement advice increase their retirement savings by on average £98 a month. However, less than a third of people have accessed financial advice on their pension, according to the Treasury.

This so-called advice gap has prompted the Government to create a new tax-free allowance designed to boost the take-up of advice.

HOW DOES IT WORK?

The Treasury last week confirmed how the new advice allowance will work. From April 2017, you will be able to take up to £500 once-a-year from your pension pot, at any age, to pay towards regulated financial 'retirement advice'.

This covers a wide range of scenarios, including advice on:

- how to draw an income for retirement from all of your pension pots, and from a stocks and shares ISA;
- whether income from a pension will be sufficient for your retirement, or whether you may want to supplement this income by releasing equity from your house;
- whether the asset allocation of a drawdown product is appropriate;
- how to use assets to fund care in old age.

You will be able to use the tax-free allowance up to three times and the money will be paid directly from your pension scheme to the adviser.

The allowance will only be available to those with defined contribution or 'hybrid' pensions, so if you have a final salary pension you won't be able to use it.

You will need to speak to your pension provider to find out if the allowance will be made available to you from April this year because it is not compulsory for them to offer it.

Only you can decide whether it's worth your while paying for financial advice, but the £500 allowance is unlikely to cover the total cost. While the Government hopes cheaper technology-based 'robo advice' services will in time develop, this industry is embryonic at best in the UK.

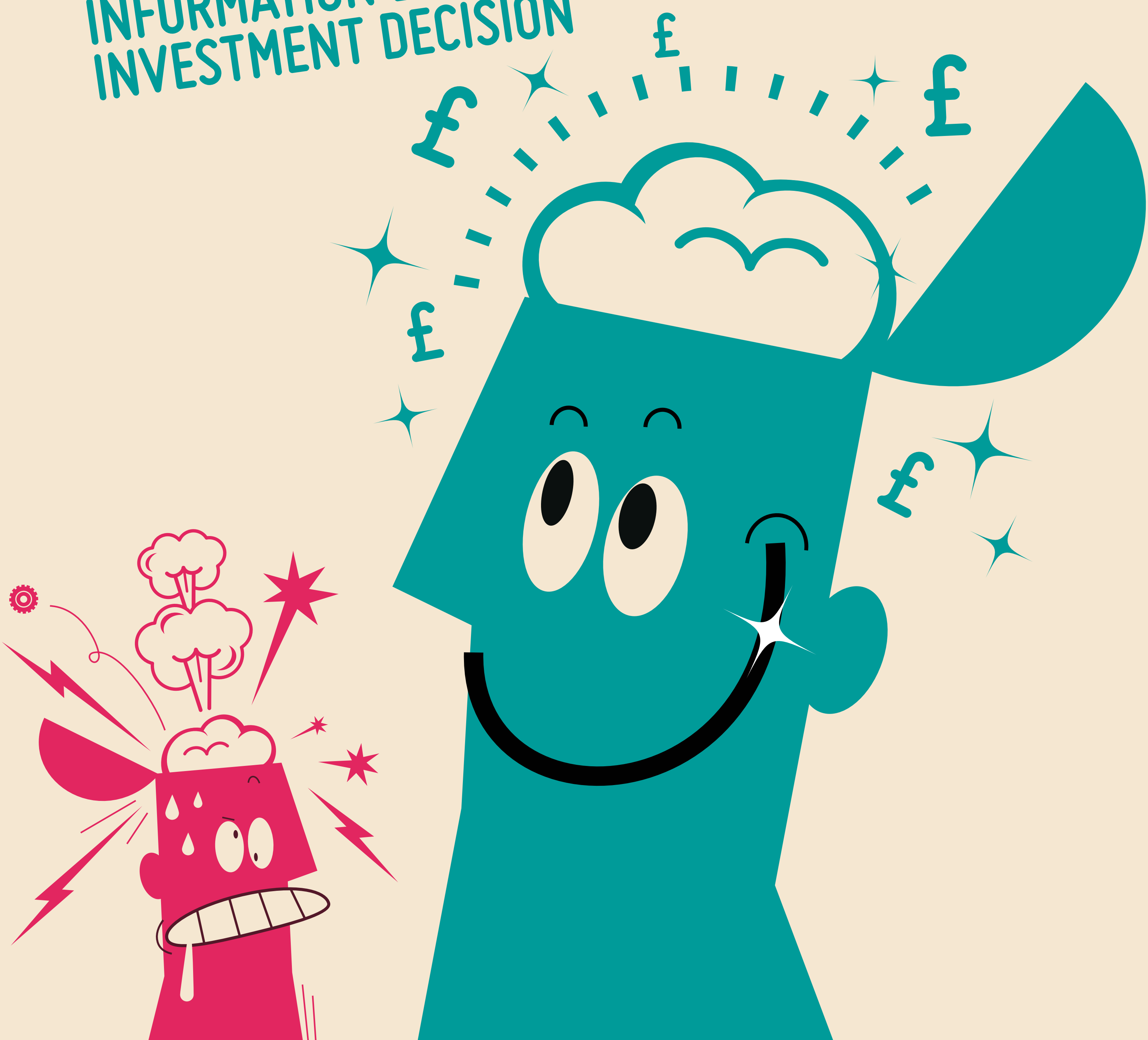
If you want a full, holistic financial plan you'll need to go to a human adviser and, in all likelihood, £500 won't be enough. According to the Treasury, face-to-face advice costs £150 per hour on average, and can take up to nine hours for pensions – meaning even with the allowance you still might have to make up a shortfall of £850.

Furthermore, remember this is not free money – your pension will be reduced by £500, plus any growth that money would have enjoyed, although the value added by advice often exceeds the cost.

TOM SELBY,
SENIOR ANALYST, AJ BELL

THE RATIONAL INVESTOR:

WHY IT PAYS TO WEIGH UP ALL THE INFORMATION BEFORE MAKING AN INVESTMENT DECISION



One of the key principles of investing is that you can make good money by exploiting market inefficiencies.

The stock market, made up by the actions of hundreds if not thousands of investors, is not always right when it comes to pricing in good or bad news.

You can often buy a company that is priced too cheaply and hook yourself a bargain. The same applies when the market gets too excited, enabling you to sell something for a nice profit when it becomes overpriced.

Over time most market inefficiencies should even out and a stock will trade at fair value. Your job is to act before that event happens.

Rational investors are the best at exploiting market inefficiencies, in our view.

They don't get caught up in sudden market movements and follow the herd in terms of whether to buy or sell a particular share. They take time to consider the evidence at hand and work out whether the market is either right or wrong.

This article will illustrate how logical thinking can help you spot market inefficiencies. We will talk through three practical examples so you can see the thought process in action.

Hopefully after reading this article you will be able to approach investment decision making in a slightly different way and question whether significant share price movements are justified.

RATIONAL INVESTORS DON'T RUSH; THEY TAKE TIME TO CONSIDER IF THE MARKET IS RIGHT OR WRONG

DON'T PANIC BUY OR PANIC SELL

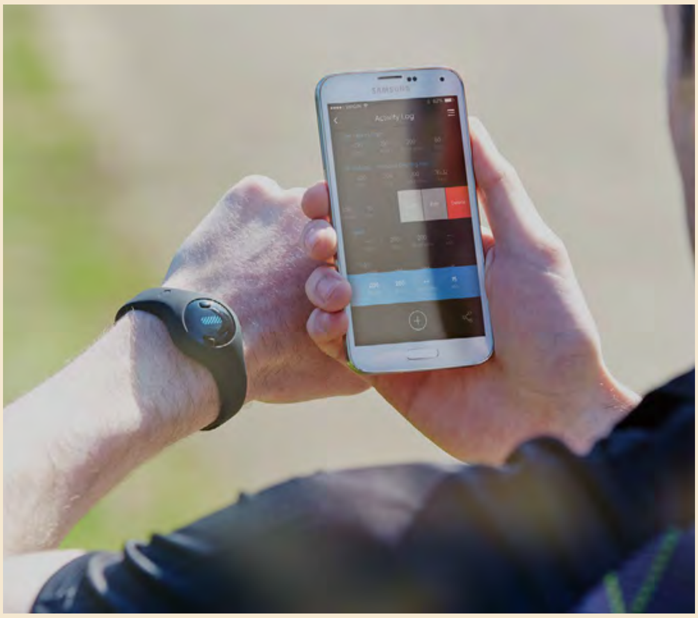
An *irrational* investor is someone who is either overconfident when they are investing or panics at the first sign of any significant news. It is important to stress that someone can panic buy as well as panic sell. The former is particularly dangerous if you buy a share because it is racing upwards as could easily have paid too much compared to its intrinsic value.

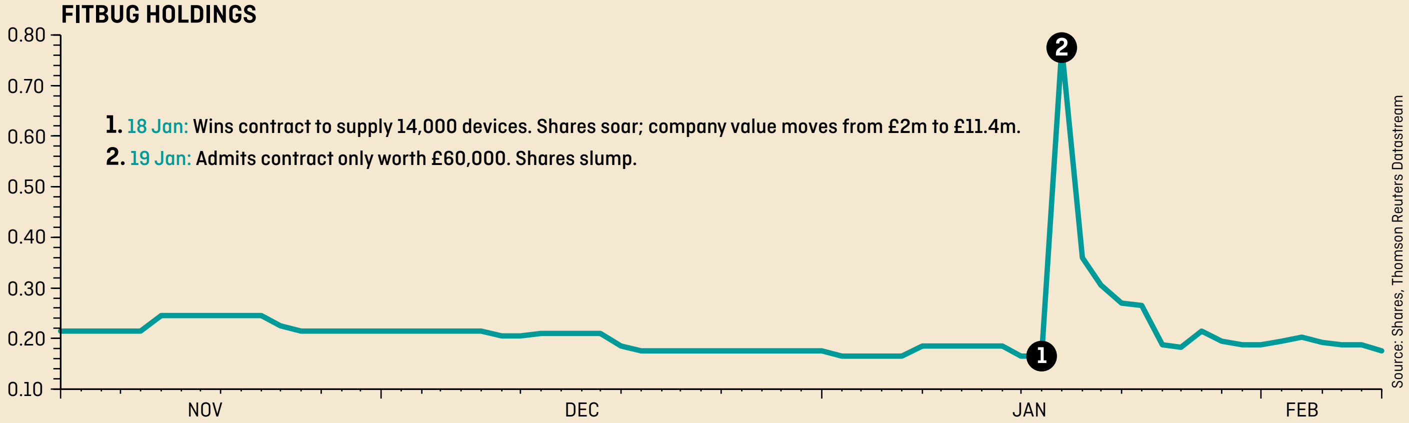
It is easy to get caught up in the euphoria of a rising share price and think 'I'll have some of that, too'. We saw a recent example of this herd mentality in mid-January 2017 when many people made the mistake of buying into **Fitbug's (FITB:AIM)** share price rally.

The strategy of 'act first, think later' rarely ends well. You could end up overpaying if you raced to buy a share without properly digesting the information at hand. That's exactly what happened with Fitbug which left shareholders fuming. A rational investor wouldn't have made this mistake, as we now explain.

WHAT HAPPENED TO FITBUG?

Fitbug is one of several companies that believe the world would be a better place if everyone's health is monitored and that information used to





encourage us to do more exercise and have a better diet.

The small cap business recently announced it had won a contract with a big financial services company in Asia which had 14,000 employees. It said the unnamed client would use its services to help maximise employee performance and reduce absenteeism and risk of chronic illness.

At first glance that certainly sounded positive for Fitbug, particularly has it had been struggling for a while amid intense competition for wearable health devices.

Investors were ecstatic and the share price kept rising and rising as the day went on. It was eventually up 467% by mid-afternoon before being suspended pending another announcement.

We calculate the market value of Fitbug increased from £2m to £11.4m on that day, directly as a result of the contract win. The market therefore attributed £9.4m value to the new contract.

But had investors really thought this through? Were they caught up in the excitement and raced to buy without thinking through the potential gains for Fitbug?

IT TOOK US 20 SECONDS TO REALISE THE MARKET WAS WRONG

A quick glance on Amazon's website says Fitbug's monitoring product sells for £21.99. You can be certain Fitbug aren't selling them at that price if the new financial services client takes one for every member of its 14,000-strong staff.

Shall we take a guess at £10 per unit? Let's do the maths: 14,000 x £10 = £140,000 revenue for Fitbug. Not exactly earth shattering money, is it? That kind of revenue would certainly not justify a £9.4m increase in the company's valuation.

That is a rough calculation of the potential revenue and doesn't include any service income hinted by Fitbug in its announcement. We find it hard to believe the service income would be of any significance given you and I could buy one of these devices and get all the information at the click of button on our home computer or phone. Furthermore, you need to have spotted another important fact – namely this was only a one-year contract.

If we'd been Fitbug shareholders, we would have considered all the evidence and potential revenue and made a decision about whether the market had underpriced or overpriced the contract win.

> YOU COULD HAVE AVOIDED LOSING MONEY ON FITBUG WITH LESS THAN 20 SECONDS' RESEARCH

The conclusion was obvious: the market had overpriced the news by a significant amount. We would have sold the shares in the belief that they could soon be bought back at a much lower price.

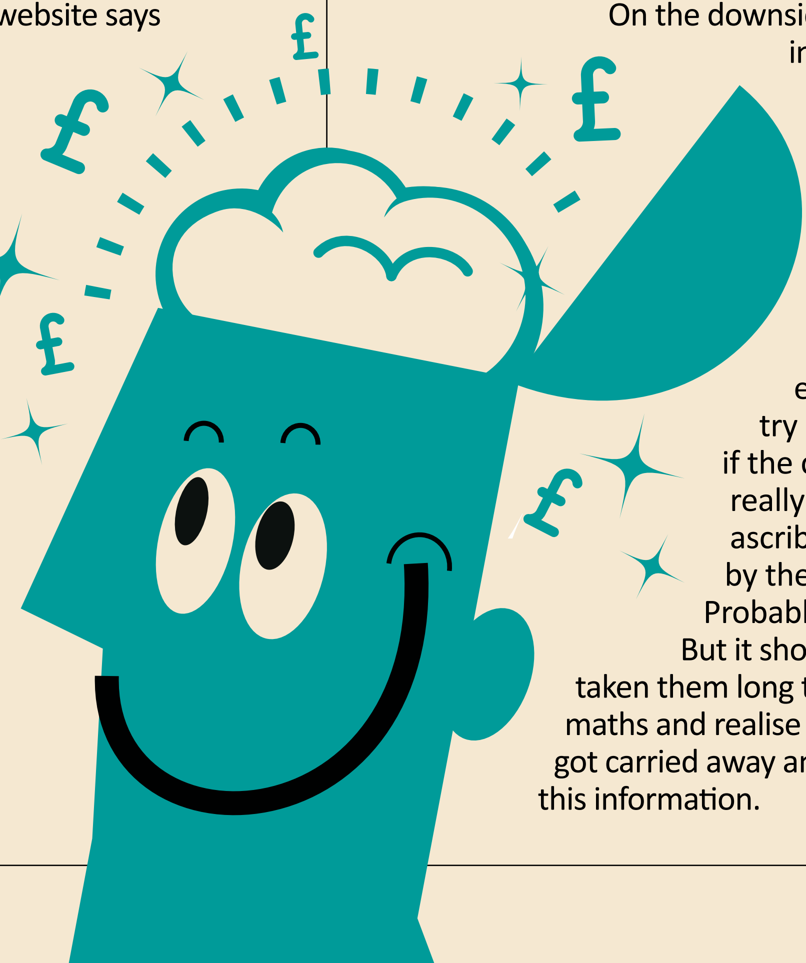
You wouldn't have waited long for the price to come down. Fitbug's shares crashed the following day after issuing a new announcement clarifying that it would only get £60,000 revenue for the one-year contract – so even our estimate was far too high.

On the face of it, thumbs up to Fitbug for getting the contract – you never know where it could lead to next. Small companies can benefit from having prestigious clients as can it help with their next sales pitch and adds credibility.

On the downside – a lot of investors probably bought near the top and then nursed a big loss.

Did those investors take the time to examine the evidence and try and work out if the contract was really worth the £9m ascribed to it by the market? Probably not.

But it shouldn't have taken them long to do some basic maths and realise the market had got carried away and over-priced this information.



WHY THE MARKET GOT IT WRONG ON PHOTO-ME

Photo-Me International (PHTM) saw its share price fall 20% on 23 January 2017 after old news reached a wider audience.

A couple of the national newspapers ran stories about the public being allowed to take photos with their mobile phone for passports – the market panicked that Photo-Me's photo booth services would no longer be required.

This supposed risk to its earnings wasn't entirely breaking news, and people had talked about this last year.

For the smart investor, the sell-off presented an opportunity buy a great company at a much lower than normal price.

Yes, the UK is trialling potential changes to passport applications. It is 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.

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 on group earnings. The earnings threat certainly didn't warrant wiping off a fifth of the company's market value.

The company replied by saying it believed accepting photos from mobile phones for official documents was 'incompatible with developing security requirements'.

In Europe, there is a shift towards more sophisticated security photos including 3D imaging and iris scanning. Therefore you could assume there is a chance the UK Passport Office could rethink its stance towards pictures from phones.

Our conclusion is that the market has incorrectly priced this earnings threat and applied too much of a discount to the share price. Therefore the rational investor could have picked up cheaply-priced shares. And that's exactly what people have been doing as the shares have subsequently recovered a good chunk of the lost territory.

GB GROUP UNFAIRLY PENALISED

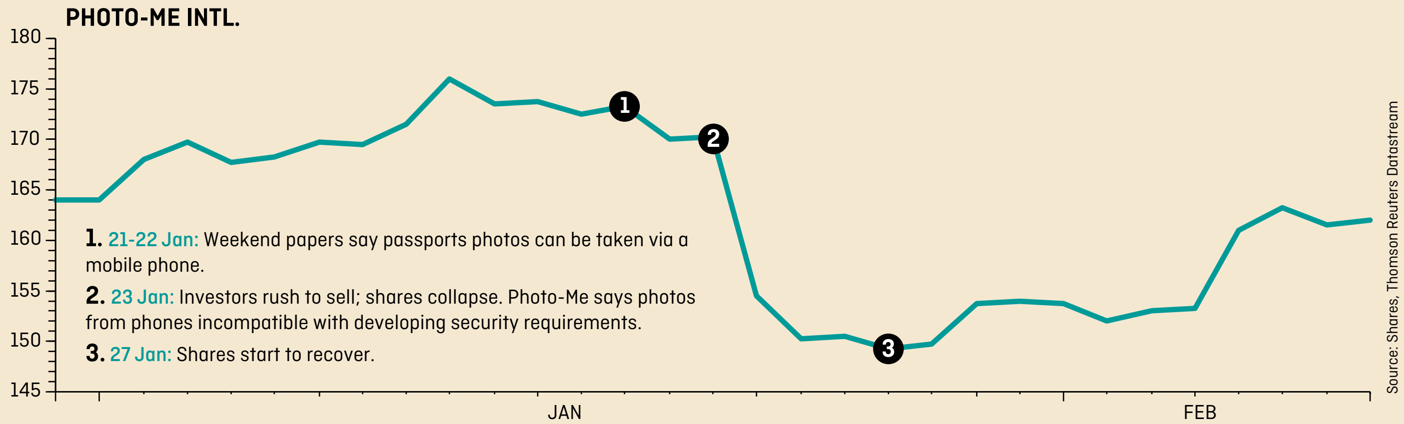
In Photo-Me's case, some discount is warranted given the threat to part of its earnings – so we aren't saying the shares shouldn't have fallen at all. This is an important point to consider.

It is also relevant to a situation last year with data intelligence specialist **GB Group (GBG:AIM)** whose market value declined by a quarter on a contract delay.

This example shows how it can be harder than you think to judge whether the market has been too cautious about a negative news announcement.

GB Group said on 20 October the roll-out of a Government project had been slower than expected. Its share price fell by 26% to 254p on the day. You might think the market reaction was fair if you didn't know too much about the company.

In reality, analysts hadn't expected the



Verify project (which validates citizens for online interaction with Government services) to make a big contribution to earnings for a while. Stockbroker FinnCap said at the time that it expected little impact to group profit in either 2017 or 2018 as a result of the delay. Therefore the 26% share price decline was totally unjustified, in our view.

'GB Group went into the programme with its eyes wide open to the record of Government IT failures in the past and consequently planned for a very slow take up of the scheme,' said FinnCap following the news. 'If the GOV.UK Verify news affects sentiment on the stock it may prove a buying opportunity for investors,' added FinnCap before the share price collapsed. 'This remains an excellent, well-run business with a strong position in a growth market, whose earnings are unlikely to be affected.'

There were downgrades to revenue forecasts, but we're ultimately interested in how much profit is made by a business.

THE POWER OF MARKET SENTIMENT

Interestingly the share price fell even further in the days after the announcement, suggesting the market still felt the news on the Verify project was very negative. Stockbroker Peel Hunt said on 31 October 2016: 'we believe the market is unfairly punishing GB Group given the strength of the underlying business (despite the adjustments for Verify).'

The rational investors eventually decided the market had been too pessimistic, thereby taking advantage of the share price weakness and the stock soon recovered most of the lost ground.

GB's example highlights the importance of understanding market sentiment. It can be a powerful force and it is always worth trying to gauge the market's mood when also weighing up the pros and cons of a news announcement.

Let's say there was a succession of companies issuing profit warnings as a result of contract delays. A firm in GB's situation could easily have been considered as 'yet another one' with project delays, so investors could have rushed to sell without examining the evidence.

The other issue to consider is that many investors won't have understood how much the Verify project was expected to contribute to earnings over the next year or so as GB didn't explicitly comment on this issue in its trading update.

We only knew about Verify's minimal profit contribution because we get access to analyst research notes – where they publish valuable information as a result of spending a lot of time with a company's management. Essentially retail investors are at a disadvantage as the general public can't get research notes for free.

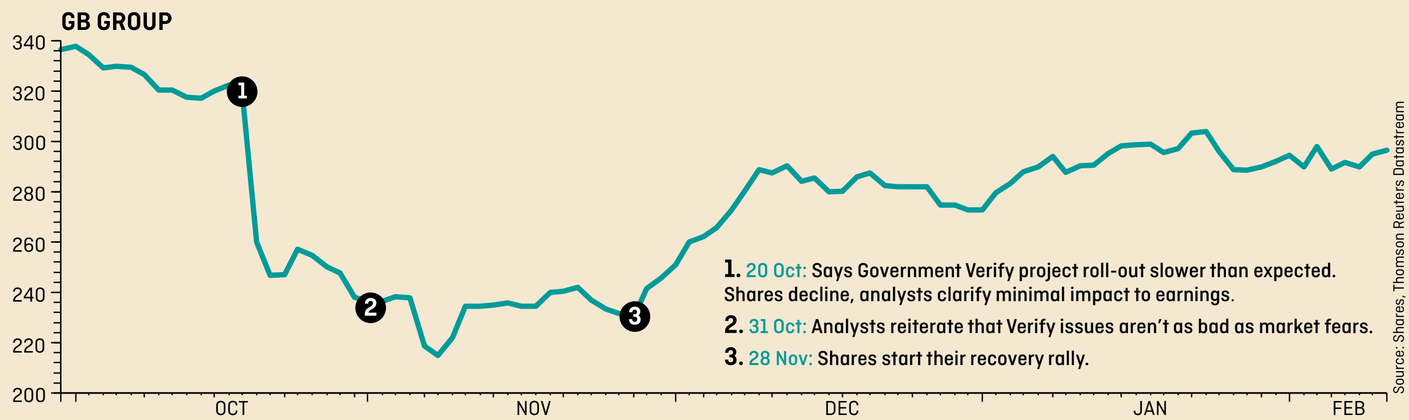
WHERE TO GET IMPORTANT INFORMATION

You can generally get headline earnings forecasts via financial data websites such as Stockopedia or Morningstar, but you don't get that breakdown of earnings per division or per project which often appear in analyst research notes.

One solution is to pay £25 a month to use ResearchTree which publishes research notes from a few of the stockbrokers, although the service is restricted to what it describes as 'sophisticated investors'.

The alternative is to keep reading *Shares* as we will always endeavour to discuss opportunities where the market appears to have got it wrong.

Overall, the key message is not to get carried away by hype and rush to buy or sell shares. You must always examine the facts carefully before you press the 'transact' button. (DC)



MORE WAYS TO PROSPER WITH ETFS: PART 3 OF OUR FUND SERIES

HOW TO USE MOMENTUM, LOW BETA, MINIMUM VOLATILITY AND MULTI-FACTOR STRATEGIES TO ENHANCE YOUR PORTFOLIO

Investors are pouring in money in the hope that smart beta and factor-based ETFs will outperform 'vanilla' ETFs which just track broad stock market indices. They also attracted to smart beta and factor-based ETFs because they can add some extra diversification to an investment portfolio.

In last week's feature we explained the ins and outs of three commonly-used factors: quality, size and value. In the final part of our ETF series, we now look at momentum, low beta/minimum volatility and multi-factor products.

As with all smart beta ETFs, these products follow an index that uses a weighting scheme other than market capitalisation. They are still ETFs because they passively track the index, instead of being discretionary.

Low beta
Stocks with lower sensitivity to market movements

Size
Smaller companies

Quality
E.g. stocks with strong balance sheets

Momentum
Stocks with strong performance

Value
Stocks trading below their fundamental value

1 MOMENTUM

A momentum strategy buys the stocks that keep going up in value in the expectation they will continue to move upwards. Think about a particular company whose share price goes up, up and up a bit more. Many investors will spot this and want to hitch a ride upwards by also buying the stock.

It's a strange concept to get your head around if you're used to the theory that you should invest in something before everyone else realises how good it is.

'The theory behind momentum is that stocks are going up for a reason, whether that's earnings or mergers and acquisitions activity,' says Chris Mellor, executive director at ETF provider Source.

'You use price momentum as a short hand for getting exposure to the underlying trend. Evidence suggests price rises usually carry on for longer than people expect.'

A common way to screen stocks for a momentum index is to use a '12 month minus one month' strategy. According to the theory, there is usually a positive correlation between the past year and the future but this isn't necessarily the case for the final month. The strategy screens out companies with a large jump in the share price over the past month, which could reverse shortly thereafter.

Mellor says momentum is one of the more stable outperformers in the factor space, but when markets turn it is usually one of the worst performing strategies. 'It comes with some pretty painful pullback periods,' he says.

MOMENTUM TRADES CAN BE EXCITING BUT YOU MUST BE AWARE THAT AN UPWARD TREND CAN QUICKLY REVERSE AND SHARE PRICES CAN FALL FAST

Momentum is negatively correlated with value, which is about buying undervalued stocks. 'Ultimately it's about whether it is better to be right with the crowd or right but against the crowd,' says Mellor.

'With value, you can be right over the long-term but you need to be prepared to be wrong in the short-term. Momentum is the opposite – you might be right in the near term but it could hurt you over the long run.

'In theory, what you lose in the bad times should be more than offset by the good times,' he adds.

ARE THERE PARTICULAR BENEFITS TO A MOMENTUM STRATEGY?

Momentum can be a useful way of capturing trends and themes in the market, such as demand for technology and biotech. For example, **Apple (AAPL:NDQ)** would have featured in many momentum strategies over the past decade.

You can get exposure to the strategy via products such as **iShares Edge MSCI World Momentum Factor UCITS ETF (IWMO)**. It invests in a sub-set of global MSCI stocks which have been experiencing an upward price trend.

Stocks currently being tracked by this ETF include **Amazon (AMZN:NDQ)**, **British American Tobacco (BATS)**, **BP (BP.)**, **Facebook (FB:NDQ)**, **HSBC (HSBA)**, **Johnson & Johnson (JNJ:NYSE)** and

Microsoft (MSFT:NDQ).

The MSCI World Momentum Index underperformed the broader index in 2016, returning 4.75% versus 8.15% for the MSCI World. On a 10 year basis it has outperformed, with annualised return of 6.07% versus 4.54% for the MSCI World (based on data up to 31 January 2017).

2 LOW BETA/MINIMUM VOLATILITY

Investors might want to consider ETFs with a low beta or minimum volatility strategy if they're seeking a lower-risk component for their investment portfolio. These products may be particularly interesting to anyone who is worried about the stock market falling in value in the near term.

'Low beta/minimum volatility tends to outperform during market pullbacks. It does less well when there are very strong (upwards) moves in the market, but it saves you from big declines,' says Mellor.

Low beta and minimum volatility strategies achieve a similar outcome to one another but their approaches are different.

A low beta strategy selects the stocks based on their exposure or correlation to the market. It selects stocks with the lowest beta. In simpler terms that means companies with lower volatility than the market or whose price movements are not highly correlated with the market.

A minimum volatility ETF looks at stocks' historic volatility and selects the ones with the lowest volatility. These stocks also tend to be low beta.

An example is **iShares Edge MSCI Europe Minimum Volatility UCITS ETF (MVEU)**. It tracks an index which is constructed of European companies and seeks to minimise the stock market's peaks and troughs.

Companies in the index include **Danske Bank (DANSKE:CPH)**, **Nestle (NESN:VTX)**, **L'Oreal (OR:EPA)** and **Randgold Resources (RRS)**.

The MSCI Europe Minimum Volatility (EUR) Index has a 10-year annualised return of 4.5% compared with 3.2% for MSCI Europe.

An alternative product is **Source RBIS Equal Risk Equity Europe UCITS ETF (REQR)**. It tracks an index which eliminates the 50% riskiest stocks, as determined by their volatility and correlation, and then weights the remaining stocks so that each one contributes an equal amount of risk.

'You get a similar performance as you would with a minimum volatility ETF but it's a simpler construction. It puts risk control at the heart of the process, rather than at the end,' says Mellor.

This ETF currently provides exposure to such companies as **Syngenta (SYNN:VTX)**, **Kerry (KYGA)**, **Lindt & Spruengli (LISN:SWX)** and **Adidas (ADS:ETR)**.

3 MULTI-FACTOR

If you're not convinced about the merits of single factor ETFs you could opt for a multi-factor product which combines several factors into one vehicle.

Multi-factor products aim to get around the fact that many single factors will have prolonged periods of underperformance and outperformance. Value, for example, underperformed for most of the past two years before having a resurgence in the middle of 2016.

'Multi-factor strategies underperform less – you get a higher hit rate – and they have lower volatility,' says Mellor.

It is important to stress this outcome isn't guaranteed. The past six months have been a tough time for most factor products (aside from value), which has resulted in multi-factor also struggling.

Yet over the long-term, the MSCI World Diversified Multiple-Factor Index has outperformed the MSCI World by 2%.

This index is tracked by **iShares Edge MSCI World Multifactor UCITS ETF (IFSW)**. It provides exposure to four factors: value, momentum, quality and low size. Buying that ETF would provide exposure to the likes of **Accenture (ACN:NYSE)**, **Cigna (CI:NYSE)**, **General Motors (GM:NYSE)** and **Hewlett Packard Enterprise (HPE:NYSE)**.

LOW BETA/ MINIMUM VOLATILITY ETFS MAY SUIT A NERVOUS INVESTOR WORRIED ABOUT A PULLBACK IN THE STOCK MARKET

INCOME IS NOT A FACTOR

ALTHOUGH YOU might come across some dividend-themed ETFs, income is not actually a factor.

Most income strategies have a value bias because they select stocks based on the highest yield, which in itself is a value metric.

If a stock has a high yield it could indicate it is undervalued, although there is a risk it is under financial distress and dividends could be scrapped. To minimise this, some dividend-focused indices also include a quality check.

A popular ETF is the **SPDR S&P UK Dividend Aristocrats UCITS ETF (UKDV)**, which chooses stocks with a high yield and whose dividends have increased or held steady for at least 10 years. In doing so, it avoid companies which don't pay dividends every year or have had to make cuts to their dividends over the past decade. To qualify for the index, companies must also have to be profitable and not pay dividends from reserves or borrowings.

Companies in the index include **G4S (GFS)**, **GlaxoSmithKline (GSK)**, **SSE (SSE)**, **BAE Systems (BA)**, **AstraZeneca (AZN)** and **Burberry (BRBY)**.

Source has a suite of FTSE RAFI equity income ETFs which focus on dividends. The products also look at company quality by analysing return on equity, interest coverage ratios and accounting quality. Stocks are weighted by a combination of dividend yield and economic size. There are UK, European and US versions of this ETF.

The US version, **Source FTSE RAFI US Equity Income Physical UCITS ETF (DVUS)**, provides exposure to well-known companies including **Wells Fargo (WFC:NYSE)**, **Chevron (CVX:NYSE)** and **Wal-Mart Stores (WMT:NYSE)**. The fund has a short performance history as it is relatively new; over the last six months it produced a total return of 9.7% (as of 6 February 2017).

SMART BETA RISKS

THERE ARE three potential risks when it comes to factor investing, according to Russ Mould, investment director at AJ Bell Youinvest:

1 Although smart beta or factor ETFs seem to be a passive investment, the investor is making an active choice based on the factors involved. It is unlikely that one factor will always work all of the time, as evidenced by the recent fall from grace of low-volatility and quality growth and the resurgence of the long-neglected value option.

2 The ETF could suffer from tracking error and underperform its targeted benchmark index.

3 Smart beta or factor ETFs can come with higher total expense ratios than those which follow mainstream indices like the FTSE 100 or the S&P 500, so it is possible some of the performance generated could be lost to additional fees.

PRODUCT FOCUS: SOURCE GOLDMAN SACHS EQUITY FACTOR INDEX WORLD UCITS ETF (EFIW)

SOURCE GOLDMAN SACHS EQUITY FACTOR INDEX WORLD UCITS ETF

Total expense ratio: 0.65%

Replication method: Physical with swap overlay

Dividends: Accumulating

Source Goldman Sachs Equity Factor Index World UCITS ETF offers broad, global equity exposure. It aims to outperform traditional benchmarks by emphasising five equity market factors: low beta, size, value, momentum and quality.

The portfolio is drawn from a universe of securities from 22 developed markets around the world.

A combined factor score is calculated for each stock, with the five different factors weighted such that they contribute an equal amount of risk.

The stocks are then combined and weighted to create a portfolio that maximises the overall factor score. The maximum weighting per constituent is 0.5%.

By combining stocks in this way the fund avoids selecting stocks that may score well on one factor but badly on another; for example, if a stock scored +2 for value and -2 for momentum, they would cancel each other out.

The ETF aims to provide consistent outperformance by providing diversified exposure to the five factors while strictly controlling exposure to unrewarded risks.

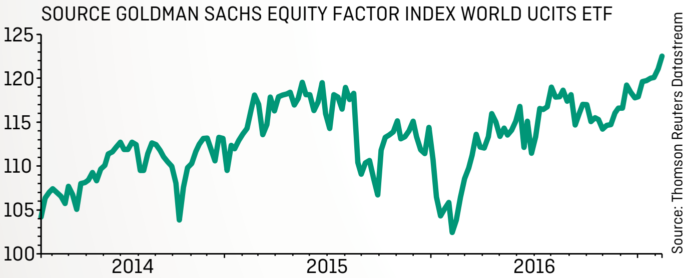
Source's Chris Mellor says the product aims to give a general bias to stocks that will outperform over the long term. He likens it to a football team which might have some players with specific goal-scoring skills, others with tackling skills and others with goal-saving skills.

'A really good team would be comprised of players who are good at all these things. The midfield might not be good enough on a single factor but it is good enough on different factors for a multi-factor team,' he says.

Mellor admits the ETF is more complex than a market cap or equal weighted ETF, but he says it still uses the same idea of picking stocks and ensuring the fund tracks the performance of an index.

The ETF was launched in January 2014 so it has very short performance history. In 2016, it produced a total return of 4.6%, underperforming the traditional **Source MSCI World UCITS ETF (MXWO)**, which returned 7.5%. Over the last three years the fund has returned 19.3% on a total return basis, 1.1% more than the MSCI World ETF.

The ETF uses a 'swap-enhanced' structure. It invests in the physical equities but there is a swap overlay to try to minimise tracking error. It uses several counterparties to reduce the impact of one defaulting.



TOP 10 HOLDINGS
Deutsche Telekom
Valero Energy
Fifth Third Bancorp
SunTrust Banks
WhiteWave Foods
Sysco
Chevron
Nippon Telegraph & Telephone
Quest Diagnostics
Spectrum Brands

SECTOR EXPOSURE	
Financials	15.4%
Consumer goods	13.3%
Oil and gas	12.3%
Consumer services	11.7%
Healthcare	11.4%
Utilities	10.6%
Basic materials	5.9%
Other	19.3%

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

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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.

The big property conundrum

UK financial regulator is looking at solutions to fix liquidity issue in real estate funds

The UK financial regulator is looking at potential changes to commercial property funds to avoid a repeat of last year's investor panic with the sector. It is part of a wider probe into the use of illiquid assets in open-ended funds.

Several property funds suspended trading in July 2016 as investors scrambled to get their cash out. There was widespread concern that the Brexit vote would hurt the property market.

The funds suspended trading as they wanted to avoid asset fire sales in order to generate cash to meet redemption orders from investors.

Investment funds are essentially the only way for the general public to gain exposure to commercial property, whether that's shopping malls, offices, leisure destinations or warehouses.

Therefore the Financial Conduct Authority's (FCA) consultation is very important for anyone with exposure to commercial property.

CASH RESERVES AREN'T ENOUGH

A large number of funds hold substantial cash buffers to protect against a rush of 'sell' orders from investors. Sadly that is only a partial solution.

Standard Life UK Real Estate (GB00BJFL1639) had reserves representing 13% of the fund's value but it was one of the first to suspend trading. Other funds hiked their exit fees to discourage investors from pulling out.

The fundamental problem is clear. Investors want to be able to buy and sell funds whenever they want. The underlying asset class held by these funds doesn't work in the same way as a fund that holds individual stocks and shares and which can easily pay investors back their money on demand as it has more liquid assets.

If you put your house on the market you would not expect it

to be sold within minutes. Even if a sale is agreed, concluding the transaction would likely take at least a month.

A fund manager trying to sell its interest in a commercial property would also struggle to achieve a sale in a short time-frame.

Investors therefore need to take a more realistic view regarding the speed at which property funds can sell assets.

WHAT IS THE BEST SOLUTION?

Solving this problem is likely to require a compromise between the interests of asset managers and investors as well as between those who look to sell and those who stay invested.

Ryan Hughes, head of fund selection at AJ Bell, comments: 'There is not a perfect solution if you want to retain daily liquidity in these funds.

'The only solution which really works is to accept that certain types of funds shouldn't be daily traded and instead allow bi-weekly or monthly trading. The problem is, there's absolutely no advantage of any fund manager being first to implement this.'

DON'T PANIC IF IT HAPPENS AGAIN

In the meantime it makes sense to wait and not panic if a trading in fund is suspended. That essentially gives the manager the chance to sell assets so it can eventually resume trading.

'In reality, people may not need to wait very long for this to happen,' says Sally Merritt, head of product for Saga Investment Services. 'Regardless of timescales, a trading suspension ultimately just helps to ensure that those who cash out early don't leave remaining investors to bear the burden of further price falls in the market.'

Hughes notes **M&G Property Portfolio (GB00B8FYD926)** sold £700m worth of assets while trading was suspended at a 3% discount to their pre-Brexit price. 'If they hadn't suspended trading they would have been selling at a much more significant discount; it would have been a fire sale,' he adds.

FUND MANAGERS DID THE RIGHT THING

AJ Bell's Hughes believes managers acted 'responsibly' last year with many introducing suspensions even though they still had at least 10% liquidity because they could see the 'direction of travel'.

He believes the problem was created because a lot of 'hot money' had flowed into commercial property as valuations recovered from the lows hit during the financial crisis.

The vote for Brexit acted as a catalyst for a lot of that 'hot money' to come out.

Ultimately it is up to individual investors to understand what they are investing in and knowing who they are invested alongside.

A property-focused investment trust is perhaps a better option if you want daily liquidity.

That said, if you try to sell when the market is in panic mode then you will probably do so at a significant discount to net asset value.

We believe it is better to accept commercial property as a long-term holding where the majority of the return will be delivered through income rather than capital gain. (TS)

HERE'S WHAT THE REGULATOR IS PROPOSING:

• **A cap on the illiquid assets held within a fund (or in other words a minimum buffer of liquid assets).**
DOWNSIDE? This could negatively impact returns if fund managers are forced to hold more cash.

• **Split the investments of institutional and retail investors, with different terms applicable to each.**
DOWNSIDE? One class of investor is likely to enjoy an advantageous position.

• **Diversify the investor base of these funds.**
DOWNSIDE? Unclear how this would be achieved.

• **Reduce the frequency of dealing in these funds.**
DOWNSIDE? Would further undermine the appeal of these funds relative to other ways of gaining exposure to property.

• **Develop a secondary market in units of open-ended funds.**
DOWNSIDE? This would represent a fundamental shift in the mutual fund industry and would be very complex to implement.

TAKE YOUR FOREX TRADING TO THE NEXT LEVEL

How to approach the currency markets

You have set up an account and are itching to start trading forex but first it is worth getting some answers to some common questions about the currency markets.

WHAT STRATEGY SHOULD I USE?

This is the number one question for new traders and is the most difficult to answer. There is not one 'silver bullet' approach that will ensure that every trade is a winner. There are a couple of common mistakes that can help point you towards a strategy that fits your own personal style.

Don't be too short term. Because of the

Politics now driving markets more than ever before – and education is key for investors.

The level of global political turmoil being felt is perhaps greater than at any other time in living memory. It has brought change across the world and has led to a heady, powerful mix which makes the current climate truly unique.

One key moment was of course, the referendum which paved the way for the UK to leave the EU. Closely followed by the election of Donald Trump, there has been a driving of uncertainty and daily unpredictability in everything from stocks, commodities and currencies around the world.

Donald Trump is, undeniably, a different proposition to most politicians altogether and his daily barrage of politically contentious statements executive orders and tweets means that social media is now another channel which can influence markets. We have seen gold enjoy a comeback of sorts, possibly due to its "safe-haven" status in times of trouble.

But the winds of political change are not confined to the UK or US. Following political reform votes in Italy, it is feared, Marine Le Pen, the far-right politician who wants France to leave the European Union, may gain power. Worries over that possibility appear to be driving investors into the other safe-haven trade of German bonds. The wider result is that for the first year in almost a decade, the biggest driver of market sentiment is not from monetary policies of central banks around the world, but from politics and power.

One of the reasons for this is that markets are less able to discount politics in the same way they can discount economic data. For investors, it means there is certainly a bigger need to stay abreast of world events, and key moments in the political calendar. Before decisions are made, a greater degree of information must be taken in and acknowledged, and it should come from a variety of sources.

But companies which deal with day-to-day investors also have a duty to inform. They should seize the opportunity to do so via all available channels.

At ActivTrades, we pride ourselves on our market updates and news output to educate clients across the many countries we operate in.
We believe financial education is of vital importance – and is not only an interest to investors, but, in these shifting political times, a must.

Alex Pusco is founder and CEO of online broker ActivTrades.

volatility in the forex markets, many are tempted to try trading for a just few points of profit every time. This can initially prove fruitful but a trade that goes straight against you from the outset can very quickly wipe out any profit from previous trades. Looking for medium term opportunities, over a few days for example, can be better for your trading balance and means you do not have to be glued to a screen around the clock.

Currencies trend so don't fight it. Trying to pick tops and bottoms in forex markets can be an expensive exercise. Use the trend to your advantage and make sure your trades are in the same direction. For example, following the US Presidential Election in 2016, the US dollar trended higher for many days. The pain free approach here was to hop on board, rather than second-guessing where it might end.

Stop losses are all important particularly as forex trades around the clock. Look for 'big levels' to place your stops beyond - for example the previous days high or low. Don't get shaken out of a good trade because your stop loss was far too tight.

HOW CAN I TRACK KEY ANNOUNCEMENTS THAT COULD MOVE PRICES?

There is plenty of newsflow that can drive the forex markets. What's important can change depending on the current environment -but there are some staples that all forex traders should be aware of every month. These tend to be major economic announcements unemployment numbers and central bank interest rate decisions for example. Most decent trading platforms these days will have an economic calendar to help you see what is coming up for the week ahead. And many platforms will flash up the news release as soon as it is made public so you can always stay on top of what other traders are watching, and how it could move the market.

HOW CAN I FIND OUT MORE INFORMATION FOR THE FOREX PAIRS I AM WATCHING?

Today we are spoilt for choice when it comes to financial news and some would say we actually have too much information, making it hard to sort what is relevant from just the noise.

One good source that can help give you a feel for current sentiment and what is really important for your particular forex pairs is the *Bloomberg* news website. It breaks its sections down by market type, so it is easy to delve deeper into the economics moving forex and remain abreast of what could happen to change trends. The *Shares* and sister *MoneyAm* sites are also worth a look.

The last few years have seen plenty of market commentary move onto social media and the usefulness of this should not be underestimated. The likes of Twitter can be a very powerful newsfeed, delivering breaking news and views as they happen. It can take some time to follow the right people, but it is well worth the effort to help build your own tailored news feed of what's important for your trading.

HOW QUICKLY WILL I BE PROFITABLE?

Too many people approach trading as some sort of 'get rich quick' endeavour and it really is not. If it is something you have never done before, then you shouldn't expect to be an expert straight away. You will get better if you stick at it, that's why it's important in the beginning to trade small. If you have a series of losses, you will have learnt some lessons along the way, just make sure you have adequate funds left in your trading account to put them into practice.

Keeping a diary is something that many experienced traders still do, writing down the reasons for the trade can help you identify if you have developed some bad habits along the way, and change them for future trades. It can be a steep learning curve but one that many find very rewarding.

‘THE POUND COULD FALL BY ANOTHER 20%’

MARKET EXPERT PREDICTS £1 MIGHT ONLY BUY $1 IN THE NEAR FUTURE

The decline in the value of sterling has dominated the headlines for the past seven months – is the worst over for the currency? ‘No’ is the answer, according to Jordan Hiscott, chief trader at spread betting firm Ayondo Markets.

He now explains why the UK’s departure from the EU could knock another 20% off the value of the pound so that £1 only buys $1 versus $1.25 at present.

MORE PAIN TO COME

‘The impact of triggering Article 50 will be the realisation that there are no more appeals, debates or votes and that Britain will be leaving the European Union.

‘Once triggered, a two-year time frame will be given to the UK in which to completely remove itself from the EU. I expect sterling to depreciate in a drastic and disorderly fashion when this happens.

‘There has already been much conjecture about outcomes in the build-up to this event, but I think the reality of being outside the largest trade group in the world and having to negotiate Britain’s first trade deal in more than 30 years would likely have a sobering effect.

‘A weaker sterling is generally positive for the large amount of blue-chip equities that make up the FTSE 100 and whose profits are generated overseas. However, the reverse side to this would be the FTSE 250, whose constituents are largely based in the UK with significant domestic operations, would likely not benefit from a weaker sterling in terms of core incomes.

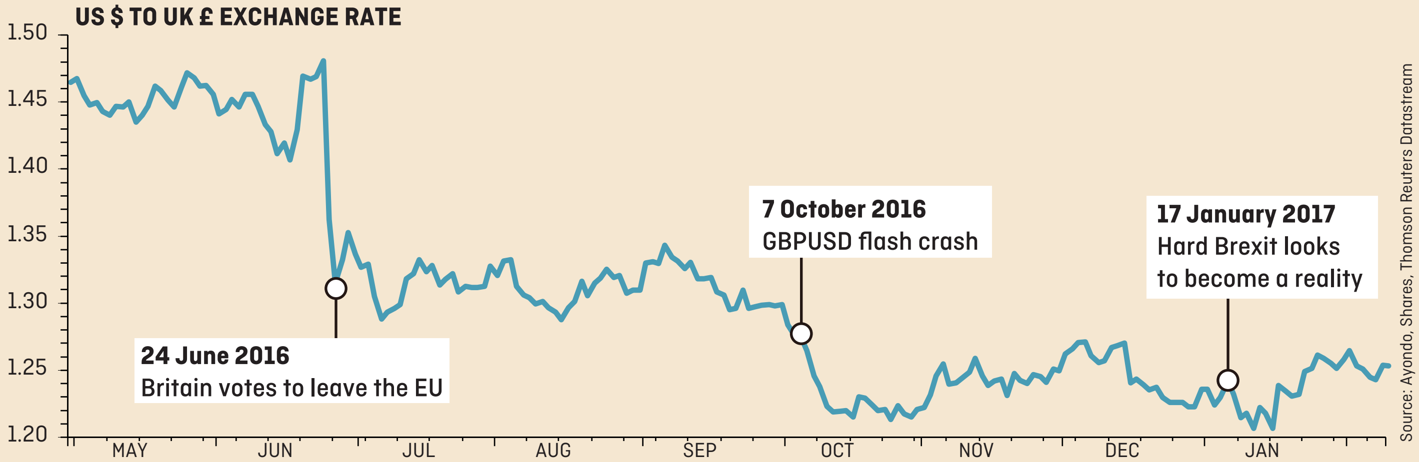
‘There may also be further headwinds from the relocation costs for any companies moving from the UK to Europe, as well as from listed finance companies not being part of the Mifid EU passporting scheme,’ he says.

NOT A BLANKET TRADE

‘At this stage I can’t decide what will be the more prevalent factor and I think it would be illogical to suggest a “one size fits all” outcome to the hundreds of different constituents of the FTSE 100 & FTSE 250.

‘Should the trade deals, either with the EU or other potential trading partners like the US or Australia, become delayed or not materialise during the two-year period after the triggering of Article 50, then we could find ourselves in a bleak situation in 2018/2019.

‘The potential worst case scenario could be parity for the pound/US dollar exchange rate,’ he concludes.



Rare opportunity to play Halma

Shares in safety kit maker may not stay low for long

Mersham-based **Halma (HLMA)** will be keen to redress the balance between buyers and sellers after a spell in the grip of the bears.

In three months to early January the share price slid 21% to 887.5p, its lowest level in almost a year. That slump has left many City analysts baffled; certainly half year results to 1 October 2016 were typically robust.

STILL TIME TO GRAB A DISCOUNT

The recovery already appears to have been kick-started; the stocks has staged an 8% rally to 955.5p. But there is still time to get in on this high-quality, and relatively rare growth and income story in the technology space.

Halma is a global manufacturer and seller of a wide range of equipment largely demanded by health, safety and environmental rules. This includes hazard detectors, sensors and assorted environmental protection kits. The approach allows the FTSE 250 company to consistently perform almost regardless of the economic cycle.

Organic growth is supplemented by carefully selected, bolt-on acquisitions. Halma is very careful in how it chooses its business areas, seeking resilient growth drivers based on advances in safety regulations, ageing and urbanising populations, and other demographic trends.

It also buys businesses that generate strong returns and which it can help to develop and spread into new geographic markets. The model works. Yet finding a continual stream of buyout targets capable of moving the earnings needle appears to be one of the key issues for sceptics.

WELL DEFINED AND SUCCESSFUL STRATEGY

'Halma has a well-defined and highly successful strategy of focusing on structurally growing niche markets driven by increasing safety, health and environmental considerations,' says Numis analyst Nick James.

Interestingly, the analyst also notes how consistent the company has been over many years in maintaining operating margins in the low 20s, 'which benchmarks well against the peer group,' he says. The sector average is 13.2%, according to Morningstar data.

'This has produced a virtuous circle of reliable growth and cash generation that pays for the next stage of investment, and for an unrivalled record in dividend growth,' point out Investec analysts Michael Blogg and Chris Dyett.

Halma has increased the dividend by more than 5% every year since 1979, a staggering achievement. It's also worth noting the accelerating trend of the payout, as illustrated in the table.

HALMA: COMPOUNDING KING

YEAR TO 31 MAR	DIVIDEND (p)	GROWTH (%)
2007	7.18	5.1%
2008	7.55	5.2%
2009	7.93	5.0%
2010	8.50	7.2%
2011	9.10	7.1%
2012	9.74	7.0%
2013	10.43	7.1%
2014	11.17	7.1%
2015	11.96	7.1%
2016	12.81	7.1%
FORECAST		
2017	13.73	7.2%
2018	14.77	7.6%
2019	15.92	7.8%

Source: Company accounts, Reuters

SHARES SAYS: ↗

Based on consensus forecasts Halma is trading on a price to earnings (PE) of 22.2-times next year's 43.1p earnings per share (EPS). That's a two year low for the PE and we side with the majority bullish view.

BROKER SAYS: 9 3 3

Shoe Zone keeps going in a tough market

Retailer takes action to mitigate difficult trading conditions

We are keeping the faith with budget footwear purveyor **Shoe Zone (SHOE:AIM)** despite the uncertain sector outlook.

The company pays an attractive dividend which we think is sustainable and its new large store format is letting the company trade in previously-inaccessible towns.

SHOE ZONE						
Year to Sep	Sales (£m)	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (p)	Price to earnings ratio	Dividend yield (%)
2015	166.8	10.1	16.2	9.7	11.0	5.4
2016	159.8	10.3	17.0	10.1	10.5	5.7
2017*	158.2	10.5	17.3	10.4	10.3	5.8
2018*	160.6	10.7	17.7	10.6	10.0	6.0

*forecast. Source: Numis, Shares

The 'big box' format is more modern than its existing 500+ high street stores and sees Shoe Zone stock third party brands such as *Skechers* and *Rieker* alongside its own-label products, thereby widening the appeal of its offering.

Stockbroker Numis forecasts scope for £5m-plus of operating profit from the new format in six years' time, if successfully expanded to a 60 store target. Three trial stores are currently open, while another six stores are planned for 2017.

The 'big box' format represents an exciting new source of growth to accompany the early-stage-yet-profitable online operation, where growth is accelerating from a low base.

SHOE ZONE IS FIGHTING BACK

The company's full year results (reported on 11 January) were below market expectations as a result of tough trading conditions, store closures and currency headwinds.

We are encouraged by the way Shoe Zone is coping with these challenges. It is negotiating rents downwards, exiting unprofitable outlets and growing the proportion of Grade 1 stores – by bearing down on costs and increasing direct sourcing from China.

Its products have an average retail price of just £10. That should resonate with shoppers should inflation crimp disposable income in 2017 and beyond. Moreover, its price-sensitive customer demographic should benefit from higher minimum wage levels.

SPECIAL DIVIDEND RETHINK?

Numis forecasts improved pre-tax profit of £10.5m (2016: £10.3m) for the financial year to September 2017, while a forecast dividend of 10.4p implies a yield of 5.8%.

Stockbroker FinnCap warns that investment in future 'big box' stores and multichannel sales initiatives, together with additional pension contributions, could mean that Shoe Zone rethinks paying special dividends. It has previously rewarded shareholders with extra cash rewards on top of the normal dividends.

SHARES SAYS:

At 178p, Shoe Zone is attractive for its generous distributions and the upside from the Big Box initiative. (JC)

BROKER SAYS: 1 1 0

St Ives' dividend is under threat

Shareholder payout could be canned as company suffers a string of bad news

Investors tempted to take advantage of a 70% share price dive in printer and marketing services play **St Ives (SIV)** over the past year should beware further nasty surprises. We believe the company could cut or suspend its dividend when it reports half year results on 7 March.

The company issued its third profit warning in a year on 8 February when it revealed the loss of a contract to produce monochrome books for publisher HarperCollins.

Although the non-renewal of the contract will not impact results in the current financial year to July 2017, the following financial year's sales are expected to drop £11m and adjusted earnings will be down £3.5m.

St Ives has been slowly reinvesting cash flows from its mature printing business over the years into a buy-and-build effort in the digital marketing space.

This initially seemed to pay off but in April 2016 the company was hit by clients cancelling or deferring significant projects. Exposure to an embattled groceries sector was a big factor behind another profit warning in January 2017.

Stockbroker N+1 Singer says the latest setback with HarperCollins 'fundamentally changes the debt and dividend outlook'. Prior to the latest profit warning, analysts had expected 7.8p per share dividend for the current financial year, implying 13.2% yield on the current 59p share price.

N+1 Singer has now slashed its dividend forecast to 4p and suggests St Ives should sell or close some of its more troubled businesses.

SHARES SAYS: ↘
There could be further bad news to come. Steer clear at 59p. (TS)

GoTech's obesity battle

HEALTH AND fitness technology micro cap Guscio has changed its name to **GoTech (GOT:AIM)** as it looks to build a more meaningful brand with consumers and investors. The company is using data analysis aimed at fighting the global obesity battle, particularly in children, by developing a range of sports, health and general wellbeing applications. Revenue last year to 30 September was just £40,000. (SF)

TLA sets up Brazil-Argentina clash

SPORTS AGENT and marketing play **TLA Worldwide (TLA:AIM)** is bringing a match between global footballing giants and legendary rivals Brazil and Argentina to Australia. The match is set to take place on 9 June with TLA chairman Bart Campbell noting the company's events business is 'gaining momentum' with further announcements flagged for the coming weeks. (TS)

Portmeirion's dollar appeal

DOLLAR STRENGTH is a translational tailwind for **Portmeirion (PMP:AIM)**. The homewares maker is regaining investor confidence following an Indian and South Korean sales slump. Record overall sales were delivered in 2016 with healthy growth generated in Portmeirion's biggest market, the US. Cantor Fitzgerald Europe's £12 price target implies 21% upside versus the current 995p price. (JC)

What to buy when the market gets grizzly

Investment ideas if you are ultra bearish and worried about the future

Global stock markets finished 2016 in a buoyant mood with the FTSE and the Dow starting the new year at or close to all-time highs. In bull markets it is easy to ignore the potential pitfalls of investing, but the list of macro events that could bring it all crashing down seems to be longer than ever.

In Europe there is a real risk that Brexit could help to inspire a far-right win for Marine Le Pen in the French election in the spring, which could result in the country leaving the euro. There is also a lot of unhappiness in Germany about Angela Merkel's refugee policy that could see her lose the chancellorship in the autumn.

Across the pond it is not yet clear whether president Trump can deliver sufficient tax cuts and infrastructure spending to stimulate the US economy, or whether he will go ahead with his protectionist policies and undermine world trade.

There is also a risk that China's debt problems could get out of hand, or that Russian president Vladimir Putin takes advantage of a weakened NATO and the West suffers a serious terrorist attack.

Each of these have the potential to become a black swan event with the power to trigger a stock market crash, thus creating a real dilemma for bearish investors. If they keep their money in cash and none of these things happen the market will probably climb a wall of worry, but if they invest in a traditional portfolio they could get their fingers badly burned. So what should the nervous investor do?

GOLDEN INVESTMENT

Richard Scott, senior fund manager at Hawksmoor, recommends that an ultra-bearish individual who is worried about the downside risk should have exposure to gold.

'We have exposure to the **CF Ruffer Gold Fund (GB0033628156)** and **BlackRock Gold & General (GB0005852396)** to guard against some of the bearish risks that threaten to undermine the value of bonds and equities.'

He says that among the most serious threats is a disorderly unwind to the problem of rising debt levels. If there was a spike in the rate of inflation or widespread defaults then gold would probably be one of the few assets to perform strongly. It would also be likely to provide protection against negative geo-political shocks or a break-up of the eurozone.

'We believe both the Ruffer and the BlackRock funds provide a well-managed exposure to mainly gold mining shares, with the weekly dealing Ruffer fund having a higher exposure to mid and small cap gold miners.'

Another option would be to invest in a gold ETF such as **ETFS Physical Gold (PHAU)** or **Source Physical Gold P-ETC (SGLD)**. These are designed to track the price of gold and have ongoing charges of 0.39% and 0.29% respectively.

Physically-backed silver ETFs should also offer similar protection with examples including **ETFS Physical Silver (PHAG)** and **iShares Physical Silver (SSLN)**.

DEFENSIVE INVESTMENT TRUSTS TO CONSIDER

Emma Bird, a research analyst in the Winterflood investment trust team, recommends that ultra-bearish investors should consider **Capital Gearing Trust (CGT)**, managed by Peter Spiller of CG Asset Management, and **Personal Assets (PNL)** which is managed by Sebastian Lyon of Troy Asset Management.

'Capital Gearing seeks to achieve absolute returns through active asset allocation across equities, bonds and commodities. Equity investments are made in quoted closed-ended investment trusts and other collective investment vehicles. The aim is to preserve capital over the short run and generate strong risk-adjusted returns over the long-run.'

She says the fund has an impressive record of delivering strong absolute returns with considerably lower volatility than equity markets.

'While the 60% allocation to bonds will mean the fund is likely to lag strong equity market rallies, we believe it is an attractive vehicle for investors looking for low volatility long-term capital growth. It should also provide protection on the downside in the event of a market decline.'

Her second recommendation, Personal Assets, has an absolute return mandate with an objective to 'protect and increase (in that order) the value of shareholders' funds over the long-term'.

'Troy Asset Management is focused on strategic asset allocation and stock selection, with the latter concentrated on high quality companies available at the right price. The portfolio is invested across equities, US TIPS, UK T-Bills, gold bullion and UK Index-Linked Gilts.'

She thinks it likely that Personal Assets will continue to preserve capital in difficult markets and says that it remains a low volatility vehicle that should be capable of delivering attractive absolute returns over the long-term.

UNCORRELATED INVESTMENT TRUSTS TO CONSIDER

Nick Greenwood, manager of **Miton Global Opportunities (MIGO)**, says that **India Capital Growth (IGC)** is not particularly correlated with mainstream equity markets and should hold up better than most if president Trump starts a trade war that results in a slowdown in the pace of global trade.

'The current management team arrived in 2010 and are the third incumbents India Captial Growth's relatively short but

initially disastrous life. They endured a tough time turning around the legacy portfolio, but during the past three years returns have been significantly stronger than better known peers such as **JPMorgan India (JII).'**

India Captial Growth is trading on a discount to net asset value (NAV) of 22%, and Greenwood says it is a classic example of when a trust discount reflects the track record of the vehicle rather than that of the current managers.

'India has a more developed equity culture than most emerging markets. The benefits from the arrival of a market friendly majority government focused on removing inefficiencies should feed through into earnings forecasts, a trend which will run for years rather than months,' says the Miton fund manager.

His second uncorrelated suggestion is the **Taliesin Property Fund (TPF)**, which is a specialist closed-ended fund that invests in Berlin residential property. It is trading at a 26% premium to the latest estimated NAV, but the open market value of its apartment blocks remain well below replacement cost.

The trust is slowly selling assets. The sale of apartments in the first privatised blocks achieved prices of around €4,000 per square metre, which compares favourably with Taliesin's average carrying value of €2,440 per square metre, a price that reflects the valuation methodology for apartments as yet unconverted from rental use.

'Those responsible for valuing the properties are likely to bring into consideration permission

to privatise a portfolio into their valuation process. This implies a further sharp increase in Taliesin's NAV. The trust is handing cash back to shareholders from the proceeds of the disposals.'

HEDGE FUNDS TO CONSIDER

David Coombs, head of multi-asset investments at Rathbones, says it holds commodity trading adviser funds (CTAs) Aspect Capital and Schroder GAIA BlueTrend.

'These are extremely volatile quantitative trading strategies, but they have very low correlations to equities. And that's the point: diversifiers should be chosen on correlation, not volatility. That means having nerves of steel, but it can also mean better portfolio performance overall.'

These sorts of trend-following strategies aim to identify price trends in different markets and then take advantage of them. By going long and short in various up and down trends at the same time they can remove much of the systemic market risk.

Aspect has a UCITs version of its fund that is registered in Dublin and that in theory is available to all investors, although you would need to check whether your broker will allow you to invest in it.

A more accessible alternative would be **Highbridge Multi-Strategy (HMSF)**, a listed hedge fund that has been included in the Winterflood investment trust team's top picks for 2017.

HMSF is fully invested in a global multi-strategy hedge fund run by Highbridge Capital Management. It uses relative value techniques including arbitrage and long/short strategies to target a return of 7% to 12% per year with 3% to 6% volatility and a low beta to the S&P 500.

The investment trust was previously known as BlueCrest All Blue, but since switching the underlying capital to Highbridge at the start of March 2016 the share price is up by about 6%. There is a share buyback programme to control the discount to NAV. The costs are on the high side with estimated ongoing charges of 1.6% excluding performance fees.

The way to play Japan

Discount on Japan trust fails to reflect new management focus

There are any number of ways UK investors can gain exposure to Japan, the world's second largest developed economy. There are plenty of open-ended and closed-ended funds to choose from but for us one investment trust stands out. It trades at a wide discount to net asset value (NAV) with scope to narrow and the 'GARP' approach of its relatively new manager is compelling. Step forward **Fidelity Japanese Values (FJV)**.

Long-serving Fidelity man Nicholas Price, who has been managing money in Japan for about 16 years through any number of market cycles, says earnings are picking up in Japan and companies are generally making positive revisions to forecasts. He believes higher long-term global interest rates, a further weakening of the yen against the US dollar and continued increases in shareholder returns through dividends and buybacks should support Japanese stocks.

GARP APPROACH

Price follows a consistent 'growth at a reasonable price' investment approach. 'I utilise Fidelity's extensive research capability in Japan and globally, but I also conduct my own research as well, looking for undercovered names in the mid and small cap space,' says the Tokyo-based Price. 'Companies that I own in the portfolio are definitely more focused than in the past on buybacks and dividends,' he adds.

Since taking over as manager in 2015, the bottom-up stockpicker has reduced the number of holdings from more than 100 to 88 and pursues more of an all-cap approach than his predecessor.

When pressed on the

discount to NAV, the trust having underperformed the benchmark for many years according to Morningstar data, Price answers: 'The key thing that will cause the discount to come in on a mid-term basis will be sustained reasonable performance of the fund against its peer group. And then periodically, the board of directors has done buybacks.'

COMPETITIVE ADVANTAGE

'My advantage is that I'm on the ground, I speak the language and I visit companies. Those companies may not be well understood in the market and that gives us an advantage as we look for their growth prospects over the mid term,' says Price.

'I have a fairly aggressive risk-reward profile, so I have quite a concentrated portfolio and a consistent bias towards mid and small cap growth stocks,' adds Price, who likes companies that are transforming from stable domestic cash generators to Asian growth stories.

'The typical name I would like would be a company that has a good runway of growth for the next three to five years, an ROE going north of 10%, a shareholder friendly management and also a relatively reasonable valuation relative to its growth.'

Price says he is not interested in hyper-growth, hyper high earnings multiples. 'My ideal company would be one where the market is not yet recognising its growth prospects and therefore as it does and we own the stock, you get multiple expansion,' he adds.

BIG IN JAPAN

While mid and small caps are the primary focus, one large cap stock in the portfolio is **Softbank (9984:TSE)**, the telecom services titan steered by billionaire Masayoshi Son that bought London-listed tech giant ARM last year. Price argues the market is overlooking the immense synergies that can be achieved through the acquisition, Softbank having previously bought **Sprint (S:NYSE)**, a listed company in the United States.

'When we bought into Softbank, we felt the market was very negative on the Sprint acquisition, but our analysts in London and Tokyo felt that Sprint would turn around,' says Price.

The former retail analyst is a fan of **Nitori (9843:TSE)**, 'the number one furniture retailer in Japan which has grown its sales and earnings consecutively for fifteen years. Up until about two years ago, the company really did no IR at all – it was a bit of a black box.

'Recently they've opened up a bit more and I've been able to understand the growth strategy better. The company continues to grow successfully in Japan and its Chinese operation has become more profitable, with the market pricing in a higher multiple for the stock.'

He also owns **Yume no Machi Souzou Iinkai (2484:TSE)** which it compares to **Just Eat (JE.)** in the UK. However he notes more growth potential as commission rates are significantly lower than its UK counterpart.

Other names that excite Price include **Kakaku.com (2371:TSE)**, the company behind Tabelog, a restaurant reservations site that will the key growth driver in the next few years.

Another is sports equipment brand **Yonex (7906.TSE)**, 'the number one in badminton globally', currently accelerating its sales in China, one of the world's biggest markets for players of badminton.

OTHER JAPAN TRUSTS TO PIQUE YOUR INTEREST

Atlantis Japan Growth (AJG)
Baillie Gifford Shin Nippon (BGS)
JPMorgan Japan Smaller Co's (JPS)
Prospect Japan (PJF)

FAST FUND FACTS:

Fidelity Japanese Values

Ticker: FJV
Launch date: 15/03/94
Manager: Nicholas Price
Appointed to trust: 01/09/15
Share price: 106p
NAV: 123.4p
Discount: -14.1%

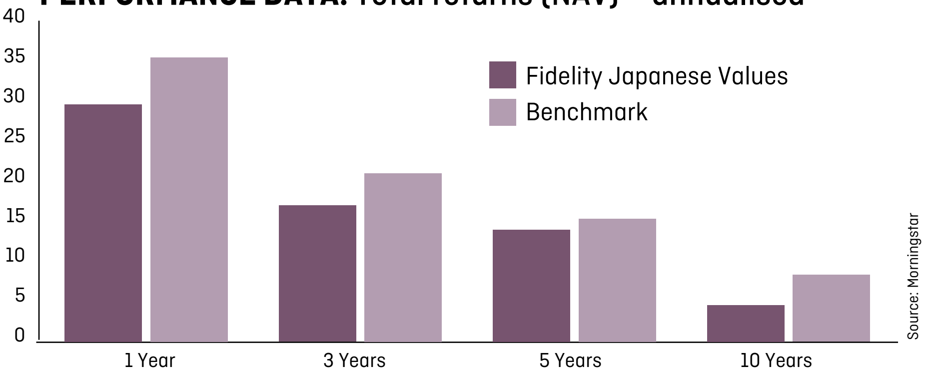
Source: The AIC/Fidelity International

TOP NET LONG POSITIONS

Yamaha Motor	(7272:TSE)	6.9%
Nippon Shinyaku	(4516:TSE)	5.4%
Mitsubishi UFJ FIN	(8306:TSE)	5.3%
Nissin Chemical		5.1%
Softbank	(9984:TSE)	4.8%
Yonex	(7906:TSE)	3.6%
Mitsubishi Electric	(6503:TSE)	3.5%
Nitori	(9843:TSE)	3.4%
M3 INC	(2413:TSE)	3.3%
Zojirushi	(7965:TSE)	3.1%

Source: Fidelity

PERFORMANCE DATA: Total returns (NAV) – annualised



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