STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

FUNDSMITH AND FINSBURY GROWTH
FUND MANAGERS ON THE EMERGING MARKETS PRIZE

CHEAP *as chips*

LLOYDS LEADS THE WAY ON BANKING RECOVERY

CAN BOOHOO SHARES KEEP RISING?

9 GOOD VALUE STOCKS FOR YOUR PORTFOLIO

INVESTING FOR A LOFT CONVERSION: *HOW TO MAKE £40,000 IN 7 YEARS*

Investing requires a little more patience

Research finds the average holding period for stocks has gone from eight years to eight months

What's the longest you've ever held a stock? The world has become impatient, people demand information in an instant or shop online and expect same-day delivery. This desire for instant gratification is also spreading to the investment world.

Increasingly I see people on social media like Twitter discussing the daily movements of their portfolio. Many of the people I follow seem to be serious investors who are very knowledgeable about the subject matter. It therefore seems odd that they are being so critical about short-term performance.

If more people are checking prices on a daily basis, does that mean a higher turnover rate for stocks and funds in an investment portfolio? Yes is the answer.

EIGHT YEARS TO EIGHT MONTHS

A white paper published by US investment manager MFS in 2016 looked at investor behaviour. It cited research by investment data specialist Ned Davis which showed the average holding period for shares on the New York Stock Exchange had fallen from eight years in the 1960s to just over eight months at the end of 2015.

It would be fair to assume the actions of US investors are similar to people in the UK.

MFS' paper cited research by Morningstar which found fund managers had also become more impatient, turning over companies in their portfolios every 1.56 years – perhaps driven by financial incentives.

A report by the CFA Institute found 43% of fund managers receive more than half their pay and bonus based on their annual performance.

MFS suggested some managers were taking excessive risk to beat their benchmark in order to hit bonus targets, yet some of the risks may not be appropriate for the style of fund originally presented to the end investor.

As for retail investors, too much information on the stock market is blamed for people being too short term in their thinking. MFS cited quarterly earnings reports and the volume of media comment as being key sources of 'noise' that an investor must digest and filter.

SELLING TO FUND NEW PURCHASE

What happens if you find a great opportunity and don't want to miss out? You as a fund manager or retail investor would have to make a hard decision if you don't have spare cash to invest.

Indeed, some fund managers (particularly those running closed-end funds), and no doubt retail investors, happily sell stocks in their portfolios when they need to raise cash to fund a better idea. That could be a risky strategy, as you might have already had a perfectly decent stock to own for the long term.

MAKING MONEY WITH OLD FRIENDS

With this in mind, it was refreshing to hear comments from fund manager Terry Smith at the recent **Fundsmith Equity (GB00B41YBW71)** annual shareholder meeting.

He said 'we are making money with old friends', referring to some of his best performing investments in 2016 having been in the Fundsmith portfolio since inception in 2010.

The next time you feel compelled to replace a stock in your portfolio, write down a list of reasons why you no longer want to own the outgoing asset.

If you cannot justify why the existing investment should be sold as much as you justify why the new one should be bought, then perhaps you are making the wrong decision.

DISCLAIMER: The author has a personal investment in Fundsmith Equity

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

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

All can be found in the FEET portfolio.

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FEET Performance, % Total Return

Year ending 31st March	2017	2016	Since inception
FEET Share Price	+17.6	-5.6	+15.2

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

www.feetplc.co.uk
Available through AJ Bell Youinvest.

Fundsmith
Emerging Equities Trust

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4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.

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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.

Lloyds leads the way on banking recovery

Latest set of results could represent turning point for the sector

The days of banks having tarnished reputations is far from over but there are encouraging signs that some of the old retail investor favourites are getting back on form.

Lloyds Banking (LLOY) leads the pack as its first quarter earnings beat market expectations. Analysts suggested they might upgrade full year profit forecasts by as much as 7% following the statement.

COULD LLOYDS DELIVER CONSISTENT DIVIDEND GROWTH ONCE AGAIN?

The bank posted a £2.08bn underlying profit, and this is leading to increased confidence it can return to consistent dividend growth.

Investec forecasts a 4.5p per share dividend for the 2017 financial year, equating to a healthy 6.5% prospective yield.

Investment bank Jefferies says that Lloyds' net interest income has surpassed expectations for the first time 'in ages'.

The bank's net interest margin (NIM), the difference between income from lending and the cost of funding and a key indicator of a bank's profitability, is up to 2.8% from 2.68% in the final quarter of 2016.

RBS RETURNS TO PROFIT

Another benefactor of state aid, the **Royal Bank of Scotland (RBS)** is not faring as well. The bank is still 72% owned by the Government, while Lloyds could be fully privatised soon.

RBS' recent results show it is finally back in the black, having turned a £938m loss this time last year to a £259m profit in the first quarter of 2017.

The bank's NIM improved to 2.24% from 2.19% and the bank further reduced its cost to income ratio to 76.1%.

However, the management also warn profit will be down for the next quarter due to a slow start in its investment banking arm.

RBS is in no position to start paying dividends any time soon so while the bank is finally moving in the right direction it has a lot of ground to make up on Lloyds.

At a headline level **Barclays (BARC)** exceeded analyst expectations in the first three months of 2017 with profit doubling compared to the first quarter of last year. However this excludes a big hit for selling its Africa unit. The bank incurred a £658m post-tax cost on the sale of the business.

Unfortunately for Barclays, investors seem more concerned about its chief Jes Staley's reputation as he is being investigated for his attempts to identify a whistleblower.

The bank slashed its dividend by more than half to 3p a share earlier this year and it does not look likely to raise it in the near future. (DS)

BANKS: THE KEY NUMBERS

	Share price (p)	Dividend 2017E (p)	Yield 2017E
Lloyds	69.0	4.5	6.5%
Barclays	214.5	3.0	1.4%
RBS	258.8	0.0	0.0%

Can BooHoo.com shares keep rising?

Six out of 11 analysts covering the stock have a positive view

Online fashion star **Boohoo.com (BOO:AIM)** continues to put smiles on investors' faces.

The shares at 188.5p aren't cheap on 70 times forwards earnings. Yet six analysts out of 11 analysts covering the stock rate the shares either as a 'buy' or 'outperform', according to Reuters data. Key to their positive view is impressive earnings momentum.

Boohoo's latest financial results show more customers are shopping with its website, ordering more frequently and spending more per order. Boohoo has also morphed into a multi-branded business following the acquisitions of PrettyLittleThing and Nasty Gal.

It is conservatively guiding towards 50% sales growth this year with an EBITDA (earnings before interest, tax, depreciation and amortisation) margin target of around 10%.

We admire Boohoo's 'test-and-repeat' model that limits fashion risk and avoids having unwanted stock.

Well-invested for current growth projections, Boohoo's addition of complementary brands should help drive further rapid international growth and we're comforted by the £58.4m net cash position.

Shore Capital analyst George Mensah believes Boohoo has strong earnings momentum. He sees scope for further earnings upgrades as the year progresses – despite having already lifted his estimates in late April.

For the year to February 2018, Mensah forecasts pre-tax profit of £37.5m (2017: £30.9m) for earnings per share of 2.7p (2016: 2.2p). (JC)

Avocet shares suspended

SHARES IN micro cap gold miner **Avocet Mining (AVM)** are suspended as it has been unable to publish its 2016 annual report and financial statements within four months of the year end. The delay comes as auditor Grant Thornton requires more time to complete its work. At the same time operational issues, including gold seizures, at its Inata mine in Burkina Faso mean the company urgently needs new financing. (TS)

BP beats expectations thanks to oil price rise

OIL MAJOR **BP (BP.)** posted first quarter profit of $1.5bn against expectations for $1.26bn thanks to higher oil prices. Crude hit multi-year lows in early 2016 as investors fretted about the Chinese economy and averaged $35.30 per barrel in Q1 2016 against $54.70 in Q1 2017. It will be interesting to see how BP fares when the comparatives are not as favourable. (TS)

Ratings downgrade for Standard Chartered

EMERGING MARKETS focused bank **Standard Chartered (STAN)** is on the back foot thanks to a downgrade to its credit rating from credit agency Moody's. Its debt is downgraded one notch to A1 from Aa3. This reflects expectations of lower profit as the bank looks to repair its balance sheet against a tough backdrop for revenue. At 717.3p the shares are down 6% in the past month. (TS)

Will Purplebrick's purple patch continue in the US?

Analyst spells out the overseas potential for disruptive estate agent

Challenger estate agent **Purplebricks (PURP:AIM)** is targeting an imminent roll-out of its hybrid model in the US after successfully establishing itself in the UK and launching in Australia in August 2016.

Peel Hunt analyst Gavin Jago says this opportunity is not yet priced into Purplebrick's market valuation. Capturing just a small fraction of an $80bn market could see the company's US profit exceed the figure from the UK and Australia combined by 2022, according to Jago.

Investors are clearly excited about the business, as illustrated by Purplebricks' shares more than doubling in price since we highlighted its attractive investment case in September 2016.

Estate agent fees in the US are relatively high with buyers paying around 5% to 6% of the total transaction. This pricing structure could be ripe for disruption by the low-cost Purplebricks model.

Purplebricks charges an upfront fee to market a house for sale. It doesn't have any expensive high street branches or lots of sales staff, although it does have a technology platform to maintain.

CAN THE UK MODEL WORK IN THE US?

The company uses a fleet of representatives called 'local property experts', most of whom are self-employed. They earn a commission for each new instruction they win and take a share of some ancillary revenues.

Unlike the UK where estate agents typically only act on behalf of the seller of a property, in the US there are listing agents on the selling side and buying agents on the buying side.

Jago sees three ways Purplebricks can generate revenue through the US structure: selling property as a listing agent; introducing buyers to properties for which it acts as listing agent; and acting as a buying agent for other listing agents' properties on the 'MLS'.

MLS (Multiple Listing Service) is an online database of property listings used by licensed real estate agents in the US.

Purplebrick's US website is expected to have a fully integrated feed into the MLS to provide an active market inventory which prospective purchasers can search.

SHARES SAYS: ↗

The stock looks fully valued when only considering the existing operations in the UK and Australia. Therefore investors buying now would have to put faith in the US expansion being a success quite quickly. Peel Hunt has a price target of 435p. We remain positive at 307.8p. (TS)

BROKER SAYS 3 0 0

BlackRock®

A CHANGE FOR THE BETTER?

Are political and economic reforms making a difference when it comes to finding growth in frontier markets? Portfolio manager **Emily Fletcher** casts her eye over those countries less developed than emerging markets.

We have been increasing our weightings across Asia, the Middle East and South America recently. Within Asia, we would highlight Vietnam as one of the more interesting countries. The economy is growing strongly, driven by ongoing foreign investment. The government is also driving a stock market reform agenda that we expect to result in companies making more shares available to investors, the lifting of restrictions on foreign ownership and the launch of a number of IPOs (initial public offerings), where people are able to buy shares in a private company on the open market for the first time. We have found a number of opportunities with share valuations that we feel offer value for money.

ARGENTINA'S 'ENABLING ENVIRONMENT'

Argentina is the largest investment by country in the portfolio. It was our strongest portfolio performer in the year to 30 September 2016, driven by the results of 2015's year-end presidential elections[i]. Following his election, president Mauricio Macri has overseen a shift in economic policy, opening the economy to more foreign investment, eliminating currency controls, cutting export taxes and reducing energy subsidies[ii]. We think that these reforms create an enabling environment that will allow companies investing in Argentina to earn attractive returns as the economy responds to these measures.

AN END TO UNDERPERFORMANCE?

We have been increasing our investments in Kuwait over the past few months with total allocation reaching 11.5% at the end of February 2017. We have been impressed by an acceleration of government-led reform initiatives that look to increase infrastructure spending, while also looking to control overall public spending and inefficiencies in the economy. The government is also working on a number of stock market reforms. Given historic underperformance, we believe that shares are priced attractively.
Past performance is not indicative of future results. All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed.

WHAT ABOUT RISKS?

We believe that the biggest risk would be a substantial (more than 20%) sell-off in global markets. The performance of frontier market stocks is not typically influenced by events in the more developed world with performance instead being driven by local political and economic events. Frontier countries are less exposed both to global trade and the flow of money between international businesses and markets. Consequently, frontier markets tend to trade independently of each other with events in one country having little impact on the market performance of others. However, in times of significant global stress, even frontier markets are not immune and it can affect performance.

For more information on how to access the investment opportunities these relatively new markets can offer, please **visit here.**

Annual performance (%) to last quarter end (GBP)	31/03/16 - 31/03/17	31/03/15 - 31/03/16	31/03/14 - 31/03/15	31/03/13 - 31/03/14	31/03/12 - 31/03/13
BlackRock Frontiers Investment Trust plc NAV	37.96	-3.57	7.63	15.47	20.77
MSCI Frontier Markets Index (NR USD)	29.72	-9.67	8.24	13.85	17.45

[i] BlackRock Frontiers Investment Trust plc Annual Report, 30 September 2016
[ii] As above

29%

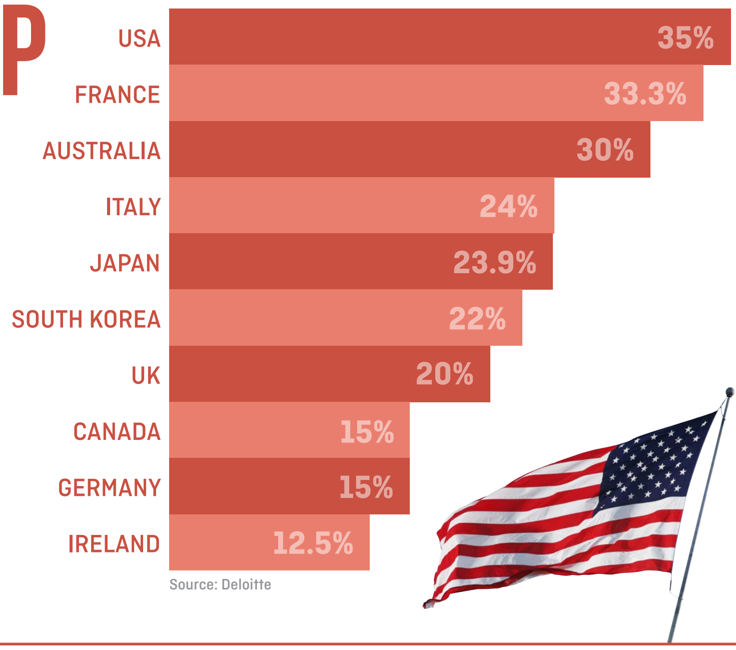
ESTATE AGENT **Countrywide (CWD)** suffered a 29% year-on-year decline in house sale exchanges in the first quarter of 2017.

While this sounds terrible, the decline was most likely distorted by last year's comparative figures.

There was a rush of sales in the first quarter of 2016 ahead of a rise in stamp duty for the purchase of additional residential properties from April 2016. Therefore Countrywide always faced a tough task this year in trying to match last year's sales surge.

15% TRUMP TAX

IT'S BEEN LABELLED the 'biggest tax cut in history' by some commentators as president Donald Trump revealed plans to slash the rate levied on US corporations to 15%. The current tax rate is 35%, one of the highest in the developed world, ahead even of the traditionally socialist-leaning French (33.3%). It puts the UK's 20% corporate tax rate into perspective. (SF)



51m

JAPAN'S POPULATION will fall to 88m by 2065 and hit just 51m by 2115 says the National Institute of Population and Social Security Research based in Tokyo. This represents a decline of 31% and 60% respectively.

Japan's demographics, with over a quarter of the population over 65 years old, presents productivity issues. Robotics could provide a solution.

8km

OIL EXPLORER **Eco (Atlantic) Oil & Gas' (ECO:AIM)** Guyana licence is located a mere eight kilometres from many substantial oil discoveries made by ExxonMobil, the latest of which, Snoek, was announced 31 March.

Chief executive Gil Holzman tells *Shares* his company will, in partnership with operator **Tullow Oil (TLW)**, shortly commence a 3D seismic survey over the Orinduik block and should be ready to drill a well by the end of 2017.

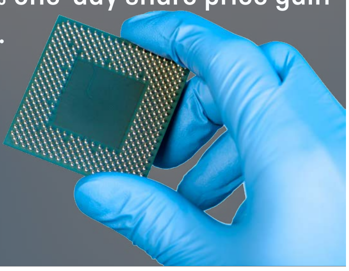
200%

SHARE PRICE GAIN IN ONE DAY

LONG-SUFFERING shareholders in micro-cap lighting controls designer **Photonstar Led (PSL:AIM)** were treated to a rare upwards share price movement on 28 April.

After issuing a profit warning in January, the tiny firm had been limping along with an ever-decreasing share price. Everything changed last week when a student accommodation developer said it might order 50,000 devices from Photonstar.

The 'letter of intent' triggered a 200% one-day share price gain to 1.8p.



20%

SHARES IN FTSE 100 healthcare group **Mediclinic (MDC)** shot up on 27 April when the Abu Dhabi government said United Arab Emirates residents with certain insurance policies would no longer have to pay 20% of the bill for private medical treatment.

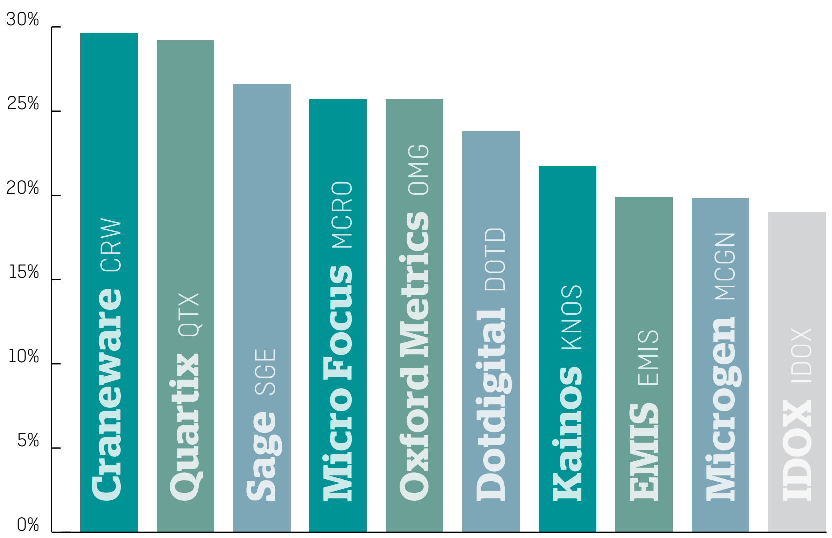
Mediclinic said the co-pay rule had an 'immediate and significant' (negative) impact on its patient volumes when it was first introduced in July 2016.

MOST PROFITABLE RETAILERS ON UK STOCK MARKET (by operating margin)

1	Dignity	DTY	31.1%
2	Card Factory	CARD	22.7%
3	Next	NXT	19.9%
4	Franchise Brands	FRAN	16.2%
5	Dunelm	DNLM	14.8%
6	SafeStyle	SFE	11.8%
7	Pets at Home	PETS	11.5%
8	WH Smith	SMWH	10.8%
9	BooHoo.com	BOO	10.8%
10	JD Sports Fashion	JD	10.0%

Shares: Sharepad

MOST PROFITABLE SOFTWARE FIRMS ON UK STOCK MARKET (by operating margin)



Source: SharePad. Excludes micro caps.

Amino is competing with the big boys

Tech specialist has more growth levers to pull

Cambridge-based **Amino Technologies (AMO:AIM)** provides hybrid TV set-top boxes and a cloud-based streaming service to a range of telecom companies and online content producers on a multi-country basis.

It has found a niche within the market, driven by its proprietary Engage TV platform, attracting the often-overlooked tier two and three operators.

The slew of robust trading updates from Amino in 2016 illustrated two important points.

First, there is clear evidence of telecom suppliers warming to a more software-driven, broadband delivery system to meet their internet protocol TV (IPTV) needs.

IPTV is a way of receiving TV content via an internet connection rather than a satellite dish or rooftop antenna.

Although **Sky (SKY)** is not an Amino customer, its Sky Q viewing platform service shows how traditional cable and satellite companies are embracing broadband delivery.

Second, Amino now has the expanded product that makes it the obvious choice for mid-tier operators, and a real candidate even for the biggest providers.

Full year results to 30 November 2016 show a business in good health. Revenue grew by 80% to £75.2m, pre-tax profit virtually doubled to £10.2m while cash flow dynamics were typically strong.

AMINO TECHNOLOGIES
BUY
(AMO:AIM) 212.8p
Stop loss: 170p

Market cap: £152.8m

'The key message from the results is one of strong execution,' says Progressive Equity Research. 'The group appears to be already benefiting from the ongoing migration of the global TV market, a migration which remains in its early stages.

'Amino is able to sell cost-effective and highly functional devices while these are in demand, but the group is also well positioned for the evolving software-only market and demand for hybrid TV devices, particularly in the cable TV market.'

LOOKING AHEAD

Agreements with US telecom business Cincinnati Bell and Hong Kong telecom provider PCCW demonstrate where Amino has an edge.

Running its Enable TV software across legacy set-top boxes creates large savings for clients. Amino also has a competitive advantage at the intellectual property (IP) level, with Enable being integrated across Samsung's set-top box kit.

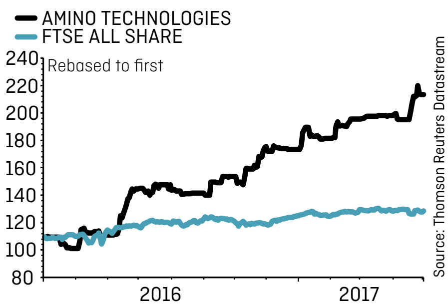
Integration issues relating to the acquisition of Entone that sparked a profit warning in October 2015 have long been sorted out.

We said to buy at 114p following that profit warning in the belief that management would get the business back on track. They did and the shares are now priced 87% higher.

The share price still remains inexpensive, trading on 14.5 forecast earnings for the financial year ending November 2018. Investors are also being treated to nice dividends, currently yielding 3.1% based on this year's 6.7p forecast payment.

Net cash stood at £6.2m at the end of November 2016, implying balance sheet muscle to accommodate any strategic opportunities. (SF)

BROKER SAYS: 2 0 0



UP Global Sourcing could be a rare retail winner

British brands and low-cost model underpin newcomer's strategy

Buy into the positive earnings momentum at Main Market newcomer **UP Global Sourcing (UPGS)**. The consumer products distributor, a specialist in reviving distressed British heritage brands, has a compelling growth strategy which includes an exciting international angle.

Oldham-based 'Ultimate Products' is a fast-growing owner, developer and manager of brands focused on six product categories: small domestic appliances, houseware, audio, laundry, luggage and heating/cooling.

Predominantly sourced from China, Ultimate's wares are easily affordable. Key strengths include its ability to spot consumer trends and get products to the mass market quickly.

Its brands include ironing boards-to-pedal bins specialist *Beldray*, audio equipment brand *Intempo*, as well as British heritage kitchenware brands *Salter* and *Russell Hobbs*. The latter two are both sold under licence.

Ultimate recently bought Lancastrian heritage cookware brand *Progress* from the administrators too. These revitalised brands are sold to over 300 blue chip retailers; the largest customer is **B&M European Value Retail (BME)**, while others include **Tesco (TSCO)**, Robert Dyas, **WM Morrison Supermarkets (MRW)**

UP GLOBAL SOURCING
BUY
(UPGS) 178p
Stop loss: 142.4p

Market value: £145m

and Action.

FLYING START

Half year results to 31 January 2017 revealed outstanding progress across the business. Total sales grew 62.2% to £68.1m and underlying pre-tax profit powered 77.9% ahead to £8.4m. Ultimate also declared a maiden dividend of 1.62p.

Sterling weakness is impacting gross margins, although management plans to mitigate this through product innovation and value-engineering.

Any drop in retail demand post-Brexit shouldn't derail Ultimate's growth, in our opinion, since the company's success to date has been achieved through increasing market share rather than needing the overall market to grow.

Ultimate Products is targeting further expansion through UK and international discounters.

Sales penetration with UK supermarkets is building and there's significant potential online. Ultimate's presence across Amazon's distribution platforms is growing.

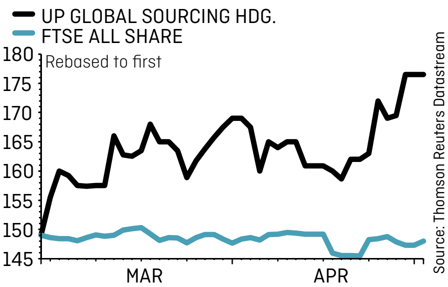
Encouragingly, Ultimate has a huge opportunity to sell into international markets such as the US, India, China and Australia, where there is demand for British heritage brands.

Although the bulk of revenue is still generated from the UK, success with overseas initiatives suggests forecasts could be too conservative.

For the year to July 2017, broker Cenkos Securities forecasts a leap in pre-tax profit to £10.1m (2016: £7.5m), earnings per share improvement to 9.6p (2016: 7.1p) and a 4.8p dividend.

For the 2018 financial year, these metrics are forecast to grow to £11.8m, 11.5p and 5.7p respectively. (JC)

BROKER SAYS: 1 0 0



CAPITAL DRILLING

(CAPD) 58.55P

Gain to date: 17.3%

Original entry point:

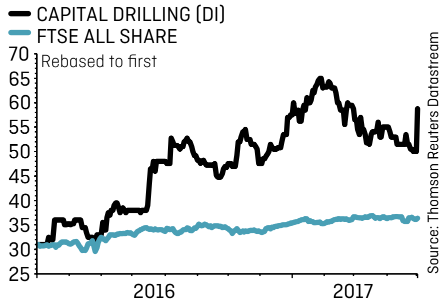
Buy at 49.9p, 22 December 2016

A LARGE NUMBER of contract awards in the mining sector during the first quarter of 2017 has prompted stockbroker FinnCap to upgrade its earnings per share forecasts for **Capital Drilling (CAPD)**. It lifts the 2017 estimate by 30% to 2.9c and 2018's number by 15% to 5.5c.

FinnCap also raises its price target for Capital Drilling to 109p, implying 86% further upside for the shares over the next 12 months.

The very positive trading update (2 May) puts some life back into the shares after a quiet few months. The average revenue per operating rig has increased by 15.3% in the first quarter versus the previous three months, now sitting at $196,000.

Capital Drilling has upgraded its revenue guidance for 2017 to a range of $120m to $130m, having previous guided for $105m to $112m. It cites ongoing resurgence in exploration activity.



The flipside of being busy is that more money will have to be spent on additional drilling equipment. That will reduce the amount of money available to pay dividends near-term but should help to support improved revenue and earnings growth in the future.

SHARES SAYS: ↗

Our prediction for increased mining activity has proved to be the correct call. Keep buying at 58.55p. (DC)

BROKER SAYS 1 0 0

PROACTIS
(PHD:AIM) 187.5p

Gain to date: 43.7%

Original entry point:

Buy at 130.5p, 18 August 2016

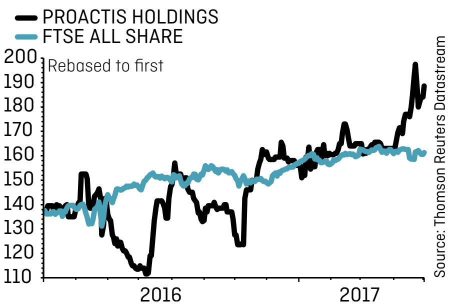
WE SAID THERE could be 50%-plus upside in the **Proactis (PHD:AIM)** share price and we were right. The share price hit 198.9p on 24 April, representing a 52% gain.

The slightly lower current price of 187.5p still represents an excellent time to take well-earned profits on the e-procurement and spend analytics platform provider.

Half year results on 26 April showed impressive 13% organic revenue growth, 27 new clients, 59 deals with existing customers and encouraging renewal trends.

Management have also done a fine job spotting and integrating value-adding acquisitions, including Millstream and Due North.

Further upside may come from its ledger sharing accelerated payment platform, although it remains at the trial stage.



That may encourage some investors to only sell some of their shares, perhaps covering initial outlay, and running the rest for cost-free profit potential.

The shares look fully priced on 17.5 times forecast earnings for the year to 31 July 2018. We'll keep a close watch on developments and we suggest investors do the same.

SHARES SAYS: ↘

Now is the right time to book a well-earned profit. (SF)

BROKER SAYS 2 0 0

SAVANNAH RESOURCES
(SAV:AIM) 5p

Gain to date: 25%

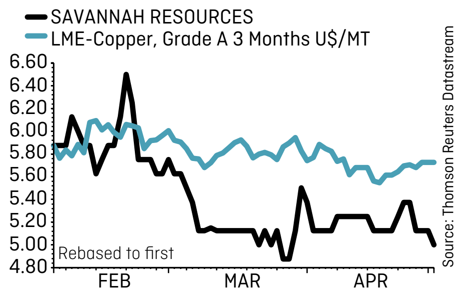
Original entry point:

Buy at 4p, 3 November 2016

A 6% DECLINE in the copper price has weighed on shares in miners with projects involving the base metal. That includes **Savannah Resources (SAV:AIM)** which is one of our top picks in the copper space as it is fast approaching maiden production from one of its projects in Oman.

Stockbroker Peel Hunt says the recent pull back in the copper price gives investors a chance to top up on good miners. It says to buy **KAZ Minerals (KAZ)** and **Atalaya Mining (ATYM:AIM)**. We'd add Savannah to the list.

Peel Hunt has upgraded its copper price forecast by 5% for 2017 to $5,851 per tonne. Material for delivery in three months' time is presently trading at $5,735 per tonne.



The broker predicts copper will continue to rise in value, averaging $6,225 per tonne in 2018 and $6,600 per tonne the year after. That provides a very attractive backdrop for Savannah to start ramping up production. Its first copper concentrate is expected to be produced in early 2018.

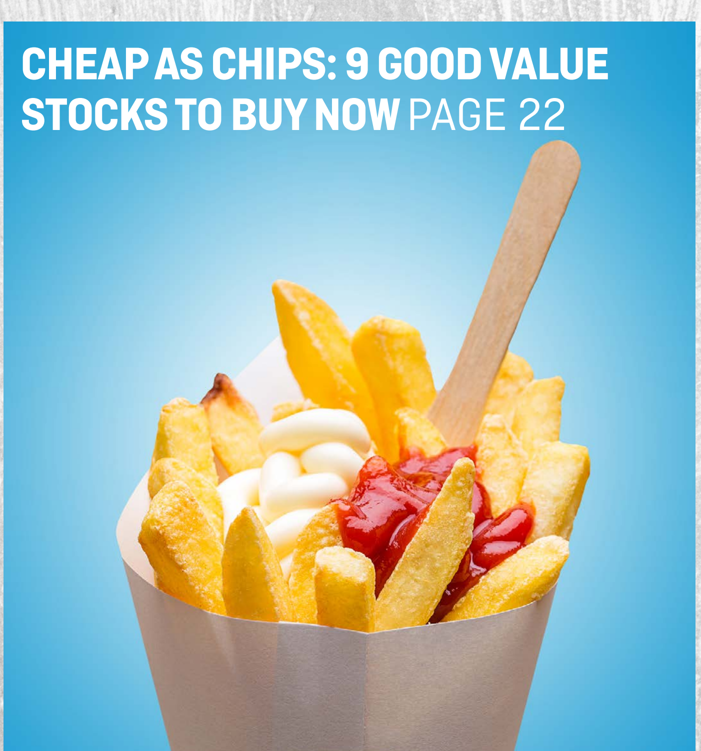
SHARES SAYS: ↗

Don't be put off by recent weakness in the copper price. Keep buying Savannah at 5p. (DC)

BROKER SAYS 1 0 0

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY



Fund gurus view emerging markets as a major prize

Lindsell Train's Nick Train and Fundsmith's Terry Smith explain how they spot superior companies

Consumer goods giant **Unilever (ULVR)** has increased its dividend at a very impressive 8% compound annual growth rate since 1962. Its significant cash generation capability was one of the many reasons why Kraft Heinz tried to buy the FTSE 100 business earlier this year.

'Thank goodness that transaction didn't go through,' says Nick Train, one of the UK's most famous fund managers.

Many people would rejoice if someone offered above market rate for one of their investments. Not Train; he calls Unilever a 'compounding wonder' and a 'dividend machine'. It is clearly an investment he wants to keep holding across his range of funds for many years to come.

Speaking at an event on 26 April in London alongside Terry Smith, another well-known fund manager, Train says dividend growth for constituents of his **Finsbury Growth & Income Trust (FGT)** is currently 'as high as I can ever remember in my career.'

Unilever is the biggest holding in the fund, representing about 10% of the portfolio.

THE REAL REASON BEHIND KRAFT'S BID?

Train has a hunch that Kraft was mainly interested in acquiring Unilever for its strong emerging markets position. As a reminder, emerging markets have attractive demographics and growing spending power of middle class consumers.

'(Emerging markets) would be the real strategic prize. Kraft only generates 10% of its revenue in emerging markets, compared to nearly 60% for Unilever,' says Train.

This theory has led the fund manager to load up on shares in Nasdaq-listed Mondelez, best known as Kraft's former snack foods business which was demerged in 2012.

'Kraft Heinz generates 70% of its business in North America. Mondelez is almost the mirror image with 80% of revenue outside of the US. Right at the heart of the business is the Cadbury brand and the distribution presence in emerging markets.'

TRUE VALUE OF COMPOUNDING MACHINES

Train says investors should now give more serious consideration to what 'rare compounding machines' like Unilever are truly worth. He cites US investor Warren Buffett as describing US long bonds as 'entities on a 40 times multiple with no growth'.

'If Buffett is correct, surely Unilever's 20 times earnings multiple and 5% to 6% annual growth still makes its shares look a give-away,' Train comments.

Terry Smith shares Train's enthusiasm for emerging markets and Unilever, in particular, although his method of getting exposure to emerging markets' consumer spending trend is slightly different.

Smith runs two funds: **Fundsmith Equity (GB00B41YBW71)** and

Fundsmith Emerging Equities Trust (FEET). Both funds are united in their desire to invest in companies with a high return on capital employed; are growing; and whose shares trade on either a reasonable or cheap valuation.

THE DIFFERENT WAY TO ACCESS BIG NAMES

The key difference is Fundsmith Equity generally invests in big corporations whereas its smaller counterpart is only focused on companies which generate their earnings from emerging markets.

What's not obvious at first glance is Fundsmith Emerging Equities' investments are often (but not exclusively) the local subsidiary of a multinational business.

Its exposure to Unilever is through the Indonesian-listed subsidiary of the consumer goods giant. Other stocks linked to well-known corporate giants in its portfolio include East African Breweries (the Kenyan subsidiary of **Diageo (DGE)**), Colgate Palmolive India, Nestle India and the Mexican subsidiary of $45bn personal goods group Kimberly-Clark.

'Many of the local subsidiaries have significantly higher return

on capital employed versus their parent,' says Smith, explaining why the emerging markets fund has chosen to invest in the smaller counterparts.

EXCEPTIONS TO THE RULE

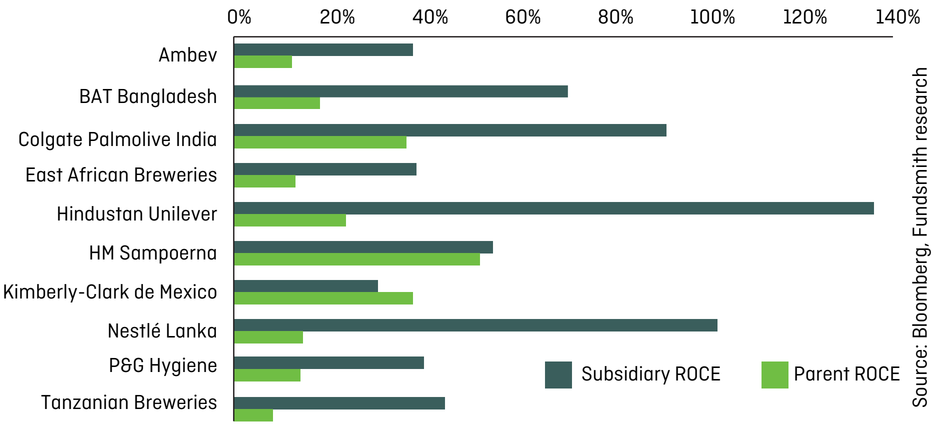
He says this local focus enables the emerging markets fund to invest in certain sectors which he wouldn't dream of touching with the mainstream Fundsmith Equity product. 'For example, brewers aren't in our main fund because that industry is not susceptible to economies of scale, but we have some in the EM fund.'

Smith views brewing as a local business as products are low value, perishable, might get damaged if transported around the world and brand strength lies in the local market. 'Some of the largest beer brands – and brewers with the highest returns – are found in the developing world.'

It's a similar story for retail. That sector is off limits for Fundsmith Equity as Smith believes the combination of low margins and high fixed costs can be 'disastrous' in low and slowing growth environments.

However, the developing world is still full of 'mom and pop' stores, says the fund manager. He believes that presents an opportunity for formal retailers to grab market share, hence why Fundsmith Emerging Equities invests in retailers such as Mr Price in South Africa.

MULTINATIONAL SUBSIDIARIES WHICH GENERATE HIGHER GENERATE HIGHER RETURNS THAN THEIR PARENTS



MONEY MAKING TARGET

Like Nick Train, Terry Smith wants to invest in companies capable of generating lots of profit that can be reinvested in the business and then create even more value. This compounding effect should ultimately make investors lots of money.

Finsbury Growth & Income's 10.8% annualised total return over the past 10 years shows Train has clearly made money for shareholders. Smith is still establishing his track record with emerging markets given his Fundsmith product has only increased by 13% in price since launching just under three year ago.

'It's been a frustrating run but we've made a modest amount of money for investors,' he concludes. Patience is clearly required. (DC)

DISCLAIMER: The author has personal investments in both Fundsmith funds referenced in this article.

FUNDS TO PROFIT FROM FRONTIER MARKETS

INVESTORS WITH AN APPETITE FOR RISK CAN NOW EASILY GET EXPOSURE TO COUNTRIES LIKE SRI LANKA AND CROATIA

Experts say now could be a good time to look at frontier markets if you have an appetite for higher risk investments. The easiest way to get exposure is via investment trusts or funds.

Higher risks can equate to higher returns, but there is also a greater chance of losing your money. Therefore anyone with a nervous disposition may wish to stop reading now.

WHAT ARE FRONTIER MARKETS?

Frontier markets refer to the countries less developed than the 23 countries which make up the MSCI Emerging Markets index. They include countries such as Sri Lanka, Croatia and Saudi Arabia.

Many investors might baulk at the idea of investing in these areas, where there can be political strife, hyperinflation and corruption.

'Individually these are very risky places to invest,' says Emily Fletcher, co-manager of **BlackRock Frontiers Investment Trust (BRFI)**. 'But when you put them together in a portfolio there is actually very little volatility because they are not linked in any way – what happens in Romania doesn't affect Argentina, for example.'

'The fortunes of countries such as Vietnam, Pakistan and Romania tend to be driven by what is going on locally. So while there is more uncertainty in the world, that doesn't actually change anything in these markets.'

The BlackRock trust has delivered a share price return of 87% over the past five years.

DIVERSIFICATION BENEFITS

Asset manager Jupiter says frontier market exposure 'offers additional diversification benefits' to an investor.

It is launching a new investment trust in mid-May called Jupiter Emerging & Frontier Income Trust with the aim of having a concentrated portfolio of 40 to 45 investments. Frontier markets will account for a maximum of 25% of the fund's total assets.

'FRONTIER MARKETS ARE A SERIES OF INDIVIDUAL OPPORTUNITIES. YOU CAN'T TREAT THEM AS A WHOLE.'

For someone seeking greater exposure to these markets, we'd highlight the **Charlemagne Magna New Frontiers (IE00B65LCL41)** fund which has returned 89% over the past five years.

Manager Dominic Bokor-Ingram says frontier markets are a series of individual opportunities and that you can't treat them as a whole.

'We are looking for countries which are going through political and economic reform and then investing in companies with good corporate governance which can take advantage of the resulting economic growth.'

WHERE ARE THE BEST OPPORTUNITIES?

Bokor-Ingram is finding opportunities in Argentina after a new government came to power in 2015 and implemented a radical programme of reform. His biggest holding in the country is an electricity provider, because power is key to economic expansion.

In Pakistan his favourite stock is a cement company. He says: 'Some of the big urban centres in the country are a long way from any ports so domestic cement firms are not so susceptible to international competition. We like these domestic-focused businesses.'

Keeping abreast of the changes in these countries is key and many Frontier fund managers will travel the globe searching for opportunities, kicking the tyres of the companies they're interested in.

Oliver Bell, manager of the **T. Rowe Price Frontier Markets Equity (LU1079763535)** fund, is excited about Sri Lanka. A recent trip there has left him feeling more confident about the country, where he expects the economy to grow, wages to rise and consumption to increase.

The fund, which returned 37.5% over the past 12 months, includes exposure to Vietnam where exports are growing and a middle class is emerging.

NOT AS RISKY AS YOU THINK?

Surprisingly, some aspects of these markets may even be less risky than developed countries.

For example, many frontier governments and companies have very low debt levels. Historically they had high debt and banks became reluctant to lend to them; many have since endured periods of rampant hyperinflation which meant their debt was inflated away.

They also didn't want to borrow more because of hyperinflation – not many people want to take out a loan if the interest rate is 100% or more.

Fletcher at BlackRock has been increasing her investment holdings in Kuwait; the country's weighting in the portfolio has risen from 3% in September to around 11% today.

'We are starting to see signs of reform and progress in the country,' she says. 'The market has underperformed for the past five years so we don't think many people are looking at it, and that means there are opportunities.'

She also anticipates the fund could start investing more in Africa over the next 12 months after being 'perma-bears' on the continent.

The Moroccan market, for example, was up around 40% last year and the country's government is working hard to get a handle on its debt.

In the Middle East, Fletcher is excited about Kazakhstan where the largest private bank, Halic Bank, may be about to merge with another financial giant. 'It could make a new entity much larger than any competitors and really dominate the market,' she says.

'MANY FRONTIER GOVERNMENTS AND COMPANIES HAVE VERY LOW DEBT LEVELS'

THERE ARE STILL TROUBLE SPOTS

Some frontier markets continue to have major problems. Issues with property rights, share ownership and badly managed economies are not uncommon, for example.

Fund managers often avoid entire regions or will change the portfolio because of local events – a country absent from a portfolio could become the biggest area of investment in 18 months' time.

Bokor-Ingram at Charlemagne says two years ago his fund had no money in Argentina or Pakistan and today they account for 35% of the portfolio between them.

Frontier markets should never make up more than a small percentage of an investors' portfolio but, for those willing to stomach the risk, there could be gains to be made. (HB)

CHEAP *as chips*

Everyone loves a bargain and investors are no different. What you must understand is that there is a difference between shares which are 'cheap' and those which offer genuine value.

There are several tools at your disposal to identify value and we'll look at four key metrics in this article to help spot investment opportunities.

Looking at ratios such as price-to-earnings (PE) will provide you with a starting list, but you will then have to look at each individual company to see if it is cheap for a (negative) reason.

Some stocks can either stay cheap or get even cheaper leaving you out of pocket. Therefore research is of upmost importance if you want to be a 'value' investor.

A CLASSIC EXAMPLE

Back in August 2014, newspaper publisher **Johnston Press (JPR)** could have looked an absolute steal at first glance on a PE of 6.1 times, based on forecast earnings.

The shares have since lost more than 90% of their value as the market has continued to punish the company for declining advertising revenues and its hefty debt pile. Johnston Press now trades on a 2017 PE of just 1.5 times.

A proper analysis of the company would have revealed why the shares were cheap but not good value.

Let's now look at four valuation metrics and how you can apply them to your investment research. In each category we will discuss relevant stocks and give you some interesting ideas.

9 GOOD VALUE STOCKS FOR YOUR PORTFOLIO

WHY STOCKS RE-RATE AND DE-RATE
A LESSON ON THE IMPORTANCE OF PE RATIOS

THE MOST WIDELY used and understood measure of value on the stock market is the PE or price-to-earnings ratio. It is a relative measure which can be used to compare individual stocks against their peer group, a sector or the wider market.

The PE compares the market value of a company with its profit. In this case, the share price represents the market valuation. Earnings per share is used as a measure of profit.

A company's valuation is also known as its rating. If a share is re-rated it means it is being valued at a higher level because the investment case has improved for some reason, a de-rating typically means the opposite.

HOW TO CALCULATE THE PE RATIO

PE = current share price ÷ earnings per share

If Company X currently has a share price of 100p and is forecast to generate earnings per share of 10p in 2017 it is on a prospective PE of 10.

100 ÷ 10 = 10

A PE above 20 is generally considered to be a premium rating while shares trading at 10 or below could be considered to have a lowly rating.

The metric does have limitations. Market value provides no direct information on how much debt a company is carrying and earnings per share figures can be massaged through clever accounting.

Remember, while earnings and earnings growth are great, it is important to determine if the profit is sustainable and backed up by cash flow.

To refine this crude marker of value, we've run a filter over the market to identify stocks which are trading at a material discount to their average PE over the last 10 years.

If a share is trading on a lower than average PE due to a short-term blip in performance then it could rise sharply to return its previous rating when things get back on track.

We concentrated our search on stocks which were trading at a 10% discount or more to their 10-year average PE. For some examples, it is possible to justify the disparity.

Shares in oil services business **Petrofac (PFC)** de-rated when it diversified from its main engineering and construction business in the Middle East into a range of other activities. This action, combined with falling oil prices, contributed to a string of profit warnings. Therefore a lower PE was justified.

Marketing agency **Next Fifteen Communications (NFC:AIM)** is a fast-growing business. The 39% difference between its forecast and average PE is skewed thanks to its status as an early-stage growth company which generated limited earnings until relatively recently.

TEN STOCKS AT BIG DISCOUNTS TO AVERAGE PE

Company	EPIC	Discount of current forward PE to 10-year average
Mitchells & Butlers	MAB	70.7%
Capita	CPI	52.7%
Petrofac	PFC	51.1%
Shire	SHP	46.3%
Kenmare Resources	KMR	40.6%
Next Fifteen Communications	NFC	39.3%
Centamin	CEY	37.8%
Berkeley Group	BKG	37.7%
Bovis Homes	BVS	37.6%
Anglo American	AAL	37.5%
Babcock International	BAB	36.3%
Oxford Instruments	OXIG	34.8%
Abbey	ABBY	33.6%
International Personal Finance	IPF	33.3%

Source: SharePad, 26 Apr '17 (only includes companies with market caps of £250m or more and PEs between 5 and 30 times)

REMEMBER, WHILE EARNINGS AND EARNINGS GROWTH ARE GREAT, IT IS IMPORTANT TO DETERMINE IF THE PROFIT IS SUSTAINABLE AND BACKED UP BY CASH FLOW.

A.G. BARR (BAG) 618P

Forward PE's discount to 10-year average: *13.4%*

A strong year-to-date rally at *IRN-BRU*, *Rubicon* and *Strathmore* water maker **A.G. Barr (BAG)** is pleasing.

New investors haven't missed the boat, as A.G. Barr still trades at a discount to its historical 10 year price-to-earnings average, suggesting the stock remains good value.

The share price is recovering from a period of poor sentiment towards the company, reflecting volatile and promotionally intense soft drinks market conditions as well as worries over the UK Government's sugar tax proposals.

The encouraging news is A.G. Barr is successfully pivoting towards consumers' growing clamour for lower and no sugar products.

Chief executive Roger White has announced that 90% of A.G. Barr's owned brands will contain less than 5g of total sugars per 100ml by the autumn of 2017.

Full year results (28 Mar) revealed 2.7% growth in pre-tax profit and exceptional items to £42.4m on sales up 1.5% to £257.1m. The performance was boosted by a strong second half and management's unwavering focus on cost control and asset base investment.

We are fans of the company's differentiated brand portfolio, strong free cash flow and progressive dividend. Although sterling weakness presents a cost headwind, the business is resilient as soft drinks are low ticket items.

Given the current strength of the balance sheet, A.G. Barr will also return up to £30m to shareholders via a two-year share buyback.

CAPITA (CPI) 565P

Forward PE's discount to 10-year average: 52.7%

At 9.3 times consensus forecast 2017 earnings per share, support services business **Capita (CPI)** is trading at a more than 50% discount to its average PE rating over the last decade. A key reason behind this discount was a nasty profit warning in September 2016. Numis says now is the time to buy the shares.

We think the company's problems are both fixable and more than reflected in the share price. We see scope for a recovery as concerns over the debt situation are addressed. However there remains a big question mark over how quickly the recovery will happen.

On 29 September 2016, the firm downgraded its full year pre-tax profit guidance to £535m-£555m versus previous market forecasts of £614m. It pointed to a slowdown in some trading businesses and continued delay in client decision making.

In December 2016, it downgraded profit guidance again blaming further weakness in its IT Enterprise Services arm. The company announced plans to sell assets to repair its balance sheet after some analysts had speculated a rights issue would be required.

Broker Numis expects proceeds of £800m from the disposal of the Capita Asset Services and Specialist Recruitment. It forecasts this money will reduce the company's net debt to earnings ratio from 2.9 times to 1.7 times by the end of 2017.

Numis also expects Capita to generate £840m of free cash flow between 2017 and 2019, more than 20% of the current market cap.

The potential value opportunity has been seized upon both by company insiders and high profile investors.

Chief executive Andy Parker snapped up nearly £100,000 worth of shares in December 2016 and well-known fund manager Neil Woodford has taken his holding in the company through his **CF Woodford Equity Income (GB00BLRZQ513)** fund above the 10% mark.

SCHRODERS (SDR) £31.83

Forward PE's discount to 10-year average: 17.3%

The UK's largest asset manager **Schroders (SDR)** grew its assets under management (AUM) by 5% in the first quarter of 2017 to £405.1bn.

A key contributor was the acquisition of wealth management business C. Hoare, which added £2.5bn.

The shares currently trade on 15.3 times forward earnings, a material discount to the 10-year average of 18.7 times. This likely reflects challenges facing the entire asset management industry, including regulatory and structural challenges coupled with changes in investor sentiment.

SCHRODERS ENJOYS SECTOR-BEST PRE-TAX PROFIT MARGIN OF 30%

Asset managers struggled in the last 12 months, in particular, due to political uncertainty over Brexit, followed by the surprise election of Donald Trump as president in November.

However, Schroders has a well-diversified range of products and derives a decent amount of its revenue from outside the UK. Investment bank Liberum notes the firm did well in a difficult year, as it still managed to attract net inflows of £1.1bn in 2016.

Schroders' foray into the US market could well yield further growth. We also note it is one of the FTSE 100's most profitable firms by operating margin, according to Bloomberg's analysis of three-year data to 2016.

THE MIGHTY PEG

THE PRICE-TO-EARNINGS growth ratio or PEG is used to identify 'growth at a reasonable price', also known as GARP.

A firm's PEG ratio is calculated by dividing forecast PE by the stock's forecast earnings growth rate.

PEG disciples believe a ratio between zero and one times means a stock is cheap relative to its growth prospects and anything above two means it is looking fully valued.

HOW TO CALCULATE THE PEG

PEG = prospective PE ratio ÷ forecast earnings per share growth

At 100p, Company X is forecast to generate earnings per share (EPS) in 2017 of 10p. That equates to a PE of 10.

In 2016, Company X's EPS was 8p so forecast EPS growth is 25% when compared against the 10p forecast for 2017. The company is therefore trading on a PEG ratio of 0.4.

(100 / 10) ÷ ((10-8) ÷ 8) × 100) = 0.4

TEN OF THE CHEAPEST STOCKS BY PEG

Company	EPIC	Forward PEG
Rolls-Royce	RR.	0.3
Cairn Homes	CRN	0.3
Highland Gold Mining	HGM	0.3
Helical	HLCL	0.3
Imagination Technologies	IMG	0.3
FBD Holdings	FBH	0.3
Royal Bank of Scotland	RBS	0.4
Tesco	TSCO	0.4
RSA Insurance	RSA	0.4
Balfour Beatty	BBY	0.4

Source: SharePad, 25 Apr '17 (only includes companies with market caps of £250m or more and PEGs of at least 0.3 times)

POLAR CAPITAL (POLR:AIM) 383P

Forward PEG: 0.4

Specialist asset manager **Polar Capital (POLR:AIM)** is in the ascendancy after grabbing star fund managers from a rival house and seeing a healthy inflow of money into its funds over the past two quarters. Canaccord Genuity rates the stock as a 'buy'.

The firm's update on its assets under management on 13 April show a 27.4% increase over a year to £9.3bn. The recent launch of its **Polar Capital UK Value Opportunities (IE00BD81XX91)** fund, with the nabbing of highly respected duo Georgina Hamilton and George Godber from rival

Miton (MGR:AIM), has helped this growth.

Twelve of its funds sit in Lipper's (a fund ratings group) top quartile performers since their inception.

Polar looks to set revive earnings growth after a few negative years. Forecasts imply pre-tax profit will jump by £6m to £29m in the year to March 2018, and then hit £35m a year later.

SHIRE (SHP) £45.80 $59.0566 / 11.4

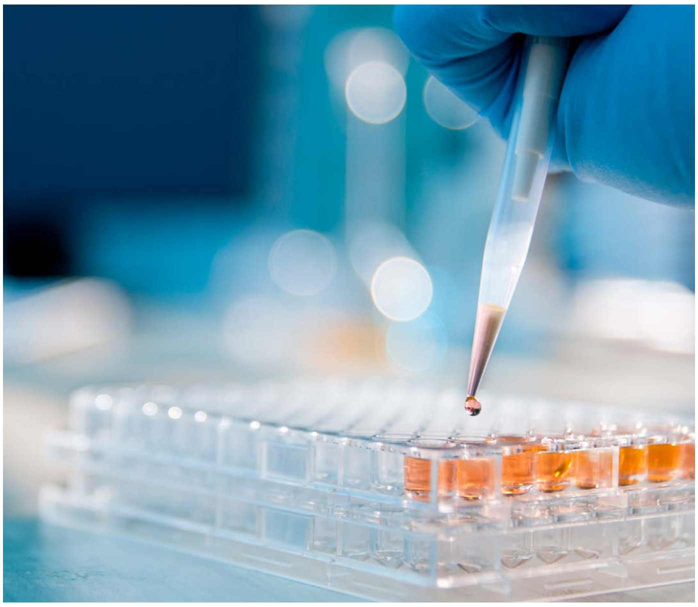
Forward PEG: 0.6

Rare diseases business **Shire (SHP)** has had a rocky ride over the last year in terms of the share price, but many analysts are optimistic about the stock longer term.

The acquisition of Baxalta in June 2016 has been crucial for driving up sales in the enlarged group, and 2017 will represent the first full year's contribution from the biopharmaceutical business.

Shire in February flagged growth across all therapeutic areas and has multiple new product launches expected this year to replenish its portfolio.

Earnings per share are forecast to increase by nearly 20% in 2017. Shire presently trades on a price-to-earnings multiple of 11.4 – so do the maths and you'll see it trades on a PEG of 0.6. The forecasts also anticipate another strong year of earnings growth in 2018. Goldman Sachs has a 'buy' rating and £68 price target.



WHAT ABOUT DEBT? A LESSON ON THE IMPORTANCE OF EV/EBITDA

THE EV/EBITDA ratio is a comparison of enterprise value (EV) and earnings before interest, tax, depreciation and amortisation (EBITDA).

The enterprise value measures the total cost of buying a business. It is calculated by adding a company's liabilities (borrowings and pensions) to the market cap and subtracting any cash.

Unlike the PE or PEG, the EV metric can be used to compare companies with different levels of debt.

The EBITDA figure removes the effect of non-cash expenses such as depreciation and amortisation. In theory, these non-cash items are of less significance to investors because they are ultimately interested in the cash flows of a business.

However, depreciation – measuring the decrease in value of an asset over time due to age, wear or market conditions – is a very real cost of doing business in a lot of sectors and should therefore be considered when analysing some companies.

TEN STOCKS ON LOW EV/EBITDA RATIOS

Name	TIDM	Market Cap. (intraday) (m)	EV/EBITDA
Serco	SRP	1293	4.0
Northgate	NTG	703.8	4.2
Pendragon	PDG	477.3	4.2
Drax	DRX	1230.7	4.3
CMC Markets	CMCX	352.2	4.5
Camellia	CAM	306.2	4.5
Centrica	CNA	11073.1	4.8
Trinity Mirror	TNI	310.5	4.9
Acacia Mining	ACA	1722.2	5
Morgan Sindall	MGNS	492.5	5.1
International Consolidated Airlines	IAG	11824	5.3

Source: SharePad, 25 Apr '17

CMC MARKETS (CMCX) 126.5P

EV/EBITDA: 4.5

A regulatory clampdown on the contracts for difference industry has left **CMC Markets' (CMCX)** shares in the doldrums, down 50% over the past year. You could argue the market has now fully priced in a likely drop in earnings near-term, leaving it at a more appropriate level from which to reappraise the business.

What's been missed by investors is CMC's rapid action to replace a potential hit to earnings with a boost to its overseas operations. It announced a partnership in March with ANZ, one of Australia's largest banks, to power its stockbroking platform including technology, customer service and execution.

Ultimately we believe any prolonged weakness in CMC's share price could prompt founder and 62% shareholder Peter Cruddas to take the business private again.

HOW TO CALCULATE EV/EBITDA

EV/EBITDA = enterprise value ÷ earnings before interest, tax, depreciation and amortisation

Company X has a market cap of £100 million and net debt of £10 million. It has no pension or other liabilities. Its enterprise value (EV) equates to £110 million.

Its forecast EBITDA for 2017 is £12.5 million, therefore we can work out that its EV/EBITDA ratio is 8.8.

110 ÷ 12.5 = 8.8

MARKS & SPENCER (MKS) 366P

EV/EBITDA: 5.7

A modest EV/EBITDA ratio of 5.7 for high street bellwether **Marks & Spencer (MKS)** reflects structural challenges and the uncertainties associated with turning round its Clothing & Home division.

Burdened by debt, M&S also faces rising clothing and food costs as a result of sterling's weakness versus the US dollar, not to mention higher wage costs, all of which are weighing on the valuation.

The good news is the foods-to-fashion purveyor emerged as a surprise Christmas winner, new CEO Steve Rowe's third quarter update (12 Jan) showing a long-awaited return to positive like-for-like sales growth in Clothing & Home.

Albeit delivered against some easy comparatives, 2.3% like-for-like growth at least demonstrated Rowe's turnaround plans for the division are paying off. Prospects over in food are more appetising, with M&S continuing to grow market share in fierce industry conditions.

ASSET-BACKED STOCKS

VALUING A COMPANY purely on its earnings does not always make sense. Sometimes the net value of its assets can be more useful.

Net asset value (NAV) per share shows the total asset value of a company minus its liabilities, divided by the number of shares in issue.

The price to NAV (P/NAV) helps compares the share price to the 'per share' value of its assets.

This shows the cost of a stock relative to the value of the company if its assets were broken up and sold.

This metric is often used to compare stocks in the real estate space or financial institutions such as insurers and banks which have significant physical or financial assets.

P/NAV is also often used as a metric to assess investment trusts.

A property company's NAV would, for example, consist of the portfolio of properties it owns minus any debt.

HOW TO CALCULATE P/NAV

Price to book = share price ÷ NAV per share

Company X's share price is 100p and it has 100 million shares in issue. Its net asset value (NAV) is £80 million which equates to NAV per share of 80p. Therefore its price to NAV ratio is 1.25.

100 ÷ 80 = 1.25

ST. MODWEN PROPERTIES (SMP) 358.6P

P/NAV: 0.8

The property investment and development business has enjoyed share price strength in recent weeks but remains at a 20% discount to its net asset value compared to the wider sector's average discount of 16%.

This seems unjust given the potential for a continuing turnaround of the business under new chief executive Mark Allan and finance director Rob Hudson.

Investment bank Liberum rates the stock as a 'buy'. It says: 'St. Modwen's significant 6,000-acre land bank provides a long-term pipeline of value creation potential. Its scale and regeneration focus also results in a limited pool of competitors for new schemes.'

Liberum believes the company could still realise value from its Nine Elms Square development, close to Battersea Power Station, despite a Chinese buyer pulling out of a deal in March.

GULF MARINE SERVICES (GMS) 72.3P

P/NAV: 0.7

Maintenance vessel provider **Gulf Marine Services (GMS)** trades at a significant discount to the value of its fleet of vessels.

Improving market conditions and a reduction in its level of borrowing – net debt is expected to reduce from a peak of $375m to $335m by the end of the year – could act as a catalyst for the share price.

An asset-heavy business model has weighed on the company as its main industry – oil and gas – has suffered a slowdown leading to reduced utilisation.

The self-propelled, self-elevating support vessels provider undertakes work that is funded by a client's operating expenditure budget – which is less vulnerable than capital expenditure spending. We'd argue it is therefore better positioned than several of its oil service peers.

Gulf Marine's vessels are also cheaper to hire than the oil rigs which would otherwise be used to carry out maintenance. (TS/DC/JC/DS/LMJ)

TEN OF THE CHEAPEST STOCKS BY P/NAV

Company	EPIC	Price to NAV
Barclays	BARC	0.6
Royal Bank of Scotland	RBS	0.6
Millennium & Copthorne Hotels	MLC	0.6
Drax	DRX	0.6
Cairn Energy	CNE	0.6
Standard Chartered	STAN	0.7
Land Securities	LAND	0.7
British Land	BLND	0.7
Intu Properties	INTU	0.7
Debenhams	DEB	0.7

Source: SharePad, 25 Apr '17 (only includes mpanies with market caps of £250m or more and P/NAVs of at least 0.6 times)

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Three funds looking for bargain-priced stocks

Value-themed investment products are a good way to access assets going cheap

Deep value investing involves buying bargain basement shares in the hope they will eventually move back to their intrinsic value. It is a strategy that has forged the reputations of some of the world's greatest investors.

Value investing can be highly volatile and takes a lot of patience; hence many fund managers shy away from it.

Among the notable exceptions are Nick Kirrage and Kevin Murphy, managers of the **Schroder Recovery (GB0007893760)** fund. They've delivered 8.3% annualised returns for investors over the past 10 years, according to Morningstar.

We'd also highlight Joe Bauernfreund who has a specific deep value style for the **British Empire Trust (BTEM)**, seeking out quality companies trading at a wide discount to net asset value. The investment trust had an exception year in 2016 with close to 42% share price gain.

Less well known to investors is the **SVS Church House Deep Value Investment Fund (GB00B79XM025)**, a concentrated portfolio of holdings exhibiting deep value characteristics seeking to generate long-term capital growth for investors.

The fund, which launched in 2012, has achieved 7% annualised total return over the past five years. Its price went up nearly 24% in 2016 which put the fund in the top 3% of best performers in the UK Small-Cap Equity category, according to Morningstar.

HOW DOES IT SPOT A VALUE OPPORTUNITY?

SVS Church House Deep Value is run by Jeroen Bos who justifies a company's value based on balance sheet information rather than future earnings forecasts.

His goal is to find companies where the assets on the balance sheet outnumber the liabilities. He trawls the market for so-called 'net-net investments', first described by famous investor Benjamin Graham. This is when the current assets of the company outnumber all of its liabilities, enabling investors, theoretically, to buy a pound for 50p.

WHAT QUESTIONS DOES IT ASK?

'When I go and see these companies, my first question is always: are you planning to take the company private?' explains Bos.

'When things are going bad, it is very easy to rob shareholders because nobody is interested in the company anymore and nobody is going to put up a fight. That is obviously a big risk for me.'

Bos also probes prospective

investee management teams to find out if they are planning a dilutive rights issue, seeks comfort in sizeable management stakes and is reassured by the presence of other institutional shareholders on the register.

EXAMPLES OF SUCCESSFUL INVESTMENTS

The portfolio really took off following the vote for Brexit, as it provided an opportunity to go fishing for bargains amid a broad market decline.

'We bought **Telford Homes (TEF:AIM)** in the aftermath of the Brexit vote, when many commentators expressed their doubts for the immediate and medium term outlook for the industry,' recounts Bos.

'As a result the whole sector endured an immediate sell-off, which was of such an extent that **Bovis Homes (BVS)** and Telford could then be bought at their near liquidation valuations; levels last seen in the recession years of 2008/9.

'The net-net for Telford worked out at 282p, based on the "Group Balance sheet including proportional share of joint ventures", as at 31 March 2016 and released in June that year. We paid 268p and Telford is trading today at 420p.'

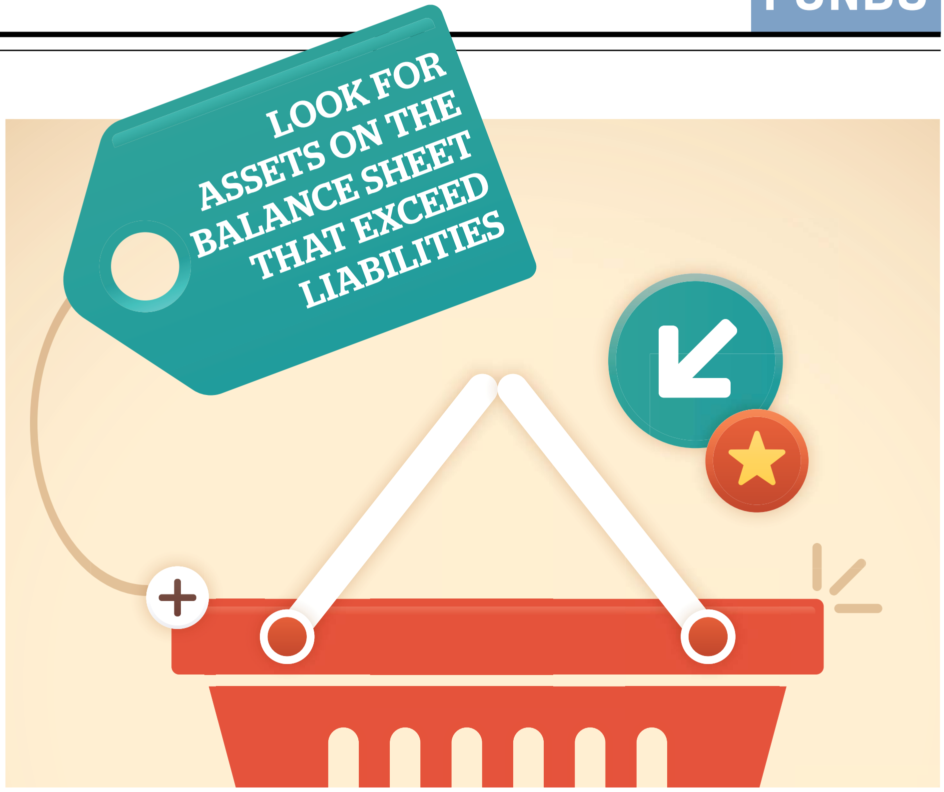
Bos also pounced on property companies including **McKay Securities (MCKS)**, bought at 175p and now trading at 230p. Other investment included **Great Portland Estates (GPOR)** and **Land Securities (LAND)**.

TAKEOVER JOY

Having 'waited a good while for takeover approaches to reappear', two of the fund's investments have been on the receiving end of bids in recent months.

Bovis had two approaches by **Galliford Try (GFRD)** and **Redrow (RDW)**, both since withdrawn; while stockbroker **Panmure Gordon (PMR:AIM)** is being acquired for £15.5m.

'We are happy with the Panmure bid, as it has proven a very profitable investment for us. The investment was made on the basis that we expected consolidation would be inevitable in this sector, where Panmure Gordon seemed to be us the most attractive target.'



SVS CHURCH HOUSE DEEP VALUE: TOP 10 HOLDINGS

Company	%
Record (REC)	10%
PV Crystalox Solar (PVCS)	7.3%
H&T (HAT:AIM)	7.1%
B P Marsh & Partners (BPM:AIM)	5.5%
Hydrogen (HYDG:AIM)	5.3%
Hargreaves Services (HSP:AIM)	5.2%
Panmure Gordon (PMR:AIM)	5.1%
Enteq Upstream (NTQ:AIM)	4.8%
Bovis Homes (BVS)	4.4%
McKay Securities (MCKS)	4.4%

Source: Church House

WHAT ELSE IS IN ITS PORTFOLIO?

Other portfolio performers include pawnbroker **H&T (HAT:AIM)**, a beneficiary, among other factors, of capacity withdrawal after rival Albemarle & Bond went belly up.

'I paid 172p for H&T,' says Bos, 'and the stock is now trading at 299.75p', a princely gain approaching 75% at the time of writing.

Bos still holds interior fit-out and refurbishment specialist **Havelock Europa (HVE:AIM)**, a recovery stock he still thinks will come right.

'Management told me what they were going to do and they've done exactly that,' insists Bos, encouraged by new chairman Ian Godden's purchase of stock at a premium to the then-share price. 'That to me is a very positive sign.' (JC)

Political anxieties weigh on shares in Fidessa

City experts remain torn after latest trading update

Investor opinion continues to be split on equities and derivatives trading platform supplier **Fidessa (FDSA)** in the wake of its latest trading update.

We think the valuation looks too high given a lack of growth. A company statement on 27 April pointed to the uncertainty created by European elections, Brexit negotiations and the new US administration.

The FTSE 250 company says this is acting as a drag on decision making by customers, a potentially ominous nudge to the rising risk to forecasts this year. That news spooked investors, Fidessa's share price slumping 8% to £24.01.

France is currently selecting a new president, either former socialist Emmanuel Macron or hard line nationalist Marine Le Pen. Germany faces its own federal election in the autumn.

GOOD AT WHAT IT DOES

Woking-based Fidessa is a global leader in trading software systems to financial institutions. It has customers all over the world, although the US remains its biggest single market (43% of revenue). Around 87% of those sales are annually recurring, underpinning robust cash generation.

Investors must decide if the company's dividend returns are reward enough in the face of stubbornly low growth. In the year to 31 December 2016 Fidessa reported a headline figure of 12% revenue growth, but this was substantially pumped up by large overseas earnings (about 70% of the total) and so benefitted from the pound's plunge. Revenue expansion if you strip out currency effects amounted to just 3%.

The 21% jump in earnings per share (EPS) was also helped by low capital expenditure in 2016. A big office move in New York will likely depress EPS expansion in 2017. Analyst consensus is for just 3.5% EPS growth this year. That places the stock on a current year price to earnings (PE) multiple of 25.4. An anticipated 86.55p per share dividend this year implies a yield of 3.6%.

ANALYSTS ARE SPLIT

The eight analysts that cover the stock are neatly split; three buyers, three sellers and two fence-sitting with 'hold' recommendations.

Investors may sympathise with their reluctance to take sides. On the one hand, challenging financials markets could grind Fidessa's already limited growth to zero, perhaps even shrink revenue and profit if stressed financial institutions consolidate.

On the other hand, at such times investors seek safe havens and would be potentially attracted by the company's high-recurring revenue and virtually bullet-proof, debt-free balance sheet.

SHARES SAYS: ↘

Fidessa is a high-quality business but we continue to struggle to justify such a premium rating given limited growth. (SF)

BROKER SAYS: 3 2 3

Crawshaw's meaty growth menu

Butchery group's new supply deal and heavyweight board appointment are reasons to feast on the stock

Use weakness at butcher and food-to-go retailer **Crawshaw (CRAW:AIM)** as a buying opportunity at 30.13p. Returned to positive cash generation after a tough period, Crawshaw's tie-up with 2 Sisters is a potential game-changer, offering a catalyst for strong top and bottom-line growth.

IN RECOVERY

Results for the year ended 29 January 2017 from the fresh meats-to-filled baguettes seller with Yorkshire roots revealed a widened loss of £1.4m (2016: £300,000) and a 7.3% like-for-like sales slump, although group sales rose almost 20% to £44.2m driven by store expansion. Operating value-for-money stores across the Midlands and North of England, the £23.3m cap has seen increased competition and also implemented pricing and range changes that confused customers.

The good news is same-store momentum recovered through the second half and into the first 10 weeks of the new financial year. Deeper promotions, winning marketing initiatives and allowing local store managers to trade their shop to suit local tastes is driving a bounce back in customer numbers.

TASTY TIE-UP

The new development in the Crawshaw story is a transformational three year supply agreement inked with meat and food producer 2 Sisters with a 50/50 equity split.

The deal gives Crawshaw access to a greater range of quality-yet-keenly priced meat, poultry and other grocery products for its customers. It also aims to reduce the levels of 2 Sisters' food that would otherwise go to waste; Crawshaw can take quality produce that is surplus to the requirements of 2 Sisters' supermarket customers.

Under the tie-up, food tycoon and 2 Sisters boss Ranjit Boparan is investing an initial £5.1m at 15.2p for a 29.9% stake in Crawshaw and has a warrant to acquire another 20.1% at the same price, should Crawshaw's shares recover to more than 40p.

Boparan also becomes an advisor to Crawshaw, guided by former Lidl man and CEO Noel Collett, whose beefed up balance sheet and enhanced supply means it can restart its new store opening programme.

The initial focus will be on Crawshaw's standalone fresh meat factory shops, generating higher returns and better like-for-like sales than its other store formats.

Significantly, former Poundland CEO Jim McCarthy is also joining Crawshaw as chairman. Under the leadership of the retail luminary, Poundland's EBITDA grew from around £7m in 2006 to circa £57m in 2016, before the business was sold to Steinhoff International in the same year for £750m.

SHARES SAYS: ↗

We see the 2 Sisters tie-up as a turning point for Crawshaw and we're also excited by McCarthy's appointment. Buy at 30.13p. (JC)

BROKER SAYS: 1 0 0

U and I to enjoy dividend delight

Regeneration specialist trades at a substantial discount to net asset value

Property regeneration play **U and I (UAI)** offers investors a 9.3% yield this financial year from ordinary and special dividends according to forecasts from Peel Hunt.

The generous shareholder returns are backed by guidance for record gains of £65m to £70m in the February 2018 financial year.

The company has a decent track record of meeting guidance. So it therefore seems odd that the shares are trading at nearly 40% discount to net asset value. We can only assume the depressed valuation reflects legacy issues around its cost base and the performance of its investment portfolio.

The company expects to generate a total gain of £155m to £180m over the next three years – ahead of its internal £50m per year target – from a portfolio which is focused around London, Manchester and Dublin.

9.3%
yield on offer

The predicted gain for the financial year ending in February 2019 is somewhat lower at £45m to £50m. Finance director Marcus Shepherd claims this is purely based on existing developments.

The company specialises in public private partnership (PPP) projects where it teams up with local authorities to unlock public land for development.

U and I also books profit from trading assets in the short-term and from a portfolio of assets which includes its own completed developments and other projects with regeneration potential.

SHARES SAYS: ↗
We believe the stock is a bargain at 193p. Peel Hunt has a 230p price target. (TS)

BROKER SAYS: 2 0 0

Tough casual dining market hurts Richoux

RESTAURANTS OPERATOR **Richoux (RIC:AIM)** is latest quoted casual dining firm to experience a bad start to 2017, following similar pains experienced by **Comptoir (COM:AIM)** and **Tasty (TAST:AIM)** Its shares fell 27% on 27 April in response to the news, not helped by saying it needs to raise more money. Former Prezzo boss Jonathan Kaye is now overseeing a revamp of its estate. (DC)

Blancco scare divides opinion

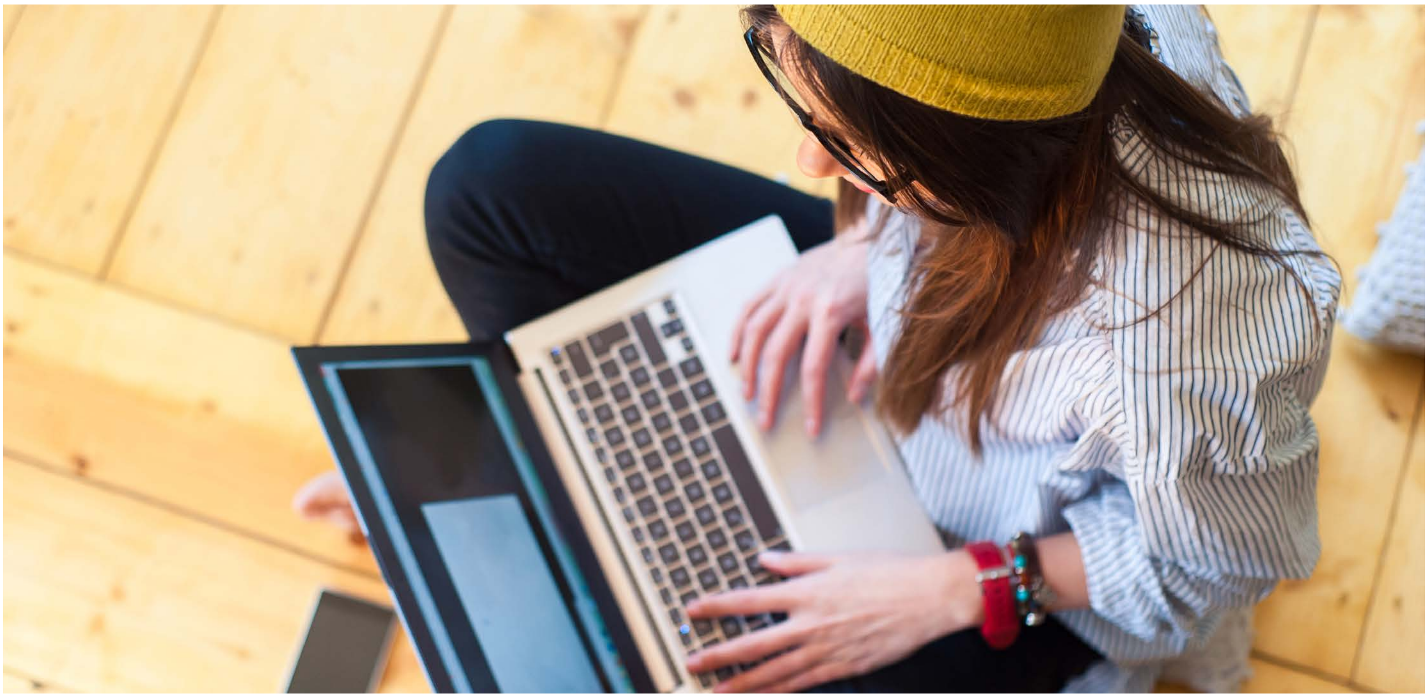
A CASH FLOW REVIEW that forced an emergency £4m fund raise by data erasing business **Blancco Technology (BLTG:AIM)** is dividing opinion. Some analysts believe this is a symptom of 'growing pains' as the business expands, others criticise 'poor cash management.' One broker's analysis identifies a potential £5m funding gap in future on top of the £4m cash call already announced. Blancco's share price has slumped 22% to 169p since the announcement. (SF)

Morses Club eyes revenue boost

MORSES CLUB (MCL:AIM), the second largest home collected credit lender, is using technology to 'enhance customer and agent experience'. Agents will carry tablets so they don't have to write down everything manually. This allows them to visit more customers and potential customers per day and theoretically receive more money. (DS)

Tribal turns the corner

Education technology recovery is worth watching



From out of the night and into the light, education technology supplier **Tribal (TRB:AIM)** is starting to look like a more promising investment proposition after three years-plus in the relative darkness. It has appointed new management and undergone a complete root and branch investigation of the business.

Slowly but surely the operational performance is changing for the better, and as is so often the case, early investors have been ahead of the curve. Tribal's share price has jumped 60%-plus to 93p so far in 2017, levels not seen in 18 months or more. Yet there should be plenty more value still on the table if operating margin improvements come through.

Tribal provides student management systems to higher education, further education, schools and training providers in the UK and internationally. This includes campus facilities management software, providing a range of benchmarking tools and relevant data analytics for both students and education institutions.

Additionally, through its Quality Assurance Solutions (QAS) division, Tribal provides inspection services used by Ofsted and government agencies in the US and Middle East, although the Ofsted contract runs out later this year.

When current chief executive Ian Bowles joined Tribal on 1 March 2016 he was faced with a business in chaos, with a balance sheet so stretched by debt it was close to breaching its banking covenants.

Getting fresh funding was paramount and this was achieved through a deeply discounted £21m rights issue on 16 March 2016, and the sale of its non-core Synergy children's service business to **Servelec (SERV)** for a similar amount.

"AFTER STABILISING THE BUSINESS, STRENGTHENING THE GROUP'S FINANCIAL POSITION…TRIBAL NOW HAS A PLATFORM ON WHICH TO DEVELOP NEW TECHNOLOGY AND DRIVE SUSTAINABLE GROWTH GOING FORWARD."

LOOKING FORWARD

Bowles is now able to see a

bright future ahead, and business through 2016 bears that out. There was the expected 15% decline in revenue to £90.3m, but a better than originally expected uplift in adjusted operating profit, from £2.5m to £4.7m.

After stabilising the business, strengthening the group's financial position and driving notable operating efficiencies, Tribal now has a platform on which to develop new technology and drive sustainable growth going forward.

Bowles has high hopes for a 20% operating profit margin by the end of 2018. In 2016 the figure was 5.2%.

It's worth noting that investment bank Investec, one of the company's two brokers, is forecasting barely half that operating margin target, at 10.7%, so there's scope to substantially outperform expectations.

Taking operating margins from 5.2% to 20% in two years may appear overly ambitious but Bowles has discovered plenty of opportunities.

Centralising sales to put a stop to staff sometimes competing with each other for mandates is one obvious example. First class flights to client meetings have also been knocked on the head, while some staff have been let go and several satellite offices closed.

That's slashed £14.8m from central costs and more efficiencies are anticipated going forward.

STUDENTS MORE DEMANDING

Bowles is also tapping into the vast market knowledge of his team, many with years of experience.

He's also savvy enough to study the most successful software companies in the world and try to emulate what they do.

Most students are now expected to fork out thousands of pounds in tuition fees so it is unsurprising they demand value for money.

Providing the right kind of technology is one way in which universities and colleges are trying to differentiate themselves in the battle to fill places.

Beyond the turnaround phase, good quality software businesses are capable of operating margins in the mid-to-high 20% range, something Bowles accepts.

But let's not get ahead of ourselves. That presents a different set of challenges for further down the line.

In the meantime, given the strong share price run and where forecasts are currently pitched, the shares no longer look cheap. The price to earnings (PE) multiple stands at 31 for the year to 31 December 2018.

However, that valuation is clearly based on forecasts designed to be beaten. Assuming 15% operating margins, and that all else is relatively equal (tax at 20%, for example), earnings per share of 5p in 2019, instead of the 3.3p factored in by Investec, may not be out of the question, implying a PE of 18.5.

It is perhaps too early to recommend the shares as a firm 'buy' but the company is in good hands and there is substantial potential. Investors should watch for progress updates as 2017 could be a big year. (SF)

Investing for a loft conversion

We explore the funds that could help you create your dream home

Rising property prices mean many people prefer to increase space by getting a loft conversion, rather than move home. Loft conversions are by no means cheap, but investing a relatively small amount of money each month could help you to raise the necessary funds sooner than you might think.

FUNDING OPTIONS

The most common ways of footing a loft conversion bill are to apply for an increased mortgage or get a personal loan. These actions increase the amount of debt you'll have to pay off and you could face large mortgage arrangement fees.

By planning ahead and investing, you'll avoid having to pay extra money to a lender and you can grow your money, helping you to reach your required amount more quickly.

The average cost of a loft conversion with a dormer and en-suite is £40,000. If you invested £400 a month and achieved an annual return of 5% you could get to this figure within seven years.

£400 invested every month could turn into **£40,000** in 7 years if you achieve **5% annual** return from the markets.

PICKING THE RIGHT INVESTMENTS

Seven years is the absolute minimum amount of time required to sensibly invest in equities, claim market experts. Any shorter and you might not have enough time to recover from any stock market downturn.

Ryan Hughes, head of fund selection at AJ Bell Youinvest, says regardless of your overall objective, it is important to think carefully about your attitude to risk and only invest in a manner in which you're comfortable.

'With a focus on longer term investing, and assuming that investors have some tolerance for risk, then equity exposure would be appropriate, particularly given the return requirement of 5% per year,' he says.

Hughes says a well-diversified and balanced approach to investing across different asset classes could deliver the required return.

Assuming a medium risk profile, he suggests having a 50% allocation to equities with 40% in corporate bonds and the remainder in property.

FUND IDEAS

If you like the passive investment route you could look at **BlackRock UK Equity Tracker (GB00B7C44X99)**, which tracks the performance of the FTSE-All Share. Its five-year annualised return is 9.2%.

For the bond option an example is **iShares Corporate Bond ETF (SLXX)**, which tracks an index comprised of sterling-denominated investment grade corporate bonds.

If you prefer active solutions,

Hughes recommends core holdings like **Majedie UK Equity (GB00B88NK732), Threadneedle UK Equity Income (GB00B888FR33), Artemis US Select (GB00BMMV5105), Fidelity Asia (GB00B6Y7NF43)** and **Baillie Gifford High Yield Bond (GB00B1W0GF10)**. He says these funds would create a well-diversified portfolio and are led by managers with a proven track record of long-term outperformance.

SEPARATE POTS

Your loft conversion portfolio could be earmarked as a separate 'pot' from the rest of your investments.

Hughes says if you have specific time horizons for certain savings objectives, this can allow a slightly different investment strategy to be followed. For example, the longer the time horizon, the more risk that can be taken.

'There is no problem in investing for a specific purpose but it should at least fit with your overall financial plan,' he adds.

MOVING INTO LOWER RISK ASSETS

When you're investing for a specific purpose and over a defined time period it's important to move gradually into a lower risk portfolio as you near your cut-off date.

Charles Calkin, a financial planner at James Hambro, points out that equities can tumble 20% or more in really bad years, which means you're not guaranteed to have the money you desire at the point you need it.

'You might shift towards a balanced multi-asset fund that blends equities with other less risky assets.

'But the trouble with lowering the risk to compensate for equity volatility is that you can get lower returns too and may fall short of your target and find yourself having to save for longer,' he adds.

Some financial advisers reckon a 40% equity exposure would be sufficient, especially given the desired seven-year timeframe.

Colin Low, managing director at Kingsfleet Wealth, suggests opting for a cautious multi-asset fund like **Vanguard LifeStrategy 40% Equity (GB00B3ZHN960)**. It has a five-year annualised return of 7.98%.

Don't forget
INFLATION.
A **£40,000** loft conversion may cost a lot more by the time you have saved up that amount of money.

REGULAR REVIEWS

Although seven years is a relatively short investment timeframe, Joshua Gerstler, financial adviser at The Orchard Practice, says it's still important to regularly review your portfolio and financial situation.

'A lot can change in seven years so I would always suggest regular reviews of your finances which include all your objectives, not just your loft conversion, as your circumstances may change. Your plan may need to be updated to ensure it is always working towards what you want to achieve,' he explains.

There are other issues to consider. Calkin points out that we are in a rising inflationary environment, which means a loft conversion that costs £40,000 now could cost more in seven years' time.

You may wish to invest a bit more each month or invest for slightly longer in order to manage any inflationary pressures along the journey.

If you invested £450 a month, you could get to £45,000 after seven years (assuming the same 5% annual return); £400 over eight years would give you £47,000; while £450 over eight years would be worth £53,000.

'Most of us want a loft conversion for a reason and often that is a growing family. If you're not careful you may find by the time you can afford to get the loft converted the kids will have flown the nest. Or you might have all strangled each other because of being over-cramped in your house,' he warns.

One way to avoid volatility with ETFs

We explain how minimum variance ETFs can help navigate swings in the market

There are times when markets are hit by bouts of volatility. Panic can set in when share prices move wildly. There's even an index that shows a 30-day expectation of the phenomenon, the Chicago Board Options Exchange Volatility Index known as the 'VIX'.

There are plenty of ways to try and mitigate volatility; one popular method is moving your money into traditional safe havens like gold. Another technique is minimum variance, originally an invention and tool of institutional investors but now available through smart beta exchange-traded funds (ETF).

Low volatility ETFs have become increasingly popular, helping investors gain exposure to a portfolio of low volatility stocks and avoid the more extreme swings in the market.

Minimum Variance ETFs are subtly different in that they aim to achieve a *portfolio* with the lowest possible volatility.

WHY INVEST IN A MINIMUM VARIANCE STRATEGY NOW?

There are major European elections happening this year in France, Germany and the UK. Any surprise news associated with the elections could rock stock markets around the world.

Being in a minimum variance ETF could limit gains if the market shrugs off the risks associated with elections and stocks continue to climb. But it could also help reduce the impact of any downside risk if the market tumbles.

UNDERSTANDING HOW IT WORKS

Minimum variance seeks to exploit a quirk in market efficiency. Stocks in certain configurations produce long-term returns at least equal but hopefully better than the market.

Bruno Monnier, a fund manager at French ETF boutique Ossiam, says if you target stocks using just low volatility as a measure, you'll 'mechanically' lower the risk. There are problems with doing this though. If you choose a concentrated portfolio of a few low volatility stocks, a single stock could undermine your performance.

Counterintuitively Monnier says one of the benefits of minimum variance as a strategy is the ability to include highly volatile stocks within the ETF wrapper. **Ossiam FTSE 100 Minimum Variance UCITS ETF (UKMV)** contains some so-called high beta stocks like gold miner

Randgold Resources (RRS).

In summary, this is thanks to the low levels of correlation some high beta shares have with the rest of the market. This allows them to contribute to a reduction in the volatility of an index as a whole.

Ossiam has a range of minimum variance products covering continental Europe, the US, Japan and emerging markets.

PROTECTING DIVERSIFICATION

One of the key advantages of using this strategy according to Lyxor's head of ETF strategy for Northern Europe Adam Laird is diversification.

He says his firm uses FTSE Minimum Variance indices because, unlike traditional minimum volatility ETFs, they are built to protect diversification. 'They generally hold around two in every three companies in the underlying index – meaning your basket is well spread,' says Laird.

Lyxor has a global range of minimum variance ETFs, including the **FTSE Europe Minimum Variance UCITS ETF (MVEX)** and the **FTSE Emerging Minimum Variance UCITS ETF (MVMX)**.

But for all the advantages of using minimum variance and other related low volatility strategies, some people think they might artificially inflate the valuations of certain stocks. This is a major concern of one of the godfathers of 'smart beta' Rob Arnott, head of Research Affliates, a major provider of smart beta indices.

Arnott says that investors have piled into low volatility funds not because of a genuine belief in the strategy but because the prices of these ETFs were rising. Arnott says this 'performance chasing' means low volatility and minimum variance strategies are trading at high valuations compared to historic norms.

Ossiam's Monnier dismisses these concerns. 'Minimum variance has grown but compared to the rest of the market it's tiny so you will not lose your benefits,' he says.

Lyxor's Laird says it is possible that investors might herd into the strategy but doesn't believe performance chasing is the reason.

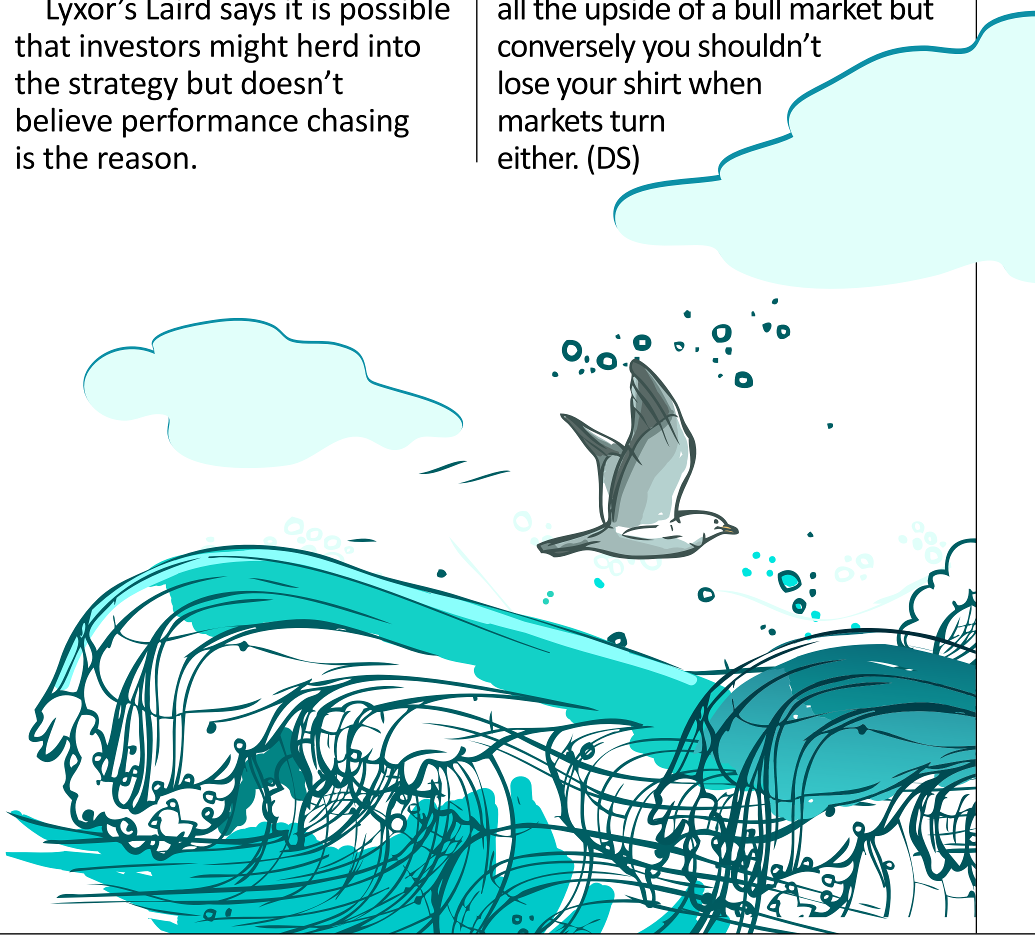
WHAT IS BETA?

Beta measures how much a stock moves when the overall market rises or falls by 1%. A high beta stock might have a beta of 1.5, meaning the share price will, on average, shift by 1.5% for every 1% change in the market. A low beta stock could have a beta of 0.5 meaning it will budge just 0.5% for every 1% move.

NOT A SURE THING

An important point to remember about minimum variance is that it is still an equity strategy and therefore not without risk. Also, if there's a bull market in equities, when investors are in a 'risk-on' mode, these types of strategies are not necessarily best suited.

But minimum variance is not about market timing, it's a strategy to keep in your portfolio for the long term. You won't catch all the upside of a bull market but conversely you shouldn't lose your shirt when markets turn either. (DS)



WEEK AHEAD

FRIDAY 5 MAY

INTERIMS	
International Consolidated Airlines	IAG
McCarthy & Stone	MCS
Millennium & Copthorne Hotels	MLC
TRADING STATEMENTS	
BBA Aviation	BBA
InterContinental Hotels	IHG
Pearson	PSON
Smith & Nephew	SN.
AGMS	
T Clarke	CTO
Man Group	EMG
FBD	FBH
InterContinental Hotels	IHG
Pearson	PSON
Smurfit Kappa	SKG

MONDAY 8 MAY

INTERIMS	
Numis	NUM
TRADING STATEMENTS	
Centrica	CNA

BARRATT DEVELOPMENTS
The UK's largest housebuilder **Barratt Developments (BDEV)** will offer a useful barometer for the sector as a whole when it updates on trading on 10 May.

Investors will focus on margin performance, the state of the London market, signs of any jitters post the triggering of Article 50 and guidance for the remainder of 2017.

AGMS	
Costain	COST

TUESDAY 9 MAY

INTERIMS	
Cambria Automobiles	CAMB
Treatt	TET
TRADING STATEMENTS	
Spirax-Sarco Engineering	SPX
William Hill	WMH
AGMS	
Amerisur Resources	AMER
Rightmove	RMV
William Hill	WMH

WEDNESDAY 10 MAY

FINALS	
Braemar Shipping Services	BMS
TalkTalk	TALK

ITV
As ever advertising revenue is likely to be in focus when free-to-air broadcaster **ITV (ITV)** updates on first quarter trading alongside its AGM (10 May).

It will be interesting to note if its video-on-demand platform saw a tangible benefit following an exodus of advertisers from video sharing site YouTube. Some big names pulled advertisements after their brands were displayed alongside extremist content.

INTERIMS	
Compass Group	CPG
TRADING STATEMENTS	
Barratt Developments	BDEV
ITV	ITV
National Express	NEX
Novae	NVA
Vesuvius	VSVS
AGMS	
Aberdeen Asian Income Fund	AAIF
Anglo Pacific	APF
Aviva	AV.
Barclays	BARC
IP Group	IPO
ITV	ITV
Marshalls	MSLH
National Express	NEX
OneSavings Bank	OSB
Rentokil	RTO
John Wood Group	WG.

THURSDAY 11 MAY

INTERIMS		
On The Beach	OTB	
TRADING STATEMENTS		
Amec Foster Wheeler	AMFW	
BT	BT.A	
Coca-Cola Hellenic Bottling	CCH	
Derwent London	DLN	
Galliford Try	GFRD	
Mondi	MNDI	
SuperGroup	SGP	
Vedanta Resources	VED	
AGMS		
Hill & Smith	HILS	
Keller Group	KLR	
Lloyds	LLOY	
Phoenix Group	PHNX	
Royal Bank of Scotland	RBS	
EX-DIVIDENDS		
AA	AA.	5.7p
Admiral	ADM	51.5p
AG Barr	BAG	10.87p
Blancco Technology	BLTG	0.7p
Central Asia Metals	CAML	10p
Centaur Media	CAU	1.5p
Computacenter	CCC	15p
Carillion	CLLN	12.65p
Centrica	CAN	8.4p
Epwin	EPWN	4.4p
Fidessa	FDSA	28.2p
Fidessa	FDSA	50p
Frenkel Topping Group	FEN	0.87p
Glencore	GLEN	$0.04
Hiscox	HSX	19p
Ibstock	IBST	5.3p

NATIONAL EXPRESS
In February, coach travel operator **National Express (NEX)** impressed investors with strong growth in North America although its UK market remains an ongoing concern.

When it updates the market on 10 May, its UK division will remain in focus as it should reveal whether changing travel patterns and rising traffic congestion are continuing to drag on performance.

Integrated Diagnostics	IDHC	$0.14
Macfarlane	MACF	1.4p
Merlin Entertainments	MERL	4.9p
NMC Health	NMC	10.6p
North Midland Construction	NMD	3p
Ocean Wilson Holdings	OCN	$0.63
Quixant	QXT	2p
Saga	SAGA	5.8p

Source: Shares

Click here for complete diary

KEY

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