STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

FANTASTIC STOCKS FOR 2019

PLUS

FOUR FUND IDEAS

NEW RETAIL SECTOR TROUBLES

BENEFITS OF READY-MADE PORTFOLIOS

BUMPER ISSUE

Why 2018 gave investors a valuable lesson

Tough times on the markets aren't a reason to pack up and walk away

The past year has been a learning experience for investors. It has been a long overdue reminder that putting money in the markets can result in losses as well as gains.

Don't be down if your portfolio has taken a hit. Stay positive and remember that a long-term investing strategy will inevitably come with ups and downs.

The FTSE 100 is down nearly 12% this year and most other major markets around the world have also lost money for investors. The worst thing you can do now is sell and lock in losses.

You should continue to feed money into the markets, buying companies with strong balance sheets and funds run by proven experts. If you are particularly nervous and believe markets have further to fall then save up some cash and keep it to one side to make investments when you're convinced everything is at peak gloominess.

FOCUS ON THE FUTURE

It certainly feels like there is already a lot of bad news being factored in at the moment. Investors should perhaps start to focus on what it would take for the markets to revert to their upward trajectory and to take stock of current events.

Many companies in the FTSE 100 index look cheap on an earnings basis and offer attractive dividend yields. The UK market has already underperformed and many of its companies have already completed, or are already going through, restructuring programmes to make them leaner and fitter for the future.

Expectations have already been downgraded for economic growth in many parts of the world, so even the smallest bit of positive economic data in 2019 could be good for the markets. So too a peaceful resolution to the US/China trade war, and some clarity of the direction of Brexit would certainly go down well with investors.

People like to know where things stand – good or bad – so they can formulate a plan to deal with it. Not having to use the word 'uncertainty' would certainly be my big wish for 2019.

BUMPER ISSUE

This bumper issue of *Shares* contains lots of information to help you stay abreast of events, plus investment ideas going into the New Year.

We'd love to hear about any particularly topics you would like to us to cover in the future, so please email **editorial@sharesmagazine.co.uk** with '**article ideas**' in the subject line.

The next issue of the digital magazine will be out on Thursday 10 January 2019 and if you can't wait that long there will be a regular stream of stories on our website over the Christmas and New Year period.

On that note, I would like to thank everyone for reading *Shares*, whether you are new to the publication or a longer-term follower. I hope you have a fantastic Christmas and I wish you all the best for 2019 and hope that it brings better news for your investments.

THE NEXT ISSUE OF SHARES IS OUT ON 10 JANUARY 2019

By **Daniel Coatsworth** Editor

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VIEWING SHARES AS A PDF?
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

Ugly ducklings... not just for Christmas!

At the Scottish, we take a contrarian approach to global stockmarkets.

Our philosophy is simple. We recognise that popular stocks become overvalued while unfashionable stocks are often too cheap. We favour the out-of-favour and look for the signs of change that others overlook - and we aim to exploit this inefficiency to deliver long-term gains for our investors.

Exploiting irrational markets

By the time everyone realises that a great company is great, it may no longer be the best investment. It becomes difficult to see the storm on the horizon when everyone is toasting past success.

Similarly, when a company has hit rock bottom, it can be hard to see that there will ever be good times again.

Investment markets are driven by cycles of emotion, rather than dispassionate calculation, and this leads stocks to be priced too highly in the good times and undervalued when times are bad.

This inefficiency is driven by human nature - people feel comfortable sticking with the crowd. But the herding instinct that ensured human survival in the past may not serve our best interests in financial markets. We believe it pays to ignore these instincts when it comes to making investment decisions.

By looking for positive signs of change in the out-of-favour areas of the market, and avoiding the unsustainable bubbles, we see a better balance of risk and reward.

We have the conviction to back our ideas

We are patient investors. When we see that positive change is afoot we have the conviction to back our ideas. But we know it can take time for the changes we see to be recognised by investment markets. That's why we take a long-term view.

Our high conviction contrarian approach means that when the market reassesses the out-of-favour investments we prefer, our best ideas really count.

Stand out from the crowd

Our investment approach is truly differentiated in a world awash with index trackers. We don't want to own the overpriced areas of the market so the investment portfolio is constructed without the constraints of a benchmark. This means we expect our performance to be differentiated too.

Built for uncertain times

When the market mood turns, we believe it is important to have a keen eye on risk and reward. That's particularly pertinent when markets have soared through successive highs. The recent wobbles in equity markets hint at a reassessment of the more speculative areas of the market.

In contrast, the out-of-favour areas we prefer may be ripe for recognition. That's why we believe it pays to invest in ugly ducklings that can one day turn into beautiful swans.

For more information visit www.thescottish.co.uk or follow @ScotInvTrust The Scottish Investment Trust PLC

Cinema fights off streaming threat and consumer gloom

But have Cineworld and Everyman Media managed to join the party?

A blockbuster year for the cinema industry would suggest that competition from streaming services like Netflix and pressure on consumer spending haven't negatively impacted the silver screen.

An article in *The Guardian* suggests that British cinemagoers will have been to the movies 176m times this year, a number not seen since 1971.

Stockbroker Numis says year-to-date the US box office has increased by 10% and the UK box office was broadly flat, showing the resilience of cinema as a leisure activity.

A more diverse range of films and the rise of boutique theatres is credited with keeping cinema buoyant in 2018. For example, the biopic of the band Queen, called *Bohemian Rhapsody*, has taken more than £43m at the UK box office.

Other popular films this year include the latest instalments in the *Avengers*, *Mamma Mia*, *Incredibles* and *Jurassic World* franchises, as well as family-friendly hits *Peter Rabbit* and *The Greatest Showman*.

Despite this positive backdrop, shares in the two UK-quoted cinema operators haven't enjoyed much success year-to-date. **Cineworld (CINE)** has dropped by 0.3% and **Everyman Media (EMAN:AIM)** has fallen by 2.6%, although both are better than the FTSE All-Share's 12.7% decline.

Cineworld is currently burdened with a large amount of debt after buying US rival Regal Entertainment. Rising interest rates in the US are a headwind because all of its $4.1bn debt is on floating rates.

The company said at the time of buying Regal that it was confident of being able to rapidly pay down the debt to more comfortable levels.

Numis analyst Richard Stuber notes that Cineworld currently trades on 11.2 times forecast earnings for 2019 versus an average 20-times

rating for its global cinema peers. Analysts at HSBC point out Cineworld's current rating is considerably below its c17-times average over the past decade.

Everyman Media has been caught up in the broad market sell-off where highly-rated stocks have been punished by the market. At the share price peak of 267p in May, the shares were trading on 92 times forecast earnings for 2018. This rating has since reduced to 70-times, albeit still a premium level.

Both companies are rolling out new sites and refurbishing existing ones. HSBC analysts say some cinema operators have achieved more than 20% return on investment when refurbishing sites and report attendance growth above traditional cinemas.

A key reason behind Cineworld's acquisition of Regal, which gave it a large footprint in the US, is to smarten up the latter's cinemas with the hope of driving earnings growth even if the industry box office didn't grow.

By **Daniel Coatsworth** Editor

What is the outlook for UK property in 2019?

The wider market may be in 'extra time' but some pockets still look attractive according to one property expert

Investors who assume the real estate sector is set for a universally gloomy 2019 could be proved wrong according to Nick Montgomery, head of UK real estate investment at asset manager Schroders.

Adding the usual caveats around the impact of Brexit, Montgomery paints a much more nuanced picture by forecasting that certain areas will struggle but others will remain far more resilient through the course of next year.

Schroders focuses on cities which have major urban centres enjoying superior employment, economic and population growth such as Edinburgh, Manchester and Bristol.

Montgomery, who also manages the **Schroder Real Estate Investment Trust (SREI)**, tells *Shares*: 'Using a football analogy we are in extra time in terms of the property cycle but averages (in terms of performance of real estate as an asset class) are likely to be just as misleading as they've ever been.'

He says the problem for retail property is no-one is quite sure how far values need to come down as there has been limited activity in the sector by which to set benchmarks for what assets are worth today.

Montgomery notes Schroders has less exposure to retail in all of its funds than their benchmark indices and also avoids offices in the City of London, with a bias instead towards regional industrial and office assets.

'We're feeling relatively confident on the capital values of multi-let offices in cities where rents and capital values are below historic peaks,' he adds. The dynamics in these locations are strong according to Montgomery with limited new supply coming on to the market.

He acknowledges the importance of actively managing property assets to meet the needs of clients, with the emergence of flexible office space provider WeWork 'rippling out into the regions'.

Montgomery also notes that while there is a lot of uncertainty around, there is also plenty of liquidity, adding that foreign investors, which he describes as 'relatively sanguine' around Brexit, have a desire to invest in UK assets.

'If we end up with a "bad" Brexit deal we could see the uncertainty dramatically impact all asset classes, not just real estate,' he concludes.

SCHRODER'S DEFINITION OF A 'WINNING CITY'

By **Tom Sieber** Deputy Editor

UK to tumble down economic league table in 2019

Forecasts from PwC make for mixed reading on the global outlook

According to a report from consultant PwC the UK could fall from fifth to seventh in the global rankings of economies by size in 2019 but it is still expected to generate a better long-term growth rate than the Eurozone.

The *Global Economy Watch* report expects both France and India to overtake the UK next year. While the UK and France often swap places the emergence of India and its ascent up the rankings is expected to be more permanent according to PwC.

Mike Jakeman, senior economist at PwC, says: 'India is the fastest growing large economy in the world, with an enormous population, favourable demographics and high catch-up potential due to low initial GDP per head. It is all but certain to continue to rise in the global GDP league table in the coming decades.'

Slowing growth is anticipated in the US and China and tighter labour markets are anticipated for advanced economies. This is a particular area of concern for UK businesses in a post-Brexit world.

In total around 40 countries will see their working age populations shrink with 'the global nexus of the declining labour force' remaining Eastern Europe.

Trade wars are expected to persist and the risk of an escalation from the US/China tensions to a 'wider trade conflict' is flagged.

Strikingly there is greater optimism on UK growth than with the Eurozone. Between 2021 and 2025 real average GDP growth (i.e. taking into account inflation) of 1.8% is forecast for the UK, compared with 1.5% for the Eurozone.

According to PwC the US will mark its longest-ever business cycle expansion in July 2019, when the period of growth that began in mid-2009 surpasses the length of the expansion that ran from 1991 until 2001. But it believes this could come to an end in 2020 or 2021.

PWC GDP GROWTH PROJECTIONS

	2019	2020	2021-2025
US	2.3%	1.8%	1.8%
China	6.3%	6.2%	5.9%
Japan	0.8%	0.3%	0.6%
UK	1.6%	1.7%	1.8%
Eurozone	1.8%	1.6%	1.5%
India	7.6%	7.7%	7.7%

Source: PwC analysis, National statistical authorities, Datastream, IMF

By **Tom Sieber** Deputy Editor

National Grid, TUI, Balfour Beatty and other recent news

Some of the key announcements and share price movers over the past week

The proposed financial package put forward by energy regulator Ofgem, effectively governing how much **National Grid (NG.)** can charge for access to its gas and electricity supply infrastructure, could reduce the amount the latter returns to shareholders.

The company says it is disappointed with the proposals, which was announced on 18 December and which would come into effect from 2021. Ofgem has proposed baseline cost of equity returns at 4%, down 50% from previous price controls. This could well reduce the amount of income on offer from National Grid shares which at 789.3p currently yield more than 6%.

Staying in the utility sector, **SSE (SSE)** abandoned plans (17 Dec) to merge its retail energy unit with Npower in the face of poor performance by both businesses, looming price caps and volatile commodity prices.

The company still wants to separate out its energy supply arm from the electricity generation, transmission and renewables operations.

On 14 December construction firm **Balfour Beatty (BBY)** upgraded full year guidance despite a weak industry backdrop. This followed a series of disposals from its infrastructure investment arm as part of its 'Build to Last' restructuring plan including the sale of its interest in Fife Hospital for £43m. It expects to complete a partial sale of its Edinburgh University student accommodation project for £24m.

There were some more tangible signs of improvement in the actual operations of the business, with the year-end order book expected to be slightly higher, up from £11.4bn at the end of 2017 to £12bn.

Travel agent **TUI (TUI)** reported slightly better-than-expected earnings growth in the year to 30 September.

The numbers, reported on 13 December and underpinned by strong demand for its higher margin hotel and cruise offerings, mark a clear divergence from the weak performance of rival **Thomas Cook (TCG)** which has seen its shares slip to multi-year lows as collapsed earnings raise concerns over its ability to service borrowings.

'Our own holiday experiences content account for more than 70% of our earnings: hotels, cruises, excursions and destination activities. This enables us to clearly differentiate ourselves from the competition,' says TUI chief executive Fritz Joussen.

By **Tom Sieber** Deputy Editor

LISTEN TO OUR NEW PODCAST

WELCOME TO OUR NEW PODCAST

MONEY & MARKETS

A good investor keeps their ear to the ground. That's why *Shares* and AJ Bell have launched a new weekly podcast – so you can stay up to speed with everything investing.

Whether you listen on your commute or at your computer, 'AJ Bell Money & Markets' is a handy way to find out what's been happening in the financial world, so you can stay one step ahead.

In each episode you'll get our thoughts on topical financial issues – from pensions to pocket money, from stock markets to savings.

The podcast is presented by *Shares*' editor Daniel Coatsworth and AJ Bell's personal finance analyst Laura Suter. They are joined each week by special guests including various *Shares* journalists and other investment experts.

HOW TO LISTEN

You can download and subscribe to 'AJ Bell Money & Markets' by visiting the Apple iTunes Podcast Store, Google Podcast or Spotify and searching for 'AJ Bell'. The podcast is also available on Podbean.

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SHARES

AJBell

Is the company or the market to blame for ASOS profit warning?

Shares fall across the sector as the UK's retail crisis spreads online

Shares in retailers sold-off heavily on 17 December as online fashion retailer **ASOS (ASC:AIM)** issued a shock profit warning, cutting its annual sales growth and margin forecasts amid a fall in consumer confidence and a flurry of margin-crimping discounts.

Sector sentiment had already been rocked by **Sports Direct International (SPD)** owner Mike Ashley's comment last week that the high street is at risk of being 'smashed' by weak spending following an 'unbelievably bad' November.

However the earnings alert from online pure play ASOS confirmed fears pre-Christmas trading – for some at least – is even worse than thought and the high street crisis is spreading online.

WHAT'S GONE WRONG FOR ASOS?

While September and October trading was broadly in line for ASOS, November which is a key month including Black Friday was 'significantly behind expectations'.

The AIM giant also warned of the current backdrop of economic uncertainty across many of its major markets including France, Germany and Australia, together with a weakening in consumer confidence, has led to the weakest growth in online clothing sales in recent years.

Accordingly, ASOS not only cut its year to 31 August 2019 sales growth guidance from a 20% to 25% range to circa 15%, but given unprecedented levels of discounting, not helped by unseasonably warm weather, downgraded operating profit margin guidance from 4% to 2%. Full year capital expenditure was also guided from a range of £230m to £250m, down to £200m.

Chief executive Nick Beighton said: 'We achieved 14% sales growth in a difficult market, but in the light of a significant downturn in November, we think it's prudent to recalibrate our expectations for the full year. We are taking all appropriate actions and our ambitions for ASOS have not changed.'

In a call with journalists, Beighton conceded he may have to re-think ASOS' approach to margin-eroding Black Friday. 'It is too early to conclude, but I will be looking at that going forward,' he explained.

IS IT A MARKET OR ASOS-SPECIFIC ISSUE?

Ironically, November was a record sales month for ASOS, albeit significantly behind management's lofty expectations, and Beighton believes this is a market rather than an ASOS-specific slowdown. 'I actually feel the overall level (of spending) has dropped,' he explained.

Among ASOS' 20-something demographic, he said it is about more than Brexit. 'It is a weakening in consumer confidence. Consumers are spending less and the biggest trend we've seen is the substitution effect towards lower priced items.'

Broker Numis agrees, insisting that key performance indicators and management commentary point to market rather than model challenges.

Research group Edison believes the significance of the warning by ASOS 'could hardly be higher for the consumer sector'. It adds: 'Coming at the end of its first quarter, it entails a substantial judgment call for the rest of the financial year – a call that management has made negatively.'

WHAT ARE OTHER RETAILERS SAYING?

The ASOS profit warning has followed gloomy statements from fashion retail rivals in recent weeks. Foods-to-fashion group **Associated British Foods (ABF)** sent a chill wind through the high street with its comment (7 Dec) that 'during November Primark trading was challenging, in a tough retail market'.

Out-of-favour outerwear specialist **Superdry (SDRY)** warned (12 Dec) there is 'still considerable uncertainty in terms of the weather outlook, the changing shape of consumer behaviour in the peak trading period and the impact of wider economic and political uncertainty'.

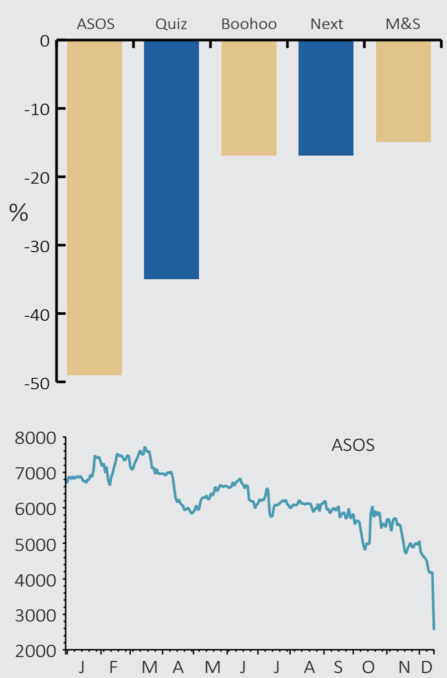
And **Bonmarche (BON)** even cautioned (13 Dec) 'the current trading conditions are unprecedented in our experience and are significantly worse even than during the recession of 2008/9.'

BooHoo (BOO:AIM) bucked the trend by saying (17 Dec) that its trading performance remained strong, that it had enjoyed record Black Friday sales, and that it continued to trade in line with market expectations.

Investors may now be wondering if it is simply down to some retailers no longer being fashionable and appealing to a broad set of customers.

By **James Crux**
Funds and Investment Trusts Editor

Retail share price change since 1 December 2018



All eyes on next round of trading updates

POST-CHRISTMAS TRADING UPDATES	2019
Next	03-Jan
Morrisons	08-Jan
Greggs	09-Jan
Joules	09-Jan
Sainsbury's	09-Jan
Card Factory	10-Jan
Debenhams	10-Jan
Marks & Spencer	10-Jan
Mothercare	10-Jan
Tesco	10-Jan
Boohoo	15-Jan
N Brown	17-Jan
Dixons Carphone	22-Jan
Halfords	22-Jan

Source: Shore Capital

OUR 2018 STOCK PICKS OUTPERFORMED THE MARKET

BUT WE DIDN'T ACHIEVE A POSITIVE RETURN IN WHAT WAS A VERY DIFFICULT YEAR FOR INVESTORS

SHARES' 2018 PORTFOLIO

Company	Entry price (p)	Price now (p)	% gain / loss
AB Dynamics	942.5	1490	**58.1**
Future	394.88	492	**24.6**
Alliance Pharma	61.38	68	**10.8**
Charter Court Financial Services	251.88	241	**-4.3**
Johnson Matthey	3066	2712	**-11.5**
DotDigital	97	80.5	**-17.0**
Biffa	253.38	199.4	**-21.3**
Sage	785.5	593	**-24.5**
Dixons Carphone	190.35	133.8	**-29.7**
Dignity	1691.5	863.5*	**-49.0**

AVERAGE			**-6.4**
FTSE All-Share	**4146.97**	**3724.51**	**-10.2**

Entry prices taken 19 Dec 2017 Latest prices taken 17 Dec 2018 *Exited trade 29 March 2018

Our annual portfolio of share picks has outperformed the market yet again, although we didn't deliver a positive return. The average share price return from our portfolio of 10 stocks was a 6.4% loss versus a 10.2% decline from the FTSE All-Share.

It was a very difficult year for all investors, including fund managers, and anyone who managed to deliver positive returns deserves considerable praise.

The market punished stocks with the slightest bit of bad news, meaning a lot of decent companies would have lost money for investors in 2018 because the market took a very short-term view of everything.

TOP OF THE CHARTS

Our best performing stock was vehicle testing expert **AB Dynamics (ABDP:AIM)**, up 58.1% on the year. The company last month reported a 78% rise in full year pre-tax profit to £7.9m and said trading continued to be very good.

AB Dynamics has enjoyed rising demand from traditional car manufacturers who are spending large amounts of money on vehicle development, with technology companies also entering the industry.

Following the 2018 results broker Cantor Fitzgerald upgraded its 2019 pre-tax profit forecast by 22%, and net cash by 31%. 'Investments in factory capacity, new products, systems and people are starting to deliver good returns,' it said.

'Demand for the group's testing and measurement products is being driven by ever more complex vehicles and systems, designed to improve safety, driving characteristics and, increasingly, autonomous operation.'

Cantor now expects 2019 pre-tax profit to be £10.8m (2018: £8.6m), rising to £13.4m in 2019.

FUTURE TAKES SECOND PLACE

The second best performer was media group **Future (FUTR)**, up 23.1% over the 12-month period. Its revenue increased by 48% in 2018 thanks to both acquisitions and organic growth. Future also restarted dividends and said the new financial year had started well with trading ahead of expectations.

The other standout performer in the portfolio was **Alliance Pharma (APH:AIM)**, delivering a 10.8% share price return. The gains had been higher earlier in the year but eased back in September when the market didn't like news of one-off costs from stricter regulations and Brexit preparations.

HAVING A TOUGH TIME

Four stocks gave up some or all of their positive returns in recent months, being **Johnson Matthey (JMAT)**, **Charter Court Financial Services (CCFS)**, **DotDigital (DOTD:AIM)** and **Biffa (BIFF)**.

Johnson Matthey's half year results in November beat expectations, driven by strong demand in Europe for exhaust catalysts. However, investors still seem sceptical on the auto-catalyst business longer-term as the world shifts to electric or hybrid vehicles.

DotDigital reported greater revenue per client at its full year results in October and growth in profit and cash. The results flagged a desire for ongoing investment in people and products, but nothing really negative to explain why the shares have subsequently drifted.

Biffa's half year results in November showed weakness in its municipal division with underlying operating profit margins more than halving. However, the much bigger industrial and commercial division saw growth in revenue, profit and margins, and management remained upbeat about the company's prospects.

Stockbroker Numis forecasts that Biffa's pre-tax profit will stay flat at £59.6m in the year to March 2019, before rising to £64.6m in the following year.

THE LAGGARDS

Elsewhere, **Sage (SGE)** and **Dignity (DTY)** had very challenging years and **Dixons Carphone's (DC.)** shares were caught up in the general negative sentiment towards the retail sector.

We walked away from Dignity in March after the company made radical changes to its business model. Sage was hit by a profit warning in April and chief executive Stephen Kelly then stepped down in August.

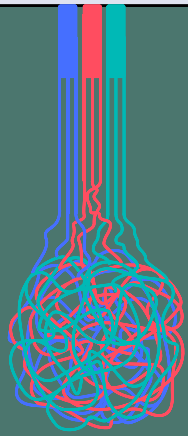
10 FANTASTIC STOCKS FOR 2019

OUR PICKS IN A NUTSHELL

COATS

Dan says: *A great value share with clear growth potential and a superb track record*

EUROMONEY



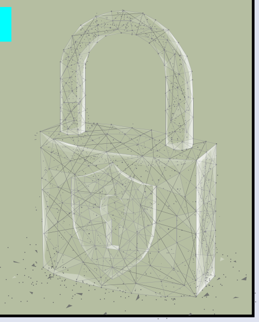
Tom says: *Benefit from the accelerated transition from old media to data analytics*

FEVERTREE DRINKS

Ian says: *All eyes on the US as Fevertree focuses on next expansion leg*

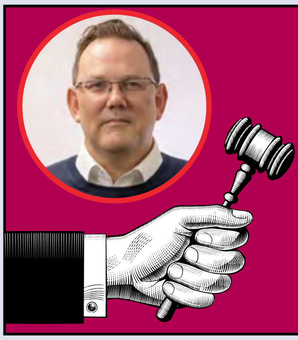
GB GROUP

Steven says: *A specialist in technology making the internet a safer place to trade*



HOLLYWOOD BOWL

Dan says: *Highly cash generative business with plenty of ideas to enhance earnings*



KEYSTONE LAW

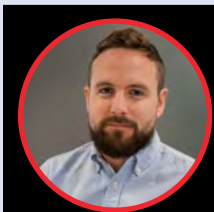
Ian says: *This legal challenger is a superb growth story*

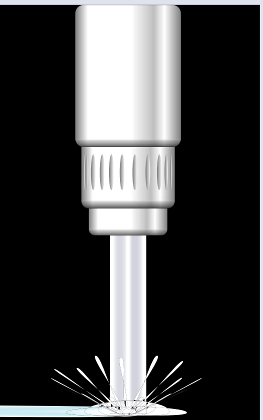
NEXT

James says: *This high-quality retail name is trading on a bargain rating*

ON THE BEACH

Lisa-Marie says: *The online holiday retailer has the skills to succeed*



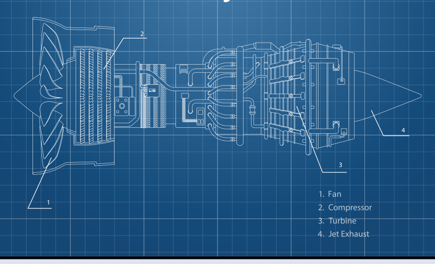


Renishaw

Tom says: *A quality way to play the precision equipment market*

ROLLS-ROYCE

Steven says: *The global engineering champion could soon deliver lots of cash*



COATS (COA)

In times of trouble a good strategy is to turn to companies which have a long history of generating solid returns. Coats very much fits the bill and its shares look great value trading on 12.2 times forecast earnings for 2019.

Coats is a global market leader in the manufacture of threads, boasting a 20% market share. It is expected to grow profit by 7% next year and there is also a 1.8% prospective dividend yield.

Its threads are used across a number of industries including clothing where it keeps jeans and trainers together for customers including Nike, Adidas and **Next (NXT)**.

It plays very well into the popular and growing trends of athleisure and fast fashion, where retailers are turning round new products very quickly to satisfy ever-changing public needs. As well as threads and yarns it provides the apparel and footwear industries with zips, reflective tape and interlinings.

One in five garments sold globally is held together using its thread. It also makes threads for tea bags and bedding, among other areas.

Coats' performance materials division is really exciting. This develops innovative threads and fire retardant yarns for customers including Proctor & Gamble, Michelin and Ikea. Its products end up in a variety of places from airbags and car tyres to fibre optic cables and protective clothing.

Berenberg analyst Anthony Plom says the growth opportunity for the performance materials division is significant, now representing 10% of group sales.

Coats has a history of generating more than 20% return on capital employed, a metric which shows how well a company is investing money in capital to generate profit. A figure above 15% is generally considered to represent a good business.

A GREAT VALUE SHARE WITH CLEAR GROWTH POTENTIAL AND A SUPERB TRACK RECORD

Investors should note ongoing weakness in its North American Crafts arm and some analysts hope this part of the group will be offloaded in the future, although Coats hasn't formally put it up for sale. Other risks to consider include an economic downturn which may depress demand, plus rising labour costs which could put a squeeze on profit margins. A forecast 2018 year-end net debt position of £152m is small relative to its £1.1bn market cap.

James Goldstone, manager of **Keystone Investment Trust (KIT)**, says Coats is 'the most exciting story I've found in industrials' and says the shares are terrific value.

The fund manager says customers love Coats' premium product and premium service. 'But most importantly, it is the audited supply chain (which really appeals) for global brands who are determined to have an ethical supply chain.'

SHARE PRICE: 77.3p	**FORECAST DIVIDEND 2019:** 1.38p
MARKET CAP: £1.1bn	**DIVIDEND YIELD 2019:** 1.8%
FORECAST EPS 2019: 6.32p	Financial year end: 31 December
PE 2019: 12.2	Source: Shares, Berenberg

DISCLAIMER: Keystone Investment Trust referenced in this article has a holding in AJ Bell which is the owner of *Shares* magazine. The author of this article also holds shares in AJ Bell.

EUROMONEY (ERM)

We think the transformation of **Euromoney (ERM)** from an old-fashioned media business to a higher quality data services outfit will hit home with the market in 2019 and help drive the share price higher.

The company is rapidly growing its pricing and data side, diversifying away from a weaker asset management business made up of *Institutional Investor* magazine and offshoots as well as the BCA investment research arm.

The pricing, data and intelligence division does smarter things like providing prices for opaque markets using traditional journalism. This might mean finding out what parties are paying for different commodities, for example, and then monetising this highly valuable market intelligence.

With much of the income from this part of the business linked to subscriptions, Euromoney enjoys a good level of earnings visibility.

Even after the company splashed out $87.3m on the acquisition of two US businesses – BoardEx and TheDeal – the company should still be in a net cash position thanks to a series of previous disposals of non-core assets. This includes the Indaba mining industry event.

Prior to the two recent acquisitions, Numis forecast net cash of £135m by the end of 2019, a total which also reflects inherently strong cash generation from operations.

This situation provides headroom for further M&A activity to accelerate its shift to a higher quality business profile and a buffer in case times get significantly tougher.

The shares still trade at a material discount to global financial data peers despite the headway chief executive Andrew Rashbass has made since

BENEFIT FROM THE ACCELERATED TRANSITION FROM OLD MEDIA TO DATA ANALYTICS

joining in 2015.

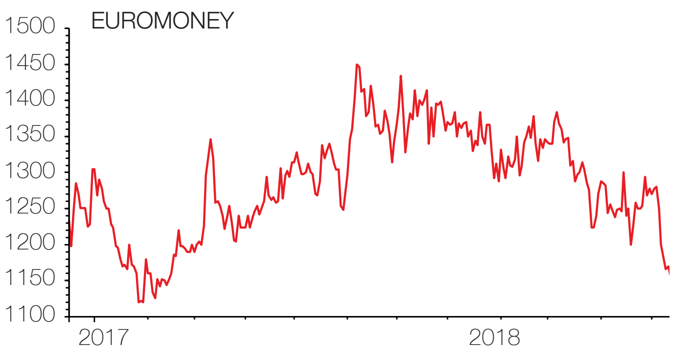
Euromoney trades on a forward PE of less than 16-times compared to a peer group average of 25.6-times, according to research house Edison.

Boardex and TheDeal are expected to be immediately earnings enhancing. Both are data-driven outfits with subscription-based models and therefore a good fit with the current strategy. BoardEx provides executive profiling and relationship mapping, while TheDeal is a database of M&A information.

There are some risks for investors to weigh. The asset management arm, which still accounted for nearly 40% of revenue in the past financial year, is struggling thanks to industry cost-cutting, which was exacerbated by the disruptive Mifid II regulations on financial sector transparency.

We accept Brexit could result in further pain. Additionally **Daily Mail & General Trust (DMGT)** continues to hold a 49% stake in the business and if it were to look to offload its holding this could depress the share price.

However, we still believe the shares are incredibly attractive given the tighter business focus and relatively cheap valuation.



SHARE PRICE: £11.72	**FORECAST DIVIDEND 2019:** 33.5p
MARKET CAP: £1.25bn	**DIVIDEND YIELD 2019:** 2.9%
FORECAST EPS 2019: 73.9p	Financial year end: 31 December
PE 2019: 15.9	Source: Shares, Numis

FEVERTREE DRINKS (FEVR:AIM)

From selling its first bottles of tonic water in Selfridges in 2005 to forecast sales this year of £225m, the Fevertree brand has been one of great marketing success stories of the last decade.

Having spotted the demand for quality mixers to go with premium spirits, the company behind the brand has toppled Schweppes to become the world's leading producer of premium carbonated mixers by retail sales value.

Today it sells its products in 70 countries through both the 'on trade' to hotels, restaurants and bars, and through the 'off trade' to retail customers via supermarkets and other stores.

In terms of products, as well as half a dozen varieties of tonic water, lemonades and soda water for the white spirits mixer market, the firm has launched ginger ales, ginger beer and cola to tap into the dark spirits mixer category.

Greater availability of premium mixers is good news for spirits producers like **Diageo (DGE)** which are trying to drive their customers towards higher-margin premium products, creating a 'virtuous circle' between Fevertree and leading brands.

In terms of geographic spread, roughly half of the firm's sales were in the UK last year and half were overseas with the major markets being the US, Spain and Belgium.

This summer the firm signed a new deal with Southern Glazers Wine & Spirits, the largest wine and spirits distributor in North America with $17bn in annual turnover, to distribute its products in the 'on trade' across 29 US states.

The US is the next area of excitement for its investment case. The Fevertree brand is best associated with tonic water and according to figures from the Distilled Spirits Council the US premium gin market alone was bigger than the entire UK gin market so the sales potential is large.

ALL EYES ON THE US AS FEVERTREE FOCUSES ON NEXT EXPANSION LEG

However gin only accounts for 4% of US spirits consumption while whisky accounts for 28% and vodka accounts for 32%, so the move into premium ginger ales and cola opens up an even larger market.

With markets around the world slumping this quarter and growth stocks out of favour, Fevertree shares have almost halved from their September peak.

There have been some market concerns that Fevertree's growth has slowed in the UK, yet the absence of any comment from the company would suggest there isn't anything serious going on – although we can't say for certain.

Assuming the company meets analysts' estimates the shares are trading on 45 times current year earnings which sounds high but if sales in the US do take off that ratio could fall sharply during 2019 should earnings forecasts be upgraded.

SHARE PRICE: £22.10	**FORECAST DIVIDEND 2019:** 15p
MARKET CAP: £2.6bn	**DIVIDEND YIELD 2019:** 0.7%
FORECAST EPS 2019: 58p	Financial year end: 31 December
PE 2019: 38.1	Source: Shares, Refinitiv

GB GROUP (GBG:AIM)

It's hard to escape talk of Brexit uncertainty and potential growth slowing on a global scale as we enter 2019. So a company at the top of its structurally growing market, one that is potentially insulated from economic wobbles and capable of expanding for years to come, should be attractive.

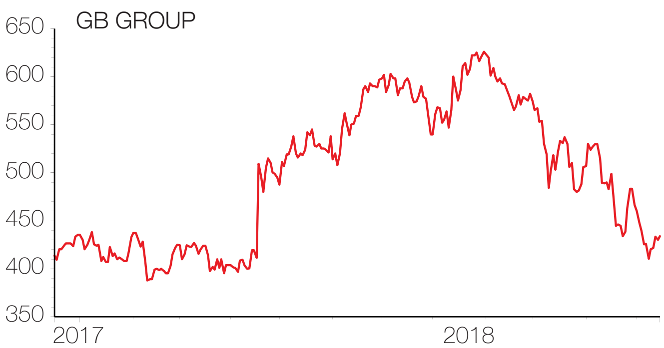
GB Group (GBG:AIM) is a rare British-made world leader at the heart of the digital transformation.

We all know that people are embracing the internet at a rapid pace, from the online shopping explosion to booking travel, buying services and much else. Chester-based GB provides identity data intelligence and location insight, essentially giving primarily business-to-consumer customers and government organisations the information required to decide who to trade with, who to block, and fraud prevention all within a compliance-friendly platform.

Divided into two divisions – Location and Customer Intelligence and Fraud, Risk and Compliance – the company has what some analysts have called unparalleled and compliant access to data from more than 500 different sources. These include areas like credit reference agencies, electoral rolls, passport and national ID registers, postal services, retail consumer data and social media.

Staffed by more than 800 people in 18 countries, GB now counts in excess of 18,000 customers for industries as diverse as financial services, gaming, travel and retail.

It remains largely a UK company with two thirds of last year's £119.7m revenue earned in its own backyard. That is changing, partly through organic means but also via carefully selected acquisitions, such as Vix Verify in Australia in October.



A SPECIALIST IN TECHNOLOGY MAKING THE INTERNET A SAFER PLACE TO TRADE

Last year just 2% of revenue was earned in Australia and 10% from the vast US market, and it is this global expansion that represents the other core growth driver of the business beyond the consumer switch to online everything. Recent momentum along these lines has been encouraging.

GB doesn't have the market to itself. Key competition comes from large credit checking agencies, such as UK-based **Experian (EXPN)** or Equifax in the US. GB's view is that its deeply layered and international datasets, plus adaptable technology platform, give it a key edge.

The stock is also not cheap, a point that will put off some investors. The price-to-earnings multiple for the year to 31 March 2020 currently stands at 28-times.

Yet this is based on forecasts that analysts admit may be on the conservative side, with Numis saying earlier this month that it expects an acceleration on the high single-digit revenue growth and 19% operating margins currently forecast. It anticipates a 600p share price over the next year.

SHARE PRICE: 422.5p	**FORECAST DIVIDEND 2019:** 3.32p
MARKET CAP: £662m	**DIVIDEND YIELD 2019:** 0.8%
FORECAST EPS 2020: 15.1p	Financial year end: 31 March
PE 2019: 28.0	Source: Shares, Numis

NB: We've used 2020 figures for this article because the market is forward-looking and GB Group has a March year end, so investors will soon be looking beyond the 2019 financial year.

HOLLYWOOD BOWL (BOWL)

We believe the market may favour well-invested, highly cash-generative companies with minimal debt and undemanding equity valuations going into 2019. Hollywood Bowl has all these characteristics and offers slow but steady growth potential, plus scope for decent dividends over the long term.

Bowling is affordable and a nice treat. In tougher economic conditions we still want a break from the stress of work and life and bowling is often the destination of choice to relax and get away from it all.

The company wouldn't be entirely immune from an economic downturn but we feel it would be more resilient than many other consumer-facing businesses.

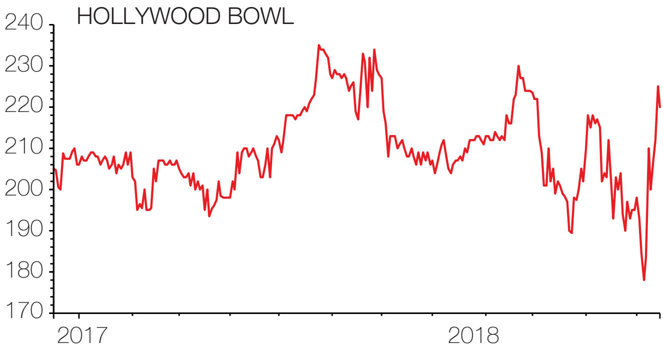
Hollywood Bowl has 59 sites in the UK, nine of which were refurbished in its past financial year and a further seven to 10 centres will be revamped in the current financial year. Previous refurbishments have led to a boost in trading.

Retail landlords view the company as a magnet for consumers so they are happy to give sweeteners like free rent for up to 12 months or money towards the fit-out if Hollywood Bowl signs up to new or refurbished centres.

Hollywood Bowl has improved its food offering and spruced up its diners in order to improve customer dwell time.

Various efficiency initiatives are being rolled out to potentially enhance profit in the future. For example, it is introducing a new scoring system where it is much easier for the customer to input their information.

This data is also used for marketing purposes and Hollywood Bowl says more than 80% of people



HIGHLY CASH GENERATIVE BUSINESS WITH PLENTY OF IDEAS TO ENHANCE EARNINGS

open its emails containing their scores from recent games. This very high engagement rate presents an opportunity to include promotions to get customers visiting its sites more regularly.

Seven sites have been fitted with pins-on-strings to replace the traditional pin setting system which has countless moving parts and has a habit of breaking down. Hollywood Bowl says the traditional system supports an average of 396 games before a fault stops play versus 1,443 games from the pins-on-strings system.

It plans to test a new indoor mini-golf concept which could help to accelerate group earnings significantly if successful.

Hollywood Bowl will pay a 4.23p normal dividend and a 4.33p special dividend in February 2019, both declared at the 2018 full year results on 10 December.

Broker Shore Capital forecasts 6.8p normal dividends for the current financial year, implying a 3.1% prospective yield. While this forecast doesn't include a special dividend, it is worth noting that Hollywood Bowl has declared 'specials' for the past two years in a row.

SHARE PRICE: 219.5p

MARKET CAP: £327m

FORECAST EPS 2019: 13.7p

PE 2019: 16.0

FORECAST DIVIDEND 2019: 6.8p

DIVIDEND YIELD 2019: 3.1%

Financial year end: 30 September

Source: Shares, Shore Capital

KEYSTONE LAW (KEYS:AIM)

Top 100 law firm **Keystone Law (KEYS:AIM)** was set up in 2002 by a group of lawyers who were tired of the lack of modern thinking and creativity in traditional firms.

Building a platform model using technology and modern working practices, they hoped that other lawyers would see the attraction and join them.

Scroll forward to July 2018 and Keystone had almost 300 lawyers servicing thousands of clients across the UK.

By the time the company reports its full year results next May that number is likely to be significantly higher too.

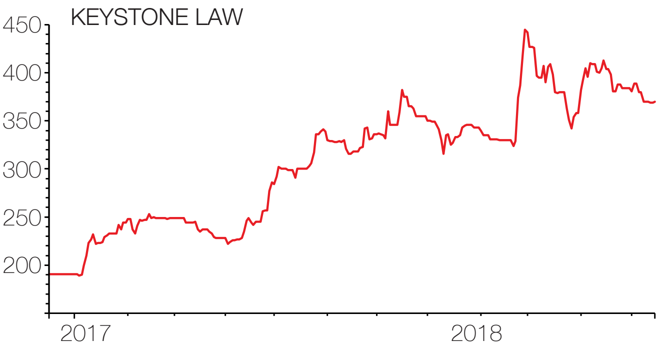
A large part of the firm's success is its investment in technology. Its 'Keyed In' platform provides insurance, compliance, marketing, sales, administration support, paralegals and continuous training.

For high-calibre lawyers and teams with a proven client following, the platform model allows them to plug in and operate as if they were part of a larger firm, outsourcing the support function and choosing where and when they work.

There are no fixed salaries, instead Keystone collects the billings from its lawyers' clients and retains 25% for its services, passing through 75% of the billings. This is a higher percentage than many comparable businesses and offers the chance of significant upside for lawyers who are successful.

According to the firm's own figures, of the applicants who are successful 90% generate a sustainable business with an average billing per new lawyer of £150,000.

The UK legal services market is the world's second largest at over £30bn in fees per year. The mid-market, which Keystone is targeting, is worth close to £9bn in fees alone.



THIS LEGAL CHALLENGER IS A SUPERB GROWTH STORY

From 2016 to 2018, Keystone's revenues have risen at a compound annual growth rate of 25%, above the average for law firms. Unlike many of its listed rivals, this growth has been achieved with no acquisitions.

Given first half sales of £20m and an increased number of lawyers and billings in the second half it looks a reasonable assumption that Keystone could beat analysts' full year revenue forecasts of £40m.

As Keystone's costs are minimal, almost all of the increase in revenues drops through to profit which means that analysts may have to raise their forecasts when it reports.

The firm joined AIM in November 2017 following a heavily over-subscribed placing at 160p and the shares have been popular with investors ever since, reaching an intraday high of 460p as recently as this September.

Since then the shares have retraced to 370p as markets have rotated towards value stocks, which gives long-term investors a window to buy into a continuing growth story today.

SHARE PRICE: 370p	**FORECAST DIVIDEND 2020:** 8.5p
MARKET CAP: £116m	**DIVIDEND YIELD 2020:** 2.3%
FORECAST EPS 2020: 12.9p	Financial year end: 31 January
PE 2020: 28.7	Source: Shares, Refinitiv

We've used 2020 figures for this article because the market is forward-looking and Keystone has a January year end, so investors will soon be looking beyond the 2019 financial year.

NEXT (NXT)

We recognise retail is completely out of favour with investors and so are UK-domestic stocks. However, it feels the right time to take a contrarian view and look for opportunities in both these categories.

We've picked Next in the belief that management can navigate the tricky backdrop and that we may also see a bounce in UK-focused businesses, assuming there is an agreed Brexit plan which brings more certainty to the market.

Led by respected shopkeeper Simon Wolfson, Next's thriving online operation is widely overlooked. Besides a pristine balance sheet, Next is highly cash generative and should be able to withstand flagging footfall while maintaining profitability.

Next is so much more than a bricks and mortar fashion retailer. Online market share gains, boosted by a growing online overseas operation and the third-party brands business, LABEL, should continue to outweigh the drag from lower shop sales.

Despite falling like-for-like sales, the vast majority of Next's stores remain very profitable. It also has many stores on short leases. When they come up for renewal, it can shut the worst ones and those being renewed are being done on much lower rents.

It is making more use of in-store stock to fulfil online orders rather than solely depending on warehouse inventory. And there will be a trial using stores as a collection point for third party, non-competing businesses.

While third quarter store sales fell 8%, online sales grew by 12.7% and Next maintained sales and profit guidance for the financial year to 31 January 2019.

THIS HIGH-QUALITY RETAIL NAME IS TRADING ON A BARGAIN RATING

With spending migrating to the web, Next is heading in the right direction with more than half of sales now coming from its online and finance businesses.

Invesco fund manager Mark Barnett also argues that having a large physical store estate is no bad thing. He says: 'Next is combining the best of offline with online. A large number of orders are click and collect ones via stores, so Next needs a high street presence. These stores may not look the same in the future as they do today.'

Broker Liberum forecasts adjusted pre-tax profit will hit £727.3m for the year to January 2019 and then rise to £743.3m in 2020 and £773.4m in 2021.

The shares trade on a mere 9.2 times forecast earnings for the financial year to 31 January 2020. Next is one of the best-run companies on the stock market and that equity rating is an absolute bargain for a business of its calibre. You're also being paid an attractive stream of dividends, currently yielding a prospective 4.1%.

SHARE PRICE: £41.91

MARKET CAP: £5.8bn

FORECAST EPS 2020: 455.5p

PE 2020: 9.2

FORECAST DIVIDEND 2020: 173p

DIVIDEND YIELD 2020: 4.1%

Financial year end: 31 January

Source: Shares, Liberum

We've used 2020 figures for this article because the market is forward-looking and Next has a January year end, so investors will soon be looking beyond the 2019 financial year.

ON THE BEACH (OTB)

We believe **On The Beach (OTB)** is a great business with a superb track record of using technology and marketing to attract customers and get them to spend money.

It is an online retailer of mainly short-haul beach holidays, allowing people to build their own vacation by picking their flights, hotels and services.

Customers are regularly drawn to On The Beach for its wider selection of flights and hotels at attractive prices compared to tour operators, which often offer less flexible packages at a higher price tag.

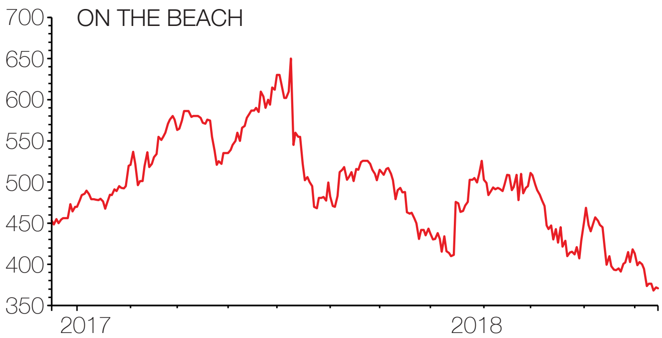
It has a bespoke in-house recommendation system which works by taking cues from how someone browses its website and dynamically adapts the content presented. It personalises holiday suggestions based on various facets of hotel and flight browsing detail.

On The Beach continuously tests changes to its website to see the most effective ways of converting visitors to sales. This testing also helps ensure the browsing and transaction process is as smooth as possible for the customer.

Furthermore, it has invested in booking management capabilities and reminder functionality so that customers can interact with the company via an app before, during and after their holidays. The company also offers a 24 hour telephone service if problems arise during someone's holiday.

All of these initiatives help to improve customer satisfaction and drive repeat bookings. The company said in November that its repeat purchase rates had increased significantly in 2018.

The group is expanding outside of the UK and now has a presence in Sweden, Norway and



THE ONLINE HOLIDAY RETAILER HAS THE SKILLS TO SUCCEED

Denmark. International operations are currently loss-making as the company enters new territories.

On The Beach benefits from both organic and acquisitive growth, with the latter including ownership of Sunshine.co.uk, an online low-cost travel agent; and Classic Collection which is a business-to-business provider of packaged luxury beach holidays to offline travel agents in the UK.

It plans to launch an online B2B platform for Classic Collection's travel agent users, leveraging On The Beach's existing technology and breadth of supply.

Group pre-tax profit is expected to rise from £26.7m in 2018 to £40.5m in 2019, according to consensus estimates. The shares look great value at 14.4 times forecast earnings when you consider that rate of predicted growth.

Numis analyst Richard Stuber forecasts 16% compound annual growth in earnings per share between 2018 and 2021.

On The Beach has a £47.3m net cash position, effectively giving it the financial firepower to consider further acquisitions and/or money to support the business if times get tougher.

The group is looking to boost its long-haul beach holiday sales and bolt-on acquisitions could potentially help to accelerate this strategy.

SHARE PRICE: 362p	**FORECAST DIVIDEND 2019:** 4.29p
MARKET CAP: £487m	**DIVIDEND YIELD 2019:** 1.2%
FORECAST EPS 2019: 25.16p	Financial year end: 30 September
PE 2019: 14.4	Source: Shares, Refinitiv

RENISHAW (RSW)

Science-based engineering firm **Renishaw (RSW)** has a clear and focused approach which it consistently pursues regardless of the macro-economic backdrop.

A big decline in the share price in recent months should spark your interest as it means you can gain exposure to this high-quality outfit at a significantly more attractive price.

The company has been unfairly punished by the market for investing in its business. Its strong commitment to research and development spend and vertically integrated model (it makes its own stuff) means that margins and profit can fluctuate on a quarter-on-quarter view.

This was the story in the first quarter of its current financial year where revenue grew by 8% but costs increased by 14%. As a result, analysts downgraded earnings forecasts for the current year, but these now look very much factored in.

We are happy to pay a premium rating for this outstanding business. The company is a world leader in the development and manufacture of very high-end precision measurement kit. Products are used across a range of sectors from aerospace to automotive, healthcare and a range of other markets.

Products include 3D printed customised medical implants, and hardware and software to improve the calibration and performance of machine tools.

The firm's sheer level of expertise creates significant barriers to entry and means it faces few true competitors.

This position is underpinned by consistently spending 15% to 16% of sales on research and development, the sort of level traditionally associated with a tech firm or pharmaceutical company, says Milena Mileva, fund manager of **Baillie Gifford UK Growth (BGUK)**. She says Renishaw is an 'exceptional growth company' which she wants to hold for the next decade or beyond.

A QUALITY WAY TO PLAY THE PRECISION EQUIPMENT MARKET

It is also distinct from a lot of other engineers in that it does the bulk of its manufacturing in-house. It has plants in the UK, Ireland, India, Germany, the US and France. This supports quality control and its heavy use of automation drives efficiency.

The stock could suffer some volatility if the global economy struggles, plus some analysts have raised particular concern over exposure to the Chinese automotive industry. The business also has relatively limited visibility (around six weeks) on its order book.

However, we remain confident these concerns will be outweighed by the inherent strengths of the business over 2019 as a whole. This is a best-in-class company to own for the long term.

SHARE PRICE: £38.04	**FORECAST DIVIDEND 2020:** 60.9p
MARKET CAP: £2.8bn	**DIVIDEND YIELD 2020:** 1.6%
FORECAST EPS 2020: 177.7p	Financial year end: 30 June
PE 2020: 21.4	Source: Shares, UBS

We've used 2020 figures for this article because the market is forward-looking and Renishaw has a June year end, so investors will soon be looking beyond the 2019 financial year

ROLLS-ROYCE (RR.)

It may have been a testing year for **Rolls-Royce (RR.)** thanks to a series of engine inspection issues yet this remains a global champion now trading at a rare discount. It comes as no surprise to *Shares* that long-term growth funds run by the likes of Baillie Gifford and activist investor ValueAct Capital are shareholders.

Forget luxury cars, and soon ships (the Marine division is being sold), the future is all about planes, trains and power systems.

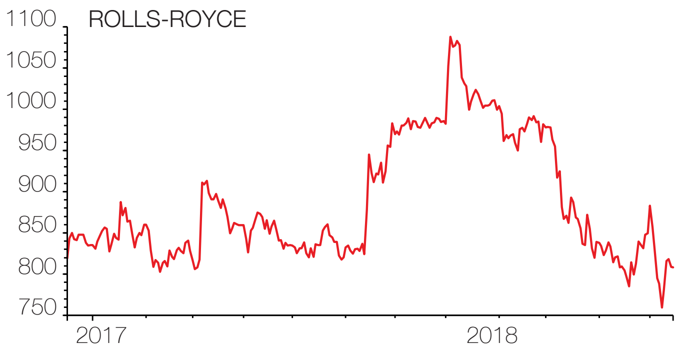
Aero engines, both commercial and defence, make up three quarters of revenue and Rolls has grown to become the senior player in an effective global duopoly (ahead of rival General Electric) in civil aviation. This area is worth more than half of its total sales.

While this is a highly technical and cutting edge science-based business, the model is easy to understand. It builds engines, often selling them at cost, and then enjoys substantial profit over the typical 25-year engine lifecycle from servicing.

Get more engines on more planes that fly more air miles and you've got a virtuous cycle of bumper cash flow long into the future. That cash should then underpin a growing stream of dividends.

Rolls has enjoyed prolonged spells of growth over the years, and we believe it is on the cusp of a new growth leg that will push the share price higher. For example, in the 10 years between 2003 and 2013 Rolls-Royce's stock increased more than 10-fold to nearly £13.00.

Since then life hasn't been as easy. There has been a corruption scandal and multiple profit warnings which nearly saw the company fold, according to its current chief executive Warren East. But the former boss of UK chip design champion ARM is making real headway in putting the pieces back together again.



THE GLOBAL ENGINEERING CHAMPION COULD SOON DELIVER LOTS OF CASH

Efficiency improvement and sharper execution lie at the heart of East's plan, as well as vastly improved free cash flow. This restructuring will see 4,600 jobs go at its state-of-the-art facility in Derbyshire but they will largely come from bloated admin and middle management layers, so core engineering capacity should not be damaged.

Expectations for 2018 were pared back to reflect the major operational upheaval; the longer-term prospects are getting much brighter. Investors should expect £1bn of free cash flow by 2020 and similar pre-tax profit. Dividends are also set to start climbing again, with 11.7p per share in 2017 expected to increase to 17.4p by 2020.

So while the near term-term price-to-earnings valuation metric looks expensive (29.5-times for 2019), investors are really buying the potential rapid recovery. The 2020 PE falls to 18.7-times. We expect the share price to break back above £10.00 in 2019.

SHARE PRICE: 801.8p	**FORECAST DIVIDEND 2019:** 13.8p
MARKET CAP: £15.2bn	**DIVIDEND YIELD 2019:** 1.7%
FORECAST EPS 2019: 27.2p	Financial year end: 31 December
PE 2019: 29.5	Source: Shares, Refinitiv

KEEP READING THIS ISSUE OF SHARES TO DISCOVER

4 FUND PICKS FOR 2019 P29

THE BENEFITS OF READY-MADE PORTFOLIOS P32

BEST PERFORMING INVESTMENT TRUSTS IN 2018 P38

4 STOCKS AND FUNDS FOR YOUR CHILDREN'S STOCKINGS P43

FAST GROWING SMALL CAPS P50

Four investment funds to buy for 2019

We reveal products aimed at cautious, balanced and adventurous investors plus one for income too

We recognise that many investors prefer to buy funds rather than individual company shares and often miss out when various investment experts give their top picks for the year ahead as these tend to solely focus on equities.

As such, we've asked Ryan Hughes, head of active portfolios at AJ Bell, to select four of his favourite funds with the criteria that they need to suit the anticipated market environment in 2019.

Hughes has worked in various fund-related roles for nearly 20 years and now oversees all actively managed investment solutions and fund research at AJ Bell.

ONE FOR CAUTIOUS INVESTORS

Janus Henderson UK Absolute Return (B5KKCX1)

Finding cautious areas to invest over the next 12 months may well prove to be challenging particularly with corporate bonds remaining unappealing given the potential for interest rates to increase.

Equally, UK equities may well be challenging given Brexit issues so the flexible approach of the Janus Henderson UK Absolute Return fund could be useful. The fund has achieved 3.15% annualised trailing returns over the past five years, according to Morningstar.

With the ability to be both long and short (benefiting from share price increases and decreases respectively), if equity markets continue their recent volatility into next year, protecting capital may be a greater consideration than outright growth.

If that is the case, managers Luke Newman and Ben Wallace have proven before that they have the skillset to profit when markets become difficult.

While it's not a cheap fund with a 1.06% ongoing cost, if the managers manage to deliver a positive return when the markets are down, they will have earned their fees.

ONE FOR BALANCED INVESTORS

The fund has a stake in global drinks giant Diageo

Newton Global Income (B8BQG48)

Given the uncertainty heading into 2019 with signs of an economic slowdown taking place in many parts of the world, focusing on a fund with a proven and repeatable investment process may be a sensible move.

The Newton Global Income fund has a simple approach that looks at large companies which offer a dividend yield of 25% greater than the FTSE World Index and then selling them when that yield has come back in line with the market.

Focusing on high quality, cash generative companies – current large holdings include Cisco, **Unilever (ULVR)** and **Diageo (DGE)** – tends to offer defensive characteristics when markets become volatile.

Importantly the strategy over time looks to deliver steady long term returns underpinned by the dividend yield which is in the region of 3%.

Over the past five years the fund has achieved 12.23% annualised trailing returns, according to Morningstar, versus 10.6% from the benchmark MSCI World High Dividend Yield index.

The fund is tried and tested with manager Nick Clay very experienced which makes this fund a solid core holding for an investor with a medium risk appetite.

The code for the version which pays out dividends in cash on quarterly basis is B8BQG48 while there is also a version which rolls up dividends so you automatically own more fund units, under the code B7S9KM9.

ONE FOR ADVENTUROUS INVESTORS

Polar Cap Global Insurance (B5339C5)

Insurance never sounds like the most exciting of investment ideas but in many ways that's precisely the appeal.

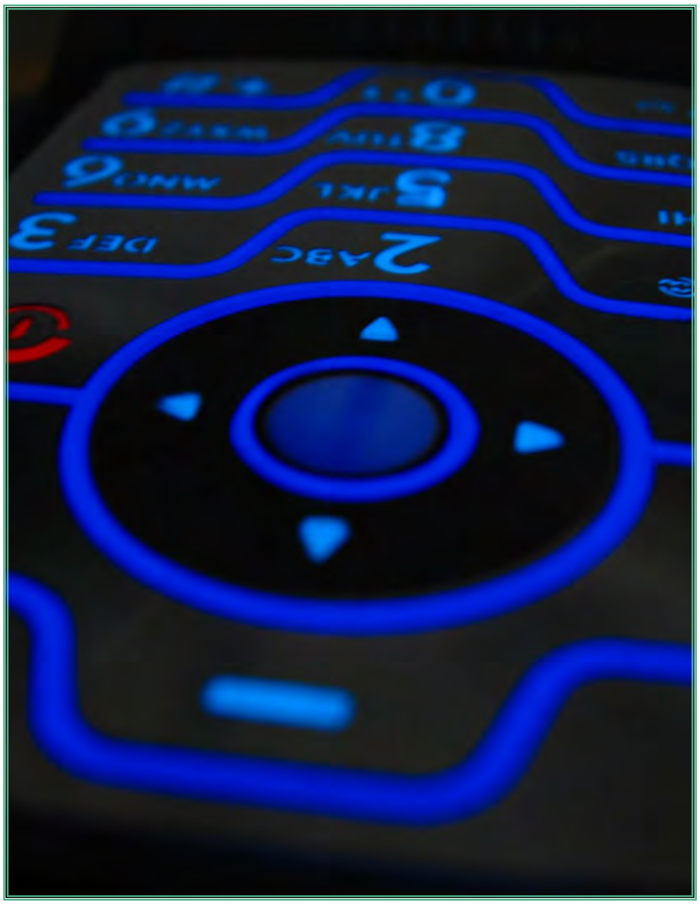
It's a sector that often goes under the radar but insurance companies have a fantastic ability to generate cash regardless of the economic environment, as we all know through our ever increasing insurance premiums.

Polar Cap Global Insurance is highly unusual in focusing on this area but the team are experts in this specialist field and this comes through in the quality of management.

The strategy has relatively low correlation with global equities, and actually benefits from rising interest rates unlike many sectors and therefore adds useful diversification to an existing portfolio of traditional equities.

Some of the top holdings include Marsh & McLennan, Chubb and Alleghany. The portfolio currently has a bias towards US-listed stocks which represent 69% of all holdings. However, it is free to look across the international insurance sector.

The fund has achieved 14.42% annualised trailing returns over the past five years, according to Morningstar, versus 9.63% from the MSCI World/Financials index.



ONE FOR INCOME SEEKERS

Troy Trojan Income (BZ6CQ17)

UK equities have been well and truly out of favour not just with UK investors but with overseas investors too. This has seen many traditional UK equities sell off to the point when many are yielding well above long term levels such as **GlaxoSmithKline (GSK)**, **British American Tobacco (BATS)** and **Vodafone (VOD)**.

The Troy Trojan Income fund is managed by Francis Brooke. He takes a long term approach with an aversion to capital losses which gives a focus on companies that others are shunning. As a result, this UK equity income fund with a strong long term record is now yielding over 4%.

Should Brexit take a turn for the worse, this fund is defensive and may offer some protection from any sharp equity falls in the UK market.

By **Ryan Hughes**
AJ Bell Head of Active Portfolios

Ready-made portfolios are ideal for investors wanting some help

We explain how they work and look at the features of AJ Bell's new service

Investing needn't be as difficult as you might imagine. Many ISA and SIPP (self-invested personal pension) providers now offer services to give you a head start with building a long-term investment portfolio. These include lists of their favourite funds if you're happy to make some of your own selections.

One step beyond this is the provision of ready-made portfolios where a lot of thought has gone into asset allocation. This is the weighting of asset classes like stocks, bonds and property.

Getting the right balance is very important. You don't want too much of one thing as investing doesn't always go smoothly and there will be times when you have to lean on something else. If you don't have that support in your portfolio, you can experience a nasty hit to your investment pot.

Asset allocation is heavily linked to risk appetite. For example, if you are relatively young, you may have time on your side and can afford to be in higher risk assets in order to chase a greater reward. You may therefore want a higher proportion of equities than bonds as they historically have produced a higher return, although it is not guaranteed they will follow the same path in the future.

If you are older, perhaps in retirement or approaching this milestone, you may not want to take on lots of risk. Instead you might look for your portfolio to have a greater weighting of fixed income assets such as bonds.

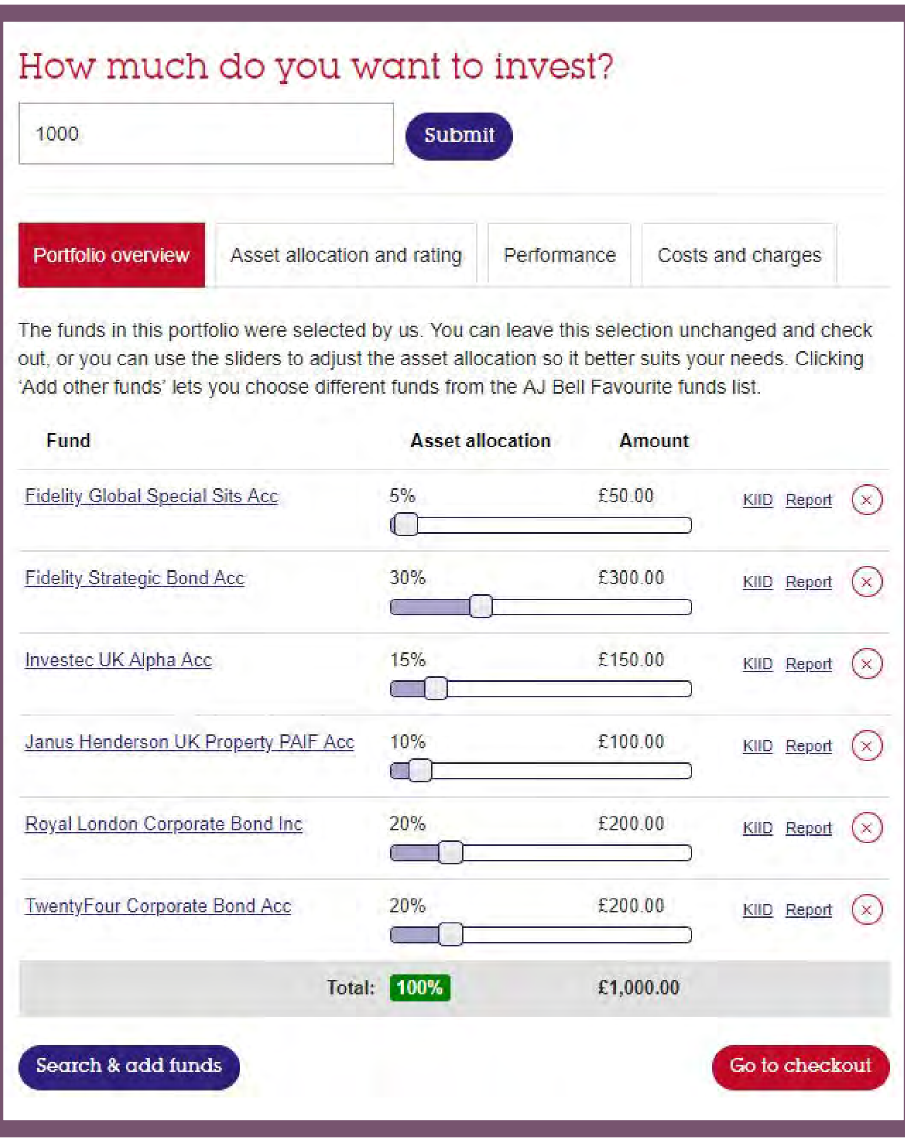
In both cases, it is important that your portfolio has the appropriate weighting of assets to match your risk profile.

EXAMPLES OF SERVICES IN THE MARKET

You may already be familiar with some ready-made portfolio services on the market. For example, Hargreaves Lansdown has six ready-made portfolios which are populated by its own multi-manager funds. Share Centre has a ready-made ISA which also contains its own funds; and Nutmeg offers portfolios stuffed with exchange-traded funds (ETFs).

Someone looking for greater flexibility and help from experts may instead wish to look at AJ Bell Youinvest's new ready-made portfolio service where all the hard work with asset allocation

AN EXAMPLE OF AJ BELL YOUINVEST'S NEW SERVICE



is done for you.

There are four core versions of its portfolios to match different risk appetites: cautious, balanced, adventurous; and one for investors wanting income.

Each portfolio contains a handful of funds which have been picked because AJ Bell Youinvest thinks they are best-in-class, including products from Baillie Gifford, Jupiter and Schroders.

It has picked these funds based on them being low cost, great value, having a proven track record compared to their benchmark and peers, and a quality fund management team.

The stockbroker has also made sure each combination of funds provides appropriate asset weightings.

More experienced investors may wish to play around with the fund choices or weightings as the system grants you this flexibility. You can decide to have a greater proportion of one fund, for example, and less of another. Or you can add your own selections from AJ Bell's favourite funds list.

CHANGING THE SETTINGS

There are some issues to consider when using ready-made portfolios that let you change the pre-populated settings. Anyone who already owns stocks, funds, bonds or other assets would have to take these holdings into consideration when trying to get optimal asset allocation.

Let's say your portfolio currently contains a £5,000 holding in a bond fund. You then invest £10,000 in a ready-made portfolio which is classified as 'balanced' in terms of risk appetite, where 33% of the assets are in fixed income (aka bonds), 10% in property and 57% in equities (another word for stocks and shares).

You may think you are getting optimal asset allocation thanks to the ready-made portfolio, but you actually end up with 55% of your overall portfolio in fixed income once you add in your existing bond fund.

This level of fixed income

EXAMPLES OF READY-MADE PORTFOLIOS

Bestinvest: Four portfolios containing various funds from across the market including products from Lindsell Train, JOHCM and Threadneedle

Hargreaves Lansdown: Six portfolios containing various HL multi-manager funds

Fidelity: Various portfolios with a number of different Fidelity funds

Nutmeg: Various portfolios containing exchange-traded funds

Vanguard: Offers a range of funds pitched as ready-made portfolios across its LifeStrategy and Target Retirement funds is more suited to someone with 'cautious' risk appetite who wants a more stable portfolio and so the returns may be a lot lower than a more balanced portfolio. As such, it is important to bear such issues in mind should you change any settings on ready-made portfolios.

YOU STILL HAVE TO DO SOME WORK

In general, investors who use ready-made portfolios will have to do the day-to-day management themselves in terms of making sure the investments are right for their own personal circumstances.

They will also have to rebalance on a semi-regular basis – whether they've tinkered with the original settings, invested in a ready-made portfolio exactly as it was offered by the ISA or SIPP provider, or even have other investments to consider.

For example, let's say the equities component of a ready-made portfolio has shot up in value over a two-year period and so it accounts for a much larger proportion of the overall fund.

Someone investing in Hargreaves Lansdown's 'Balanced Growth' portfolio would initially have approximately 71% in equities, 23% in bonds and the rest mostly in cash. Those weightings could easily progress to 80% of the value of the portfolio in shares if the market is doing well.

Therefore an investor wanting to stick to the original asset allocation would need to sell some of the equity component and shift the proceeds into other parts of the portfolio. This is what's known as rebalancing.

ASSET ALLOCATION FOR AJ BELL YOUINVEST'S READY-MADE PORTFOLIOS

CAUTIOUS PORTFOLIO:	
Equities	20%
Fixed income	70%
Property	10%
BALANCED PORTFOLIO	
Equities	57%
Fixed income	33%
Property	10%
ADVENTUROUS PORTFOLIO	
Equities	89%
Fixed income	6%
Property	5%
INCOME PORTFOLIO	
Equities	55%
Fixed income	25%
Property	10%
Infrastructure	10%

Source: AJ Bell

GUIDANCE NOT ADVICE

Ready-made portfolios are provided for guidance purposes and they are not constructed specifically for each individual such as you may get when paying for financial advice.

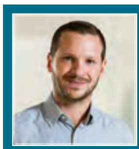
AJ Bell fund manager Simon Molica says AJ Bell Youinvest will manage its model portfolio selection on an ongoing basis. Potential amendments may be made if there is a change in fund manager for one of its favourite funds or the team has higher conviction with a different fund.

By **Daniel Coatsworth**
Editor

DISCLAIMER: AJ Bell referenced in this article is the owner of *Shares* magazine. The author of this article also holds shares in AJ Bell.

Can I recycle my pensions to get extra tax-free cash?

AJ Bell expert Tom Selby explains how HMRC's recycling rules work



By **Tom Selby**
AJ Bell
Senior Analyst

On the back of my **recent article** on taking tax-free cash from your pension, we've had several questions about exactly how HMRC's 'recycling' rules work.

Rather than address all those questions individually we figured it would be simpler to dedicate a few extra column inches to the subject.

The concept of recycling is fairly straightforward. Let's take a member who is 60-years-old and has a £40,000 SIPP fund. She takes out her maximum tax-free cash (i.e. £10,000) but then invests that straight back into a pension with a different provider.

The result? She gets tax relief on the money she pays into that pension (immediately boosting it to £12,500) and can get 25% of that money (i.e. £3,125) tax-free too. She might even invest that in another scheme – and so the wheeze goes on.

Sounds too good to be true? Sadly (and perhaps unsurprisingly) it is. The Government has quite stringent rules in place to prevent excessive recycling of tax-free cash. If you breach these rules you could be hit with a 55% unauthorised payment charge.

HMRC will only consider recycling of tax-free cash to potentially breach its rules where the tax-free sum (or sums) received over a 12 month period are worth more than £7,500.

Even then, the rules will only kick in where the payment has resulted in a 30% or more increase in contributions to your pension compared to what might normally have been expected.

While this sounds a bit woolly, it's actually a specific condition – HMRC looks at contributions paid in the rest of the tax year after you took your tax-free cash plus up to two subsequent years. This is then compared with the contributions made during a similar period before tax-free cash was taken.

You can't get round this by paying into different pension schemes as HMRC will look at all of your contributions when making its assessment.

Equally, HMRC will penalise you for recycling if you borrow money to pay contributions or pay into your pension out of savings and then use the tax-free lump sum to pay off the loan or top up savings.

In short, recycling can be used to get extra tax-free cash, but only within strict HMRC-imposed limits. And if you get it wrong, the penalty will be severe.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Understanding the tax benefits of giving to others

We explain how to make your donations go further

Around Christmas many people choose to give to charity, set up regular donations for the year ahead or review the donations they're already making. But how do you decide which cause to support and understand how your money is going to be spent?

How do I know it's a genuine charity?

Check for the charity registration number, against the database on **www.gov.uk/find-charity-information**

If someone comes to your door collecting for charity, check they are wearing an ID badge and that their collection tin is sealed. The Charity Commission also recommends asking questions about the cause, as any fundraiser should know this information.

If donating online, find the charity's website through a search engine, rather than following links, as they may take you to fake websites.

How do I know where the money goes?

In recent weeks concerns have been raised about people not understanding where charitable donations go.

A number of charities offer the ability to 'donate a goat' or 'donate water for a family of four', and some donors assumed their money would be used for that direct purpose. Instead, the money goes into the charity's central pot.

The Charity Commission also lists the finances of each charity with annual income of more than £500,000, so you can see how much income they have, what they spend it on, where it operates and how many people they employ.

THE TAX BENEFITS

Once you've decided who should receive your cash, you should make sure you make the most of the tax benefits available when you donate, to maximise your amount. Here we run through the key things to look out for.

1 INCOME TAX SAVED

If you donate money and use Gift Aid, the charity will get a boost to any money you donate by claiming back the tax due. It means that for every £1 you donate, the charity can claim back 25p. You'll need to fill in a form with the charity and be a UK taxpayer, and they do the rest of the work.

If you're a higher-rate taxpayer you can also claim back money through your tax return. You will get 20% tax relief on the full donation. So if you donate £100, and the charity gets £25 back through tax relief, then a higher-rate taxpayer can get back 20% of the £125, which equals £25.

This effectively works by increasing your basic-rate tax band by the amount you donate. So if you donate £1,000, you basic-rate tax threshold will increase from £46,350 to £47,350, in the current tax year.

2 WHAT IS PAYROLL GIVING?

Some employers offer the ability to donate to charity through the payroll. This saves you the hassle of claiming the tax back, as the payment is made before income tax is deducted from your earnings.

This means that for every £100 donated, a basic-rate taxpayer only pays £80, a higher-rate taxpayer pays £60 and an additional-rate taxpayer will pay £55.

Unlike other salary sacrifice deductions, you will still pay National Insurance. To take part your employer will need to run a Payroll Giving scheme.

3 GIFTING ASSETS AND THE TAX BREAKS ON OFFER

If you give certain assets, property or land away to charity you don't have to pay any capital gains tax on it and you can claim income tax benefits.

You can donate assets such as listed shares, investment funds and property. You'll be able to claim income tax relief on the market value of those assets.

What's more, you will not have to pay tax on any gains you've made on an asset if you gift it to charity. Ordinarily, you pay capital gains tax on any gains each year above the annual allowance (currently £11,700), at a rate of 10% for basic-rate taxpayers or 20% for higher-rate taxpayers.

4 INHERITANCE TAX BENEFITS

If you leave at least 10% of your estate to charity in your will the rate of inheritance tax you pay on the rest of your estate is reduced.

That gift to charity from your estate is free of inheritance tax, and the rate on the rest of the estate, after gifts and allowances, is reduced from 40% to 36%. You can check whether your estate will be eligible for the reduction via the **HMRC website.**

By **Laura Suter**
AJ Bell Personal Finance Analyst

INHERITANCE TAX GIFTING IN ACTION (SEE POINT 4 ABOVE)

Barry dies with an estate worth £750,000. He leaves £100,000 to charity and the rest to his daughter.

The £100,000 is exempt from inheritance tax, and the remaining £650,000 is subject to a 36% rate, so the total tax paid is £234,000.

If the £100,000 had instead been left to Barry's friend, rather than a charity, the total inheritance tax due on the estate would be £300,000 (40% of £750,000).

We reveal the best performing investment trusts of 2018

Only 36% of trusts managed to deliver a positive return in what was a very difficult year for investors

Were you lucky enough to own some or all of the elite group of funds which made money for investors in 2018? Only 22% of active fund managers across all types of funds delivered a return above zero this year, while a mere 36% of investment trusts delivered a positive return, according to analysis by AJ Bell.

While life has clearly been tough, certain investment trusts stand out from the crowd thanks to their market-beating performance. Let's now take a look at some of the best performers over the past year across different groups.

2018 TOP PERFORMER IN THE GLOBAL CATEGORY:

Lindsell Train Investment Trust (LTI) +41%

This fund has a focus on high-quality companies which generate large amounts of cash flow and pay growing dividends.

Investors have regularly been happy to buy the shares at a large premium to net asset value, currently 48.7%. This is

because they believe the trust's large stake (accounting for 47% of its portfolio) in the unquoted Lindsell Train asset management business is grossly undervalued.

Some of the key holdings in the trust to have driven the good annual performance include payments group Paypal and *Irn Bru* drinks group **AG Barr (BAG).**

GLOBAL:	Latest price	1 year total return
Lindsell Train	£11.95	41%
Scottish Mortgage	474.2p	11%
F&C Investment Trust	665p	8%
Caledonia	£27.60	5%
Martin Currie Global Portfolio	242p	2%

2018 TOP PERFORMER IN THE GLOBAL EQUITY INCOME CATEGORY:

Scottish American (SCAM) +3%

This is the only global equity income investment trust out of a group of six to deliver any positive share price returns in 2018, according to data from Winterflood.

The investment trust aims to grow its dividend faster than inflation. Among the top holdings are Coca-Cola, Johnson & Johnson and UK-listed insurer **Admiral (ADM)**.

Scottish American's performance has been helped by dividend growth in global equities with a smaller increase in income from the bond portfolio, comprising 5.8% of its overall holdings.

In the first half of 2018, education company **Pearson (PSON)** and Gucci owner Kering were flagged as star performers.

GLOBAL EQUITY INCOME:	Latest price	1 year total return
Scottish American	363p	3%
JPM Global Growth & Income	305p	-1%
Henderson International Income	158p	-1%
Securities Trust of Scotland	162.5p	-2%
IP Select - Global Equity Income	193p	-2%

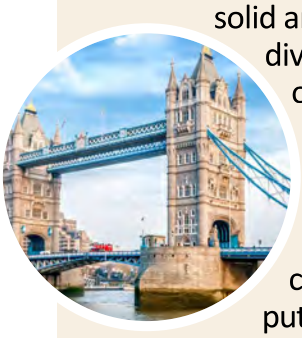
2018 TOP PERFORMER IN THE UK EQUITY INCOME CATEGORY:

Finsbury Growth & Income (FGT) +2%

Another fund run by the popular Lindsell Train team, Finsbury Growth & Income has a predominantly UK focus although investors do benefit from some global flexibility.

The trust is run along Warren Buffett principles that targets building a concentrated portfolio of what it believes are high quality companies that have strong brands and powerful market presence, typically with pricing power.

Investors will find household names like **Diageo (DGE)**, which owns various drinks brands including Guinness and Baileys, **Unilever (ULVR)** and **Burberry (BRBY)** in the fund, with solid and growing dividends on offer.



It is the only investment trust in the UK equity income category to put up positive returns over the past year on a total return basis.

UK EQUITY INCOME:	Latest price	1 year total return
Finsbury Growth & Income	7545p	2%
Value & Income	265p	0%
Merchants	444.5p	-1%
Troy Income & Growth	74.6p	-2%
Dunedin Income Growth	238p	-2%

2018 TOP PERFORMER IN THE UK ALL COMPANIES CATEGORY:

Woodford Patient Capital (WPCT) +7%

Patient investors have finally been rewarded after a difficult few years for the investment trust. The market previously expressed disappointment over its general performance and a key clinical trial failure from portfolio holding biotech Prothena.

The trust enjoyed a reversal of fortunes in 2018 after portfolio holding Industrial Heat, an energy tech firm, benefited from a revaluation uplift of 357% to $112.9m in September and Autolus, another holding, floated on the US NASDAQ index in June.

Despite these successes, the investment trust still trades at a 13% discount to NAV at the time of writing.

UK ALL COMPANIES:	Latest price	1 year total return
Woodford Patient Capital	89p	7%
Sanditon	88p	2%
Fidelity Special Values	234p	-1%
Baillie Gifford UK Growth	162.8p	-2%
Aurora	190p	-6%

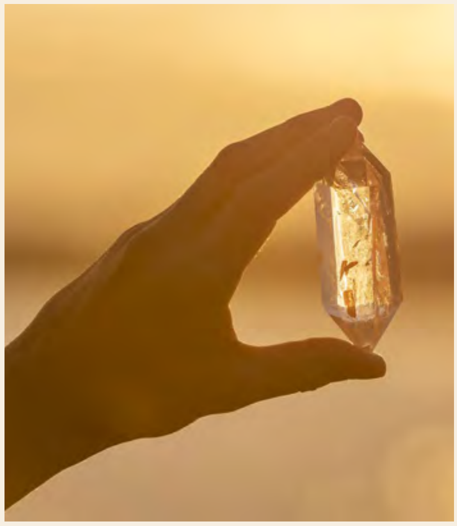
2018 TOP PERFORMER IN THE UK SMALL CAP CATEGORY:

Crystal Amber (CRS:AIM) +15%

It has been an impressive year for this activist smaller company fund given the modest relative performance of UK stock markets overall.

Crystal Amber uses complex stock screening tools and a vast network of industry and financial market contacts to identify opportunities, then tries to provide real support for company management's in the best interests of all stakeholders.

Turnarounds are a big part of the process while a stake in regularly speculated takeover target **STV (STV)** has played well for the trust's performance.



UK SMALL CAP:	Latest price	1 year total return
Crystal Amber	204p	15%
BlackRock Throgmorton	448.5p	1%
Montanaro UK Smaller Companies	190.5p	-2%
JPM Smaller Companies	197p	-4%
BlackRock Smaller Companies	£11.85	-6%

2018 TOP PERFORMER IN THE FLEXIBLE INVESTMENT CATEGORY:

Capital Gearing (CGT) +3%

Flexible investment essentially covers multi-asset and capital preservation funds. The top performer this year was Capital Gearing, which aims to preserve shareholders' wealth and achieve capital growth.

The investment trust has done exactly what it is meant to do – deliver the goods when times are bad.

It has not only protected investors' money, but also helped to grow it by a small amount. That's to be applauded against a backdrop of falling markets in most parts of the world in 2018.

Funds and equities account for 36% of the portfolio with index-linked government bonds comprising 35%. Remaining assets are spread over corporate debt, conventional government bonds, cash and gold.

Investors are clearly happy to pay a higher price to access this defensive vehicle as its shares are trading at a 3.3% premium to net asset value.

FLEXIBLE INVESTMENT:	Latest price	1 year total return
Capital Gearing	£40.75	3%
RIT Capital Partners	£19.64	3%
Hansa Trust 'A'	972.5p	1%
Aberdeen Diversified Income & Growth	116.5p	1%
Personal Assets	£397.00	-1%

2018 TOP PERFORMER IN THE INFRASTRUCTURE (GENERAL) CATEGORY:

3i Infrastructure (3IN) +32%

Investing in mobile phone masts, oil tankers, wind farms and airports may be a long way from glamorous but 3i Infrastructure's strategy is about delivering reliable 8% to 10% annual returns.

That the trust has put up a 32% total return (share price and dividends combined) over the last year is testament to the fund's ability to spot and build a pipeline of opportunities, then work closely with portfolio companies to extract top performance.

INFRASTRUCTURE (GENERAL):	Latest price	1 year total return
3i Infrastructure	251.9p	32%
BBGI Sicav	152.5p	16%
GCP Infrastructure	123.2p	9%
Sequoia Economic infrastructure	109p	8%
International Public Partnerships	152.6p	6%

2018 TOP PERFORMER IN THE GLOBAL EMERGING MARKETS CATEGORY:

JP Morgan Emerging Markets (JMG) +3%

Emerging markets have been out of favour for much of 2018 as US/China trade tensions have rattled on and worries mount over debts in many markets as the dollar soars.

Yet even against these challenges this trust has managed to post positive 12-month returns when others have failed to do so.

Run by manager Austin Forey, Chinese stocks dragged on performance, but there were better returns from an overweight position in Brazil and general consumer discretionary selections.

GLOBAL EMERGING MARKETS:	Latest price	1 year total return
JP Morgan Emerging Markets	835p	3%
Fundsmith Emerging Markets	£11.90	-3%
Utilico Emerging Markets	202.2p	-3%
Genesis Emerging Markets	635p	-5%
Templeton Emerging Markets	690p	-6%

By **Steven Frazer** and **Lisa-Marie Janes**

Source data for all tables: Winterflood. Data to 10 December 2018

How to get ready for the year ahead

We look at major asset classes going into 2019

One of this column's favourite market sayings comes from fund management legend Sir John Templeton, who once asserted that 'Bull markets are founded on pessimism, grow on scepticism, mature on optimism and die on euphoria'.

Applying this test can potentially help investors spot where value and future upside opportunities can be found and – just as importantly – avoid areas which are so popular they could be overvalued and capable of doing damage to portfolios.

It is not easy to research an asset class, country or individual stocks, or what may be suitable funds, when no-one else is interested. It is harder still to avoid those which everyone is talking about with great excitement. But 2018 provided examples of how it can help.

At the start of this year, the euphoria surrounding cryptocurrencies was all-pervasive. Bitcoin promptly lost 75% of its value.

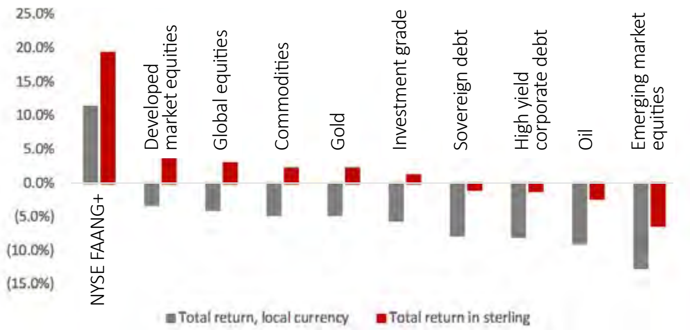
By contrast, defensive equity sectors were widely viewed with scepticism at the start of the year, amid widespread optimism regarding what was termed as a synchronised global recovery. But, using the S&P Global 1200 index as a benchmark, healthcare and utilities turned out to be the best two performing super-sectors (out of 11). Financials and materials (miners), both expected to do well, did worst.

A quick look at 2018 may therefore help investors to spot value and dodge the traps that 2019 may offer.

DON'T LOOK BACK IN ANGER

First things first. This year has not been easy. None of the major asset classes as a whole – equities, bonds, commodities – generated positive total returns in local currency terms. The pound's drop boosted the value of overseas earnings but apart from select areas such as technology it was hard to find winners in 2018.

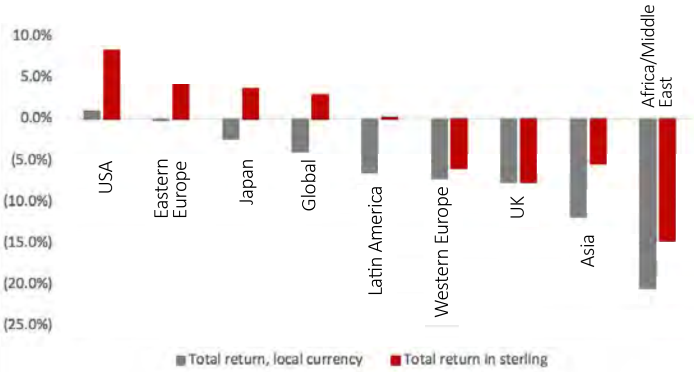
FEW ASSET CLASSES YIELDED POSITIVE TOTAL RETURNS IN 2018 (THOUGH THE LOWER POUND HELPED)



Source: Refinitiv data. Covers period 1 January to 13 December 2018

That may make investors wonder whether we are still in a bull market at all. Further doubts creep in when they look at major stock markets: not one beat cash in local currency terms, though again a slide in sterling increased the value of overseas shareholdings.

AMERICA DID BEST OF THE MAJOR MARKETS IN 2018 BUT LOCAL CURRENCY RETURNS WERE STILL WEAK



Source: Refinitiv data. Covers period 1 January to 13 December 2018

Equity sector trends further question the bull market. As already noted, defensive sectors led the

SIR JOHN TEMPLETON'S FOUR MARKET PHASES AS SEEN TODAY

Pessimism	Scepticism
UK equities and sterling Oil and mining stocks Real estate stocks and brick retailers Cryptocurrencies European equities Value investing	Emerging market equities and bonds Precious metals (and miners) Banks and financial stocks Japanese equities US government bonds Income investing
Euphoria	**Optimism**
Index proliferation Residential property	FAANG stocks The dollar US equities Healthcare stocks Growth investing Momentum investing

way as cyclicals lagged and even technology lost some of its shine in the second half, amid concerns over valuation, regulatory pressure, product cycles and whether growth forecasts could be met.

DEFENSIVES BEAT CYCLICAL HANDS DOWN IN 2018

Source: Refinitiv data. Based on the S&P Global 1200 indices. Covers period 1 January to 13 December 2018

To cap it all, any investor who thought bonds would provide capital protection came unstuck. In local currency terms, only German government paper offered positive total returns and a dash for Europe's ultimate haven asset hardly smacked of confidence. Tighter monetary policy and signs of wage inflation – plus fears over whether tariffs would nudge prices higher more generally – took their toll.

THE WAY AHEAD

Analysis of those performance statistics means this column currently sees the major asset classes like this as we head into 2019, using Sir John Templeton's four phases as a framework.

Euphoria is a lot harder to find than it was a year ago. This in itself could be a good sign for investors, since good news stories seem to be relatively few and far between, at least using financial coverage from the mainstream press as a yardstick.

That said, US stocks – and still tech stocks and the FAANGS in particular – as well as growth and momentum styles are still popular.

By contrast, emerging markets – a consensus favourite in January 2018 – are out in the cold after the summer rout. The loss of faith in bitcoin is now tangible. Financial stocks are unloved after a horrid year and fat yields and low multiples of book value mean banks may pop up on 'value' screens – even if 'value' remains intriguingly out of favour.

But if investors are really looking for an area where pessimism may mean value is available, look no further than the UK, wracked as it is by the Brexit debate – although admittedly you could have said the same at this time last year, to no great effect. It will be interesting to see if the FTSE 100 confounds its doubters in 2019 and beyond whether a deal is struck with the EU or not.

By **Russ Mould**
AJ Bell Investment Director

Four stocks and funds for children's stockings

Parents and grandparents may wish to consider investments for their young relatives this Christmas

Shares and funds may not be at the top of every child's Christmas list but they could be the best gift of all if you pick the right ones.

Junior ISAs can be opened for any child from birth until age 16. These allow friends and relatives to invest up to £4,128 in a tax year on behalf of the account holder. Children gain control of their accounts at age 16 and are able to access the money at age 18. Some 907,000 Junior ISAs were opened in 2017/18 with a total of £902m squirrelled away into them.

The fact that kids can get their hands on these pots can put some parents off from opening the accounts, for fear they will squander the money. But research from AJ Bell found that just 7% of children cash out their investments once they take over their Junior ISA.

Anecdotal evidence suggests that the more involved youngsters are with their investments, the more likely they are to continue them into adulthood.

Picking investments that appeal to areas they are enthusiastic about may further pique their interest. Here are four suggestions for stocks and funds to put in a Junior ISA.

1. Cineworld (CINE)

With a new *Grinch* movie and a sequel to *Mary Poppins* set for release over the festive period, young film fans may be fascinated to learn they can own a piece of the action.

Cineworld has expanded rapidly over the past few years, and the £2.4bn acquisition of US chain Regal made it the second largest cinema company in the world by number of screens. The group now has more than 9,500 screens across 793 sites in 10 countries.

Simon McGarry, senior equity analyst at Canaccord Genuity, says the firm has been at the forefront of improving the cinema experience. 'New seating, bookable seats, new products such as 4DX, superior sound and premium screens have helped to "premiumise" cinema and make it far more immersive than home viewing,' he explains.

After overhauling the UK market and expanding in the emerging European markets, Cineworld is now dong the same in the US. It generated a 15% total return for investors over the past year, which is the increase in the share price and dividends reinvested.

2. BMO Responsible Global Equity (3314504)

Other children may be interested to learn you can invest in companies trying to make a positive impact on the world.

The BMO Responsible Global Equity fund avoids businesses with damaging and unsustainable practices and uses its influence to improve those which it does invest in.

The fund contains names that may appeal to children including Apple and Mastercard as well as interesting businesses they might not have heard of such as consultancy group Accenture, which is a Fortune 500 company.

Around half of its assets are in US-listed firms, with other investments in Japan, Ireland and Germany. This fund has outperformed the MSCI World Growth index in four of the past six years.

3. First State Global Listed Infrastructure (B24HJL4)

Ben Yearsley, a director at Shore Financial Planning, says infrastructure is an area that may appeal to any young investor interested in trains, planes and automobiles.

The First State Global Listed Infrastructure fund invests in the shares of companies involved in the sector. This is a different approach to many infrastructure investment funds, which often directly own the assets themselves, and may mean it is more diversified and potentially less volatile than other offerings in the sector.

Yearsley says: 'This is a core long-term holding and owns key assets such as airports and toll roads.'

Top holdings including the East Japan Railway Company, toll road operator Transurban Group, and US firm Crown Castle, which has more than 40,000 mobile phone masts across the US.

The fund has achieved 12.5% annualised returns over the past decade, better than the S&P Global Infrastructure index (10.3%).

4. Walt Disney (DIS)

For younger investors, Disney shares have obvious appeal. The group is behind popular franchises including *Star Wars* and the *Marvel* group of superheroes as well as *Mickey Mouse* and other classic characters.

Tom Becket, chief investment officer at Psigma Investment Management, says: 'I suspect that up and down the western world, millions of children – and no small number of adults – will wake up to find that Santa has left them one or more of Disney's products to keep them occupied this Christmas.'

Disney generated $59.4bn in revenue in the year to 29 September 2018 and a gross profit of $26.7bn. This could be boosted further in the future as the business prepares to launch a streaming service to rival Netflix and Amazon.

Becket adds: 'Content is key and the list of Disney's media possessions is vast and well-loved, providing a strong revenue stream potentially stretching decades into the future.'

Its shares are traded on the New York Stock Exchange and can be easily bought from most good UK stockbrokers or investment platforms.

By **Holly Black**

Going, going, gone?

Lessons for investors on why businesses fail

Corporate crises are happening more often and are growing in magnitude

Looking back over 2018, the list of UK companies which have gone bust or entered into voluntary restructuring looks like the kind of Christmas reading only Scrooge would enjoy.

Although only a few of these were, or are, companies listed on a stock market, the issues behind their problems are very relevant to the broader investment community.

Bench, Berketex, Byron, **Carpetright (CPR)**, Claire's Accessories, Coast, Conviviality, Crawshaw, East, Evans Cycles, Gaucho, Gourmet Burger Kitchen, Homebase, House of Fraser, Jamie's Italian, Joe Bloggs, Maplin, Orla Kiely, Poundworld, Prezzo and Toys R Us are among the higher profile names to have experienced major problems.

Toys R Us was among the companies to have failed in 2018

The damage isn't limited to consumer companies. Contractor Carillion became one of Britain's biggest corporate failures in January after lenders pulled the plug due to repeated contract delays and shrinking revenues. Rivals **Interserve (IRV)** and **Kier (KIE)** are currently in the middle of refinancing.

The main issue for these firms is failure to manage their cash flow. They typically use short-term funding to finance long-term projects. Once things get rocky, suppliers start demanding their money early and customers delay their payments, squeezing what meagre margins they have to breaking point.

ADAPT OR DIE

With consumer companies the main reason for their troubles is a failure to remain relevant when web-based rivals are getting their customers' attention and their money.

Maplin, a supplier of electronic components and already something of a high street dinosaur, went into administration in February 2018. Toys R Us, which operated from huge out-of-town warehouses, also shut its doors in February. Both had become obsolete in the new retail environment.

Other firms just failed to keep up with, or even acknowledge, rival technology. One famous example is Kodak, which failed to stay relevant in an age of digital cameras and smartphones. Kodak still exists, but has re-invented itself as a digital technology business.

Blockbuster, which at its peak had over 9,000 shops in 25 countries, was completely blindsided by the rise of video streaming services like Netflix and has faded away to a single store in the US where most visitors simply want their picture taken next to the shop sign.

CORPORATE FAILURES RISING

According to consultant McKinsey, corporate crises are not only occurring more frequently than they used to but they are also growing in magnitude. Typically the actual cost of a large corporate crisis is five to 10 times the original estimate.

Regulators in the UK and the US are pushing companies to write 'living wills' so that in the event of failure administrators can get on with the process of winding the company up. These wills even include details of who holds the keys to the building so that the administrators can gain access.

According to the Government's Insolvency Service the number of UK companies put into liquidation by their creditors between July and September is up nearly 20% compared with last year and is at its highest level since the first quarter of 2012.

In the 12 months to September 2018 the construction industry had the highest number of insolvencies followed by the wholesale and retail trade and vehicle-repair industry.

LEVERAGE BECOMING A MAJOR CONCERN

The Bank of England and the major credit ratings agencies are becoming increasingly worried about the amount of debt public and private companies are piling up and the potential for a wave of insolvencies.

In the notes of its latest Financial Policy Committee meeting the Bank of England warns that the issuance of leveraged loans has reached pre-crisis levels. It says most of the new lending has been used 'to engineer changes in (firms') liability structure to optimise returns rather than to fund new investment'.

It also warns that underwriting standards have loosened materially with 'covenant-lite' issuance at record highs while many of the borrowers are increasingly indebted. Most worrying, due to 'add-backs' that assume potential future earnings improvements, the actual amount of leverage is likely to be understated.

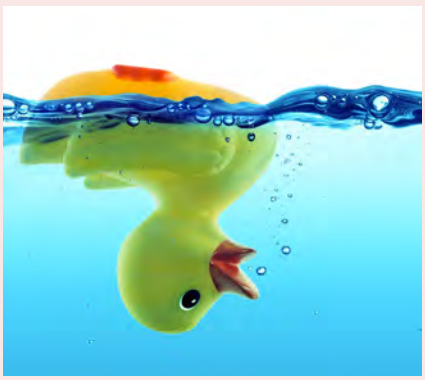
Credit agency Moody's has warned of a 'catastrophic' rise in defaults due to the build-up of leveraged debt with terms on leveraged loans at their loosest ever in Europe. The looser the covenant, the worse the lender's position is as it allows debt to be piled on top of debt.

By **Ian Conway**
Senior Reporter

KEEP YOUR EYE ON SUPPLIER CREDIT INSURANCE

One of the issues to monitor closely is credit insurers withdrawing cover to suppliers of certain companies. This happened to **Debenhams (DEB)** in the summer and more recently to **Footasylum (FOOT:AIM)**. They do it when there are concerns that the end-company cannot pay its bills in full and on time.

Suppliers purchase credit insurance to ensure their losses would still be covered should a company collapse. The insurers either hike their prices or remove cover if it looks like a company could fall before it can pay its creditors.



Will AO World ever make a profit?

We look at the online electrical specialist's career since joining the stock market in 2014

Shares in online electrical retailer **AO World (AO.)** have fallen by 56% in value since joining the stock market in 2014.

The compelling investment case outlined nearly five years ago was that AO World would disrupt the UK white goods market, yet according to brokerage Shore Capital, AO World is 'in a perpetual downgrade cycle that, in our view, looks sustained'.

THE GOOD AND THE BAD

There is much to like about AO as a business, guided by a forthright, entrepreneurial management team and operating in the structurally advantaged online channel, meaning it is unencumbered by a physical store estate.

The Bolton-headquartered concern sells a vast, competitively priced range of goods and its standout customer proposition drives exceptional customer satisfaction and healthy repeat purchase metrics. AO is delivering against its purpose to 'have the happiest customers by relentlessly striving for a better way'.

And yet the washing machines, TVs and laptops seller has consistently struggled to generate a profit at the all-important pre-tax line, reporting material losses for the past five years; a function of start-up costs and trading losses in Europe, some chunky marketing costs to raise brand awareness and fierce price competition.

Earnings downgrades remain the order of the day and group-level profit proves elusive. This stands in stark contrast to online pure play peers **ASOS (ASC:AIM)** and **Boohoo (BOO:AIM)**, albeit specialists in fast fashion, a duo which consistently deliver positive earnings.

THE BUSINESS HAS CHANGED

Since coming to the stock market, AO has become a more complex business too. It has transformed from a one country (UK), one category (domestic appliances) retailer into a multi-national, multi-category player, also selling audio-visual and computing products as well as mobile phones.

Indeed, the recent acquisition of online-only outfit Mobile Phones Direct has increased the scale and sophistication of AO's mobile proposition.

AO also provides ancillary services such as installing new, and collecting old products, it offers product protection plans and customer finance and has a majority stake in AO Recycling, a waste electrical and electronic equipment processing facility in the UK.

ON A RAZOR'S EDGE

The company operates on razor thin margins, having to source, sort and then deliver many big ticket items in a currently challenged domestic appliance market. Consumer uncertainty surrounding Brexit is impacting purchases of bigger ticket items, while competition in the electrical retail space remains ultra-competitive.

AO World in numbers

Year to March	Sales (£m)	Ajusted pre-tax profit (£m)	Earnings per share (p)
2017 (A)	701.2	-12.6	-2.9
2018 (A)	796.8	-15.5	-3.4
2019 (F)	867.9	-10.7	-2.3
2020 (F)	1,074	-3.7	-0.78

Source: Numis Securities. A=Actual, F=Forecast

Half year results (20 Nov) revealed solid but not amazing group revenue growth, up 9.9% to £404m, amid tough macro conditions in Europe and a declining UK domestic appliance market.

The group's adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) loss of £5.4m showed improvement on the prior year's £6.3m loss.

UK EBITDA edged back to £6.9m from £7.4m a year earlier, with growth slowing in the six months to 30 September; newer product categories generated lower margins and AO World's higher admin costs crimped returns. Tellingly, the half year adjusted EBITDA margin for the more established UK arm was wafer-thin at just 2.1%.

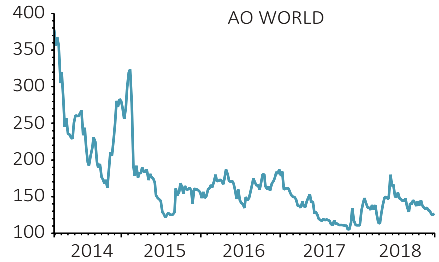
While the UK operations are at least profitable, investment in scaling up the international business and general costs of running the business are keeping AO World in loss.

DOES EUROPE STILL EXCITE?

AO World hopes its European business will make a profit by 2021. Europe, the most exciting bit of the investment case, reduced its adjusted EBITDA loss to €13.8m (2017: €15.6m), reflecting product margin improvements and leverage in logistics and overheads.

However, revenue growth is also starting to slow in Europe. European revenue rose 35% to €78m, but growth was hampered by weaker German domestic appliance market conditions and changes to the German driver operating model following changes to the EU working time directive.

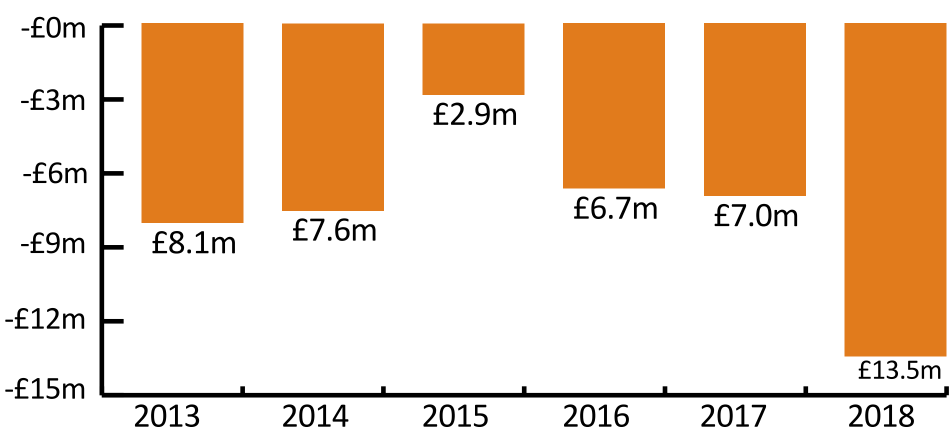
Numis Securities says: 'AO's UK challenges relate almost entirely to the downturn in the white goods market, which has resulted in the loss of high incremental margin revenue, fierce major domestic appliance price competition, and the need for investment in other growth areas.'



AO has it all to do over Christmas and we'll get a better idea when the trading update is issued on 11 January.

By **James Crux**
Funds and Investment Trusts Editor

AO WORLD: A HISTORY OF PRE-TAX LOSSES



Source: Company accounts (Year to March)

FAST GROWING SMALL CAPS FOR 2019

By the Shares team

Despite all the uncertainty created by Brexit the latest reading from the Quoted Companies Alliance/YouGov Small & Mid-Cap Sentiment index suggests most small and medium-sized companies in the UK are optimistic about 2019.

Nearly three quarters of the companies surveyed expect to increase the number of employees in the coming 12 months and 47% are looking to raise capital over the same time period – the highest since March 2016.

Picking up on this theme, *Shares* has used a market screening tool to identify 10 small cap companies which are forecast by analysts to deliver strong earnings growth in 2019. In this article we discuss some of these stories in more detail and what lies behind the growth which is forecast for the year ahead.

MEDIA, MUSIC AND EVENTS

Boku (BOKU:AIM) has enjoyed stellar growth in recent years by enabling consumers to pay for goods and services like a Netflix or Spotify subscription by adding the cost to their monthly mobile phone bill.

The stock recently took a hit after several big shareholders sold down and Boku bought Danal to add mobile identity verification services. The decision to pay in shares caused big dilution for investors and expectations for investment in sales, marketing and engineering have resulted in hefty earnings downgrades from broker Peel Hunt, although strategically Boku is still heading in its preferred direction.

Danal gives Boku a fully formed identity business and a new set of customers, plus expands the type of merchants it can serve.

Even after the recent earnings downgrades, Boku is still expected to deliver 75% adjusted pre-tax profit growth in 2019 to $2.8m, soaring by a further 457% to $15.6m in 2020.

Small cap **Arena Events (ARE:AIM)** provides equipment to run major sports events and shows. It joined the stock market in July 2017 with the intention of buying rivals to expand its skillset and geographical coverage. This strategy is now in play with various deals done in the US, Hong Kong and Dubai.

Recent multi-year contract wins and extensions include tiered seats for the PGA of America's golf events in the US, Wimbledon in the UK and a major oil and gas conference in the Middle East.

Stockbroker Cenkos forecasts that Arena Events' pre-tax profit will rise from £7m in 2018 to £10.7m in 2019. The dividend is also expected to grow rapidly, rising from an expected 2p per share for 2018 to 2.5p next year. The latter puts the stock on a 4% prospective yield.

York-headquartered **Gear4music (G4M:AIM)** is the largest UK-based online retailer of musical instruments and music equipment.

Own-label and branded product sales including *Fender*, *Yamaha* and *Roland* are on upward trajectories.

Emerging from a heavy investment phase, its multilingual, multicurrency websites now deliver to over 190 countries. Gear4music is expected to grow rapidly in 2019 thanks to warehouse expansion, a growing active customer base and as new products are added to the website.

DUKE ROYALTY is expected to move into profit in the current financial year

For the year to February 2019, Panmure Gordon forecasts a surge in sales to £110m (2018: £80.1m), ahead of £129.5m and £140.1m in the years to February 2020 and 2021 respectively. The consensus forecast implies earnings per share (EPS) growth of 58% in the year to February 2020.

FINANCIAL FOCUS

Guernsey-headquartered **Duke Royalty (DUKE:AIM)** lends money to private companies on a long-term basis, typically between 25 and 40 years, in exchange for part of their revenue (a 'royalty'). The borrowers tend to use the funds for acquisitions or other investments to grow their sales, which, if successful, should boost profit for Duke.

Lending is secured on the borrowers' assets and Duke's costs are minimal so almost all of the increase in profit is retained. For the year to March 2019 Duke is expected to a move from losses of £1.8m to net profit of £2.6m, rising to profit of £7.6m in March 2020.

PCF Group (PCF:AIM) is a challenger bank lending to consumers and small businesses. It started lending money to people buying used cars but last year it obtained a full banking licence and business lending now makes up half of its loan book.

Being a bank gives it access to cheap funding which means it has been able to expand more aggressively than in the past. Meanwhile its focus on 'prime' lending means that non-payments are low, and costs are also low. Increased lending and the newly-acquired media-funding business are expected to lift net profit by 57% to £6.6m for the year to September 2019.

FRESH AND EASY

Budget hotel operator **EasyHotel (EZH:AIM)** has enjoyed rapid earnings growth thanks to its focus on opening new hotels with a futher 2,974 rooms in its development pipeline.

EasyHotel offers 'no-frills' accommodation near city centres both in the UK and abroad, including Spain, Belgium and Portugal.

Earnings in 2019 are expected to be driven

WHY YOU NEED TO BE CAREFUL WITH RESOURCES FIRM'S EARNINGS FORECASTS

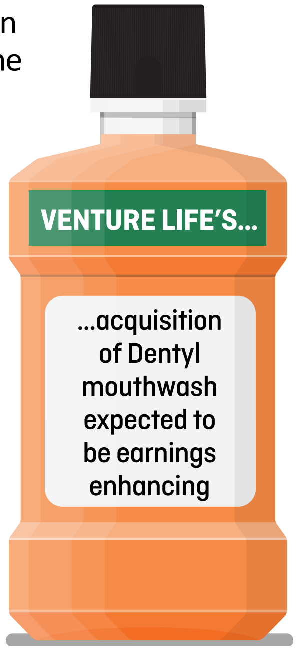
Plenty of smaller oil, gas and mining operators are forecast to see significant earnings growth in 2019 but volatility in the commodities market means these numbers should be treated cautiously.

Forecasts may not have been updated since, for example, oil sank from multi-year highs above $85 per barrel in early October to a little over $60 per barrel.

Firms are likely to have limited scope to reduce costs at the same rate and this will put downward pressure on earnings.

higher by new hotel openings in Europe and Dubai, as well as the maturation of hotels in the UK and Barcelona.

Broker Investec forecasts earnings to achieve a compound annual growth rate of 82% between 2018 and 30 September 2021.



Investors may be familiar with some of **Venture Life's (VLG:AIM)** brands, including oral healthcare range *UltraDEX* and mouthwash product *Dentyl*.

It develops, manufactures and commercialises self-care products for other companies. For example, its contract with healthcare products group **Alliance Pharma (APH:AIM)** runs until 2025 and accounts for 24% of sales.

In July 2018, Venture Life acquired *Dentyl* and breath-freshening capsules *BB Mints* for £4.2m. The acquisition of *Dentyl* is expected to be earnings enhancing in the first financial year.

Broker Cenkos forecasts 228% pre-tax profit growth to £2.3m in 2019.

TECHNOLOGY-BACKED GROWTH

Taking audio conferencing into the 21st Century, **LoopUp (LOOP:AIM)** is doing something about historic under-investment in this market.

With a best-in-class platform, the company prides itself on smoothness of service thanks to its intuitive and easy to use system rather than being the cheapest around. That could be beneficial to profit margins even in the face of competitors.

The company has a strong return on investment track record (it earns 75p annually for every £1 invested in sales and distribution) and has almost exclusive recurring revenues.

It has reported a healthy pipeline of new work, while expansion beyond the UK and US into Australia gives LoopUp another growth lever to pull next year when earnings per share are forecast to surge more than 100%.

A basic understanding of recent accounting rule changes (IFRS 15) will help put **Eckoh's (ECK:AIM)** recent pedestrian growth into perspective. This new model requires only completed work on multi-year contracts to be put through the books, with income due in the future sat on the balance sheet as deferred revenue.

For Eckoh, which provides automated secured payments software, deferred revenue jumped 48% in the first half of this year.

While long-term markets in the UK and Europe still offer growth potential, the US has the best scope for progress in 2019, where businesses are surprisingly behind the curve in customer payments automation. It is this catalyst which underpins a forecast for earnings per share to advance 55% in the financial year to March 2020.

GHOST IN THE MACHINE

AIM-quoted **Kape Technologies (KAPE:AIM)**, formerly called Crossrider, has used investor funding to bolt together a selection of internet and digital security businesses hinged on its *CyberGhost* virtual private network product.

The acquisitions of Intego and ZenMate – both in the second half of 2018 – offer growth potential through cross-selling to the enlarged customer base.

Integration of the pair has gone well, albeit with a short-term strain on profit in 2018, but that could be reversed in 2019 where earnings before interest, tax, depreciation and amortisation (EBITDA) is forecast to jump 40%-odd to more than £14m.

KEY

- Main Market
- AIM
- Investment Trust
- Fund

KEY ANNOUNCEMENTS OVER THE COMING WEEKS

Full year results

8 Jan: Safestore. **9 Jan:** Shoe Zone.

Trading updates

3 Jan: Next. **8 Jan:** Morrison, SIG. **9 Jan:** Sainsbury's, Taylor Wimpey. **10 Jan:** Card Factory, Marks & Spencer, Tesco, Robert Walters.

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THIS WEEK: 15 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

Mining, Oil & Gas

PARA RESOURCES

PROVIDENCE RESOURCES

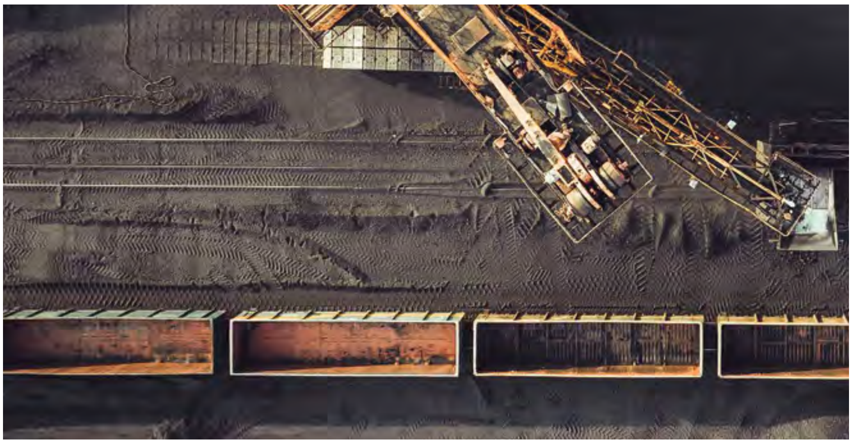
SERICA ENERGY

UNION JACK OIL

INCLUDES NEWS, DATA, COMPANY PROFILES, COMMENT AND ANALYSIS

DECEMBER 2018

Introduction



Welcome to *Spotlight*, a bonus magazine which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words and this edition is dedicated to the natural resources space.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of *Spotlight* are available on our website.

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Understanding the gold market

'Recently, gold has been driven higher by a short covering rally. In the medium to longer term, however, it will be influenced both by moves in real US interest rates and the extent to which the Fed is successful – or not – in reducing the size of its balance sheet.'
Charles Gibson, Edison Investment Research mining analyst

HAVE THERE BEEN ANY RECENT SHAKE-UPS IN THE GOLD MARKET?

The price of gold has remained roughly flat at US$1,200 per troy ounce since August after falling from highs of US$1,360 in January 2018, that is until spot prices spiked, reaching over US$1,230 per troy ounce in early October. Details here.

Gold prices are traditionally affected by geopolitical volatility and interest rates hikes, which push investors to gold as a safe haven from fiat currencies. Most recently, in the aftermath of the global financial crisis and under the influence of worldwide quantitative easing, these factors pushed gold to a record high of almost US$1,900 per ounce in September 2011.

At the moment, gold is caught in the conflicting cross-currents of continuing Fed interest rate hikes in the US at the same time as the Indian Diwali festival creates its traditional, seasonal upcycle for gold.

As for mining, Barrick and **Randgold Resources'** (**RRS**) merger has captivated the news. Barrick has struggled since 2008, as evidenced by Randgold's share price being where its larger competitor's was 10 years ago and vice versa. Some see this as a vindication of Randgold's fundamental and geological approach to mining compared with the Goldman Sachs-style corporate capitalism of its erstwhile rival.

WHAT ARE THE GEOLOGICAL FEATURES OF GOLD?

Now thought to be created by the merger of two neutron stars, most of the gold on earth can be found in 32 commonly recognised deposits, which can be separated into exogenous and endogenous types.

Endogenic gold occurs beneath the surface of the earth. Some of the most commonly mined endogenic gold lodes are porphyries (a type of igneous rock) as well as in skarns. Skarns are geological formations created when rocks high in carbonates like dolomite or limestone are invaded by a high-temperature hydrothermal solution.

Exogenic gold is formed on the earth's surface and can be found in sands and gravel. Here, wind and water erodes rock formations, creating sands, gravels and sediments in which heavier elements like gold settle. Deposits of endogenic gold are, for the most part, found in streambeds, riverbeds and floodplains.

HOW IS GOLD PROCESSED?

Some exogenic gold can be processed through smelting the metal together with flux, but hard rock ores require further processing. First, the ore is crushed into a slurry, and then typically treated via cyanidation to dissolve the gold into a liquid alkaline cyanide solution, leaving the rock behind. The gold is then retrieved from the cyanide solution by adding activated carbon, a material to which gold adheres.

One former method of gold extraction is amalgamation via mercury, but it has fallen out of favour among commercial miners as a result of the detrimental health and environmental effects but is sometimes popular with artisanal operators. After forming the amalgam, the mercury is then boiled away, leaving behind gold. At this stage, the gold may be cast into a doré bar, containing 80-90% gold plus a range of other metals, such as silver, copper and iron.

HOW ARE DORÉ BARS PURIFIED?

Either the Miller or Wohlwill process is used to refine the doré bars. The Miller process heats the metal, then blows gaseous chlorine over the mixture.

The impurities bind with the chlorine to form compounds, which separate into easily removable layers on the surface of the molten gold to produce 99.95% pure gold.

To produce the highest grade of 99.999% pure gold, the Wohlwill process is

used. Here, unpurified ore is fashioned into an anode, and pure gold into a cathode. Electricity is then passed through a mixture of gold chloride and hydrochloric acid. The electrical current collects the gold at the cathode, while impurities are left behind.

WHERE IS GOLD MINED?

Although South Africa was by far the world's largest producer of gold for most of the 20th century, it was overtaken by China in 2007, having fallen to seventh position from its previous heights. Much of China's gold is produced by mines in Shandong Province. It is also the world's leading gold consumer.

Australia is the second largest producer, with around two-thirds of its gold being produced from Western Australia, followed by Russia, the US, Canada, Peru and then South Africa. In terms of exploration, however, between 2006 and 2016, West Africa was a hotspot, attracting the largest exploration budget in the world after Canada and Australia and accounting for the most equity raised for exploration of any region bar Canada.

WHO ARE THE BIG PLAYERS IN GOLD?

Barrick Gold was the top gold producer in 2017, beating Newmont for the top spot and ahead of AngloGold Ashanti, Goldcorp and Kinross. Even so, the gold giant cut its production from highs of 7.7Moz in 2010-11, to 5.32Moz in 2017. By comparison, Newmont grew its production by 7.6%, while AngloGold Ashanti grew its production by 3.4% alongside Polyus at 9.4%.

At the same time, Newcrest Mining, in seventh position and Goldcorp in fourth, reduced their production by 6.9% and 10.4%, respectively, for the year.

As for mid-tier companies, West Africa has been an attractive proposition. Among them, Canada-listed Endeavour Mining has followed through on its aggressive West African strategy, developing its Houndé and Ity CIL mines. So has Teranga Gold, with its Golden Hill and Gourma projects.

In the same region, Nexus Gold Corp is highly involved in gold exploration in Burkina Faso, while Galane Gold plans to restart its Galaxy mine in South Africa by the first quarter of 2019.

This article is based on a report produced by Edison Investment Research other Edison Explains research is available at www.edisoninvestmentresearch.com/research/insights

Para Resources has a novel approach to gold exploration

Website: www.pararesourcesinc.com

On formation, **Para Resources (PBR:TSXV)** established criteria that would aim to provide a return on invested capital and de-risk and fund the exploration potential.

The business now owns two projects with highly prospective exploration potential where there are existing mining and milling operations that can generate cash flow to support the exploration cost.

The purchase of the existing and fully permitted mines and facilities could dramatically reduce exploration risk when the small mining operations generate cash flow and provide returns as stand-alone entities. In both cases the company is targeting multi-million ounce deposits.

This is a novel approach to developing potentially 'world class' assets. In addition, Para is unusual in that the Insiders have invested more than $20m of their own capital and own approximately 70% of the equity.

Para's management team is seasoned and proven having discovered, built, managed and sold several different mines over the last 40 years.

The company has two major projects: the Gold Road Mine in Arizona, USA and the El Limon Mine in Zaragoza, Colombia.

The Gold Road Mine in Arizona, USA

In August 2017, Para, through its 88% owned subsidiary Gold Road Mining Corp., acquired the Gold Road Mine, including patented claims and a mill and processing facility, located in the historic Oatman Mining District in Northwestern Arizona.

The Oatman District is the largest primary gold producing district in Arizona with a historical gold production including Gold Road (not equivalent gold) of more than 2.1 million ounces.

INTRODUCING... PARA RESOURCES

A JUNIOR GOLD MINING AND EXPLORATION COMPANY WITH ASSETS IN ARIZONA AND COLOMBIA

The vast majority of the production has come from two sub-parallel vein systems, the Gold Road system and the Tom Reed-United Eastern (Tr-Ue vein) system.

In addition to these two systems there is a third vein system, the Pioneer-Midnight system, which is southwest of the Tr-Ue system for which production records are mostly unknown. The distance between these veins is less than 1 kilometer.

Para has secured the rights to all of the patented and unpatented claims along the Gold Road and the Tr-Ue veins which includes the sites of the historical underground mines.

These mines mostly ceased production in 1942 as a result of the US war effort. It is important to note that the mines stopped production while still mining high grade ore.

Significant potential identified

Para believes that there is significant potential to re-open these mines and to process the ore at Gold Road which is approximately 1km away on a paved road.

In February 2018, Para published a NI 43-101 Technical

Report on the Gold Road Mine and in April 2018, a NI 43-101 Technical Report on the Oatman Gold Mining District for the Tr-Ue vein. Both reports recommend multi-year exploration plans that together target an additional 1,600,000 to 2,150,000 ounces for a total estimated cost of $14.2m, to be spent over multiple campaigns.

All mineralization in the district is in epithermal quartz, calcite, adularia veins containing cyanide leachable gold, and silver. The absence of environmentally sensitive constituents (RECRA metals) and acid-generating minerals significantly reduces permitting and reclamation issues.

The Gold Road mill is a modern 500 ton per day (tpd) cyanide leach facility designed specifically to treat the Oatman-type mineralized material. Historical recoveries have been in excess of 95%. The facility is fully permitting allowing Para to increase production from 500 tpd mill to 1,000 tpd.

The mine is currently fully permitted to restart, including a recently updated tailings disposal site that has the capacity for 1,750,000 tons (10 years at 500 tpd). The tailings are dry stacked.

In May of 2018, Para published a NI 43-101 Preliminary Economic Assessment on the Gold Road Mine by RPA Global, to demonstrate robust financial results for the case of restarting the mine. Some of the key highlights include: an $81.3m net present value NPV at a 5% discount with $1,200 per ounce gold price, initial capital of $5.7m, and a seven-year mine life with 1.1 million tons of material recovering 214,000 ounces of gold with an average diluted grade of 6.5 grams per ton.

The NI 43-101 Technical Report authors believe the resource at Gold Road can be increased by over 700,000 ounces through an underground drilling program.

The Gold Road mine will restart operations in the first quarter of 2019 with final development and rehabilitation work underway now on the mill and a contract miner mobilized to site.

El Limon Mine

Para bought the El Limon

> **SINCE THE PURCHASE, PARA HAS UPGRADED THE MILL'S CAPACITY FROM 75 TPD TO 225 TPD BY ADDING A SECOND BALL MILL AND INSTALLING NEW FLOATATION AND CYANIDE CIRCUITS**

Mine in 2016 with a minority Colombian partner. Para has invested $10m to upgrade and rehabilitate the mill and underground operations. Para now owns 83% of the El Limon project. In addition, Para acquired 22,000 hectares of mineral rights surrounding the Mill site.

This property is the basis of an exploration program that is currently underway. The exploration prospective on the property is evidenced by the presence of hundreds of small artisanal miners who are working the surface or the near surface of the vein system that runs through the OTU valley. This is the same vein system that is being mined at El Limon.

There are a series of parallel veins that run for 12km across the company's property. The El Limon mine is successfully mining that vein system at a depth of 450 meter and the system is open at depth. The average diluted head grade from the underground operation is between seven and 10 grams per ton.

The feed for the El Limon mill will come from a combination of ore from the El Limon underground mine, from other small mines on the property that are run by Para and from the small artisanal miners who are working on the company's property.

The Colombian Government, in an effort to end the use of mercury and to bring these small miners into the formal economy, has a programme that allows the mineral rights holder (Para) to formalize these previously illegal operations, thus creating an alternate source of ore for the El Limon mill from these contract miners.

This solution to dealing with the small miners allows government to collect royalty, the miners make more money selling the ore to Para and Para gains access to low cost ore where is the total cost of acquiring and process the ore results in a cost of $750 per ounce. In addition, this system prevents the gold that is on the company's mineral concessions from being sold outside of the company's control.

Upgraded capacity

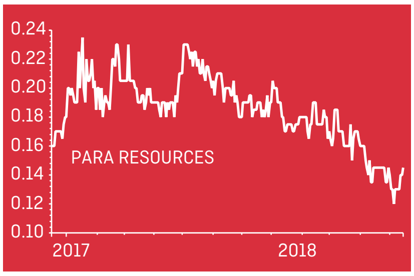
Since the purchase, Para has upgraded the mill's capacity from 75 tpd to 225 tpd by adding a second ball mill and installing new floatation and cyanide circuits. The mill re-started operations in June 2018 including with feed from historical tailing to confirm throughput, recoveries, and metallurgical balance.

Also in June 2018, the El Limon mine was restarted with four separate development areas, and an upgrade of the main hoist. In July 2018, the mill received the first shipments of material from formalized miners on Para's properties.

Third party shipments increased significantly in October to 30 tpd and are expected to steadily increase until plant capacity is achieved. The company expects the El Limon operation to be cash flow positive in Q1 2019 with the production ramp-up completed in Q2 2019.

Future plans

Para says it will continue to look to take advantage of current market conditions to acquire and develop additional highly economic, near-term production assets that have strong exploration and development upside.



PROVIDENCE

Providence Resources is turning the drill bit

Website: www.providenceresources.com

As one of the longest standing operators offshore Ireland, **Providence Resource's (PVR:AIM)** first mover advantage was instrumental in securing its significant portfolio.

Providence's strategy of partnering with majors allows it to leverage significant industry co-investment, where, over the past 18-months, the company has completed four major farm-out transactions.

Providence's present and past partners include Total, ENI, Repsol, **Cairn Energy (CNE)**, APEC, ExxonMobil, Petronas, Chrysaor, **Lansdowne Oil & Gas(LOGP:AIM)** & Sosina.

BARRYROE

Following the 2018 farm-out to APEC, Providence holds a 40% interest in the Barryroe oil project, which is located in SEL 1/11 (North Celtic Sea Basin). With 2C (contingent) audited resources of 346 million barrels of oil equivalent recoverable, Barryroe is one of the largest undeveloped fields in north-west Europe and is now the subject of a multi-well appraisal programme in 2019, comprising four vertical wells and one horizontal well, plus two optional horizontal wells.

This programme is fully funded by APEC, who pay its participating 50% share and finance Providence's 40% interest through a non-recourse loan repayable from future Barryroe production cashflow.

The drilling programme is designed to fully appraise Barryroe by gathering new dynamic data across the field to assist with the progression of any future Field Development Plan. A secondary objective involves deepening three of the four vertical wells to allow for the assessment of the exploration potential of other reservoir intervals (around 750 million barrels of stock tank oil-initially-in-place).

INTRODUCING... PROVIDENCE RESOURCES

AN IRISH-BASED AND FOCUSED OIL & GAS EXPLORATION COMPANY, HOLDS A 40% INTEREST IN THE BARRYROE OIL PROJECT IN THE NORTH CELTIC SEA BASIN AS WELL AS SIGNIFICANT EQUITY IN FOUR MULTI-BILLION BARREL EXPLORATION PROSPECTS IN THE SOUTHERN PORCUPINE BASIN, OFFSHORE IRELAND

DIABLO

Providence holds a 28% interest in the Diablo exploration prospect, which is located in FEL 2/14 (southern Porcupine Basin) and is operated by Total, following a 2017 farm-out 2017. Diablo is a large structure which lies beneath Druid & Drombeg, which were drilled in 2017 but which were not commercial.

Diablo is of key interest as it is more proximate to the interpreted source rocks in the basin and is a similar play to the large proven oil accumulations in the Flemish Pass Basin, offshore Eastern Canada. In 2019, CNOOC-Nexen and ExxonMobil will drill a similar structure (Iolar) in the adjacent licence, that will have read through implications for Diablo.

NEWGRANGE

Providence holds an 80% interest in the Newgrange exploration prospect, which is located in FEL 6/14 (Goban Spur Basin). Newgrange is a large four-way dip-closed Cretaceous carbonate structure covering an area equivalent to four North Sea blocks and hosting significant resource potential.

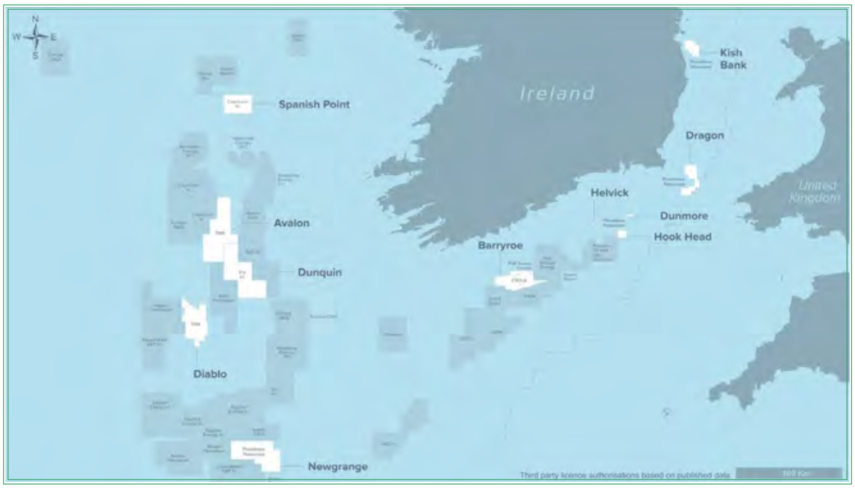
Having acquired a site survey in 2017 to get it 'drill ready' should a rig of convenience appear, Newgrange is now the subject of a farm-out process for drilling.

DUNQUIN SOUTH

Providence holds a 26.8% interest in the Dunquin South exploration prospect, which is located in FEL 3/04 (southern Porcupine Basin). Originally licenced by Providence in 2004, ExxonMobil farmed into the licence in 2006 and operated the Dunquin North well (2013). That well, the first well to be drilled in the southern Porcupine Basin, encountered a large, low saturation residual oil accumulation which had breached, but did prove an oil-prone system in the Basin.

In 2017, under the Operatorship of ENI, the Dunquin JV licenced 3D seismic data to try to differentiate between the 2 identified carbonate build-ups – the 'breached' Dunquin North structure and undrilled Dunquin South prospect.

This 3D data shows the faulted nature of Dunquin North and a major fluid escape feature but notably, it does not appear to show escape features over Dunquin South, nor any significant faulting. As such, Dunquin South has now been high graded for future drilling.



AVALON

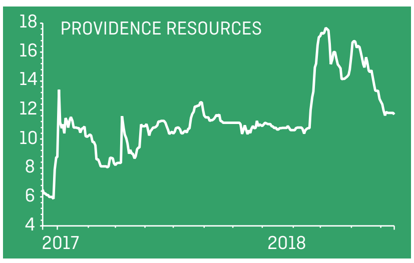
Providence holds a 40% interest in the Avalon exploration prospect, which is located in LO 16/27 (southern Porcupine Basin). Licenced originally by Providence in 2016, Total farmed into the licence in 2017 and assumed the role of Operator. Under the terms of the farm-out with Total, Providence gets a 1.2 to one carry up to a well cap ($42m) if a well is drilled.

Avalon is a similar play-type to Druid, but it has a more robust structural closure in the proximal sediment transport direction and it lies close to the Dunquin North breached oil accumulation and so it may have accessed some of the oil which escaped from that trap.

TURNING THE DRILL BIT

Providence's strategy has been to assemble a portfolio of large, world-class, multi-billion barrel potential resource opportunities, leverage in significant industry co-investment and then be in a position to turn the drill bit – thereby giving its shareholders access to multiple opportunities for significant value creation.

With the implementation of this strategy, Providence represents a truly unique opportunity to be involved in multiple large drilling opportunities offshore Ireland over the next few years.



Transformational deals position Serica Energy for growth

Website: www.serica-energy.com

The year 2018 has been nothing short of transformational for AIM-quoted **Serica Energy (SQZ:AIM).** Following a series of key deals in the North Sea, which completed at the end of November 2018, the company is now firmly placed as a leading UK mid-tier independent oil and gas company.

TRANSFORMATIONAL BKR DEAL

The acquisition of interests held by **BP (BP.)**, Total E&P, BHP and Marubeni in the Bruce and Keith assets and BP's interest in the Rhum asset in the UK Northern North Sea have substantially increased Serica's production and reserve base, with the company's pro-forma net 2P (proved and probable) reserves increasing over 20-fold to 63.7 million barrels of oil equivalent (mmboe) and the acquired assets producing a net average of 23,000 barrels of oil equivalent per day (boepd) year to date, 85% of which is gas.

As part of this acquisition strategy, Serica now owns 98% of Bruce, 100% of Keith and 50% of Rhum, with operatorship for all three fields and the Bruce platform.

As part of the deals, Serica paid a small upfront consideration and entered a profit-sharing deal with BP, Total E&P and BHP contingent on the future production performance of Bruce, Keith and Rhum.

On completion, Tony Craven Walker, chairman of Serica, commented: 'The acquisitions bring a significant production and reserve base from which we can build our position further in the UKCS. For our shareholders it represents the delivery of a real enhancement to their investment with no dilution.'

Gas prices in particular have remained strong and the acquisitions were immediately

INTRODUCING... SERICA ENERGY

A MID-TIER UK OIL AND GAS COMPANY WITH A FOCUS ON THE NORTH SEA

cash flow and value accretive. Serica received a cash inflow of approximately $50m on completion which offset the $22m paid by Serica for the assets.

NEW HUB IN ABERDEEN

As operator, Serica is strongly positioned to deliver the full potential of the newly acquired BKR assets. To drive value through operational efficiencies, 111 staff transferred from BP, with a further 21 employees recruited externally.

The company has also opened a centre of excellence in Aberdeen hosting their operations HQ. Mitch Flegg, chief executive of Serica, said: 'We will highly value the knowledge and expertise of the transferring staff and our other new recruits and believe that our strategic vision and plans will provide an exciting operating environment in which to excel.'

WIDER PORTFOLIO

Serica's main focus is on production and development in the UK North Sea, complemented by a portfolio of oil and gas exploration opportunities, including interests in offshore licence blocks in the UK North Sea, Ireland and Namibia.

Beyond the BKR portfolio, Serica is a partner in the producing Erskine field and is the development operator for the Columbus gas-condensate field, in the UK Northern North Sea and Central North Sea, respectively. The company is also a partner on the licence for the Rowallan prospect, a large structural closure with net prospective resources estimated by Serica to be 20-60 mmboe (P50-P10 range).

This diverse, balanced

portfolio could put the company in an excellent position for future growth, with revenue from its producing assets and the ability to move swiftly on other interests when opportunities arise.

STRATEGIC DEVELOPMENT OPPORTUNITY

The Columbus Development is a gas-condensate accumulation in the Forties Sandstone Formation and has been fully appraised by four wells, with Field Development Plan (FDP) approval received in October 2018 with production start-up targeted for the second quarter of 2021.

Peak production is expected to be 7,800 gross boe per day, with 2C Contingent Resources calculated to be 13.4 million boe.

To fully maximise this opportunity, Serica plans to develop Columbus via the Shearwater platform, 35km to the Southwest, utilising the same pipeline route as the Arran field development. Columbus will be drained by a single subsea well, which will be connected to the recently approved Arran-Shearwater pipeline, through which Columbus production will be exported along with Arran Field production.

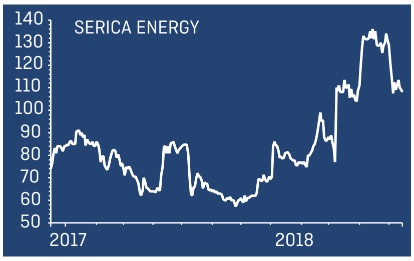
FURTHER GROWTH POTENTIAL

Adding to their exploration portfolio, Serica was provisionally awarded three new strategically located exploration licence areas on the UK Continental Shelf in the UK's 30th Offshore Licensing Round in May: Rowallan South; Columbus West, and Skerryvore.

Gaining more acreage in these key areas represents a number of opportunities, with Serica ideally positioned to fast-track development if exploration proves successful.

Serica's strategy continues to centre on pursuing a balanced portfolio of exploration, development and production opportunities to stimulate growth and deliver additional value for shareholders. In 2019, the company is well placed to move onto the next level of their acquisition programme with increasing opportunities for nimble players to grow.

Craven Walker adds: 'We are firm believers that the independent sector can go a long way to helping the UK maximise the economic recovery of the country's North Sea resources and we aim to be at the forefront of this process.'



Union Jack flies the flag for UK onshore oil and gas

Website: www.unionjackoil.com

The directors of **Union Jack Oil (UJO:AIM)** see the United Kingdom onshore as being an attractive target for investment in hydrocarbon projects where the company is active in a reasonably low-cost operating environment and where the licensing regime is fully transparent.

The board of directors are all very experienced in the oil sector and have been involved for decades in the development and corporate activity in respect of several energy companies, particularly within the UK onshore arena.

Union Jack has adopted a low cost, non-operating business model, typically acquiring interests in late stage projects, thus minimising risk and cost exposure to individual wells which are considered to have excellent scope with the drill bit for future discoveries, the Biscathorpe-2 and West Newton appraisal wells planned to be drilled Q1 2019 being prime examples.

ASSET OVERVIEW

The company has acquired interests in 13 licences located in the East Midlands, Southern Zechstein and the Weald Basins, all being established hydrocarbon producing provinces.

- **PEDL180** and **PEDL182** Wressle and Broughton North 27.5% interest
- **PEDL183** West Newton gas discovery 16.66% interest
- **PEDL005(R)** Keddington oilfield 20% interest
- **EXL294** Fiskerton Airfield oilfield 20% interest
- **PEDL181** Humber Basin 12.5% interest
- **PEDL143** Weald Basin 7.5% interest
- **PEDL253** Biscathorpe 22% interest
- **PEDL241** North Kelsey 20% interest
- **PEDL201** Widmerpool Gulf 26.25% interest
- **PEDL209** Laughton 10% interest
- **PEDL118** Dukes Wood 16.67% interest
- **PEDL203** Kirklington 16.67% interest

INTRODUCING... UNION JACK OIL

AN AIM-QUOTED OIL AND GAS PRODUCTION AND EXPLORATION COMPANY WITH A FOCUS ON OPPORTUNITIES WITHIN THE UNITED KINGDOM ONSHORE HYDROCARBON SECTOR

The East Midlands, Southern Zechstein and Weald Basins are proven to have all the elements of commercial systems, a source rock with sufficient organic content, maturity, a viable migration path, a reservoir and trap formation.

During 2018 the company was on the acquisition trail and interests in additional and existing projects were purchased including an additional 12.5% of the Wressle discovery, awaiting development planning, a further 10% of **PEDL253** where the Biscathorpe-2 appraisal well will be drilled in early January 2019 and a 16.665% interest in **PEDL183** which holds the significant West Newton A-1 gas discovery planned to be appraised in Q1 2019.

During March 2018 Union Jack formed a commercial partnership with UK based Humber Oil & Gas Limited and since that time has established an excellent relationship going forward with the joint acquisition of interests in several high impact projects.

WEST NEWTON GAS DISCOVERY

The acquisition of a 16.665% interest in **PEDL183** containing the significant West Newton A-1 onshore gas discovery from Rathlin Energy (UK) Limited brought compelling immediate and future economic value to Union Jack in respect of the best estimate contingent resources of 189 billion cubic feet of gas equivalent gross, assigned to West Newton in a Competent Persons Report.

The West Newton A-1 gas discovery is on trend with the prolific offshore Hewlett gas complex and is in close proximity to existing gas pipelines and other infrastructure.

A well is planned to be drilled during Q1 2109 to appraise the conventional discovery.

In addition, a further oil prospect below the gas reservoir, the lower Cadeby reef exploration target with Best Estimate Prospective Resources of 79.1 million barrels (gross) will be penetrated.

BISCATHORPE-2 APPRAISAL WELL

Biscathorpe is one of the UK`s largest onshore conventional oil prospects with Mean Prospective Resources of 14 million barrels gross and a geological chance of success of 40%. Union Jack holds a meaningful 22% licence interest.

The company`s economic modelling of the Biscathorpe prospect highlights its attractiveness and shows a pre-drill value for a success case of circa £24m net to Union Jack.

Following completion of site construction in December 2018 the drill rig is expected to be mobilised in early January 2019.

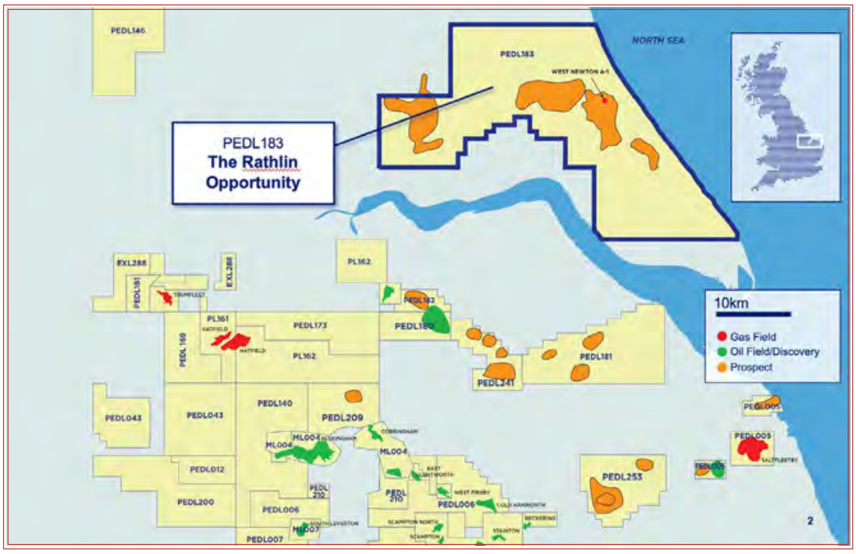
Biscathorpe is one of Union Jack`s near term high impact projects where a successful outcome could be transformational.

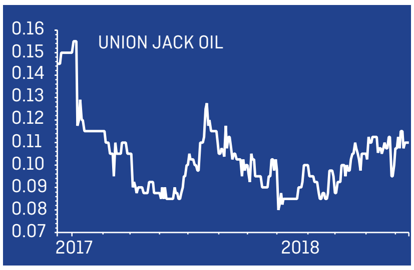
NEWS FLOW THROUGHOUT 2019

The company has a balanced portfolio of production, development and drill-ready projects which includes the fully funded Biscathorpe-2 conventional appraisal well where drill-pad construction work is at an advanced stage and drilling is planned to commence in January 2019 and an appraisal well at West Newton to test the significant West Newton A-1 discovery is planned to be drilled in Q1 2019.

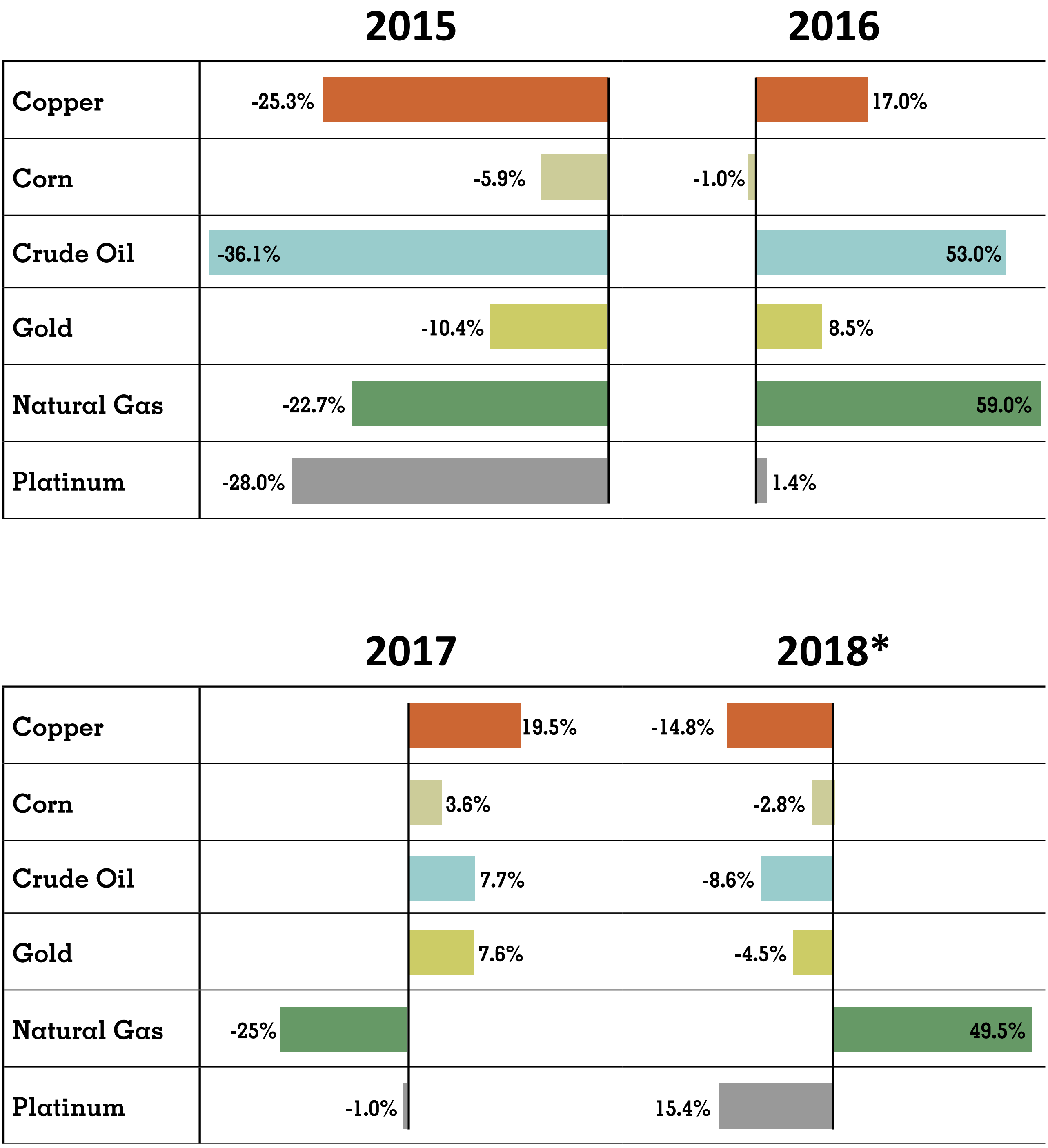
Administrative and general costs are low, and the company remains debt free and has in excess of £2m in cash.

The company`s strategy of focusing on conventional relatively low risk and low-cost onshore production, development and exploration drilling, avoiding early stage and frontier projects is already showing signs of coming to fruition and allows an opportunity for investors to become involved at the end of the exploration and beginning of development cycles in a company likely to generate plenty of news flow throughout 2019.





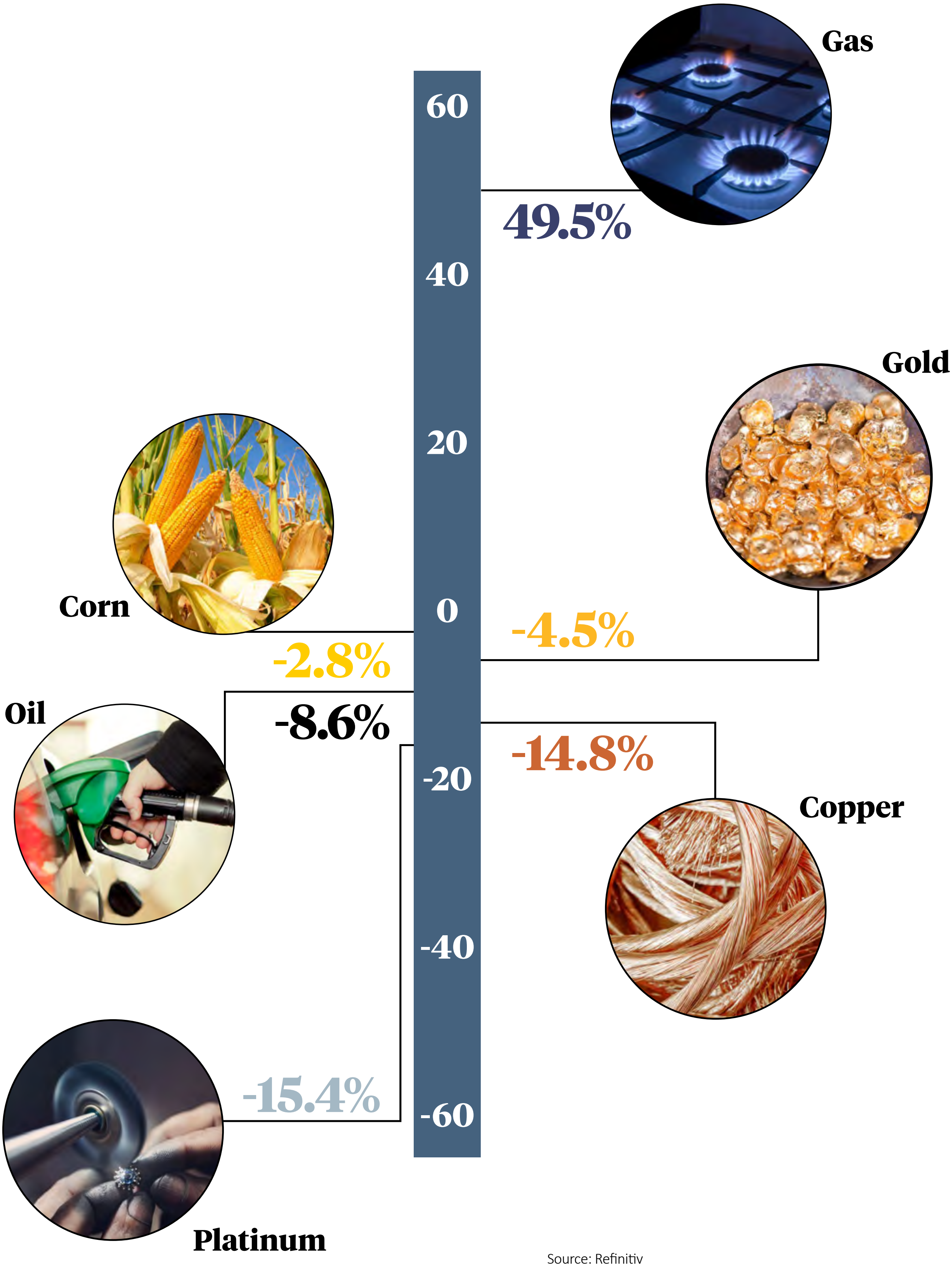
Databank – Commodity price performance 2015-2018



Source: Refinitiv

*Year to date (11 December 2018)

Databank – Gain / loss so far in 2018



Source: Refinitiv