

# News in brief



## Market Statistics 5/07/10

### UK Indices

FTSE® All Share	2,499
FTSE® 100	4,823
FTSE® 250	9,301
FTSE® Small Cap	2,668
Base Rate	0.5

### Overseas Indices

Dow Jones Industrials	9,686
Nikkei 225	9,267
Dax	5,816
CAC40	3,332
Eurotop 300	967

### Need more help?

Call our Customer Services team  
on 01296 41 41 41

## Child Trust Fund – new government, new rules

The government recently announced plans to phase out all its contributions to Child Trust Funds, subject to legislation being approved.

Existing accounts will continue as usual, but government contributions at age seven will stop from 1 August 2010, and no new vouchers will be issued from 1 January 2011.

The government also plans to reduce its contribution from £250 to £50 for better off families, and from £500 to £100 to children from lower income families, from 1 August 2010.

As soon as clear guidance is given to us, we will write to all our Child Trust Fund account holders with an update.

## An added reason for shareholders to perk up

Shareholders should never forget their perks. You shouldn't buy a share just to get the benefit of a shareholder perk, of course. It should be the right investment for you, but equally, don't overlook any added benefits from your investments.

We keep an up-to-date list of all companies that are giving perks, so if you are not sure if one of your holdings is eligible, then please give us a call.

Three perks that have come to the forefront recently are:

- Legal & General Group plc (discounts on various L&G products)
- Aviva plc (discounts on various Aviva products)
- Carnival plc (discounts while aboard a cruise ship)

If you hold any of these shares, you could benefit from these perks.

## Share plc's offer

Following approval by the shareholders at Share plc's recent General Meeting, The Share Centre's parent company is to offer its qualifying shareholders an opportunity to take part in a Tender Offer and Commission Free Dealing Programme.

The Tender Offer is open to all qualifying shareholders, who may sell up to 16% of their holding at a 15% discount to the mid price on 27 August. Those with less than 35,000 shares may want to consider using the Commission Free Dealing Option to sell all or part of their holding at the mid price on 27 August.

Please note that all shareholders can buy further shares free of dealing commission and can choose to donate their shares to the ShareGift charity.

We will write to shareholders who are customers of The Share Centre in early August, and applications to participate in any of the schemes must be received between 10 August and midday 27 August. For further details see [www.share.com/tender](http://www.share.com/tender).

## New Dividend Reinvestment Plan

We have added a new way of managing your dividends: you can now choose to have your dividends reinvested into the same company that paid the dividend. If you select this option we will automatically invest your dividend into the investment it originated from as soon as possible after receipt – normally within a day or two. (Please note, £10 minimum investment applies.)

This new facility is additional to the quarterly reinvestment option which can be used in conjunction with the Dividend Reinvestment Plan to sweep up any residual dividend income at the end of a quarter.

## Win a book in our free prize draw

'Inflation is the stealthiest of enemies', and 'Guarantees are rarely guaranteed': these are two examples of sayings which appear in 'The Unwritten Laws of Finance and Investment', a new book by Robert Cole, a lead writer and editor of the Tempus investment column for The Times. For a chance to win one of three free copies, please email [marketing@share.co.uk](mailto:marketing@share.co.uk) before 31 July.



# Editorial

## Money supply belies inflation scare

What with BP's woes, an austerity budget, and a contracting money supply, there's reason to fret, but, says Gavin Oldham, it's a brave new world.

George Osborne's first Budget on 22 June impressed most observers in delivering a 'tough but tender' approach, and the market has generally received it well. We address its impact in more detail on page 4.

The United Kingdom is, of course, not alone in taking a resolute approach towards government deficits. The Greek crisis may have been staunchly by the Eurozone/IMF rescue package, but the shock wave that it created has led to a sequence of countries tightening their belts. Meanwhile, as the chart of global real broad money growth below shows, there has been a dramatic collapse in liquidity during 2009 as central bank intervention has been withdrawn, more severe than at any time for the past 30 years.

What does it mean for the stock market? Hard times, when money is scarce and businesses need to stay lean and nimble. Much of the talk over the past few months has been about the possibility of inflation returning, and no doubt a key reason why the 2½% VAT increase was deferred until January 2011 was to avoid exacerbating the current UK inflationary hump. The high pricing of UK index-

linked gilts would suggest that there is a serious risk of inflation, but the collapse in global money growth tells us something completely different. As Capital Economics commented at the end of their Budget summary: "With many countries now competing in the austerity stakes, deflation is a serious risk."

It means that interest rates will remain very low, with a depressed economy, all pointing to the need to find strong income yields based on solid defensive stocks. Until three months ago you might have said "such as BP?", only to be confounded by the Gulf of Mexico tragedy. It is hard to imagine such a solid company being brought to its knees by a single event. On page 8 we look at the investment cost of this disaster, and what the future could now hold.

It's interesting to consider how different the situation would have been if this catastrophe had happened to a small exploration company, such as Rockhopper Exploration (which recently struck oil off the Falkland Islands). This amazing stock was selected by the students at Reading School in our shares4schools competition – read about it on page 10. However, had

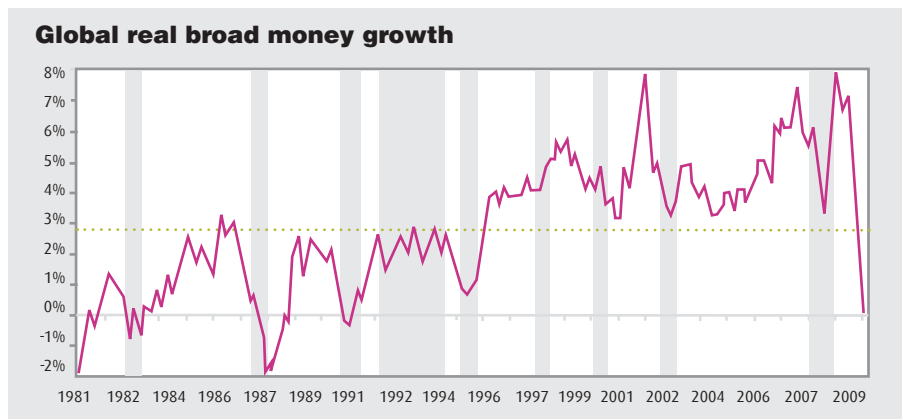
the Southern Seaboard of the United States come to grief through one of the many, very small exploration companies, there would have been no compensation to speak of. The changes and chances of this fleeting world.

But there are many other good stocks to choose from with strong yields and defensive qualities such as National Grid, Royal Dutch Shell and Aviva, and good advice available from The Share Centre to help steer you through these difficult times. Our website is a most comprehensive source of this information, and facilities like 'SharePicker' can really help in researching to find the right investments for your portfolio.

The Budget was distinctly business-friendly, as is particularly evident from the planned reduction in corporation tax to 24% over the next four years. We welcome this new encouragement for the private sector, and on page 6 there's an article making the case for individual share ownership. After a prolonged period during which institutions and government have held sway, it is time to recognise that it is people who matter. George Osborne has arguably done just that in delivering his 'tough but tender' Budget. Now we need to see more recognition of personal investors in the boardroom. One of the ideas we propose is that companies should give one of their non-executive directors a specific remit to communicate with, and take forward the interests of, personal shareholders.

A brave new world? Yes. Should we, as investors in shares, be part of it? Definitely.

Gavin Oldham Chief Executive



Grey columns: periods of financial crisis (incl. overseas)

Source: Schroders

# How to respond to the austerity Budget

The 22 June Budget announcement was a fresh approach in many respects. But, says Gavin Oldham, the big issue for us is – how does it impact upon investors?

The 22 June Budget announcement was a fresh approach in many respects. Not just for its swingeing attack on the enormous public sector deficit, but also because it was all up-front. Very little was tucked away in press notices. There was little repetition of earlier announcements, although there were some firm dates for further announcements, particularly on spending – the key date being 20 October.

But the big issue for us is – how does it impact upon investors?

This was a Budget designed primarily to impress upon financial markets – and particularly the government bond (Gilts) market – that Britain is serious about tackling its public sector deficit. It has

succeeded in that aim. The redemption yield on 25-year Gilts (see The Shareholder Autumn 2009 edition for an explanation of Gilts) has fallen from 4.61% to 4.21% in the two months since the election campaign. This converts into a price rise of 6.25%. Meanwhile, several rating agencies have expressed their satisfaction, with Moody's saying that the plan should be enough to preserve the UK's AAA credit rating and stable outlook.

## Economic Britain

Moody's has also said that the net debt forecast for 2013-14 of 70% of gross domestic product was lower than it had envisaged, and I must confess that the

determination shown by the coalition government to get to grips with our problems is significantly better than I had expected. In our Winter 2010 edition of The Shareholder we envisaged significant problems arising from a possible hung parliament, and that 25-year Gilt yields could rise above the UK equity earnings yield by the end of the year. That now looks unlikely. That we have a well-structured and robust coalition government economic agenda is no doubt a considerable achievement for the small group of senior civil servants recently thanked by the Queen – in addition, of course, to the willingness of politicians to make the deal. However, Vince Cable has made it clear that Mervyn King,



Governor of the Bank of England, left no room for manoeuvre in his briefings on the deficit. If any remaining persuasion were needed, the Greek tragedy provided visible evidence of the chaos that could result.

So the Budget has provided much-needed reassurance for the financial markets, and if it weren't for the horror of BP we would see that equities have shared in that relief.



### Corporate Britain

So the Budget has provided much-needed reassurance for the financial markets, and if it weren't for the horror of BP we would see that equities have shared in that relief. But it goes much further than economic reassurance, because George Osborne has emphasised the business-friendly stance by announcing reductions in corporation tax rates year on year until they reach 24%. This is serious encouragement for UK registered companies to stay in Britain, a key measure when many businesses are looking abroad to see where the grass may be greener. Indeed some, such as Shire and WPP, have already made the move.

Even the banks, where he has imposed a new levy, have not come off too badly – £2bn pa will not significantly damage their earnings potential (as the government stands to make a considerable profit from the sales of its RBS and Lloyds stakes, it needs to ensure earnings remain intact).

### Investor Britain

Capital Gains Tax was the big talking point in the run up to the Budget, and here the chancellor has performed quite a carefully judged balancing trick. The 18% rate for basic rate taxpayers will be helpful for those whose gains exceed the £10,100 annual exemption, and whose other income leaves headroom before the £43,875 threshold. Of course most basic rate taxpayers don't file tax returns,

and CGT is only collected via tax returns, so will basic rate CGT be collected? The jury is out on that question. That's probably the reason why the annual exemption limit was left at £10,100, and we must be grateful for that small mercy.

However, the higher rate taxpayers' 28% CGT rate will bite soon for many people, and doesn't leave much difference between tax on dividends after offsetting the effect of advance corporation tax (an effective rate of 36.1% for an individual with income in excess of £150,000). For a 40% income taxpayer the 28% CGT rate is actually higher than their effective dividend tax rate. There seems to be an assumption in government that capital gain materialises as easily as income – that they are almost interchangeable, and that it is reasonable to tax them in broadly similar ways. Have they not heard of risk? It is in the country's interest that investors take risk, and the tax system should therefore recognise that. At least people holding shares can choose how many to sell to stay within the thresholds. Pity the second-home owners who must take all their gain at once.

The forthcoming spending cuts are, of course, bearing 77% of the burden of public sector deficit reduction, and as yet we don't know their full impact. But we do know that the NHS and most capital spending projects (especially outside London and the South East) will be effectively ring-fenced, so the burden has to fall hard on other departments. Defence procurement, local government, and consultancy not designated to cut spending are all prime candidates for the chop. Speak to our Advice team to get a feel for which companies are likely to suffer, and which could benefit from government outsourcing.

However, the key message is that the standard of living will be cut for the majority of the population. This means that it's wise to look for reliable yield from utilities and other defensive stocks, and steer well clear of domestic UK businesses with a focus on luxury consumer goods. The Office for National Statistics has already shown that people are battening down the hatches on their spending as the savings ratio (which measures savings as a percentage of total household spending) has risen from 2% two years ago through 7% last year, and is now at 8%. Much of this is repaying debt, but it's a further reason also why investment services are so busy.

### Exporter Britain

We have focused on the strength of overseas earnings and export-led businesses for some time; this remains a powerful area for investment. With interest rates likely to remain low for the foreseeable future, and Far East currencies, including China, starting to appreciate, Britain is indeed open for business. It will not be long before London regains its premier position as the international capital for business, and there are good prospects for London-based commercial property with the Qataris having determined that we have now reached the bottom in that market.

Long-term growth is likely to remain structurally weaker in Western developed countries, particularly in the Eurozone, due to the wave of deficit reduction which followed the chaos in Greece. The main United Kingdom export market is Europe, and the current depressed state of the € is making that an uphill battle.

The € crisis has only been delayed, not resolved. There are really only two outcomes possible. The first is that all taxation, public spending and cross-border subsidies are controlled for all Eurozone countries centrally, which really means from Frankfurt. The second is that the € divides into two, a strong 'Mark 1 €' including Germany, France and the Netherlands, and a weak 'Mark 2 €' which would include Greece, Italy, Portugal, Spain and Ireland. Since the UK exports primarily to 'Mark 1 €' countries, this latter solution would suit us well – although the British government could not possibly promote it. No wonder that David Cameron has firmly ruled out any possibility of € entry for the UK during this parliament, and that the Euro Preparations Unit in the Treasury was abolished in the Budget.

So – the stock market is likely to remain volatile, prone to further shocks from the dramatic fall in global money supply, and medium-term returns are unlikely to see spectacular results. But there are opportunities – you just need good investment advice to help with the stock picking.

#### Need more help?

Call our Advice team on  
01296 41 43 45  
You can register for advice at  
[www.share.com/advice](http://www.share.com/advice)

# Making the case for individual shareholders

As a new government picks up the United Kingdom's economic reins for the first time in 13 years, it is important to make the case for individual share ownership.

The Share Centre was founded in the heady days of the privatisations, when Margaret Thatcher was still PM, so we're well placed to argue the case.

## Bedrock of democratic capitalism

Intermediation is a complicated and confusing word. It means coming between two things in time, place, character, etcetera. The two things which matter in democratic capitalism are people and businesses. What comes between them is all the stuff of financial services, including the investment banks, funds, advisers and brokers. Complicated and confusing? You bet!

The Share Centre is, of course, part of that intermediation process, but we try to strip away all the complexity by giving individual share owners control and transparency so that they can bypass all that stuff.

## We're really in the business of disintermediation.

Individual share ownership matters because it enables citizens to wear three hats at once, as consumers, as employees and as owners in British business. In a sense, shares are a surrogate for the health of business,

and therefore represent the accumulated energy and human enterprise that goes into its innovation and productivity. That's why they outstrip any other asset in the long term.

So, at the heart of democratic capitalism is the idea that people ought to have the most direct ownership of the engines that power the economy, in their own right. Not as in communism, where the state intermediates on behalf of the people; nor in institutional capitalism, where huge financial conglomerates and banks control the boardrooms of industrial companies – but direct, putting share ownership in the hands of people who work, live and vote.

## Reducing systemic risk

By reducing institutional intermediation, we also reduce risk. Professionals, particularly financial people, always think they know best, but often they're just too clever by half. The past two years have shown us that to a dramatic extent, as financial engineering brought the world's economy to its knees and the leaders of great

investment banks had to admit that they simply didn't know what was going on.

Excess intermediation invariably leads to excess systemic risk. The Lloyds Insurance market collapse in the mid 1990s was another typical example. Still today we have examples of comprehension falling short of ambition. Think of the failed Prudential bid for AIA, where the board seemed to develop a blind spot for assessing value and, as a result, put at risk the savings and investment that their customers had entrusted to them.

## Corporate governance

Individual share owners punch well above their weight in boardroom strategy. Personal investors may often feel that they're ignored, but the truth is very different. The chairman of a large plc knows that every individual shareholder, even those who may own just a few hundred shares, has the capacity to cause mayhem in public relations terms. This may arise on the issue of board remuneration,



or on ethical issues, such as Royal Dutch Shell's oil exploration activities in Nigeria. So whereas he/she may measure the time allocated to institutional investors in proportion to their holdings, a personal investor should always receive a polite and swift response.

The Share Centre has worked hard to achieve shareholders' rights for nominee shareholders, and recognises that those who choose their own investments are likely to engage most closely in the governance of those companies. Attending and speaking at general meetings is a key part of this process, and we consider that when a company wishes to make a significant strategic shift in direction it should consult its shareholders. It would be particularly helpful if a non-executive board director were given a specific remit to communicate with, and take forward the interests of, personal shareholders.

## Liquidity

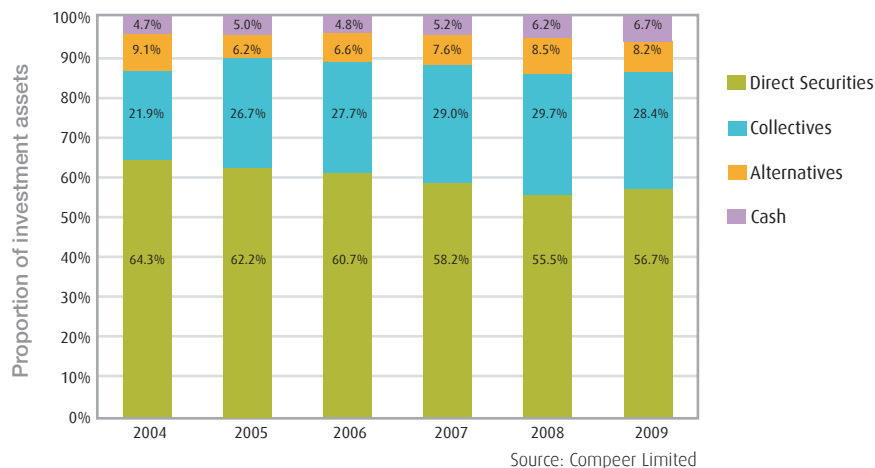
Individual shareholders don't just add value in the macro-economic and corporate governance spheres, they also contribute to market liquidity. This is particularly important for smaller and medium sized companies, whose initial share issue is often placed directly with institutions, providing an inadequate spread of shareholdings for the secondary market to deliver proper valuation and trading.

The Quoted Companies Alliance (QCA) has just published a short booklet called, 'Are you ready? A brief guide for a company aspiring to go public', in which it encourages a sufficient number of personal investors as shareholders to provide liquidity. The QCA says: "This is particularly important for companies seeking admission to AIM, as the majority of day to day trading is carried out by private individuals who promote liquidity because they deal in smaller blocks of shares, and more frequently, than institutional investors." Too true.

## Risk

Over the past 13 years there has seemed to be what could best be described as a 'civil service dogma' that ordinary people don't belong in shares. This may have started in response to the change of government in 1997, and maybe was fed by the undertone of socialist ideology which was always nibbling at the edges

Managed assets by instrument type



of the New Labour project. It was based on the premiss that only collective funds could provide an adequate spread of investment risk.

At The Share Centre we're great supporters of funds, not only to provide diversification, but also to provide access to specialist markets. But to present the contrast in risk profile between shares and funds as some impassable gulf is at best naïve and at worst nonsense. Indeed, many of our customers invest in both shares and funds. We all know that there are many funds which are significantly more risk laden than shares in properly run businesses such as utilities and retailers. We also know that cornerstone investments in both funds and shares can come to grief, witness the New Star property fund and, most recently, BP.

All it takes is a combination of bad luck and judgement, and the best laid plans of mice and men can turn to dust. There is no asset type which has complete risk immunity, as investors in government bonds throughout Europe are discovering.

## Trust

It is the failure of some of the people who manage money which is most under the spotlight today. In past decades people would hand their money to the 'Man from the Pru', comfortable in the belief that all would be well when they retired. Unfortunately time and time again that confidence has been shattered. Think of the millions affected by the Equitable Life debacle, or now the Pru itself.

It is no surprise that investors want control and transparency over their savings, and

a recent chart above from Compeer, the analyst of the stockbroking industry, puts this in sharp relief.

This shows that among wealth managers the 2004-8 discernible trend away from equities towards collectives stopped in 2009, as many investors had second thoughts about entrusting their money to others.

And while the revenue earned by private banks fell by 8.6%, execution-only stockbrokers saw a rise of 9.0% (at Share plc our revenues rose by 18% in 2009).

## Costs

Finally, it's worth considering costs. You might say that The Share Centre would be bound to put its case for good value, but it's worth bearing in mind that when we started operations in 1991 our minimum commission for individually instructed deals was £12.50. Now it's £7.50, and if you hold shares in Share plc that can be reduced to an effective £5.25.

While it's hard to find a collective fund (apart from index trackers and some exchange traded funds – ETFs) with an annual charge of less than 1.5%, our administration cost is 0.5% pa + VAT min £20 for ISAs and £2.50 + VAT per quarter for a Share Account.

So any investor can build a well-spread portfolio of shares with just a few thousand pounds, refuting soundly that outrageously patronising concept that 'ordinary people don't belong in shares'. They do, and the more shares are owned by 'ordinary people' (whoever they are), the healthier our economy will become.

# Beyond Petroleum – the cost to us all

On 20 April 2010 an explosion on an oil rig in the Gulf of Mexico killed 11 workers. It was a stark reminder of the dangers and technical challenges involved in drilling in difficult environments. It is a lesson that should not be forgotten.

In the weeks since the Gulf of Mexico oil spill, one of the world's largest companies has been left fighting for its life. The repercussions are massive. Aside from the environmental damage and economic costs to the regions directly affected by the oil leakage, the fallout will extend not only to shareholders, but also to a broad range of individuals, including employees, who are stakeholders in BP.

The 44%\* fall in the company's share price has dominated the market. Investors' confidence, which had been shaken by other blue chip disasters, has been rattled further still. Matters have been compounded by the fact that even before the disaster, the stock market recovery had already shown signs of faltering.

Shareholders in the company do not need reminding of the financial loss. However, there will be millions of people who also are exposed to BP's share price through company pension schemes as well as tracker and income funds. According to Bestinvest, 40 out of 86 UK income funds have BP as their largest holding. You may already know that £1 out of every £6 of share dividends in the UK comes from BP.

At the time of the explosion BP was the second largest constituent of the FTSE 100, with tracker funds needing around 6% exposure to its stock. In fact, the top five dividend payers in the FTSE 100 account for around 55% of the total yield on the index.

## Knowns, known unknowns, and what contrarian investors think they know

Analysts have been trying to establish what the ultimate cost is likely to be, and then to produce a worst case scenario figure. Their estimates have been steadily rising. If

we learnt anything from the banking crisis, it is that disasters can sometimes cascade. Once the media take an avid interest in an incident of this type, then their coverage can virtually take on a life of its own, and it takes the most gifted of spin doctors to limit the damage. Unfortunately, BP's own PR response has left much to be desired. Both the media and the public anger have created a scenario in which BP may be left paying certain costs that against a less antagonistic background would not have been considered.

BP believes it has the financial clout to survive the oil spill. The group is forecast to generate about \$32 billion in cash flow this year, increasing to \$34 billion next.

Contrarian and value investors have been following the developing situation very closely. Is the share price at a level where it provides a 'once in a lifetime opportunity'? They will be factoring in the size of the company and taking into account that over the last year the group generated \$30 billion in cash, and that it has \$15 billion in cash and credit facilities.

Could BP now be a takeover target? That such an outcome is being openly discussed is itself remarkable, and would have been considered unthinkable a few weeks ago. No doubt England winning a penalty shoot-out against Germany would have been considered more likely. Gazprom, PetroChina and a Middle East group have been mentioned. Perhaps slightly more likely, although still a long shot, is some form of break up of BP's US

assets. Such debates highlight the current dilemma facing BP.

In the past a merger with Shell was mooted, but with so much uncertainty over clean up costs and future liabilities this is unlikely now. Another possible outcome, and one that is perhaps marginally more likely, would be an old-fashioned dawn raid on the company, conferring a third party an influential stake in the group.

Litigation costs are another unknown. It may be years before the total can be calculated. On 14 June the group said that it had already received 51,000 claims.

The agreement to pay \$20 billion (importantly, spread over time) into a compensation fund and to suspend dividend payments for the rest of the year bought some relief. Analysts, who had been playing catch up for weeks, now have something to base their future projections around. The company has also revealed plans to cut capital spending and sell off around \$10 billion of assets. These developments have added a degree of comfort to the markets, which always recoil from uncertainty. However, income funds will now be reducing their holdings.

Perhaps of equal significance was the management meeting at the White House, and the less bellicose language used by the president, even to the extent of saying: "BP is a strong and viable company and it is in all our interests that it remains so."

Notwithstanding that estimating the final cost to BP is proving to be a Herculean task, here are some rough estimates of the eventual cost.

UBS has suggested that the cost of plugging the oil spill, and the clean up, will be up to \$10 billion. A figure of up to \$17 billion has been suggested for fines. Finally, claims against the company could perhaps total something between \$5 and



\$10 billion. So, a rough figure of \$37 billion has been estimated.

The company's market valuation, however, has fallen by twice that amount since the explosion, reflecting the fear that the compensation costs may spiral out of control.

BP believes it has the financial clout to survive the oil spill. The group is forecast to generate about \$32 billion in cash flow this year, increasing to \$34 billion next.

### **The future is unclear**

Many uncertainties remain.

Will BP be taken to court over negligence? The group has been cutting costs over the past two years. Investigations will reveal if the cost cutting has been at the expense of safety.

There are doubts over the future of BP in America, and over offshore drilling plans. Paradoxically, however, the offshore drilling ban in the Gulf of Mexico led to a rise in the price of oil, which in turn could enable all oil companies, including BP, to make slightly larger profits.

The group's proven reserves in North America stand at 5.91 billion barrels, significantly larger than in any other region. So the costs associated with damage to BP's reputation in the US, combined with costs associated with a possibility that the company may be blocked from having access to the Gulf of Mexico in the future, could be greater than analysts are currently estimating.

There is also a possibility that public reaction to the oil spillage could lead to a new push by the US towards a greener energy policy.

Finally, fixing the leak may take longer than the expected date. Relief wells drill about 60 metres a day, and it is necessary to plunge to depths of around 5,500 metres below the seabed before it will be possible to attempt to plug the leak. Delays can occur. Hurricanes, for example, could yet scupper the BP time frame. To compound matters, estimates of the amount of oil already released keep growing.

There is really only one thing we can say for certain. When the crisis is over, and the dust has settled, BP will be a financially weakened group and will have to rethink its future strategy.

The risks for investors are likely to remain high for the next 12 months.

# Real money adds spark as school doubles its investment

Following their success in our shares4schools competition in 2007/2008, Reading School has done it again by winning the 2009/2010 competition.



The team of five students turned their £1,500 investment in October into a winning amount of £3,122.61, an impressive 108.2% gain, when the competition closed on 4 June 2010.

## Taking part

Reading competed against 68 other schools across the country to win this year's competition. Meeting the Personal Finance Education Group (pfeg) quality standards, the annual competition brings economics and business studies to life as teams of Year 12 students throughout the UK invest real money in the stock market.

To enter the competition, each team must raise an investment pot of £1,500. This can be raised via the school's PTA, from fundraising or through sponsorship from local businesses. The Share Centre also offers a number of £750 sponsorships, Reading being a beneficiary of one of these.

Having taken part in the competition since 2006, and winning it in 2008, Reading entered a second team into the competition in 2009, giving more of their students an opportunity to learn how the market really works.

## Choosing the right shares

With the competition running for eight months, schools have the opportunity of buying and selling shares, with hard money at stake giving the competition an extra sense of realism and excitement.

Reading made the most of being able to trade, by placing 37 deals during the eight months. To begin with they made and lost money, but the turning point came on 6 May. At 08:48 they asked their teacher to purchase Rockhopper Exploration plc at 37p, investing £1,087.22. At 15:40 on the same day they sold their holding at 86.62p, realising £2,482.71, a remarkable profit of £1,395.49 in seven hours. Reading moved to the top of the league table, and remained there until the 4 June close.

Matt Dawes, head of economics at Reading School, comments: "The shares4schools competition offers a truly unique learning experience accessible to schools. We have entered at least one team for the last four years and have been fortunate enough to be very successful this year. The energy and enthusiasm shown

by the students has been overwhelming. As a business/economics teacher, I could not ask for a better ready-made learning opportunity for a group of our students."

Ian Benning, shares4schools coordinator, said: "In the seven years we have been running this competition I have never seen such a profit in just one day. I am delighted the students really enjoyed the competition and they learned so much about share dealing. I hope this will help them in their exams and also for their future investing."

## Celebrating their success

To celebrate Reading's remarkable win, along with the other regional winners, the five students attended a winners' ceremony in London on 30 June.

The event was held in Westminster, London, and included a question and answer session with our own Gavin Oldham and two of The Share Centre's advisers. The day included speeches from Brian Winterflood, life president of market makers Winterfloods, and Wendy van den Hende, chief executive of pfeg. After lunch the students were treated to a trip on the London Eye.



## Register for the 2010/2011 competition

If you have a child or grandchild who will be moving into Year 12 in the next school year, then please ask them to visit [www.shares4schools.org](http://www.shares4schools.org) to find out more. Registrations for the 2010/2011 competition that starts in October are now being accepted via the website until Friday 1 October.

# Half-year update on our shares for 2010

It was snowing when we picked our six shares for 2010. This has been a year when share price volatility has matched the changes in the weather, but the sun shone down brightly on at least one of our picks reports Graham Spooner, Investment Adviser.

At the time of writing, the World Cup is in full force and speculation on who the final winner will be is rife, so we start our mid-year update with what has already been a clear winner: **Chloride**. In January we said there was a chance of the company again “attracting a predator”. In April, US group Emerson made a bid for the firm, followed two months later by a higher 325 pence offer from ABB. Emerson returned on the 29 June with an improved offer of 375 pence. A bidding war could push the final take-out price higher. Investors have been rewarded with a 105% gain in less than six months. It is now too late for new investors, but holders of the shares should hold. We are close to the end game.

Keeping a balanced view during these extremely volatile times, we move to our most disappointing negative return, **National Grid**, currently down 11% (adjusted for rights issue). We were not over optimistic about the market in January, and hoped that the company would provide defensive characteristics and an attractive yield. The rights issue, announced in May, caught everyone by surprise with its timing and took the shine off a solid set of results. The yield remains

attractive for income seekers, however, and we would suggest holders geared for income sit tight.

Our second best performer is **Compass Group**, the provider of office and school catering. The share price has continued to rise, gaining 14%. The well regarded management reported another good set of figures in May, highlighting the potential for new business opportunities and margin improvement. Several analyst upgrades resulted. Around 90% of revenue is derived from outside the UK. The shares should continue to reward investors in 2010 and beyond.

Brewer and pub group **Marstons** showed a positive return of 8%. We still regard the company as a high-risk, contrarian investment, but it continues to swim against the tide of sector woes. There is a chance of a short-term boost from the World Cup, but further gains this year in the share price are unlikely to get the pulse racing. A long spell of warm weather would help. Management is working hard to improve the quality of its pub estate, range of beers and family-friendly restaurants.

Another higher-risk recovery play was **ITV**, which in April was flying high with a 23% gain. The share price fell back during the recent decline in the markets, but there has been a recent boost for the sector following the news that News Corp was looking to take over BSkyB, and shares rose 2% above the start price, but since then they have fallen back and are now 9% down. Results in May were mostly in line with expectations, but the company warned that the second-half outlook remains uncertain. In January we viewed the shares as a medium-term opportunity, with barriers to overcome. We remain buyers of the stock, but would urge investors not to be greedy if the share price moves higher over the next year.

Our final selection was **Churchill Mining**, a company with proven coal reserves in Indonesia. In April the share price was up by around 30%, but it fell back to a current negative of 2%. The group continues to review its options as to developing the vast coal resource. An announcement is expected later in the summer. Long-term attractions remain.

Please remember the value of stock market investments and the income from them can go down as well as up and you may not get back your original investment.

	start price	price now	% gain/loss	yield
Chloride	189p	387p	+105%	1.5%
National Grid	558p	496p	-11%	6.5%
Compass Group	463p	527p	+14%	2.5%
Marstons	87.5p	94.5p	+8%	4.5%
ITV	57.5p	52.5p	-9%	nil
Churchill Mining	104p	102p	-2%	nil

Prices as at Prices as at 29/07/2010

## Find out more

Advice-registered customers can obtain more information on the above stocks by ringing the Advice team on 01296 41 43 45.



## A customer's view

Malcolm Bailey is a semi-retired musical instrument maker and part-time gamekeeper

He says investing is his hobby, but that it is also a necessity for him now. So he is lucky, the hobby he loves has become his livelihood. To be effective at investing, he says: "You need a lot of time. I spend 20 hours a week researching the market and I am fortunate that I have the time to do so."

But investing isn't all that Malcolm Bailey does. He lives off the land, eating his own vegetables and foraging for meat. As a gamekeeper he is in a unique position to do this, and will typically rustle himself up a meal from freshly caught produce of rabbit, pheasant or partridge. "It's very unusual for me to buy a joint of meat," he comments.

### How long have you been investing?

“ I have been an active investor for about 20 years. I first developed the taste for investing after the flotation of Abbey National, and then a few years later with the flotation of Railtrack. My first forays into investing predate that, with the privatisation programme under Mrs Thatcher whetting my appetite.

### Do you have a golden rule, or maybe rules?

“ Don't be greedy. As the saying goes, 'pigs get slaughtered'. And always keep 10% of your portfolio in cash. That way you have the funds available to take advantage of any opportunities that might come along.

### So you don't like to get greedy. Tell us more.

“ Like a lot of investors, I got burnt during the dotcom crash and learnt my lesson. I went liquid in 2007, and again earlier this year just before the sell off seen in May. I also quadrupled my holding in Randgold Resources in the last six months.

### Opportunities?

“ I view a crisis as a buying opportunity. I recently took advantage of the National Grid rights issue, and I also bought stock in Severn Trent recently when it went ex-dividend and was trading at a 4.5% discount to the market.

### So what's a day in the life of Malcolm Bailey investor like?

“ I look forward to switching on the computer first thing in the morning, and logging on to the markets. When I trade, I like to do so before 09:00, and usually trade four to five times a week. I also spend around three hours a day on my research. Among other publications, I read the FT and Investors Chronicle. I also find The Share Centre's publications really useful. It was because of something I read in the Shareholder magazine that I bought into Aviva, a stock I wouldn't have previously considered.

### Is there a return you like to aim for in your investing?

“ I like to get an average dividend of 5% across the portfolio, and if my portfolio can manage a 10% return, that's growth and dividends combined, I am happy. So I pick a lot of defensive stocks, but I am always looking for ideas. I am keeping a close eye on the Fidelity China Special Situations Fund Investment Trust.

### And finally, can you sum up Malcolm Bailey the investor?

“ I have lived a charmed life. I had an idyllic childhood, and I love where I now live. As for investing, it's all very exciting.

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The investments and/or services referred to in this document may not be suitable for every investor and if in doubt you should contact a financial adviser. You should be aware that the prices and values of stock market investments and the income from them may go down as well as up and you may not get back the amount you originally invested.

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