

Investment overview – what you need to know NOW for your investing decisions

Oil near peak as G8 pressures Iran for response

AS EXPECTED, the US Federal Reserve raised its benchmark interest rate by 0.25% for the 17th successive time, to 5.25%. The market is now pricing in a 60% probability of a further quarter-point rise in six week's time.

For more than a year, up to about the spring of this year, most Fed watchers thought that 5% was about as high as US interest rates would go. Many thought that there was a chance that, after a few months at 5%, rates would actually start to fall again.

Looking back through our archive of past issues of *TrendWatch*, we expressed our scepticism over this rosy view on several occasions. How come? Are we blessed with the gift of clairvoyance?

Not really. We just look at the facts and try to join up the dots. Here are a few facts, none of which will come as any surprise to you, since we have rehearsed them often before:

- The US economy continues to perform with its customary strength and resilience. It's currently growing at an annualised 5.6% a year. Over the past three years, the economy has created over 2m jobs. History tells us that this sort of growth rate generally ends in tears. Even if the growth rate moderates to, say, 3.3%, as many analysts expect, this is still a fast rate of growth, and still represents a great deal of money sloshing around in the economy, which is what causes inflation.
- The Fed has already lost control of inflation. The US Consumer Price Index shows inflation at 4.2% a year. In reality, inflation is far higher than this because the CPI is a politically-manipulated sick joke. It includes the price of little Jimmy's DVDs, but it doesn't include seasonal foods, energy, pharmaceuticals, education fees, mortgage costs and dozens of other big-ticket household budget items. Your guess is as good as ours as to how fast inflation is really growing – a true measure doesn't just doesn't exist.
- Why is inflation growing so fast? Because the US economy is a bubble economy. There are two types of inflation. There's consumer price inflation. And there's financial asset inflation. By any measure you care to chose, the US housing market is an asset bubble. Homeowners have poured money into homes because the Fed presented them with near-zero interest rates, and therefore ultra low-cost mortgages. Consequently, the house market boomed. As it did so, it lit the fuse under US consumer spending as homeowners borrowed up to the hilt against the security of the

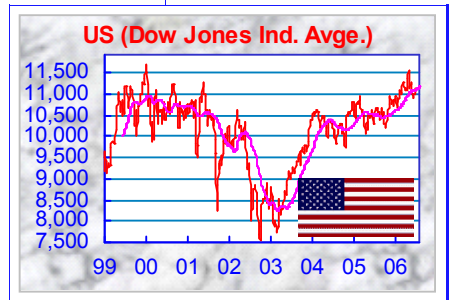
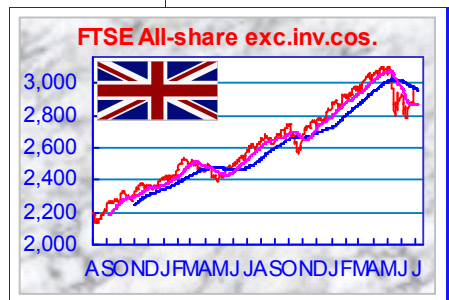
equity in their homes. It's this money that is largely responsible for fuelling inflation. Although we're now seeing the first signs that the housing bubble is close to bursting (for example, sharply rising stocks of unsold homes), householders' pips are barely squeaking as yet. So the Fed will have to continue tightening.

- On top of that, we have out-of-control federal spending fuelling the boom. Actually, the deficit appears to be falling quite nicely from its 2004 peak of \$412bn (in fact, it was about \$610bn if social security spending is included, but what does the odd \$200bn matter?). This year, the deficit is projected to be 'only' \$300bn. But the reduction flatters to deceive. It's almost entirely due to strong tax revenues after 5 years of above-trend growth. Federal spending has hardly been cut at all. At this stage of the cycle, it's a scandal that the budget is not in surplus. When the US economy, eventually begins its cyclical slowdown, the deficit reduction will be exposed for the fraud that it is.
- As a general rule of thumb, interest rates need to be between 3% and 3.75% above the CPI to have any effect on inflation. In other words, interest rates need to be well above 7%. The current 5.25% isn't even close.

So we think that US interest rates will continue to rise. For the time being, the markets have somehow managed to interpret the Fed's statement as implying that a rise was less likely. Consequently, the dollar resumed its fall on Friday. It dropped 2% against the euro on that day alone and is now down 7.7% on the year to date.


The price of oil continues to hover close to its all time nominal high. August West Texas Intermediate started this week at almost \$74 a barrel, just \$1.42 below the record high of \$75.36 reached on April 24. That's a rise of over 20% on the year to date – which doesn't bode well for fixing the gargantuan US trade deficit, expected to reach \$0.8 trillion this year.

Probably the primary reason for the strong oil price is escalating tension over Iran. President Mahmoud Ahmadi-Nejad said a couple of weeks back that Tehran would respond to the West's proposals by August 22. The G8 industrial countries cannot understand why it's taking so long, its attitude jaundiced by Iran's long history of deceit. The G8 has given Tehran until Wednesday (this issue's



Something odd happened to the AIM-listed downtrend figure for June 19 in the *Barometer* that appeared in the last issue of *TrendWatch*. The corrected figure appears below. Our apologies for any confusion this might have caused.

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 TrendWatch was jointly awarded "Best monthly investment newsletter" of 2005 by SIGnet. (www.signet.org.uk)

TRENDWATCH Barometer			
London-listed shares			
% of total no. of shares monitored	19-Jun	03-Jul	% change on 2 weeks
FULLY LISTED (exc. Investment trusts):			
Uptrends	3.52%	7.31%	+3.79%
Indeterminate	62.56%	75.27%	+12.71%
Downtrends	33.92%	17.42%	-16.50%
AIM-LISTED:			
Uptrends	3.53%	5.07%	+1.54%
Indeterminate	69.70%	66.85%	-2.85%
Downtrends	26.77%	28.08%	+1.31%
INVESTMENT TRUSTS:			
Uptrends	1.39%	2.08%	+0.69%
Indeterminate	61.43%	85.91%	+24.48%
Downtrends	37.18%	12.01%	-25.17%

Investment overview (continued)

publication date) to give a “clear and substantive response”, which will then give negotiators time to assess that response before the G8 summit in St Petersburg in a couple of weeks. The G8 spokesperson declined to say what might happen if Iran declines to respond by today. Presumably very little. But, at best, it probably represents another small step down the rocky path that may well end in Iran’s nuclear ambitions being terminated by force at some point in the future.

We keep coming across articles written by people who still expect the oil price to fall to \$40 or some such figure. We don’t believe a word of it. Supply and demand remains in precarious balance, ready to be toppled at any time by international conflicts such as Iran, or by hurricanes.

Even if the oil price sceptics are correct, and the oil price does fall back, then any such ‘correction’ can surely be only temporary. We rightly castigate the taxation policies of the US for keeping US gasoline prices low, and therefore keeping usage profligate, which is why the US consumes about 25% of global oil production. But that’s nothing compared to what is to come.

When South Korea industrialised between 1980 and 2002, its energy use per head of population quadrupled. According to the International Energy Agency, if China and India (which between them account for

about 37% of the world’s population) follow the same trajectory as South Korea, then within 25 years those two countries alone will consume at least three times as much energy as the US does today. A sobering thought.

Meanwhile, gold continues to recover strongly after its astonishing and, in our view, quite unjustified, 25% correction. It has already retraced about a third of the fall. It swept back through the psychologically important \$600 an ounce like the proverbial hot knife through butter and started this week at around \$620. Although it’s still more than \$100 down from its 25-year peak reached on May 12, it’s still 19% up on the year. We expect the recovery to continue over the coming weeks.

Further support for our bullish views on gold comes from gold traders, analysts and bankers meeting at the annual conference of the London Bullion Markets Association in Montreux, Switzerland. These experts are confident that the 5-year bull run will continue. They expect the 25-year peak of \$730, achieved last month, to be eclipsed within 18 months on the back of record amounts of gold being bought by investors. At the rate gold is recovering, we wouldn’t be at all surprised to see it making new highs in 18 weeks rather than 18 months.

About 65% of world gold stocks are held by the jewellery sector. Mine output [continued on page 9...] >

World stock markets

☺ **uptrends**

Nigeria (SE All Share) 45
Peru (Lima Gen) 120
Slovenia (SBI 20) 65

World stock markets

☹ **downtrends**

* New Zealand (Cap 40) -5
Colombia (CSE) -40
Egypt (Cairo SE Gen) -60
Israel (Tel Aviv 100) -15
Jordan (Amman SE) -105
Lithuania (Gen) -20
Slovakia (Sax) -45
Sri Lanka (CSE All Share) -30
Thailand (Bangkok SET) -30

London sector selector – what’s hot and what’s not, sector by sector

Footsie only 2.2% adrift in Q2 after 155 point rise

WE TOLD you in the last issue that we believed that the latest episode of the market “starting at shadows” was over. As if to rubber-stamp our assessment, the Dow leapt last Thursday by 217 points or 2% to regain the 11,000 level. The rise was its best for 14 months. Some of the rise was out of relief that the Fed had not raised interest rates by more than 0.25%, as some had feared.

Encouraged by this, the Footsie also put on 2% or 113 points last Thursday, plus another 42 points on Friday, bringing it to 5,883. Over the second quarter of the year (April to June), the Footsie finished down just 2.2%. Considering what we all went through in May and June, that’s not a bad result.

Actually, while we’re naturally very pleased about the market rises, we find it as difficult to justify them as we did to justify the falls. According to the people who make up the reasons for the market moves after they’ve happened, markets rose because investors thought that the Fed had damped expectations of further rate rises. Well, we’ve checked the Fed’s statement, and we can’t begin to understand how investors can possibly have come to such a conclusion. While it said that inflation was “contained” (not in our book it isn’t), it also said that rising energy prices and other factors “have the potential to add to inflationary pressures”.

So our interpretation of Ben Bernanke’s statement is that, if the Fed decides it needs to continue raising interest rate, it will. Otherwise, it won’t.

Our money’s on the former.

Meanwhile, turning to our trend analysis, the number of uptrends and downtrends reflects the sharp market recovery in exactly the way we would expect.

First, note how short the uptrend and downtrend lists are. Longstanding *TrendWatch* readers will know that the number of shares in downtrend quickly falls during a market recovery. But the number of shares in uptrend is much slower to respond. That’s because it takes time for the moving averages to turn

Currently, the number of uptrends remains painfully thin (7.3% of fully-listed shares, 5% of AIM-listed shares. However, if the recovery continues over the next couple of weeks, as we expect it will, then the number of shares in uptrend in the next issue should be well into double-digits – which should then start to reflect in more shares in the *Hit* list.

Our sample charts (below) show the one sector in uptrend, the one sector in downtrend (**Healthcare Equipment and Services**, which will have been heavily influenced by the travails of iSoft); and one sector – **General Retailers** – which is typical of many other sectors: it has pulled out of its downtrend but has not yet regained an uptrend. ☐

Stock market sectors

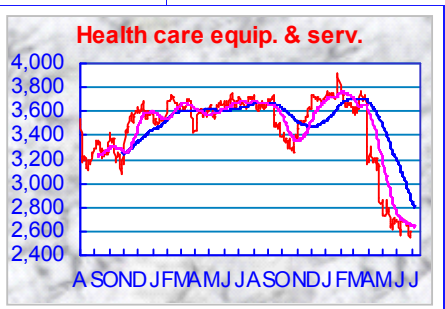
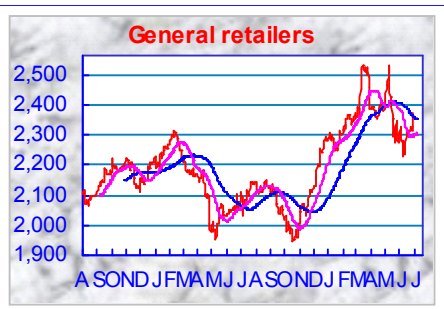
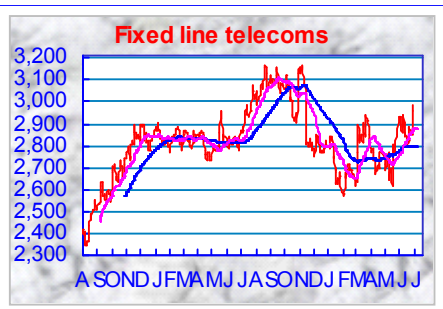
☺ **uptrends**

* Fixed line telecoms 2

Stock market sectors

☹ **downtrends**

Healthcare equip. & serv. -66



Performance review – where we keep a close eye on the TrendWatch portfolio

Hambledon up 16% as mining operations begin

THE PERFORMANCE of our portfolio over the past two weeks adds weight to our assessment that the 'correction' is over. After a brief intermission, we're back to reporting more double-digit percentage gains than losses – 5 to 1 in this case – which is what we need to keep our portfolio way ahead of the market.

Don't be dismayed that our overall portfolio gain is down from nearly 60% at its peak to 35% now. Remember that this is mainly because the 'correction' gave us the ideal excuse to lock in excellent profits, as well as shedding underperforming shares. You could almost say that we now have a new portfolio, with many of our big winners sold, and the newer shares poised to deliver market-beating performance in the coming months.

Our biggest winner of the fortnight, up 16.4%, was **Hambledon Mining**, which announced that mining operations have commenced at its open pit gold mine at Sekisovskoye in Kazakhstan. Topsoil is being stripped and ore from the North Pit is being stockpiled, pending the installation of equipment in the processing plant. Even more significant, the resource estimate for Sekisovskoye has doubled to 2.7m oz of gold. Recent underground drilling shows numerous new gold zones. This has allowed the company to increase the planned capacity of the plant, which will lower the unit costs and take advantage of the higher gold price. The plan is now for initial production to be around 40,000 oz a year, rising to over 100,000 oz when underground ore is treated. Hambledon also announced a somewhat academic increased full-year pre-tax loss of £0.587m (£0.438m).

Raymarine gained over 15% after a trading statement ahead of its interim results due on August 21. It said that it was trading in line with market expectations. The difficulty it experienced earlier in filling sales orders is being overcome; and it expects the outsourcing of manufacturing from Portsmouth to Hungary to be completed on time by the end of this year and within its £21m budget.

After showing little or no signs of life for well over a year, derivatives software developer **Patsystems** suddenly burst into action, breaking through resistance at 15½p and putting on 13.33%. But we can't identify a reason for the surge.

Cairn Energy gained 12¾%, thanks to the strong oil price. Last month's recommendation **Gilat Satcom** rose 11% for no obvious reason.

The party pooper was **Oak Holdings**, down 23%, again for no clear reason. This developer of a major leisure resort in the Rother Valley is now sitting right on its stop-loss limit.

Debt Free Direct announced that it would be rolling out its business model to Australia before the end of this year. It also disclosed more than trebled full-year profits, up from £1.5m to £4.8m on turnover almost doubled at £16.2m. Last year, 20,000 Individual Voluntary Agreements (IVAs) were arranged in the UK, almost double the number last year. DFD has a 20% market share. It expects the UK IVA market to peak at around 100,000 cases a year. Australia has a similar serious debt problem to the UK, and also a solution similar to the UK's IVA. DFD therefore believes that its model should transfer successfully. Indeed, it has highlighted Canada, the US, South Africa and Hong Kong as countries that also have the right dynamics, though it doubts whether it will develop all of these markets. The shares gained 2.4%.

Oriel Resources, the company developing chromium and nickel deposits in Kazakhstan, swung from a full year loss of \$18.68m to a profit of \$4.6m, thanks to a \$6.35m profit on the sale of its 14% stake in the Varvarinskoye gold copper project. Feasibility studies are now complete on its Shevchenko and Voskhod projects; so its strategy now is to move from being an exploration company to a chrome and nickel producer. Production is scheduled to begin at Voskhod about 20 months from

The TrendWatch portfolio: Valuation as at 3 July 2006

Share (and EPIC code)	Date bought *	Buy price (p) *	Price now (p)	gain/loss (%)	Net yield (%)	Mkt. gain/loss (%)	Outperf. (%)	STOP-LOSS **
2 ergo (RGO)	22/06/2006	225.50	223.50	-0.89	-	3.03	-3.80	170
Babcock Intl. Group (BAB)	24/11/2005	219.00	330.00	50.68	1.8	6.95	40.89	265
BBI Holdings (BBI)	28/10/2004	59.50	104.50	75.63	-	28.33	36.86	92
Bespak (BPK)	08/06/2006	615.00	611.50	-0.57	3.1	5.04	-5.34	525
British Land (BLND)	09/06/2005	885.00	1263.00	42.71	1.4	18.11	20.83	1125
Cairn Energy (CNE)	30/03/2006	2175.00	2193.00	0.83	-	-3.22	4.19	1780
Carter & Carter (CART)	26/05/2005	349.00	565.00	61.89	0.6	18.73	36.35	550
Clarkson (CKN)	08/06/2006	933.50	855.00	-8.41	3.8	5.04	-12.81	750
DataCash Group (DATA)	25/05/2006	177.50	185.00	4.23	0.4	2.67	1.52	140
Debt Free Direct (DFD)	08/12/2005	247.50	442.50	78.79	0.7	6.31	68.17	350
Domino's Pizza (DOM)	04/12/2003	184.50	464.50	151.76	1.6	36.58	84.33	420
GETECH Group (GTC)	27/04/2006	50.50	40.00	-20.79	-	-3.92	-17.56	38
Gilat Satcom (GLT)	08/06/2006	109.00	111.50	2.29	-	5.04	-2.62	85
Gleeson (MJ) Group (GLE)	26/05/2005	316.50	395.25	24.88	2.0	18.73	5.18	355
Glieten (GLI)	29/09/2005	312.50	327.50	4.80	0.3	8.07	-3.03	312
Goals Soccer Centres (GOAL)	07/07/2005	125.50	237.50	89.24	0.2	14.85	64.78	200
Hambledon Mining (HMB)	16/03/2006	13.00	17.75	36.54	-	-2.89	40.60	11
Ideal Shopping Direct (IDS)	27/05/2004	81.50	326.00	300.00	0.9	33.85	198.84	300
IFX Group (IXF)	18/08/2005	123.00	157.00	27.64	1.1	12.25	13.71	135
International Ferro Metals (IFL)	16/02/2006	40.50	35.50	-12.35	-	0.11	-12.44	32
Invu (NVUK)	13/10/2005	25.00	25.00	0.00	-	12.40	-11.03	23
JKX Oil & Gas (JKX)	25/11/2004	125.75	390.00	210.14	0.3	25.35	147.41	320
Lookers (LOOK)	07/01/2005	324.50	790.00	143.45	2.0	22.37	98.94	630
Murgitroyd Group (MUR)	15/09/2005	225.00	262.00	16.44	1.3	9.73	6.12	240
MWB Business Exchge. (MBE)	13/04/2006	113.50	94.50	-16.74	-	-3.30	-13.90	90
Nord Anglia Education (NAE)	25/05/2006	112.00	147.75	31.92	-	2.67	28.49	105
Oak Holdings (OAH)	25/05/2006	2.00	1.25	-37.50	-	2.67	-39.12	1.25
Oriel Resources (ORI)	02/03/2006	32.00	30.00	-6.25	-	-0.18	-6.08	22
Patsystems (PTS)	17/03/2005	18.00	17.00	-5.56	-	19.75	-21.13	12
PFI Infrastructure Co. (PFI)	13/04/2006	191.00	172.00	-9.95	4.1	-3.30	-6.88	165
Photo-Me International (PHTM)	22/06/2006	110.00	106.00	-3.64	1.9	3.03	-6.47	83
PLUS Markets Group (PMK)	27/10/2005	16.63	31.25	87.97	-	14.13	64.70	24
Printing.com (PDC)	23/06/2005	58.50	64.25	9.83	2.7	15.66	-5.04	57
Raymarine (RAY)	01/09/2005	249.50	403.00	61.52	1.8	10.81	45.77	305
Restaurant Group, The (RTN)	10/11/2005	135.25	202.75	49.91	2.4	8.90	37.65	165
Sirius Financial Solutions (SIR)	24/11/2005	115.00	127.50	10.87	1.3	28.33	-13.61	115
Stanley Gibbons Gp. (SGI) ¹	08/07/2004	77.00	142.50	85.06	2.2	35.50	36.57	117
StatPro Group (SOC)	18/08/2005	56.00	83.50	49.11	0.6	12.25	32.83	68
SubSea Resources (SUB)	16/03/2006	33.50	31.75	-5.22	-	-2.89	-2.41	30
Tanfield Group (TAN)	11/05/2005	25.50	25.50	0.00	-	-3.94	4.10	18
Timestrip (TIME)	02/03/2006	9.25	7.88	-14.86	-	-0.18	-14.71	7
Touchstone Group (TSE)	17/03/2005	118.00	159.00	34.75	2.3	19.75	12.52	130
Tribal Group (TRB)	27/04/2006	226.00	197.75	-12.50	1.7	-3.92	-8.93	170
White Young Green (WHY)	27/10/2005	335.50	355.50	5.96	1.8	14.13	-7.15	330
World Gaming (WGP)	30/03/2006	155.00	128.00	-17.42	-	-3.22	-14.67	122

Averaged gains (%): 35.03 10.00 22.75

TrendWatch portfolio's percentage profit: 35.03% Change on fortnight: +1.48%

Market's percentage profit (tracker fund)†: 10.00%

Trendwatch has outperformed market by: 22.75% (See 'Technical notes' (p12) for how this figure is calculated)

* Buy price is the price as at close of business on the Thursday following publication of the recommendation.

** A blue stop-loss limit means that the limit has been raised since the last issue; red means it has been lowered.

† 'Market gain' is the resultant gain/loss if the holding had been invested in a tracker fund. (See 'Technical Notes' on back page).

¹ Buy price adjusted for 8p special dividend paid August 2004.

now. The shares rose 3½%.

A mysterious entity called **Glengary Overseas Ltd** has raised its stake in **JKX Oil & Gas** from 16.7% to 26%. Glengary represents a group of anonymous Russian investors. Glengary bought its initial stake from National Petroleum which, together with JKX's two major Ukrainian shareholders Naftogaz and Interneft, fortuitously helped JKX to defend itself against a hostile bid from Ramco Energy several years ago. The shares put ➤

Performance review (continued from page 3)

➤ on 8¾%.

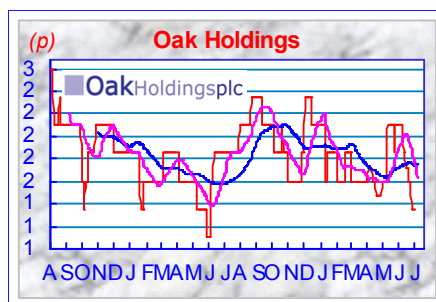
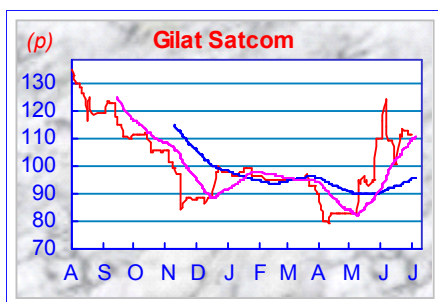
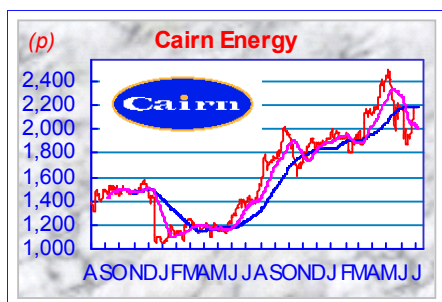
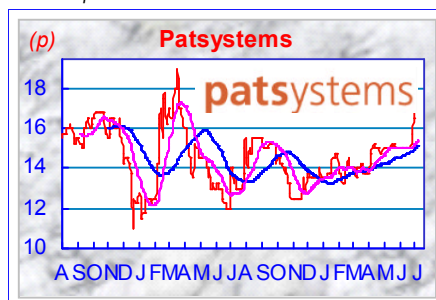
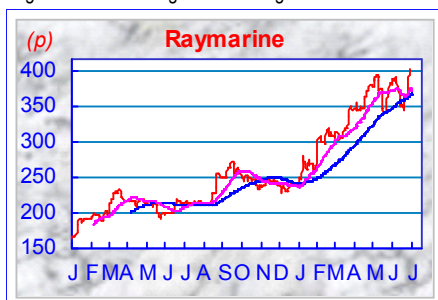
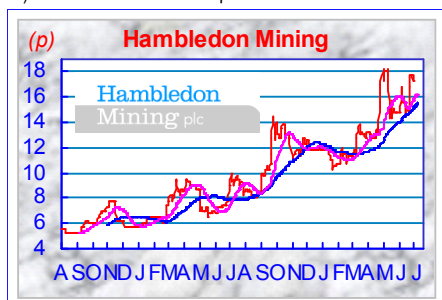
Business software supplier **Touchstone** moved back into the black, posting a record full-year profit of £1.14m compared to a loss of £82,000, on turnover up 33% to £23.1m. Professional fee income (now 41% of group turnover) grew 67% to £9.4m. Microsoft Dynamics trading (over 50% of turnover) rose by over 47%. It said that market conditions have improved and that it is trading ahead of last year, with a healthy sales pipeline and buoyant order books. The shares rose 4%.

Tribal Group reported a rise in full year pre-tax profits before exceptional and goodwill to £19.0m from £17.8m on turnover up 13.2% to £259.9m. But it warned that earnings in the first half of this year will fall below the corresponding period last year. This is partly due to the increasing seasonal weighting of revenue to the second half, in line with government spending, but also because of higher Mercury Health bid costs and higher interest costs resulting from Tribal's investment in Mercury. Mercury is currently bidding for several government health contracts, and has so far secured one, for City & Hackney primary care in London. Tribal said that Mercury's first year of trading had exceeded all its financial and operational expectations. The shares rose 3.4%.

Other news in brief: **British Land** (up 2¼%) is acquiring the outstanding 50% of its BL Davidson joint venture from the Davidson family for around £253m in loan stock. The joint venture was formed in 2001 to acquire Asda Property Holdings, specialising in retail parks and central London offices. The current investment portfolio has a value of over £700m. **Carter & Carter** (down 5¼%) has extended its reach to construction skills training. It has bought Craig Phillips Building Skills Centre, which provides government funded vocational training to the construction industry in north-west England. No financial details were disclosed but the gross assets being acquired have a value of £0.243m. As part of the implementation of its strategic review, **M J Gleeson** (down 3½%) has sold its Concrete Repairs unit for £3m cash to the management. In a trading

statement ahead of results due on September 12, sweets and snacks group **Glisten** (up 2.3%) said it expects record full-year sales of about £56m and higher margins, following the full integration of recent acquisitions. Financial trading and spread betting company **IFX Group** (down 4%) has paid £0.2m for a 51% stake in Axia FX, a start-up venture that provides a foreign exchange delivery service to small and medium-sized companies. IFX also has a 3-year option to increase its stake to 80% for between £2m and £2.5m depending on performance.

Patent and trademark legal practice **Murgitroyd** (unchanged) is buying Fitzpatrick's Group Ltd, a Glasgow-based providers of patent and trademark services, for £1.3m. The acquisition is expected to be both earnings enhancing and cash flow positive immediately. **Nord Anglia Education** (up 6¼%) has agreed a 25-year sale and lease-back deal on 5 of its freehold nurseries and two long leasehold nurseries. This releases £12.5m in cash, which Nord will use primarily to pay down bank debt of £10m approximately 6 months earlier than originally scheduled. In a trading statement, equity trading service **PLUS Markets** (up 5%) reiterated the statement in its last annual report that "expenditure... necessarily precedes revenues"; and that this effect will be most pronounced in the first half. It added that it had received 22 applications from potential new brokers. Additionally, the LSE has backed down from its proposal to impose additional reporting requirements on AIM companies quoted on other platforms such as PLUS – a move that PLUS had condemned as anticompetitive. UpRight, a US company recently acquired by engineering group **Tanfield** (up 8½%) has received an order for 100 aerial work platforms worth an estimated \$1m from an undisclosed customer. Engineering consultancy **White Young Green** (down 3.33%) has bought Irish cost consultant Nolan Ryan Partnership for €14m, €8.7m of which is cash. The acquisition strengthens its business in the Irish Republic. In a separate trading statement, WYG also said it expects to deliver good full-year progress in favourable market conditions. Its order book is up 30% at £300m and it has a strong acquisition pipeline. Finally, by the time you read this, **Lookers** (up 7%) will have implemented a 5-for-1 share split, so you'll finish up with 5 times more shares with each share worth a fifth of its original value. *Don't treat this as a stop-loss breach!* □



Bottom-up selection – high-fliers bucking their sector's trend

Dignity – a dead certainty?

WITH JUST one sector in uptrend – that of Fixed-line Telecoms – yet again our recommendations must of necessity be 'bottom-up' candidates. But, after a close look at fully-listed **Dignity**, you may well conclude that this need be no barrier to the uncovering of an outstanding investment opportunity.

Dignity, which floated only in 2004, is the largest single provider of funeral-related services in the UK. It is, in other words, the market leader, albeit in a market that most of us would rather not think about at all.

The group has more than 500 funeral homes, and over 20 crematoria. A third division of the business provides pre-arranged funeral plans. The most recent

full-year figures, those for 2005, indicated that, on revenues up just 6% to £143m, underlying pre-tax profits jumped by 17% – from £22m to £26m – allowing the company to table earnings per share of 23p. It achieved these figures despite a government underestimate (not for the first time) in the number of anticipated annual deaths – in this case, a 3% shortfall.

By far the greater portion of the company's income, 79%, arises from the undertaking of traditional funeral services; with crematoria revenues contributing a further 16%, and plan-income just 5% of the total. The number of funeral homes under management and the number of deaths they handle ➤

Bottom-up selections (Dignity – continued from previous page)

mean that Dignity has over 20% of the British market. This fact, together with the nature of the trade, combine to form the most outstanding investment feature of the company: namely an enviable degree of stability. When you add in its status as the largest single crematoria owner in the United Kingdom, plus the pre-paid funerals, the group surely has a business - as it were - to die for.

Dignity came into being as an entity very close to its present form more than a decade ago, when two other companies, British companies, Plantsbrook and Great Southern, were merged. There then followed an interlude when the company was acquired and run by an American enterprise. This was an organisation whose free access to capital markets and thirst for global presence were not matched by its intrinsic management skills. This interlude ended in 2002, when Dignity became the subject of a management buy-out headed by the present team, chief executive Peter Hindley and finance director Mike McCollum.

And pretty well all of the events which constitute the recent history of the group still play a part in the investment assessment today. In the first place, the mismatch between 2005 revenue growth and earnings growth referred to above came about mainly from the retirement of the expensive debt adjudged suitable for the needs of the private equity providers, and its replacement by a capital structure most likely to benefit the shareholders of a public company. Not that Dignity is now debt-free by any means - it had £165m of it as at December last - and indeed it has negative net worth if you choose to disregard the £100m-plus of goodwill in the balance sheet. Moreover, like a great black cloud, the Chairman's statement pencilled in the prospect of even more heavy debt.

But that same year, 2005, the company generated £50m from its operations. Figures like that, against the background that we've described and with only a fraction of that sum required for fixed asset formation, will tempt even the most cautious bank lender to open its purse - and trim its rates.

Dignity is assiduous in pursuing programmes that ensure the highest possible level of client satisfaction. Two factors may well have contributed to the name chosen for the company's return to the public domain.

First, we seem to recall an horrific TV documentary about the treatment of the dead in a private mortuary which may well have resulted in higher industry standards in an attempt to preserve reputation.

Second, the *de facto* commoditisation of death, and lack of intelligent sensitivity towards bereavement, which typified the attitudes of the previous (Texan) owners, might well have been taken by the present management as a role model of how *not* to run this type of business.

Any dulling of the investment case would be surely down to the plunging birth rate of Western Europe, coupled with the seemingly inexorable rise in standards of public health and medical care. For most of us today, that means that what's coming might be inevitable, but, by God, it needn't be soon.

Moreover, there is widespread local opposition to new crematoria, so the efforts to expand the number of sites is a time-consuming business. But management knows how to go about it, and how much to pay, to add more of the strong local franchises which comprise this country-wide web of profitably-employed assets. Dignity actively manages and invest in (or sometimes dispose of) these sites.

On the positive side, this is an industry where clients have never been known for their price sensitivity, nor given to incurring bad debt. This, plus the range and quality of ancillary services on tap, argues the prospect of generating enhanced quantum as well as quality of income. Indeed the first quarter of 2006 saw that 6% rise in 2005 income replicated within the quarter, and the operating profit rise by 10%.

Since the year end, it has incurred further indebtedness of £86m; £10m is being applied to repair a small leak in its pension fund pool, but £80m, (100p per share) is being returned next month to shareholders who are on the register as at 1 August.

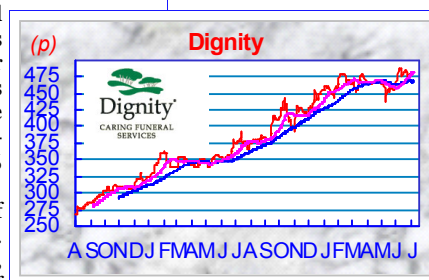
Of course, given the increased net interest payments which this represents, it's unlikely that earnings will leap ahead much in 2006 - the analysts' consensus is just 24.5p for this year. But that still represents double-digit earnings growth (11%), with 13% forecast for 2007. That return of capital means the prospect of an earnings multiple of just 15; and the promised resumption of dividends would mean a 2% yield.

Dignity, freed from the shackles of its Texan owners, has done very well. We expect it to continue to please, whilst acting as a defensive bedrock if things turn sticky again on the stockmarket - as evidenced by the price chart, which was scarcely ruffled by recent market turmoil.

We think the price is reasonable; and it may be of further comfort to you to know that the two joint house-brokers, Panmure Gordon and Investec, also say 'buy'.

Last month, Panmure Gordon raised its target price from 520p to 565p. It said that the upward revision in the target price reflects the impact of the company's cash flow generation potential, which is undervalued. Although Dignity's future returns are dependent on business performance and interest rates, Panmure said it was realistic to expect an additional £80m to be returned to shareholders in the forthcoming 5 years. The company is likely to generate 15% EPS growth in the forthcoming few years.

Above all are its defensive qualities. Unlike its clients, its market will be immortal. There aren't too many businesses in the world that can justly claim that. **BUY** (490p; yield: 0.6%; initial stop-loss: 420p; EPIC: DTY; sector: General Retailers (somewhat bizarrely); classification: FTSE SmallCap; company website: www.dignityfuneralsplc.co.uk; tel (08000) 344 6489).



Tepnel on course for profitability – or a bid

NEXT, a company we last recommended in March 2005. After 5 months, a stop-loss breach bagged us a profit of just under 30% - not life-changing, but not bad, especially when viewed on an annualised basis.

Tepnel Life Sciences tabled its 2005 figures at the back end of March this year. The chairman had summed up the company's reformulated commercial objectives for 2006 as follows:

- the molecular diagnostic division was to concentrate its efforts within the growth markets of organ-transplant monitoring and foetal-distress diagnosis;
- its other wing, Research Products and Services was to consolidate its position as one of the European leaders in the field of nucleic acid purification and analysis. Incidentally, it also supplies >

Bottom-up selections (Tepnel – continued from previous page)

➤ outsourced services such as analytical chemistry to the pharmaceutical industry. And it provides a range of food tests for allergens, toxins, animal and fish speciation, adulterants and contaminants, a business driven by ever-tightening legislation and regulation.

To that rich menu, roll in last-year's sales figure of almost £14m (33% ahead of 2004); plus a research agreement with German ace Boehringer Ingelheim; plus indications that the magic cusp of profitability is almost within reach; plus its appointment as preferred supplier to AstraZeneca for the supply of DNA extraction services... and the urge to call your broker becomes well-nigh overpowering – which is what other investors have been doing of late as the share price rise indicates. So... time to join the party?

Wait a bit. Tepnel has been engaged in the commercialisation of DNA technologies via the production of an automated process for DNA analysis for rather a long time; so far without any financial benefit. Complementary to this activity were the provision of contract services such as food testing and the sale of reagents. These ancillary lines, were meant to keep the pot boiling until the big project delivered. They have certainly progressed at quite a sprightly pace. But, as is common in such circumstances, the promise of an "automated plasmid purification system", was costing plenty. The mouth-watering quality and size of the prospective market was, as usual, deemed to justify the need to keep spending. For the record, this has meant that the latest accounts show a near £30m deficit on the P&L account.

During the boom years of the late 1990s, that promise had led to an exotic honeymoon with the market; but that was all over by the time that Tepnel moved from the Official List to AIM, about 5 years ago now. The shares were squashed flat by an £8m capital-raising exercise at 20p a share that accompanied the AIM transfer. Perhaps it would have been better received had the then chairman not said the previous year that the company was poised for significant growth, and instead coupled his remarks with claims of the exercise of financial prudence in the wake of the previous share issue (at 100p).

In June 2003, it announced the first sale of the *Nucleopure* automated DNA purification system, followed within a month by the sale of a second. In August the same year the company raised £1.5m at 16p, and the following month sold a third instrument. But by then, acquisition prospects were occupying man-

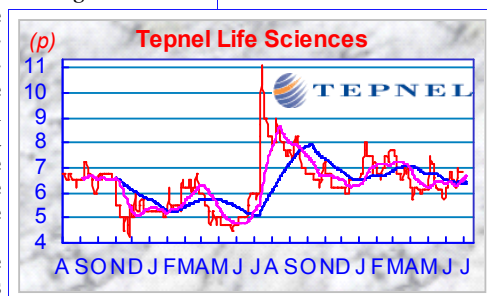
agement attention. In November \$4.3m fetched a complementary US business Orchid into the fold, which required it to raise another £2.75m at 11.5p. With the bit now clamped between the corporate teeth, it then added Diaclone Research, a French-based company engaged in the provision of monoclonal antibody reagents. The announcement of this made no reference to the trading performance of the new *garçon*, concentrating instead on the raising of yet £4m more at 5.65p, and the construction of a new biopharmaceutical laboratory in Livingston.

You might think that with a spending record like that, Tepnel deserves a long and hard stare – and you would be right. But for the bold, a good place to start is those 2005 accounts. If you exclude exceptional cost items of almost £1m and depreciation and amortisation of £0.75m, the company came close last year to a break-even at EBITDA level – a £170,000 loss. That figure is almost exactly matched by the cash outflow, even if the latter does rest to some extent on a £1m increase in creditors. Net funds were almost unchanged, at almost £2.3m.

So, after the long voyage, are we in prospect of a landfall? (or a windfall?). The company's latest champion is Close Brothers, the well-regarded specialist in small-company investment, which emerged as the 11% shareholder as the result of its backing of the most recent funding exercise. The bank must have been encouraged by a mooted offer for Tepnel last September when the shares stood at over 7½p – an offer that held the promise of a price higher than that. But the board thought that the figure was not enough and turned the opportunity down.

Now that decision has to be justified. No one now doubts the importance of the DNA purification market, nor its size. The income that Tepnel is generating is not inconsiderable, and rising strongly. The time has come to commercialise the operation.

We think that there is plenty of upside potential, and that the current trend will likely be reinforced at its AGM on 1 August. **BUY** (6¾p; yield: nil; initial stop-loss: 5¼p; EPIC: TED; sector: Pharmaceuticals & Biology; classification: AIM; company website: www.tepnel.com; tel (0161) 946 2000).



Geometric appreciation

Given the continued sparseness of new uptrends, we've had to extend our search to slightly more mature uptrends.

We're talking here about the fast-growing marketing services business **Media Square**, once just another cash shell in the vast dot-com ocean of a few short years ago. But in 2002, amidst the clatter of collapsing dot-coms, came news that saved the company from the same fate: its merger with Equanim, a marketing communications specialist. The driving force behind Equanim was one Jeremy Middleton, who became chief executive and remains so today.

Early in 2003 a bold piece of opportunism saw the corporate flag raised in both Leeds and Manchester as the company acquired three more businesses: two from a retreating French concern, and one more from Mr Middleton, all of them operating in both traditional and internet marketing services. The transactions were part-financed by a £125,000 loan from Mr. Middleton, to match a similar advance by privately-owned Pertemps Group, another major Media Square

shareholder.

The pattern of acquisitions, restructurings, closures of non-performing businesses and big pre-tax losses caused by heavy amortisation, impairment and exceptional losses continued under the guiding hand of Mr Middleton during 2003 – when it gradually became apparent that a group of perceived quality was emerging. So much so that it had little difficulty in raising £3m at 8p per share; £2.4m from institutional investors and the rest from the board.

What was it that these mandarins heard that opened their chequebooks so readily? Well, it was probably its decision to pick up the failed undertaking of another marketing services support business – one with more than £4m sales – for just £0.5m. Furthermore, a big chunk of those sales emanated from the home shopping sector, an area of key importance to the Media Square strategy.

The October 2003 full-year figures lagged behind events, but at last the company recorded a maiden profit of £0.25m pre-tax on sales of more than £8m ➤

Bottom-up selection (Media Square – continued from previous page)

plus £2m in the bank. In February 2004 another trifle was snapped up, Leeds-based Hudson Advertising - together with its valuable home shopping and direct sales-related turnover of £2.6m. Leeds and Manchester are the primary locations in the UK for the home-shopping industry. Media Square is heavily represented in both locations.

The company had by then formed a specialist division to handle home shopping. In essence, Media Square provides its customers with the ability to out-source the troublesome tasks that lie at the heart of their operations – the production of a never-ending stream of promotional material. Whether in hard copy or electronic form, Media Square offers its customers the prospect of removing the headaches and gaining a quicker time to market at a lower cost. Its weaponry is that of expertise, motivation and, for purchasing, that of scale.

The first of two transformational step-changes followed. In October 2004, fellow AIM-quoted retail communications business Coutts agreed to a 150p cash bid worth £22m. About one-third of the purchase price, £7m, was clawed back through the sale of a manufacturing site. A few days later, another £3m up-front sale of Coutts' packaging subsidiary left Media Square with the juicy core that it had sought – the point-of-sale expertise and contacts – and it had £5m of freehold property on its enlarged balance sheet.

Then, in November last year, the big one – so big that, under AIM rules, it was classified as a reverse takeover. It bought the 16 marketing services businesses of fully-listed Huntsworth for £63m, lifting its annual sales from £60m to £200m. The acquisition was financed by a further funding exercise of £30m at 25p per share plus a £40m debt-financing facility.

Thus, in just over 5 years, Media Square had been transformed by Jeremy Middleton and his team from struggling cash shell to the UK's fifth-largest quoted marketing services and communications group, servicing more than 2,500 clients and employing 1,700 people worldwide.

Of course, size isn't everything. What counts is success. Fortunately, the news is reassuring. In April, it released a trading statement for what will be the 16-month period that ended in February. The integration of the acquisitions is substantially complete, and Huntsworth's lagging former subsidiaries, were deliv-

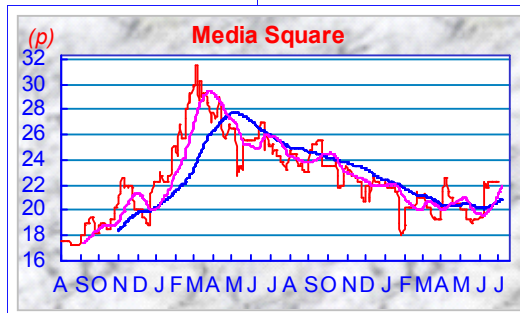
ering "swift and pleasing" change for the better. Thanks to a strong flow of new business wins, all the constituent elements were trading in line with expectations, whilst net debt had dropped. Kelvin MacKenzie, best known for his controversial editorship of the *Sun* from 1981 to 1993, had by then become the non-executive chairman.

The recent trend towards movement of advertising and marketing resources from 'above-the-line' (conventional advertising on TV, radio, magazines, newspapers and the internet) to a vast array of more precisely-targeted 'below the line' services is well-documented. The present benign economic conditions should provide the conditions necessary for growth. The risk is that client spending will probably wilt fast if consumption tails off significantly. This, coupled with the necessity to rely upon talented individuals who can and do move, and take clients with them, has made us chary about the sector in the past.

But if Mr Middleton can combine the gravitas which he has established with élan at the sharp end, investors should expect to benefit. He now commands a sizeable array of differentiated but related activities, large enough to ensure a degree of stability, but small enough to respond to good leadership.

The shares have remained subdued since the Huntsworth *coup*, the market keeping a watchful eye. The forthcoming full-year report, to be published on 20 July, will be more revealing than the actual figures – but we expect that the 2p eps forecast for February 2007 will not be missed. If we're right, this would mean an earnings multiple of just over 10 times, very fair value given the range of quality businesses now under one roof, and the great opportunities for both overhead reduction and cross-selling.

Back in April, when the share price was much the same as now, independent broker Bridgewell confirmed our positive view of management's strong track record. Bridgewell sees upside of 30%, which would still leave the company at a 10% discount to its peers. **BUY** (22p; yield: 0.6%; initial stop-loss: 17p; EPIC: MSQ; sector: Media; classification: AIM; company website: www.mediasquare.co.uk; tel: (020) 908 2850) □



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
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Turning points: Our verdict on the asterisked shares in our uptrend list

New uptrends whose positives seem to outweigh the negatives. There is a good probability that the trend will persist.		
 HIT!	BULL POINTS	BEAR POINTS
Dignity	See page 4.	
Tepnel Life Sciences	See page 5.	
Media Square	See page 6.	

New uptrends whose bull and bear points appear to counterbalance each other (continued)		
 MAYBE	BULL POINTS	BEAR POINTS
Asfare Group (fire and safety equipment)	New management. Established position in manufacture of Fire Service equipment. Recently made keenly priced acquisitions of a profitable supplier of equipment for examining suspect mail and an ancillary fire-fighting equipment manufacturer. Low earnings multiple in prospect.	Contracts, from a single Fire Service buyer likely to be lumpy and subject to price pressure. Early days yet to assess growth and possible integration prospects for the acquired businesses
Computer Software Group (software developer)	It has put its (mainly outsourcing) business together carefully by judicious acquisition. It now stands on the brink of a major expansion of earnings, which, if achieved, will still mean a modest prospective multiple. Recurring revenues are on the rise.	The positive market reaction to recent moves has already taken place. The likelihood of a further significant upward movement in the short term is questionable, given the absence of a distribution policy, and its need to demonstrate its ability to retain momentum and generate organic growth.
McBride (own-label chemical products)	Highly efficient, experienced, large and flexible supplier of complete turnkey own-label packages to retailers – surely a market of continuing growth, such as is being experienced in Eastern Europe.	Pretty mature in the United Kingdom and struggling this year in Western Europe, especially France – notorious places to gain the market share from indigenous suppliers that it needs.
Salvesen (Christian) (logistics)	New CEO concentrating on good housekeeping and value-added activities – to some effect.	Core, haulage activities remain highly regulated, highly competitive and sensitive to increases in costs of fuel and labour.
System C Healthcare (healthcare IT solutions)	Excellent record in a growing market, that of the provision of health-care software.	Unavoidably involved with the NHS imbroglio.

New uptrends we think you should ignore – unless, of course, you know otherwise.	
 MISS	
<p>Berkeley Group: The high-visibility cash-generating housebuilder saw its share price rise rendezvous with the final April 2006 figures – and having done so, commenced an orderly retreat again. The low investment status accorded to the sector is too powerful to shake off. Birse Group: taking a final bow before being acquired by Balfour Beatty. Bowleven: Its price has been ascending, but not enough to eliminate the premium which an outside investor has just paid to get a share of the Cameroon oil prospects. Maybe they have to invest, but you don't. EasyJet: On course to prosper from its summer exodus, alas, with the England support coming the other way now. But there seems little more lift by way of upside potential and rather a lot of drag if the Middle East gets any hotter. FirstGroup: Much the same argument applies as with Easyjet, despite its success in both winning and operating its road and rail franchises. Great Portland Estates: It continues to enjoy scarcely-paralleled balmy conditions, but a premium on net asset value for a property company is rarely sustainable. Greggs: It is recovering somewhat from the post-results and post trading-statement plunge in its share price, but the aromas emanating from its bakery shops are still more mouth-watering than the prospect of a yield of under 3% and a 15-times earnings multiple, in the light of a recent profit warning. Hawtin: In transition. It is moving into cash, and from cash into property. Highams Systems Services: It is showing all the signs of being about to undergo some transformation, but is a pure speculation. Intandem Films: Loss-making business set up to promote and distribute commercial films. In common with its quoted AIM competitors, it seems to have square wheels – when they stay on the frame at all, that is. Its recent modest convertible offering does little to shake that assessment. London Finance & Investment: Its share price rise, and that of its strategic investment Swallowfield, are almost certainly linked. You don't have to believe six impossible things before breakfast to believe that Swallowfield, which has just lost a packing contract from</p>	<p>Marks & Spencer, and is moving to AIM, is about to do something dramatic and beneficial – but you're in the same line of country. Michelmersh: When stripped of the cash it expects to receive for its building land, it will then be a rather fully-valued company with modern plant supplying quality bricks. It has an attractive product range, but one that it might be tough to move at the same velocity as hitherto if there is a general downturn. North American Banks Fund has increased its share price the hard way or the easy way depending on your stance – by making a cash-call on partly paid shares. Peel Hotels: Is it heading for a bid? A well-managed company to be sure, with attractive assets, but rendered rather static by high gearing, increasing costs and high prices of acquisition targets. Portrait Software: There may be substance in this CRM specialist's current trading and prospects, but what happens when licences sales are slow – like this time last year - has knocked spots off its reputation. Rotala: John Gunn seems to get involved in more fisticuffs (of the business variety) than might be considered healthy, and now the airport transportation group that he bought is engaged in routing out unprofitable contracts. He has landed Rotala in a rather deep hole. Swallowfield: See London Finance (above). Symphony Telecom is playing its last waltz in public before being taken over by Redstone Telecom. Tate & Lyle: Despite its power, strength and ability to innovate, it looks to have a more challenging price:earnings ratio than one would normally expect to see in a business where EU bureaucrats are just about to intervene. Thorntons: Its share price is hardening just as its stocks are threatening to melt. It is not easy to see how the current trends affecting the trading environment can be easily reversed, or how the decision to turn down the 130p bid for the company will be vindicated in the short term. Titon: Despite its steadiness and nourishing yield, few will be attracted to door and window manufacture at this stage in the economic cycle. □</p>

Investment overview (continued from page 2)

➤ is not sufficient to satisfy jewellery demand, so the balance had come in the past from selling by central banks, which currently hold 18% of the world's gold. But the banks are selling much less than they are entitled to sell under the 5-year Central Bank Gold Agreement, which expires in September. Meanwhile, several countries, including China, Russia, Argentina and South Africa are hinting that they will step up central bank purchases. If China, with its near-\$1 trillion foreign exchange reserve, starts buying, the effect on the gold price will be instantaneous.

It looks as though we might be in for more trouble from the accursed hedge funds. According to figures obtained by the FT, "the recent market turmoil has wrong-footed a wide swathe of hedge funds, many of which have seen their gains this year wiped out in the past few weeks". The FT says that worst-hit funds were those specialising in Japan, emerging markets, commodities and European funds.

We and other infinitely more influential organisations such as the European Central Bank are becoming increasingly concerned about the disruptive effect of hedge funds on global financial stability. The problem is firstly the sheer scale of the industry. There are now around 8,500 hedge funds worth an around \$1.5 trillion. Whenever there is market turbulence, such as we've just had, hundreds of hedge funds that share similar strategies will act like a herd, liquidating holdings. One of these days, we're convinced that we're going to see the mother of all financial crises sparked by swathes of hedge funds getting so seriously wrong-footed that many will go to the wall. We've already had one awful warning when LTCM went under, almost bringing the global banking system with it. The industry is hugely bigger now than it was then.

We struggle to see the point of hedge funds. In theory, they should be able to outperform markets, since they have the ability to make money out of rising or falling markets. But there's a huge gulf between the theory and the *actualité*. Currently, most funds seem to be either down on the year or up by the odd few percent. In contrast, *TrendWatch* has never failed to outperform the market by a substantial margin, as our figures prove every fortnight.

And, unlike hedge fund managers, we don't charge 1% of the amount you invest in our recommendations, nor do we charge the

20% "lack of performance" fee!

To close, let's pay one last visit back to America, as it returns to work after the long Independence Day weekend.

The holiday celebrates the Declaration of Independence on 4 July 1776. The War of Independence lasted from 1775 to 1783. It finished with the defeat of the British and victory for the 13 former British colonies, with the crucial help of France, the Netherlands and Spain. Thus today's only current superpower came to be born.

At the time, it didn't feel much like a victory. To pay for the war, the Congress cranked up the printing presses. The predictable result: hyperinflation. Prices increased over 10,000-fold in just 4 years. Draconian laws were passed to force people to use the worthless currency, or to penalise counterfeiters. There were acute food and clothing shortages because farmers and businesses were wiped out. The shortages drove prices even higher.

Eventually, the situation became so terrible that Benjamin Franklin went to Paris, cap in hand, to beg for a loan. By the end of the war, the total foreign debt was \$11m, an astronomical sum in those days.

Fast-forward 230 years. In one crucial respect, its reliance on foreign debt, little has changed for America. Today, the US needs \$2.2bn *per day* to finance its gargantuan debts. That's 200 times the debt that the colonies ran up to finance the entire war.

Two-thirds of the US budget deficit is financed by overseas banks and investors, who could turn tail at any time. America owes overseas investors nearly \$2.5 trillion in US Treasury bonds alone, without even counting overseas investment in US stockmarkets and other forms of investment.

Debt attributable to the US trade deficit alone is increasing at the rate of over \$0.8 trillion a year.

It's difficult to see how America can climb out of the debt trap it dug for itself. How can the situation get better when the cost of raw materials such as oil is soaring, exacerbated by the falling dollar? When interest rates are rising, meaning that America has to pay astronomical interest on its debts. When America has to import its own outsourced manufactured goods from countries such as China.

Has this administration learnt nothing from 230 years of American history? ☐

Share sales this fortnight

AS THE recent silly panic on stockmarkets subsided, so the flurry of stop-loss sales is petering out. We had just two sales over the fortnight: **Crosby Capital Partners** and fuel cell developer **Voller Energy**. Neither company reported any bad news that might excuse the breach.

On the contrary, Voller announced that it has launched a fuel cell automatic battery charger. The new charger can simultaneously charge an iPod, a laptop (via the standard wall outlet socket) and mobile phone (via the standard 'cigar lighter' outlet). Yet the share price fell.

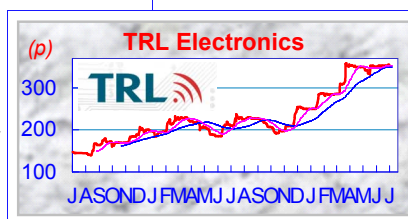
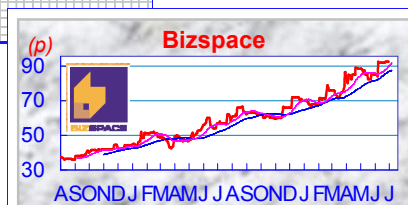
We have considerable respect for both companies; and we hope to find the opportunity to get back in to either or both shares, hopefully at a lower price.

We also took the opportunity to accept a couple of

unconditional bids. **Bizspace** has been acquired by Highcross (Bugatti) Ltd, an integrated group of private real estate investment entities for 93.5p a share. This gives us a tremendous gain of 320%.

The other bid target is **TRL Electronics**, acquired by L-3 Communications of the US at 360p a share. That gives a gain of 57%.

As usual, you can find a detailed performance report for all of these shares on the back page. We're very pleased with the net gain of 41¼% on all the shares sold during the June turmoil. ☐



FULLY-LISTED SHARES IN UPTREND (excl. inv. trusts and warrants) 7.31%

* Berkeley 5	* Salvesen (C) 10	BAA 24	Colefax 48	GB Group 12	Newcastle United 29	Treatt 68
* Birse Group 8	* Swallowfield 8	Barr (AG) 65	Compass 75	Hornby Group 28	Nord Anglia Educ. 43	Wetherspoon (JD) 207
* Dignity 3	* Tate and Lyle 2	Big Yellow 237	Cranswick 26	Keller Group 73	Photo-Me Intl. 20	Young & Co 'NV' 32
* EasyJet 9	* Thorntons 10	Boots 21	De Vere 68	Lon. & Assd. Prop. 47	Raymarine 119	
* FirstGroup 6	* Titon Holdings 8	BSkyB 23	Emblaze 49	Marlybone W. B. 120	Robert Wiseman 92	
* Great Portland Est. 2	Alliance UniChem 117	Business Post 65	EMI Group 118	McKay Securities 72	Severfield-Rowen 170	
* Greggs 6	Assd. British Ports 199	Cable and Wireless 16	Enodis 118	Micro Focus 21	Simon Group 28	
* London Fin. & Inv. 6	AstraZeneca 77	City of London Gp. 12	Filtronic 28	Mouchel 143	Smith (WH) 56	
* McBride 7	Austin Reed 54	Clinical Comp. 26	Fuller Smith & T. 15	MS International 24	Total Systems 14	

⊖ FULLY LISTED SHARES IN DOWNTREND (excl. inv. trusts & warrants) 17.42

* Aegis Group -10	AMEC -34	Daily Mail & G. -176	Hikma Pharma. -41	Ocean Wilson -35	Smith & Nephew -58
* Biocompatibles I. -9	Antisoma -20	Danka Bus. Sys. -65	ICM Computer -34	Optos -60	Sondex -17
* Care UK -2	Antofagasta -24	Dewhurst -66	Incisive Media -20	Oxford Biomed. -57	Spirent -75
* Cattle's -9	API Group -27	Dimension Data -35	Instore -102	Pace Micro Tech. -40	Spring Group -86
* Celsis -8	Arc International -18	Dragon Oil -48	Investec -23	Pacific Media -16	Teesland -14
* Corin -8	Ark Therapeut. -103	Dyson -68	ITE -22	Parity -78	Telspec -230
* Filtrona -10	Ashtead -29	El Oro & Expl. -39	Jarvis -85	Patientline -66	Torotrak -65
* Greencore -4	Aston Villa -102	Electrocompon. -55	John David -17	Penna -38	Trinity Mirror -66
* Hays -10	Benfield Group -11	Electr. Data Proc. -34	Johnson Service -18	PGI Group -13	Turbo Genset -29
* Investment Co. -9	Bioquell -64	Entertain. Rights -34	Johnston Press -24	Porvair -14	Ulster TV -53
* Kesa Electricals -9	BPP Holdings -29	Erinaceous -35	KBC Advd. Tech. -48	ProStraken -34	Ultra Electronics -19
* OEM -3	Britvic -14	Europ. Home R. -182	Liontrust Ass. M. -27	Psion -51	Umbro -51
* PartyGaming -5	BTG -90	Evolution Group -31	Lon. Merchant S. -32	Rank Group -123	UMECO -55
* Safeland -3	Caffe Nero -86	F&C Asset Mgt. -24	Macro 4 -39	REA Holdings -33	United Drug -29
* Sanctuary Group -4	CHE Hotel -26	Fibernet -85	Matalan -33	Regent Inns -19	Vitec Group -17
* Smart (J) Contr. -7	Chrysalis -80	Genetix -62	Mclnmerney Prop. -21	RM -30	Volex Group -27
* SMG -9	CML Microsys. -18	Gibbs and Dandy -36	MICE Group -26	Ross Group -46	Walker Crips WB -14
* Theratase -4	Colt Telecom -14	Gondola -27	Murchison -16	SDL International -52	Whitehead Mann -54
AEA Technology -46	Communisys -14	Grainger Trust -46	Northamber -80	Selector -39	Wincanton -17
Alexon Group -45	Connaught -27	Hampson Ind. -29	Northern Foods -107	ServicePower T. -54	Workspace -68
Alizyme -31	Coral Products -71	Havelock Europa -34	Northern Rock -35	Shore Capital -23	XP Power -33
Alphameric -35	Culver Holdings -79	Healthy Living C. -17	Oakhill -275	Sinclair (William) -51	XTL Biopharma. -36
Alerian -75	Dail Mail 'A' -20	Heywood Will. -58	Ocean Power T. -18	SkyePharma -93	Yule Catto -34

😊 AIM-LISTED SHARES IN UPTREND 5.07%

* Asfare 6	* System C 5	CCH Intl. 185	Greenhouse Fund 20	Metnor Group 95	Straight 57
* BowLeven 9	* Tepnel Life Sci. 7	Christie 160	Hambledon Min. 77	NeuTec Pharma 22	Surgical Innovat. 66
* Computer Softw. 8	Abcam 46	Churchill China 45	Hardys & Hans. 36	NeutralHealth 29	Symphony Plastic 24
* Hawtin 5	Advd. Power C. 45	Coffee Republic 18	Hichens, Harris. 229	Nichols 18	Synergy Healthc. 23
* Highams Sys. S. 4	Amteus 47	Computerland UK 64	Highland Timber 20	NWF Group 16	Telford Homes 157
* Intandem Films 7	AT Communic. 12	CW Residential 19	Imia Inv. Gp. 225	Oasis Healthcare 22	Themutual.net 255
* Michelmersh 10	Begbies Traynor 12	Datacash 39	Imagesound 50	OMG 46	Theo Fennell 20
* Nth. American B. 6	Bizspace 71	Debt Free Direct 148	Intelligent Enviro. 48	Pan Andean Res. 21	Tricorn 19
* Peel Hotels 9	Broker Network 167	Dobbies Gdn. C. 110	Internet Business 16	Planit Holdings 16	Vitesse Media 20
* Portrait Soft. 6	C.I. Traders 30	Eckoh Tech. 11	InterQuest 16	Portmeirion 251	Waterline 54
* Rotala 6	CareTech 22	Georgica 106	Medal Ent. & Med. 47	Prime People 38	Young & Co 'A' 17
* Symphony Tele. 7	Cavanagh 60	GET Group 28	Media Square 16	Ragusa Cap. 81	Zetar 112

⊖ AIM-LISTED SHARES IN DOWNTREND 28.08%

* Access Intellig. -4	* Hallin Marine -10	* Westmount En. -10	AMCO Corp. -15	Billam -48	CeNeS Pharma. -70
* Advent Air -7	* Immedia Broadc. -1	* Works Media -2	Amiad Filtr. Sys. -12	Billing Services -57	Centrom -79
* Allergy Therap. -10	* ITIS Holdings -10	* World Television -9	Andor Tech. -84	Biofuels Corp. -14	Ceres Power -11
* Alliance Pharma -3	* Lorien Group -3	* Xceldiam -5	Angel Biotech. -67	Bits Corporation -73	Chariot UK -28
* Atlantic Global -9	* Magnesium Intl. -4	* ZincOx Res. -10	Anglo Asian M. -11	Black Arrow -110	Charteris -168
* Blue Star Mob. -10	* Marakand Mins. -5	3DM Worldwide -235	Ant -64	Black Sea Prop. -34	Chelford Group -27
* Braemar Group -1	* Mavinwood -10	4Less -22	Antonov -79	Block Shield -21	China Wonder -36
* Capcon -3	* Max Petroleum -6	Abraxus -182	Anzon Energy -23	Blueheath -90	Chromogenex -42
* Cardpoint -10	* Meridian Petrol. -3	Addleisure -59	Apac Media -47	BNB Recruitment -35	ClearDebt -15
* Cartucho -1	* Metrodome Film. -2	Adv. Medical Sol. -13	Ardent -25	BP Marsh & Ptnr. -32	Clipper Windup -14
* Charterhouse -10	* Mulberry -5	AdVal -44	ArmorGroup -41	Brainspark -61	Coal Intl. -35
* Cheerful Scout -6	* MWB Bus. Exch. -8	Advance Vis. C. -444	Asia Capital -118	Bright Things -39	Coe Group -69
* ClearStream T. -5	* Pan Pacific Aggr. -2	ADVFN -52	Asian Growth Pr. -33	Bristol & London -26	Collins & Hays -304
* Cohort -8	* Pennant Intl. -3	Aero Inventory -34	Autoclenz -32	Business Direct -27	Comland Com. -46
* Conister Trust -4	* Personal Group -8	Aerobox -38	Avanti Capital -25	Byotrol -16	Compass Fin. -31
* Creative Educat. -7	* Priv. & Com. Fin. -8	Afren -29	Axeon -21	CamAxyS -140	Conder Environ. -77
* CyBIT -2	* Sheffield United -8	African Copper -41	Bartercard -14	Cambridge Min. -32	Conival -47
* Desire Petrol. -9	* Sirius Fin. S. -1	African Eagle -99	Bateman -13	Carlisle Group -47	Consolidated M. -180
* Dowlis C.S. -7	* Sound Oil -5	AI Claims Sol. -112	BB Holdings -87	Caspian -40	Corvus Capital -31
* Empresaria -2	* Sunrise Diam. -4	Akers BioScien. -25	Belgravium Tech. -59	Cassidy Brothers -28	Cozart -33
* Eruma -10	* Tertiary Minerals -3	Allied Healthcare -19	Beowulf Mining -43	Cellcast -36	CPL Resources -17
* Financial Obj. -10	* Venue Solns. -2	Alltrue Inv. -69	Betex -13	Celltalk -88	Croma Group -17
* Gaming Corp. -6	* Vianet -9	Altona Res. -17	Bidtimes -249	Celtic -221	Crosby Capital -18

Technical Notes

TREND DEFINITION

The analytical criteria that we use to identify uptrends and downtrends are tightly defined. Our criteria are designed to filter out data series which are technically in uptrend or downtrend, but which are in reality only drifting sideways.

Here is a full list of the criteria we require for a data series to be formally identified as an **uptrend**:

- The actual value must lead the 25-day moving average;
- the 25-day moving average must lead the 65-day moving average;
- the 25-day moving average must have been rising for at least 5 days;
- the 65-day moving average must have been rising for at least 1 day;
- to filter out passive uptrends, the data must show a rise of at least 2.5% on the month.

The analytical criteria for a **downtrend** are exactly the converse of the above criteria.

Any data series not conforming to either set of criteria we describe as having an *indeterminate* trend. They are not listed. Note that it is quite normal for a data series to alternate between determinate and indeterminate trends from time to time, but not for it to jump directly from an uptrend to downtrend, or vice versa without an interval of several days.

The percentage figures which appear in the title box of each section represent the percentage of securities in uptrend or downtrend relative to all securities that we monitor in that section. These figures correspond with the latest uptrend and downtrend percentages shown in the various *TrendWatch* barometers. □

PRICE CHART KEY:

- 65-day moving average.
- 25-day moving average.

AIM-LISTED SHARES IN DOWNTREND continued

CustomVis -63	Gas Turbine Eff. -42	La Tasca -14	NMI Security -24	ReEnergy -59	TG21 -28
CYC -329	Genesis -79	Landround -229	Northacre -24	Regal Petroleum -24	ThirdForce -52
Cyprotex -59	Glen Group -75	Latitude Res. -13	Northern Racing -33	Regency Mines -54	Tissue Science L -36
Dawson Intl. -53	Global Brands -194	Leadcom -25	Novera Energy -17	ReNeuron -108	Tolent -13
DDD Group -52	Global Energy D. -33	Legendary Inv. -442	Numis Corp. -20	Renewable En H. -58	Torex Retail -36
Dealogic -35	Global Marine E. -32	Leisure & Gam. -20	NWD Group -14	Renova Energy -33	Tower -106
Diablo -97	GolIndustry -23	Libertas Cap. -33	Ocean Res. -23	Robotic Tech. S. -24	Tower Res. -62
Disperse -14	Gooch & House. -20	Lighthouse -51	On-Line -73	Romag -37	Trading New H. -12
Driver -14	Gravity Diam. -136	Local Radio Co. -189	Original Inv. -17	Sanatana Diam. -50	Transense Tech. -32
Earthport -82	Griffin Group -32	Lombard Med. T. -37	Orpak Systems -33	Sarantel Aerials -27	Trans-Siberian -31
Eastern Med. R. -39	Halladale -29	Maelor -38	Ottoman Fund -40	Sareum -62	Triple Plate Jcn. -75
EG Solutions -20	Hamsard -16	MAMA Group -30	Oxonica -31	Scott Tod -15	TXO -31
Empire Interact. -32	Hardide -29	Manpower Soft. -72	Oxus Gold -20	Screen FX -100	UBC Media -152
Empire Online -34	Hardy Amies -11	Matra Petroleum -33	Palandri Wines -230	Serabi Mining -19	Ubiquity Softw. -21
Empyrean En. -29	Hardy Oil & Gas -24	Maveric Entertain -51	Palladex -59	Shoprite -18	ukbetting.com -27
EnCore Oil -13	Healthcare C. -296	Media Steps -194	Palmaris Cap. -105	Sinosoft Tech. -79	Ukrproduct -66
Energy Asset M. -59	Healthcare Ent. -274	Medical House -113	Panmure Gordon -29	Sirius Exploration -13	Ultimate Leisure -50
EnterpriseAsia -108	Healthcare Loc. -43	Mediwatch -34	Pantheon Leis. -35	Sky Cap. Ent. 'A' -32	Ultrasis -36
Epic Reconst. -18	Herencia -19	MedOil -36	Parallel Media -54	Sky Cap. Ent. 'B' -32	Universe -51
EQ Group -86	Huveaux -34	Medoro Res. -36	Parkmead -18	Sky Capital -281	Uranium Res. -36
Equest Balkan P. -33	Hydrodec -18	Mercury Group -73	Patagonia Gold -56	Soccercity -368	Vane -32
Eureka Mining -36	IDMoS -14	Messaging Intl. -32	Persian Gold -40	Solomon Gold -28	Victoria Oil & G. -33
Europasia -17	IDOX -56	Micro Emissive D -62	Petards -20	Spectrum -138	Virotec Intl. -19
Europ'n Bus.Jets -83	i-mate -42	MicroFuze -13	Phoqus -18	SQS -34	Vividas -36
Evolutec -28	Imprint -42	Millbrook Sc. In. -104	Physiomics -41	SR Pharma -63	Wensum and Co -17
Fairground Gam. -19	IMS Maxims -39	Mincorp -35	Pixology -56	SRS Tech. -323	Westside Acquis. -31
Falkland Islands -42	In-Cup Plus -199	Minorplanet -58	PKL -177	Stagecoach Th.A -39	WHAM Energy -18
Farsight -70	Indago Petrol. -79	Minster Pharma. -67	Platinum Mining -42	Star Energy -28	Wilshaw -178
Fayrewood -73	India Outsourc. -72	MKM Group -14	Playgolf -88	Steppe Cement -11	Win -31
Felix Group -38	India Star -32	Mobile Tornado -99	PlusNet -49	Stilo International -64	Wogen -47
Fishbury Food -62	Inspace -37	Monsternob -74	Polyfuel -26	Strategic Th'ght -34	Workplace Sys. -84
FireOne -65	Inter Link Foods -42	MOTIVCOM -34	Powerleague -13	Strathdon Inv. -38	Wyatt Group -185
Firestone Diam. -34	Intl. Marketing -41	Mwana Africa -22	Premier Asset M. -13	Stream Group -65	Xcounter -19
Flomerics -17	Intl. Medical D. -207	Myratech.net -31	Premier Direct -59	Surface Transf. -395	Xpertise Group -90
Floors 2 Go -52	Intl. Molybdenum -27	Nadlan -141	Provexis -50	SWP Group -47	XXI Century Inv. -33
Fonebak -53	Invox -104	Nanoscience -27	Ptarmigan Prop. -34	Taghmen Energy -93	YooMedia -110
Formula Tele. S. -31	ITM Power -11	Nautical Pet. -43	Punch Graphix -102	Tarquin Res. -29	York Pharma -96
Forum Energy -90	ITrain -20	NetB2B2 -78	Qonnectis -20	TEG Environ. -27	Zambezi Res. -18
Fujin Tech. -30	Jarlway -177	NETeller -54	Raven Russia -34	Telephone Maint. -36	Zest Group -177
Fulcrum Pharma -24	Judges Capital -46	NetServices -13	RDF Media -35	Telit Comm. -33	ZI Medical -165
Fundamental-e I. -23	Ki-Bi Mobile T. -67	Newmark Sec. -107	Real Affinity -404	Tellings Golden	Zirax -49
G.R. (Holdings) -43	Knowledge T.S. -106	Newport Netw'ks -33	Red Leopard -253	Miller -15	Zoo Digital -164
Galleon -114	KP Renewables -88	Next Fifteen -45	Red Rock Res. -101	Terrace Hill -13	
Gamingking -70	Kryso Res. -125	NextGen -59	Red Squared -65	Tersus Energy -28	

Technical notes

OUR SHARE SELECTION PROCESS

Our strategy for selecting the 3 shares recommended in each issue is systematic, easy to understand, transparent – and very effective.

Our starting point is the uptrend list. Note that each share in our uptrend and downtrend lists carries a numeric suffix. This number represents the number of days that the 65-day moving average has been in uptrend or downtrend. For uptrend lists, this number is always positive. For downtrend lists, it is always negative.

All new uptrends (or downtrends) are collected together at the beginning of the lists, prefixed by an asterisk. New uptrends are those that have occurred since the last issue. Note that the numeric suffix will always be 10 or less, because 10 is the number of business days since the last issue of *TrendWatch*.

New uptrends are the ones of most interest to investors because it is desirable to get into the trend early.

Having identified the new uptrends (those prefixed with an asterisk), our next step is to perform limited fundamental analysis on them to classify them as a 'Hit', 'Maybe' or 'Miss'. We give our reasoning so that you can judge for yourself whether, in your view, our reasoning is sound.

Finally, we do in-depth fundamental research on the shares in the 'Hit' list. The three shares that, in our view, are the best of the bunch become our three formal share recommendations.

As described in the previous Technical Note (*Trend Definition*), the 65-day moving average is our prime moving average. Remember that, for a share to get into the list, all other criteria as set out in the above Technical Note have to be satisfied. If they are not, the share will disappear from the list. If all criteria are subsequently satisfied and the 65-day MA was not affected, the share will reappear in the list as a mature (non-asterisked) trend. If the setback was such that the 65-day MA suffered a reversal, the recovery will see the share reappearing in the list as a new (asterisked) trend. □

INVESTMENT TRUSTS IN UPTREND (excluding warrants) 2.08%

* Blue Planet No. 1 8	Asset Mgt. IT 92	Lindsell Train IT 60
* Elderstreet Downing VCT 9	Ilmia IT 154	Murray Income Trust 14
* Pennine Down. AIM VCT 2 5	Life Offices 290	Proven Growth & Inc. VCT 20

INVESTMENT TRUSTS IN DOWNTREND (excluding warrants) 12.01%

* August Equity Trust -9	Close Finsbury EuroTech IT -33	JPMF Japanese Smr. Cos. -68	Oxford Technology VCT -128
* Unicorn AIM 2 -2	Dexion Equity Alternative -34	Jupiter Dividend & Growth -36	Pacific Assets -34
* Utilico -8	Ecofin Water & Power Cap. -14	Jupiter Second Split Growth -23	Pantheon International -35
Aberdeen Dev. Cap. -250	Edinburgh New Income -30	Jupiter Second Split Income -43	Prelude Trust -34
AIM VCT -29	Fidelity Japanese Values -73	KGR Absolute Return -17	Private Equity Investor -14
Aim VCT2 -31	Gartm. Abs. Inc. & Gr. Pref. -13	M&G High Inc. Cap. Shares -34	Rights & Issues IT Cap. -20
Alliance Trust -24	Gartmore Smaller Cos. -19	M&G Income Investments -17	Rights & Issues IT Inc. -34
Alpha Pyrenees Trust -34	Hygea VCT -17	Martin Currie Inc. & Gr. Inc. -27	Smaller Cos. Value Capital -14
Artemis Aim VCT -24	Independent IT -32	Mid Wynd Int. Inv. -33	Smaller Cos. Value Income -58
Artemis Alpha -29	Invesco Jap. Discovery -64	Murray Intl. 'B' -13	SR Europe IT -17
British & American -31	Investors Capital Capital -441	New Star Financial Futures -30	SVM UK Emerging Fund -12
Brit. Sm. Tech. Cos. VCT 2 -318	Investors Capital Income -34	Northern Investors Trust -44	Thompson Clive Invest. -82
Chameleon Trust -23	JPMF Income & Cap. -30	Old Mutual S. Africa -33	Utilico Emerging Markets IT -33

TrendWatch Portfolio performance summary

Summarised record of past stop-loss sales

Share	Date bought	Date sold	Buy price (p)	Sell price (p)	Gain/loss (%)	Mkt. gain/loss (%)	Out-perf. (%) *	Annualised gain (%)
Shares sold in 2000:					70.27	1.41	67.90	
Shares sold in 2001:					0.54	-8.37	9.72	
Shares sold in 2002:					-7.49	-11.66	4.72	
Shares sold in 2003 (57 shares):					-1.62	0.87	-2.47	
Shares sold in 2004 (72 shares):					18.00	5.91	11.42	
Shares sold in 2005 (68 shares):					8.27	9.44	-1.07	
Shares sold in Jan - May 2006 (41 shares):					23.70	13.39	9.09	
Most recent sales:								
Asian Citrus Holdings	10/11/2005	14/06/2006	119.00	177.50	49.16	2.71	45.22	85.60
AVEVA Group	08/05/2003	14/06/2006	344.00	970.00	181.98	46.62	92.32	38.84
Bizspace ¹	10/04/2003	30/06/2006	22.25	93.50	320.22	61.93	159.51	55.85
Crosby Capital Partners	19/01/2006	30/06/2006	99.75	78.50	-21.30	2.83	-23.47	-40.95
Hikma Pharmaceuticals	16/02/2006	13/06/2006	425.00	337.75	-20.53	-5.46	-15.94	-45.54
Hallin Marine Subsea Intl.	02/02/2006	14/06/2006	68.50	60.00	-12.41	-4.25	-8.52	-27.25
PartyGaming	27/04/2006	09/06/2006	152.75	115.25	-24.55	-6.95	-18.92	-77.95
Tikit Group	02/03/2006	13/06/2006	227.00	169.50	-25.33	-5.73	-20.79	-57.68
TRL Electronics ²	29/07/2005	30/06/2006	229.50	360.00	56.86	13.51	38.20	62.14
ukbetting	16/02/2006	14/06/2006	63.00	54.75	-13.10	-5.58	-7.96	-31.01
Voller Energy Group	10/05/2006	22/06/2006	70.50	44.50	-36.88	-6.37	-32.59	-95.28
Averaged gain / loss (%):					41.28	8.48	30.24	
Percentage profit on most recent sales:					41.28%			
Percentage market gain (tracker fund):					8.48%			
Trendwatch has outperformed market by:					30.24% *			

¹ Bid of 93.5p per share cash accepted from Highcross (Bugatti) Ltd.

² Bid of 360p a share accepted from L-3 of the US. * See 'Benchmarking' note [panel, right] to see how this figure is calculated.

The TrendWatch Top Twenty – our best-performing recent recommendations

Rank	Share	Date bought	Date sold	% gain	Rank	Share	Date bought	Date sold	% gain
1	Bizspace	10/04/2003	30/06/2006	320.22	11	Goals Soccer Centres	07/07/2005	-	89.24
2	Ideal Shopping Direct	27/05/2004	-	300.00	12	PLUS Markets Group	27/10/2005	-	87.97
3	Burren Energy	01/04/2004	18/05/2006	294.94	13	Tullow Oil	07/07/2005	23/05/2006	85.58
4	JXX Oil & Gas	25/11/2004	-	210.14	14	Stanley Gibbons	08/07/2004	-	85.06
5	AVEVA	18/05/2003	14/06/2006	181.98	15	North Midland Const.	13/05/2004	23/05/2006	84.30
6	Domino's Pizza	04/12/2003	-	151.76	16	Hamworthy	28/10/2004	25/04/2006	82.93
7	Lookers	07/01/2005	-	143.45	17	AMEC	13/03/2003	20/10/2005	80.08
8	Debt Free Direct (I)	27/05/2004	25/10/2005	116.77	18	Solar Integrated Tech.	12/05/2005	17/05/2006	79.94
9	Victoria Oil & Gas	08/12/2005	19/05/2006	113.10	19	Debt Free Direct (II)	08/12/2005	-	78.79
10	Paladin Resources	31/03/2005	18/11/2005	94.25	20	Homebuy	09/12/2004	02/05/2006	78.60

THIS TABLE shows our biggest recent gains, taken from shares that were sold within the past 12 months and from those shares that are still in our current portfolio (page 3). **IN THE NEXT ISSUE** we'll show our best performers since *TrendWatch* was first published.

Technical notes

BENCHMARKING

We believe that accurate monitoring of our investment performance is of critical importance, both for you and for us. It is not enough to simply monitor the profit (or loss) on our selections. You are entitled to know how we have done *relative to the market as a whole*. It is no use us boasting of a 20% profit if the market as a whole has risen 30%.

We therefore monitor each of our recommendations against a **benchmark index**. Ours is the *FT All-share Index (exc. investment companies)*.

Whenever we recommend a share, we record the value of this index as at the date the share was bought. When we do a valuation or when we sell a share, we record the latest value of the index. We then add the percentage change in the index to the cost of buying the share. This tells us how much our investment would have grown had we invested in a market tracker fund rather than in the actual share – the **market gain/loss**.

To determine how much we have outperformed (or under-performed) the market, it is tempting to subtract the tracker gain from the actual gain – but this is mathematically flawed. The industry-standard formula for outperformance / underperformance is:

$$\frac{(100 + \text{actual gain})}{(100 + \text{tracker gain})} \times 100 - 100$$

Our performance reporting is scrupulously honest and accurate. For example, if we sell a share at a profit, but the tracker index for that share shows an even bigger rise, we actually record it as a loss against the market. Worse still (for us), if we sell a share at a loss in a rising market, we may record an even bigger loss against the market. ☐

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