

theshareholder:

everything you need to know about sharing in the wealth of the stock market

The easy way to invest overseas

PLUS

Economic update we look at what lies ahead

FTSE 100 see who has international exposure

Asking for Advice we're here to help

Thought for the day thought provoking comment



Thank you for your awards

We had a busy November with two further awards recognising the quality of the services delivered by The Share Centre to the investor community. First, readers of Shares magazine voted us Best Small Cap Broker 2009, as we beat off fierce competition from other brokers such as Barclays Stockbrokers, Selftrade and TD Waterhouse.



Now, there's another chance to win £500 in our 2010 Forecast competition. Just tell us your prediction for the FTSE 100 as at close of business on Friday 31 December 2010. Our Advice team is forecasting that the index will close at 5450.



To enter the competition and review the Terms and Conditions visit www.share.com/competition. Alternatively, call us on 01296 41 41 41 from 08:00 to 18:00, Monday to Friday. Entries close at 18:00 on 5 March 2010.

ISA Allowance: use it, don't lose it.

Don't forget to take advantage of your ISA allowance before the end of the current tax year. If you'll be 50 or over by 5 April 2010, you can invest up to £10,200, of which a maximum of £5,100 can be held in a Cash ISA. From 6 April 2010, all ISA investors will be able to take advantage of these increased limits.

This year 5 April falls on Easter Monday. You can make a new application or put money into an existing ISA by phone on 01296 41 41 41 before 18:00 on Thursday 1 April or online before 12.00 on 5 April. Please note that support for online applications made over the Easter weekend will not be available until 08:00 on Tuesday 6 April.

Sharemark starts trading mature VCTs

Venture Capital Trusts (VCTs) are set up to attract investment into new businesses and offer significant tax advantages if the money is left invested for at least five years. Over that period many of their investee companies grow, start earning good profits and become more stable, and they could be attractive to stockmarket investors generally as the original 'business angel investors' sell their holdings. But market-makers retain enormous bid-offer spreads in spite of the opportunity to trade these VCTs more actively. We're therefore welcoming mature VCTs on to our own market, Sharemark, where sellers and buyers can trade at a single price.

The first such VCT is Hygea, originally called Bioscience, which was launched in 2001 and had a pre-tax profit of £0.4m in the year to 31 December 2008. It specialises in medical technology companies, and trades monthly on Sharemark. Visit www.sharemark.com for more details.

Within days, readers of the Financial Times and Investors Chronicle voted The Share Centre as Best Stockbroker for Costs, reinforcing our positioning as an excellent value for money service for investors. We are particularly delighted with both awards as they were granted by users of stockbroking services rather than a publisher's panel of judges. Thank you for your continued support — we appreciate it.



Forecast Competition

We were delighted with the response to our 2009 Forecast Competition where we invited you to forecast the closing level of the FTSE 100 at the end of 2009. The index closed at 5412.90 and the winner was Mrs Daphne Brooke from Southampton with her prediction of 5365. Congratulations Mrs Brooke, £500 is on its way to you.

UK INDICES	5/01/10	5/10/09	6/07/09	6/4/09	5/1/09
FTSE® All Share	2,818	2,580	2,144	2,051	2,288
FTSE® 100	5,522	5,024	4,195	4,029	4,579
FTSE® 250	9,557	8,982	7,320	6,926	6,745
FTSE® Small Cap	2816	2,836	2,209	1,871	1,922
Base Rate	0.5	0.5	0.5	0.5	2.00
OVERSEAS INDICES					
Dow Jones Industrials (US)	10,572	9,600	8,325	8,017	8,953
Nikkei 225 (Japan)	10,681	9,674	9,670	8,750	9,043
DAX (Germany)	6,032	5,508	4,651	4,385	4,984
CAC 40 (France)	4,013	3,675	3,082	2,958	3,360
Eurotop 300 (Europe)	1,060	971	833	771	873



Fair play for personal finance

The personal finance corner of Budget announcements has been rather a dull place over the past few years. Expect all that to change in 2010 as pension tax reliefs come into the spotlight, and ISAs take their rightful place as a long-term savings vehicle for retirement.

The reason is, of course, the burgeoning £178 billion public sector deficit, and the need to claw back tax reliefs wherever they may be. These fall into the camps of either 'negligible political damage' and 'negligible economic impact' — such as the Conservatives' announcement of the ending of Child Trust Fund contributions for all but the poorest families — or the 'elephants in the room which dare not speak their name' — such as tax relief on pensions.

The overall bill for tax relief on pensions is over £36 billion per annum: that's broadly equal to the amount economic commentators say should be cut out of the public sector deficit in 2010/11 to avoid derating Government debt. Needless to say, the majority of pension tax relief goes to higher rate taxpayers, and that's why it's such a hot target. Some of those with earnings of more than £130,000 are already impacted by the reduction of tax relief on their pension savings to the basic rate of 20%. It's hard for such earners to justify using pensions on this basis, even allowing for the tax-free lump sum (which might also be hit). So consider a self invested personal pension with The Share Centre while there is still time.

The Government is likely to focus on the state pension and the new Pension Account, National Employment Savings Trust (NEST) as the mainstream vehicles for retirement income across the UK. People who wish to make more realistic provision for their old age may be left to their own devices, and that could

increasingly mean using ISAs. Maybe it explains why Alistair Darling unexpectedly increased the ISA subscription to £10,200 in the 2009 Budget. I consider that ISAs will become increasingly important as a mainstream savings vehicle in the years ahead. And there's no requirement to buy an annuity at the age of 75: so your savings stay in your possession.

The Share Centre's ISA offering is well placed to help you with your saving for retirement, with its Funds ISA with no annual fee and plenty of advice on the best funds to use. Our Platinum 120 range of funds has 0% purchase commission and over 88% of the funds have 0% initial charge. You can open and subscribe online in just a few minutes, and consolidate any existing ISAs you may have elsewhere to benefit from a streamlined and well reported service.

I would be the first, however, to say that if the Government is going to cut tax relief on savings it should also provide more fairness in the tax regime. Two of the main taxes on shares are Capital Gains tax (CGT) and Stamp Duty. CGT is a direct tax on risk-taking, and although I welcome the 18% general rate, the absence of any taper relief means there is now a tax on inflation for long-stay holdings. At the very least there should be no CGT applied to sale and reinvestment within a portfolio of shares.

Meanwhile Stamp Duty on shares remains an anomaly which deters use of equity capital and encourages borrowing. Stamp

Duty on shares yielded £3.2 billion in 2008/9, whereas corporate tax yielded £43 billion. If limitations were applied on how much companies could offset debt servicing against their profit before tax, and let us say this excluded an aggregate £12 billion of interest payments, Stamp Duty on shares could be removed in its entirety. This would be a significant encouragement to companies to make more use of equity capital to finance future investment as opposed to borrowing. It would also support the private sector in rebuilding confidence in investment to help take the United Kingdom out of recession. With banks still reluctant to lend to business this kind of encouragement for equity finance could be a real help.

With these simple improvements to the taxation of investments, investors would also find it more cost-effective to use straightforward Share Accounts as a means of saving for retirement while continuing to pay income tax as appropriate. Let us hope whichever Government we have after the next election they will establish fairness for investors as a key principle, and not pursue an insidious campaign to penalise those who have the good sense to save properly for their retirement.

A handwritten signature in black ink, appearing to read 'Gavin Oldham'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Gavin Oldham Chief Executive

Broadening your horizons

How to benefit from international trading companies

2010 could prove to be a difficult year for investors. Nick Raynor, Investment Adviser, looks at how investors could broaden their horizons and perhaps benefit from UK companies with international exposure.

With the UK economy not yet showing signs of a major recovery, it's worth knowing that you can also profit from buying the shares of UK companies with international exposure. If you've read our economic update on page 8 you'll know that it is estimated that 70% of the profits of FTSE 100 companies come from overseas earnings and according to Morgan Stanley, a fifth of UK PLC's whole market, all-share revenues are derived from emerging markets. That means that not only could you benefit from economic improvements in other continents you could also benefit from currency movements. For example, if sterling weakens against the dollar the stock market will benefit as 40% of

UK PLC's earnings and dividends come from companies that report in dollars. Obviously if sterling were to strengthen against the dollar, the reverse would be true.

In the remainder of the article, we highlight some sectors and FTSE 100 companies that have a large international exposure and others that don't.

Retailers

In the retailing sector there are a number of companies which have significant international exposure. Tesco has an established presence throughout Europe including operations in the Czech Republic, Hungary, Poland, Slovakia and Turkey which all help add to company profits. Outside Europe they have operations in

China, Japan, Malaysia, South Korea and Thailand. Their American operation Fresh & Easy has not fared well, adding losses rather than gains to Tesco's worldwide earnings.

Other UK listed supermarkets have either small or no exposure to overseas markets. Sainsbury's had a brief foray into Egypt which was sold in 2000 and the company's successful US investment in Shaw's Supermarket was sold in 2004 when it refocused on its UK business.

Kingfisher, the home improvement retailer that we know as B&Q and Screwfix Direct, is the world's 3rd largest retail hardware store: it is known in other countries as Castorama and Brico Depot. It has

operations in France, Poland, Italy, Turkey, China and Taiwan, as well as a strategic alliance with German firm Hornbach holdings which itself has exposure to other European markets.

By contrast, Home Retail, the owner of Argos and Homebase has no overseas exposure. They are completely reliant on UK consumers who may find 2010 a little tougher than previous years. Half-year sales have picked up slightly from 2008 figures but this takes into account lower interest rates and they won't be reducing further in 2010.

Burberry is a global retailer of branded luxury goods — primarily outerwear — with international exposure through shops and concessions as well as online businesses and franchise stores. Its operations span Europe, The Middle East, Africa, Spain, The Americas and Asia Pacific. Conversely, Next, another dominant UK clothing retailer does not have any significant overseas exposure and is generally more famous for its sales.

“With the UK economy not yet showing signs of a major recovery, it's worth knowing that you can also profit from buying the shares of UK companies with international exposure.”

Insurance companies

The Insurance sector also has a great deal of international exposure and there are many companies to choose from in this sector. Aviva has a growing international exposure; its operations stretch to Europe, Australia, China, India and other Far East regions. Its most impressive growth during the first 9 months of 2009 was in Italy, China and South Korea. For Aviva the emerging markets look to offer the most growth potential but investments in these regions carry an increased level of risk.

Prudential is generally viewed as a predominantly UK company but trading results reported in October 2009 showed that its 9-month turnover was split three-ways. Asia, US and the UK are the prominent regions with its Asian market currently yielding the highest level of sales, the US second and the UK over £300 million behind Asia. The US is clearly a growth market for Prudential and grew by 51% in 2009, but it is the Asian market that has the potential for returning the best gains. With its established presence in the region, the right marketing could reap impressive rewards.

Utilities

With utility companies, sometimes the name gives it away: International Power's operations are spread over North America, Europe, the Middle East, Australia and Asia and include power generation from gas, wind, coal, pumped storage, oil and water. It has a number of projects under construction which would increase power generation overall by nearly 5%.

Scottish & Southern Energy does not have any international exposure but does run a varied business. It generates 10,000 megawatts of electricity, runs 50 hydro electric power stations in Scotland, has a gas storage facility and operates 7,500 kilometres of telecoms network. Elsewhere in the sector, United Utilities is another UK-only company, operating a vast sewer network, pumping stations, reservoirs and over 40,000 kilometres of clean water mains.

Natural Resources

Companies whose profit stems from natural resources that are not found in serviceable quantities within the UK are perhaps the most obvious earners of international income. For example, BHP Billiton and Rio Tinto are just 2 of the 11 mining companies within the FTSE 100 who generate significant earnings from outside the UK. The oil sector, represented by companies such as BP and Tullow Oil doesn't generate much UK revenue either.

Banks

The banking sector includes the largest capitalised company on the FTSE 100: HSBC. Although it is headquartered in London, its international network comprises around 8,500 offices in 86 countries and territories in Europe, the

At a glance

70% of FTSE 100 companies' profits come from overseas earnings.

20% of UK PLC's revenues come from emerging markets.

International trading companies include Tesco, Kingfisher, Burberry, Aviva, Prudential, International Power, BHP Billiton, Rio Tinto, HSBC and Barclays.

Asia-Pacific region, the Americas, the Middle East and Africa.

Barclays also has a large overseas exposure with operations in Europe, North America, Africa and Asia. This meant that when things got tough it turned to its friends in Qatar rather than relying on hand outs from the British taxpayer. As a result, Barclays is still an independent bank. Note, however, that Barclays does have exposure to the American mortgage market which is still in a state of turmoil.

Lloyds Banking Group increased its international exposure when it merged with HBOS. However, the overseas positions are being sold off gradually in an effort to cut costs. Royal Bank of Scotland is also trying to sell off some overseas operations. However, finding buyers is the problem.

Have a look at our chart overleaf for an indication of which of the FTSE 100 companies generate the greater portion of their income from international operations.

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

	Opinion	Price (p)	Div Yield (%)	Market Cap (£m)	52 Week High (p)	52 Week Low (p)	Overseas Exposure
3i Group	sell	250.00	2.52	2,425.80	310.70	109.72	●
Admiral Group	sell	1,163.00	2.12	3,099.13	1,189.00	809.00	○
Aggreko	hold	912.00	1.11	2,496.64	940.50	349.50	●
Alliance Trust	buy	308.60	2.59	2,058.55	337.00	233.00	●
Amec	hold	754.50	2.04	2,503.87	866.00	492.25	●
Anglo American	sell	2,310.00	1.21	31,021.65	2,897.00	914.00	●
Antofagasta	hold	855.50	0.67	8,434.00	1,040.00	410.50	●
ARM Holdings	buy	197.40	1.23	2,577.58	205.20	85.50	●
Associated British Foods	hold	899.50	2.33	7,121.11	905.08	613.00	●
AstraZeneca	sell	2,780.50	5.27	40,393.41	3,102.50	2,147.00	●
Autonomy Corporation	hold	1,502.00	0.00	3,614.11	1,636.00	1,114.00	●
Aviva	buy	359.90	9.17	9,957.04	467.50	163.30	●
BAE Systems	hold	341.70	4.24	12,100.76	405.00	306.00	●
Barclays	hold	262.00	4.39	29,900.13	383.60	61.40	●
BG Group	buy	1,141.00	1.08	38,508.29	1,235.00	893.50	●
BHP Billiton	buy	1,898.00	2.76	41,872.36	2,115.50	1,034.00	●
BP	buy	573.70	6.22	107,667.64	635.50	404.50	●
British Airways	hold	195.50	0.00	2,255.37	239.90	118.00	●
British American Tobacco	hold	2,157.50	3.88	43,076.34	2,170.00	1,495.00	●
British Land Co	buy	444.40	7.79	3,858.09	528.00	301.25	○
British Sky Broadcasting Group	hold	526.50	3.34	9,228.72	583.50	417.00	●
BT Group	hold	122.50	5.31	9,496.83	149.60	71.40	●
Bunzl	hold	629.00	3.28	2,065.49	675.00	481.75	●
Burberry Group	hold	602.00	1.99	2,614.73	649.00	238.75	●
Cable & Wireless	hold	136.70	6.22	3,546.21	162.60	125.70	●
Cairn Energy	buy	333.50	0.00	4,660.45	370.30	175.70	●
Capita Group	hold	717.00	2.01	4,479.37	781.50	617.50	●
Carnival	hold	2,228.00	0.00	4,755.71	2,320.00	1,287.00	●
Centrica	hold	271.20	4.50	13,919.78	287.50	214.75	●
Cobham	hold	227.10	2.18	2,603.98	252.20	165.10	●
Compass Group	buy	450.50	2.93	8,498.79	465.50	281.50	●
Diageo	hold	1,030.00	3.50	25,795.32	1,090.00	733.00	●
Eurasian Natural Resources	hold	938.00	2.11	12,079.10	1,034.00	311.00	●
Experian Group	buy	602.50	2.12	6,182.00	623.00	378.00	●
Fresnillo	hold	720.50	1.20	5,167.14	920.00	323.25	●
G4S	buy	259.30	2.48	3,657.47	267.90	173.00	●
GlaxoSmithKline	buy	1,229.00	4.96	63,801.17	1,339.50	987.00	●
Hammerson	hold	385.30	7.24	2,706.00	453.10	210.89	●
Home Retail Group	hold	259.00	5.68	2,272.58	329.70	189.00	○
HSBC Holdings	hold	649.70	5.47	113,191.74	761.20	304.13	●
ICAP	hold	329.30	5.18	2,156.54	467.20	206.50	●
Imperial Tobacco Group	hold	2,057.00	3.55	20,944.62	2,072.70	1,430.00	●
Inmarsat	hold	717.50	2.70	3,297.31	725.00	402.75	●
InterContinental Hotels Group	sell	915.00	2.91	2,631.74	937.00	446.00	●
International Power	buy	329.20	3.69	5,011.92	331.30	193.70	●
Intertek Group	hold	1,177.00	1.77	1,868.16	1,354.00	784.00	●
Invensys	sell	306.00	0.49	2,469.60	323.00	145.00	●
Johnson Matthey	hold	1,552.00	2.39	3,424.85	1,637.00	900.50	●
Kazakhmys	sell	1,253.00	0.71	6,706.56	1,499.00	235.50	●
Kingfisher	hold	209.60	2.54	4,950.00	247.20	118.00	●

	Opinion	Price (p)	Div Yield (%)	Market Cap (£m)	52 Week High (p)	52 Week Low (p)	Overseas Exposure
Land Securities Group	buy	629.00	8.98	4,772.56	726.50	341.00	○
Legal & General Group	hold	69.80	5.82	4,091.95	88.80	23.00	●
Liberty International	hold	453.50	3.64	2,819.99	569.00	268.53	●
Lloyds Banking Group	hold	46.59	12.14	29,709.36	74.14	20.00	●
London Stock Exchange Group	hold	641.00	3.81	1,737.81	941.00	370.00	●
Lonmin	sell	1,806.00	0.00	3,487.23	2,157.00	952.77	●
Man Group	buy	220.50	12.72	3,774.30	371.20	152.60	●
Marks & Spencer Group	hold	327.90	5.43	5,186.80	412.40	237.25	●
Morrison (Wm) Supermarkets	hold	297.80	1.95	7,894.98	300.80	234.50	○
National Grid	buy	640.00	5.57	15,816.85	682.00	515.00	●
Next	sell	1,917.00	2.87	3,646.30	2,139.00	1,088.00	●
Old Mutual	hold	100.70	2.43	5,464.72	121.30	30.80	●
Pearson	buy	868.50	3.89	7,045.80	909.00	578.00	●
Petrofac Ltd	buy	988.00	1.64	3,414.82	1,063.00	422.00	●
Prudential	buy	571.00	3.31	14,459.21	650.50	207.00	●
Randgold Resources	hold	4,486.00	0.24	4,038.57	5,345.00	2,823.00	●
Reckitt Benckiser Group	buy	3,313.00	3.02	23,860.99	3,356.00	2,454.00	●
Reed Elsevier	sell	489.00	4.15	6,099.12	543.00	420.00	●
Resolution	hold	75.50	0.00	1,821.40	112.00	74.00	●
Rexam	hold	282.80	6.62	2,479.67	303.20	199.35	●
Rio Tinto	hold	3,206.00	2.23	48,867.48	3,638.50	1,337.46	●
Rolls-Royce Group	buy	506.50	2.96	9,391.04	520.50	258.50	●
Royal Bank of Scotland Group	sell	31.25	0.00	17,614.29	57.65	18.10	●
Royal Dutch Shell 'B'	hold	1,663.50	6.44	44,844.77	1,890.50	1,322.00	●
RSA Insurance Group	hold	127.60	6.04	4,365.88	143.80	113.40	●
SABMiller	sell	1,678.00	2.20	26,436.71	1,852.00	921.00	●
Sage Group	hold	223.30	3.33	2,934.08	239.40	162.10	●
Sainsbury (J)	hold	326.10	4.05	6,042.42	347.80	289.75	○
Schroders	hold	1,116.00	2.78	2,418.50	1,360.00	684.00	●
Scottish & Southern Energy	hold	1,163.00	5.67	10,735.39	1,218.00	1,039.00	●
SEGRO	hold	302.90	0.15	2,224.30	395.10	146.35	●
Serco Group	buy	503.00	0.99	2,469.56	539.50	348.75	●
Severn Trent	hold	1,132.00	5.95	2,678.11	1,180.00	933.00	●
Shire Plc	buy	1,259.00	0.50	7,069.40	1,278.00	780.00	●
Smith & Nephew	hold	653.00	1.41	5,834.14	661.50	420.00	●
Smiths Group	sell	1,006.00	3.38	3,924.78	1,069.00	649.00	●
Standard Chartered	hold	1,413.50	3.07	28,626.20	1,689.50	587.00	●
Standard Life	hold	192.70	6.11	4,309.44	234.20	131.80	●
Tesco	buy	424.00	2.82	33,717.03	435.65	306.20	●
Thomas Cook Group	sell	229.50	4.68	1,969.78	297.50	193.10	●
TUI Travel	hold	264.00	4.05	2,951.55	279.25	217.00	●
Tullow Oil	hold	1,179.00	0.51	10,431.20	1,369.00	667.50	●
Unilever	hold	1,867.00	2.49	23,962.19	2,015.00	1,230.00	●
United Utilities Group	hold	538.00	6.07	3,666.66	557.00	432.00	○
Vedanta Resources	sell	2,363.00	1.12	6,519.08	2,886.00	503.50	●
Vodafone Group	buy	139.00	5.59	73,136.69	143.80	112.00	●
Whitbread	hold	1,369.00	2.67	2,405.60	1,443.00	693.50	○
Wolseley	sell	1,355.00	0.00	3,846.04	1,521.00	585.45	●
WPP Group	hold	594.50	2.60	7,455.62	626.00	353.00	●
Xstrata	hold	1,005.00	0.51	29,537.07	1,246.50	298.25	●

○ no exposure ● minimal exposure ● moderate exposure ● a lot of exposure

Economic round-up

A year for cross-overs

Gavin Oldham shares his view on how government intervention, the pressure on Gilts and the forthcoming election will impact investments and economies in 2010.

In the summer 2009 issue of The Shareholder the editorial title was 'Pass the parcel', and we looked forward to a benign period for investing in the stockmarket due to the transfer of debt to the public sector. However, we also foresaw major issues in resolving the enormous public sector deficit, and looked ahead to 'phase 2' of the great credit crunch recession. Six months on, we're seeing these issues in sharp focus ...

Government intervention

Is it really possible to escape a deferred depression by such substantial government intervention, or is it still to come? The answer for the world is somewhat of a curate's egg: good in parts. The answer for the UK economy is that it's one of the 'not so good' parts, and the new Government will face an uncomfortable choice: massive cuts in public spending or a substantial rise in long-term interest rates. It would be foolhardy to choose the latter.

Our spring 2009 issue of The Shareholder introduced a very significant chart: the relationship between Equity Earnings Yields and 20 Year Gilt Yields over the past 25 years. Equity earnings yields were at their highest at this point — over 14% — buoyed by strong earnings before the credit crunch, together with low share prices. The updated chart is shown opposite, and it is stunning to see how those equity yields have fallen: about 30% of this is due to reduced earnings, but 70% has been caused by the rise in share prices.

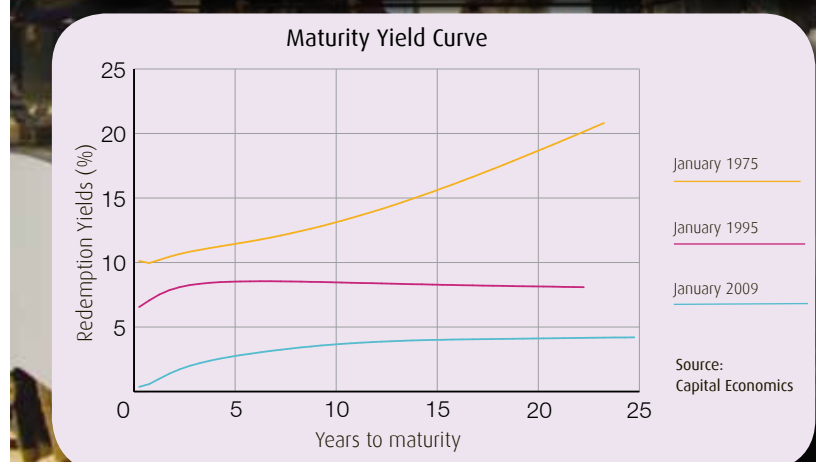
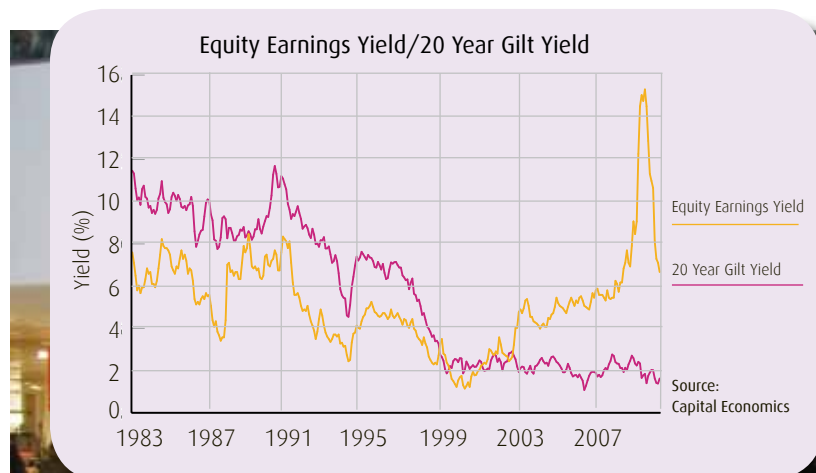
UK investors need to watch this chart carefully as we progress through 2010; we will be publishing it on a regular basis. It is a year for cross-overs in a number of respects, and the two lines may cross in late 2010 for the first time in 10 years, at a yield level of about 6.5%.

Gilts

Let's look at the Gilt market first, because that's where the real pressure will come. Last autumn we ran an article on Gilts. It was a factual article to explain how they work, but we did point out how steeply prices fall for long-dated Gilts as their yield rises: prices fall by 10% to reflect a yield rise from 4% to 5% alone. A rise to that 6.5% level would result in a 25 year Gilt price fall of over 20% from year end levels. And do not for a moment think that day to day interest rates at 0.5% until the end of 2010 and possibly well into 2011 will prevent such rises in long-term yields. The chart below, which also featured in the autumn Gilts article, shows how the

Maturity Yield Curve has differed over the years, with the gap between long-term and short-term rates being over 10% in 1975.

The risk to Gilt prices is substantial, and made significantly worse by the prospect of a hung parliament in the forthcoming election — the Conservatives need a huge swing of 117 seats to win an outright majority. In the indecision which could result from such an outcome, UK economic policy could be driven by the ratings agencies more than the politicians. Conservative MP, Mark Field, has said "the more recent prospect of a hung parliament risks tipping sterling and the gilt market into a catastrophic state".



The UK economy needs to see a reduction in the public sector deficit of at least £40 billion in 2010/11 to stave off these risks, with around 80% coming from expenditure cuts and 20% from additional taxes. That inevitably means job cuts in the public sector which could be as high as 750,000 people. The UK is not, therefore, out of recession yet, whatever the statistics may show.

Investments

So where does this leave UK equities? To a large extent they're shielded from the domestic economy by the scale of overseas earnings: for the FTSE 100, it is estimated that 70% of profits are earned overseas (see pages 4-7). But even if day-to-day interest rates do remain very low — thus increasing the attraction of income yielding stocks — equity dividend yields of 3.5% do not sit easily alongside Gilt yields of 6% or more. If the pound falls further, exporters may have more opportunities, but retailers and those with a more domestic franchise will suffer.

Equities the world over are continuing to enjoy an asset price bubble thanks to continued government intervention, and Governments are not keen to discourage

it. After all, they own large chunks of banking equity which they need to sell off as soon as possible at prices higher than they paid: not easy if share prices are depressed, and of course the market can see them coming. And that won't be the only equity issuance in 2010: there is a queue of companies looking to raise money in share issues both in the UK and the US.

Economies

The countries which drive global economic performance are the US, China, Japan, India, Russia and Europe; one of the other significant cross-over points in 2010 will be China overtaking Japan to become the world's second largest economy. Its huge trade imbalances which many think pre-empted the credit crunch crisis still remain, and trade protectionism remains a big threat to the global economy. To avoid this, the Chinese must allow their currency to revalue against the US dollar, which they continue to resist. Meanwhile their growth is giving way to inflation as their economy starts to overheat.

The US stimulus will continue longer than that in the UK, but already President Obama's poll ratings are reducing sharply

as people lose confidence in his ability to control the public deficit. India struggles to keep pace with China's global expansion, handicapped by serious infrastructure problems, particularly in transport. Europe is a chequerboard of strong and weak economies but, as with the UK, the big issue is how the Eurozone will cope with the risk of default in government Bonds. It may no longer have to cope with volatile currencies but it does have to struggle with fiscal, credit and competitive strains of substantial proportions.

One of the most interesting situations is that of Russia, supplier of enormous quantities of carbon-based energy, not only to the West but also to the East, through its new oil terminal near Vladivostok. Linked by a 2,700 km pipeline to Eastern Siberia's vast reserves, this will drive supplies direct into the hungry Chinese market. But one of the particularly interesting cross-overs to watch in 2010 is the gradual but interminable move from a carbon-based economy to one based on alternative energy, and particularly the use of electricity in transport. Already major car makers are announcing complete ranges of electric vehicles, and nuclear power is once again the buzzword for generators. During 2010 we may start to see the end of oil dominance, with the price falling back significantly from current levels.

So where does all this leave the market? Probably relatively strong in the first four months or so but increasingly volatile as the year continues. This may be a classic 'sell in May and go away' year, and even if we see some recovery at the year end we're unlikely to see the FTSE 100 index much higher than at the start (5,413).

Unfortunately there'll be no particularly safe area: cash will be challenged by price-push inflation, Bonds are under threat from public sector deficits, and equities will reflect the turmoil which accompanies asset price inflation, even if it is government supported. Maybe that's why the Volkswagen pension fund has recently put 50% of its assets into absolute return funds: but tread carefully there, as these funds vary widely in performance with quite short histories.

As always, it's best to think carefully before you leap, and check your ideas with our Investment Advisers to pick up the latest views from the market. See page 10 to find out more.



Asking for Advice

Graham Spooner, Investment Adviser answers some questions about the Advice team and outlines the services they offer.

How much do I need to know about investing before I ring the Advice team?

Nothing. Many of our customers are new investors and have limited knowledge of investment and markets. We're here to help you decide what the right types of investment are for you. We're happy to talk to all our customers, whether they are just starting out or regular, experienced investors. It doesn't matter if you have £100 or £100,000 to invest. If you need advice just call. Find out how at the end of this page.

Will I be charged for investment advice?

No. Unlike other retail stockbrokers, we don't charge extra for the advice we give you over the telephone. And to ensure you enjoy straightforward investing, we only employ plain-speaking experts. There's no impersonal call centre, just people who really know what they're talking about. Our Investment Advisers do not earn commission on deals so there's no hard sell and no cold calling, just considered advice based on your requirements.

What investments do you provide advice on?

Most of the advice we give relates to shares, Investment Trusts and Funds: Unit Trusts and OEICs. But we can and do provide advice on a wider range of investments including Exchange Traded Funds, Gilts, Bonds and Fixed Income investments. We can also help you understand the opportunities and risks of different sectors and markets.

Can you provide guidance on all UK shares?

Yes. We have a lot of financial information at hand so we can provide performance information, trading announcements, risk information and other information on all shares. However, we do not provide an



opinion on every share. We can also tell you our preferred shares in the sectors you're interested in and talk to you about the shares currently on our 'buy' list. If you decide you would like to buy a share we can execute the deal as part of the same phone call; you don't need to be transferred to our Dealing team.

Can I get the same information from your website?

There is a lot of information available in the 'research the markets' section of our website including our 'buy' list, our view on every market sector and a comment on every share in the FTSE-100. But the markets change quickly and if you want up-to-the-minute advice before you invest its best to give us a call.

Will you review my portfolio?

Yes, we're happy to do that on request. If your portfolio includes a lot of blue-chips and popular shares we can normally review your portfolio straightaway. If it is a large portfolio and contains a number of shares that we're not actively watching, we may

need to research it and call you back with the review.

Can you help me understand why shares move?

Yes. If you see a sudden price rise or fall and want to understand why, you can call us for an explanation. There may be something happening that affects just that company, such as a trading announcement or a takeover rumour, or there may be something that affects the whole of the sector. Investors sometimes ask us why a share price falls when good news is announced. Often this is because the rumour of good news has already been reflected in the share price and the actual news may not be quite as good as expected.

What are the most common questions you get asked?

In 2009, we've seen a lot more questions from people interested in short-term trading. We help them understand the various strategies for this type of trading and the higher risks involved. We've also had a lot of questions about the various rights issues and about the banking and mining sectors.

So how do I contact you?

First you need to register with us. You can do this by downloading and completing our Advice Registration Form at www.share.com/advice and then returning it to us by fax or post or emailing it to advice@share.co.uk. The details you provide enable us to get a picture of your financial circumstances in order to provide you with advice appropriate to your aims. You may also find it useful to read our Investment Research Policy at www.share.com/risk. Once you're registered you can call us on 01296 41 43 45.

From Hero to Zero

A year ago we selected our 6 shares for 2009 and like the overall market they have enjoyed (if that is the right word) a roller coaster ride. Graham Spooner, Investment Adviser, reviews their performance.

The statistics show that if you had invested the same amount in each of our tips on 1 January 2009 and held them for the year, you would now be sitting on a 46 % gain (not including dividends). That's a pretty good return but it doesn't tell the full story. The first two of our tips listed here achieved extraordinary, if very different, performance; read on to find out why.

Kalahari Minerals	Start price 44p	Close price 176p	+ 300%
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An astonishing performance from our high-risk mining pick, which in September was showing a 375% gain. Mining companies across the board rallied sharply in 2009 due to recovering commodity prices, a weak dollar, continued demand from China and other emerging economies and an overreaction to the crash in 2008. When it comes to small mining companies the market thrives on good news and Kalahari has been delivering this in spades, attracting the attention of the giant RTZ, who took a stake in the group. "One of the most significant uranium finds of the decade" was a management quote which helped propel the shares higher in the first six months of 2009. Investors also liked the fact that Namibia is a proven country for mining exploration and is more politically stable than other areas of Africa. Demand for this scarce resource is expected to rise with governments worldwide set to embrace more nuclear power so there could still be more excitement to come, but perhaps not on the scale of 2009.

Aero Inventory	Start price 278p	Close price 00p	- 100%
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Oh dear! What can we say about this share? Although we always try to focus on the present and the future, we must not be afraid to learn from our mistakes. In the case of Aero Inventory, an award winning star of the AIM market, there is much to reflect on.

Alarm bells started to ring in March when the group failed to win a hoped-for large contract and spoke of consolidating the business. At that point we no longer recommended the stock to investors and took it off our buy list. In September the share price recovered from around 160p in March to 270p. Then in October, 42 days after announcing it was applying for a full listing, the shares were suspended due to accounting issues. Administration quickly followed and now The Fraud Squad is showing interest. It has emerged that management had poor stock and financial controls along with IT problems. Aero's comparatively fast capital-fuelled growth has led to a huge revenue increase over the last 5 years, but this has not come through to the bottom line as a cash profit. The Management and the auditors have a lot to answer for.

Balfour Beatty	Start price 270p	Close price 260p	- 4%
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A very disappointing performance from a company with a strong order book that is also expanding overseas. There were two main reasons for the underperformance: concerns about future government cutbacks on infrastructure projects and the rights issue to facilitate an acquisition in America. We remain positive, but prefer Carillion in this sector.

GlaxoSmithKline	Start price 1274p	Close price 1336p	+ 5%
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The shares of our favoured large-cap pharmaceutical have been making steady headway since April and look set to benefit further from the new management's change of focus.

BP	Start price 512p	Close price 604p	+18%
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The market is starting to warm to the management and there is growing evidence that the restructuring is working. The shares remain on our buy list.

Croda	Start price 504p	Close price 796p	+ 58%
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This speciality chemical group looks set to make further progress in 2010 and has been restored to our buy list after its last trading update came in ahead of expectations.

Thought for the day

Let us introduce you to Michael Baxter. Regular users of our website, www.share.com, may recognise Michael's name as he wrote the daily Business News articles between 2003 and 2009.

We first came across Michael in 2003 when he launched the daily email newsletter — Investment and Business News. Since then he has written around 5,000 articles or about 2 million words on the economy and business, many of which have also been published on www.share.com.

In December 2006, Michael sold Investment and Business News and, last year, the new owner decided to discontinue the newsletter and we temporarily lost Michael's insightful commentary.

Ever hopeful, we kept in touch with Michael and when the time was right we invited him to write a daily article, exclusively for our customers, under the title of 'Thought for the Day'. Michael's personal insights on current economic and business issues are sometimes controversial, sometimes quirky but always thought-provoking. Judge for yourself at www.share.com/thought.

The run-up to his writing career included time as an active investor in both quoted and unquoted companies and as a founder shareholder in a technology company which was floated on NASDAQ. During the 1980s, he worked in Public Relations and

launched his own PR agency specialising in the leisure computer industry.

Given his background, regular readers of his writing will notice he has a certain affinity for technology and entrepreneurs.

Michael says "technology is the great economic driver we tend to ignore."

His working life has been transformed by computers, and today he reckons his productivity must be around 10 times greater than back in the 1980s. "So why don't economists talk more about technology instead of fretting about rates, and monetary policy and fiscal debt?" he asks.

Even today, while the UK struggles to move out of its worst recession since Winston Churchill was Chancellor, the media rarely mention that our ability to produce goods and services dwarfs the levels of just a few decades ago. And that's why, behind the thin veneer of cynicism, there's a hint of optimism in his writing.

He believes the best hope for the UK lies in entrepreneurs and technology, and reckons the UK's biggest weakness is the faith its people have in rising house prices as the driver of wealth creation.



Michael's first book was published in January 2010. He describes 'Bubbles and Wisdom' as "a kind of popular economics, come anthropology, come history, come evolution book". Find out more about Michael's book at www.bubblesandwisdom.com.

Free Book Offer

We have 5 copies of Michael's book to give away. Simply send an email to marketing@share.co.uk with the subject line 'Free book offer', your name, address and Customer Reference. The draw will take place on 12 March 2010.

Important information about our investment research and content of this magazine:

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.

Performance figures shown are calculated on bid price to bid price basis (mid to mid for OEICS) with net income (dividends) reinvested. Past performance is not a reliable indicator of future performance. Full details of how we reach our views on investments and risk rate investments can be found on our website at www.share.com/risk

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