STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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TIME TO INVEST IN THE UK

Funds to play a resurgent stock market

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Contents

Three important things in this week's magazine

FTSE 100 breaks 8,000 for the first time as UK stocks enjoy a revival

Looking at the prospects for all parts of the market and different funds to play large caps, mid-caps and small caps

Where to find monthly and quarterly income from stocks and funds

Regular dividends through the year can be helpful for people looking to pay their bills from their investments

Get on board with our £5 challenge and invest a bit more each month

Saving and investing often work best when you set aside a bit more money each month and small changes can make a big difference

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

Frasers launches fresh £80 million buyback as FTSE 100 relegation looms

Discover why City of London says it will deliver 57th annual dividend increase

Short seller launches attack on $16.4 billion arts and crafts platform Etsy

Shopify shows why beating forecasts isn't always enough for investors with eyes on the future

AGT
AVI GLOBAL TRUST

A unique investment philosophy

Finding value overlooked or misunderstood by the market

Asset Value Investors (AVI) has managed the c.£1.1bn* AVI Global Trust (the "Trust") since 1985. The strategy over that period has been to buy quality companies held through unconventional structures and trading at a discount to estimated underlying net asset value; the strategy is global in scope, and we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.

The companies we invest in include family-controlled holding companies, closed-end funds, other asset-backed special situations and, most recently, cash-rich Japanese companies. The approach is benchmark-agnostic, with no preference for a particular geography or sector.

AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value ("NAV"); and (3) an identifiable catalyst for value realisation. A concentrated core portfolio, with the current top 10 holdings accounting for nearly 60% of NAV, allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship and actively engage with the managers, board directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies–for the benefit of all.

AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever and we continue to find plenty of exciting opportunities in which to deploy the Trust's capital.

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*As at 31 October 2022

AVI
Asset Value Investors

Big banks fail to live up to the market's high expectations

Higher bad loan provisions and smaller buybacks disappoint investors

It hasn't been a great month for shareholders in the UK's largest lenders, as almost all have lost ground after reporting their full-year 2022 results.

There were some bright spots in the numbers for **Lloyds Banking (LLOY)** on 22 February but its share buyback – pitched at £2 billion or roughly 6% of its market cap – was seen as stingy given the high level of surplus capital on the bank's balance sheet, and its shares dropped 2%.

Shore Capital analyst Gary Greenwood observed that investors may be disappointed by 2023 and 2024 return on tangible equity targets of 13% noting that '**NatWest (NWG)** is targeting 14-16% in 2023 and is now a very similar business to Lloyds'. The company also saw an uptick in impairments linked to bad debts, a manageable but increasing problem for the banks as consumers and businesses struggle.

Shares in **Barclays (BARC)** and NatWest slumped on their own results, seemingly signaling the end of the market's love affair with the big lenders.

Barclays shares put in one of their worst one-day returns in over a year. losing close to 8%, as 2022 earnings missed analysts' expectations at just about every level.

The bank undershot expectations for interest income and return on equity despite an upbeat assessment from new chief executive C.S. Venkatakrishnan.

Chart: Shares magazine • Source: Refinitiv

Any benefit from rising rates was offset by higher impairments for expected credit losses and stubbornly high operating costs.

There was little to cheer in the bank's outlook, either, with costs forecast to remain high, and even a £500 million share buyback did little to lift the mood.

It was a similar story at NatWest , whose shares dropped nearly 7% on 17 February after its full year 2022 results and the outlook for 2023 disappointed the market.

While a 26% increase in total income and a 33% increase in operating income were impressive, investors expressed concern over the bank's elevated cost base – which in the main is made up of salaries and stood at £7.5 billion last year.

Sentiment was also hurt by downbeat comments from chief executive Alison Rose and an increase in bad loan provisions as the bank lowered its macroeconomic forecasts and 'placed more weight on the downside scenario' than previously.

Meanwhile, guidance for total income, net interest margin, costs and return on equity this year looked 'problematic', to quote one analyst, and even news of an £800 million share buyback did nothing to lift the market's mood.

Only **HSBC (HSBA)** saw its share react positively to results, which were above market forecasts thanks to higher banking and markets income.

The shares were also buoyed by the promise of a special dividend following the sale of its Canadian business later in 2023. [IC]

How US retail titans Walmart and Home Depot disappointed investors

Better-than-feared January US retail sales prove false dawn as Wall Street duo are downbeat

US retail sales figures for January proved strong across the board and supported the rosy view the American consumer can remain resilient in the face of inflation, rising interest rates and dwindling pandemic savings.

According to the Commerce Department, retail sales for the month grew by 3%, beating expectations of a 1.9% rise and with no categories seeing a decline, as shoppers continued to spend in the face of higher gas prices.

However, earnings from two of America's biggest retailers, **Walmart (WMT:NYSE)** and **Home Depot (HD:NYSE)** suggested resilient consumer demand may finally be running out of steam.

Both issued gloomy outlooks with their fourth quarter results (21 February). Arkansas-based Walmart was cautious on the year ahead with consumers likely to continue shopping for cheaper items that hurt margins at a time when suppliers are planning further price hikes.

For the year to January 2024, it expects same-store sales for Walmart US to rise by a modest 2% to 2.5% excluding fuel and adjusted earnings per share (EPS) to come in between $5.90 to $6.05 range, below the $6.50 analysts were looking for.

The downbeat guidance overshadowed forecast-beating fourth quarter sales and earnings from the big-box retailer renowned for its value credentials, as Walmart lured in price-sensitive shoppers with its budget groceries, household goods and gifts.

For the quarter to January 2023, Walmart generated revenue of $164 billion and adjusted

US retail sales

($ millions)

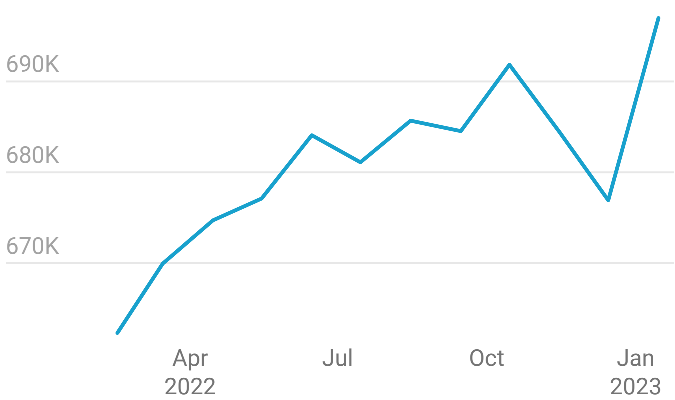


Chart: Shares magazine • Source: Refinitiv

EPS of $1.71, both ahead of the $159.7 billion and $1.51 analysts were calling for, as Walmart US same-store sales excluding fuel skipped 8.3% ahead and e-commerce sales surged 17% higher.

CEO Doug McMillon insisted Walmart had 'acted quickly and aggressively to address the inventory and cost challenges we faced last year' and is 'well-positioned to start this fiscal year'. In addition, the board signed off on a 2% hike in the annual dividend for 2024 to $2.28, marking Walmart's 50th consecutive year of payout increases.

Nonetheless shares in Walmart came under pressure and DIY chain Home Depot also fell after sales for the fourth quarter ended 29 January 2023 came in below estimates due to weak demand caused by inflation and a housing market slowdown. Revenue of $35.8 billion was up 0.3% year-on-year but below the $35.97 billion analysts were looking for marking the first time the world's largest home improvement retailer – has missed Wall Street's sales expectations since November 2019 – as like-for-like sales in the US decreased by 0.3%.

Investors were also spooked as Home Depot, led by CEO Ted Decker, issued a downbeat outlook for the coming year amid a toughening consumer backdrop. Home Depot is now guiding for flat comparable sales in 2023 and a mid-single digit decline in EPS. [JC]

Why billionaire Ken Griffin is backing the Boohoo recovery plan

Citadel raises stake to 8.9% as embattled fast fashion retailer rethinks bonus plan

US-based hedge fund Citadel has upped its stake in **Boohoo (BOO:AIM)** from 5.3% to 8.9% in a show of confidence in the online fashion retailer's turnaround potential. Citadel is majority-owned by billionaire founder and CEO Ken Griffin, so the stake-building demonstrates smart money still sees value in the PrettyLittleThing, Dorothy Perkins and Debenhams owner.

Citadel's buying took place right before Boohoo unveiled less demanding bonus targets (16 February) in the wake of the 'unique and unprecedented set of macro-economic and market headwinds experienced over the last three years' that have seen its share price plunge from north of 400p in 2020 to 53p following profit warnings and sustainability concerns.

Boohoo explained there was now 'little or no value' in the existing Growth Share Plan or Management Incentive Plan after its market capitalisation 'significantly decreased'. Its new growth plan encompasses five tranches of share price hurdles, from 95p to 395p, to create shareholder value within five years and grow the market cap to £5 billion. If vested, the plan has the potential to result in a maximum dilution of around 6% for existing shareholders, with awards potentially worth up to £175 million.

Shore Capital warned it remains to be seen 'whether the plan can help Boohoo overcome intense competition and cash issues and achieve its ambitious goals'. In the broker's view, entrepreneurial executive chairman Mahmud Kamani's involvement is 'central to the company's recovery efforts'. [JC]

Darktrace calls in EY as it mounts fight against big fraud claims

Cybersecurity company hopes independent review will end speculation over its books

Cybersecurity firm **Darktrace (DARK)** has called in independent audit firm EY in response to stinging criticism of the business and its financials by short seller Quintessential Capital Management in late January.

Darktrace saw its share price fall nearly 20% in the immediate aftermath of QCM's report, which alleges financial mismanagement and fraud, yet the stock has recovered quickly. During February to date, Darktrace stock has rallied more than 30% to 275p.

'Appointing an independent to review financial processes after such allegations is very unusual, and we struggle to remember a recent example like this in the tech segment of the LSE,' said Tom Kennedy, analyst at research firm Megabuyte.

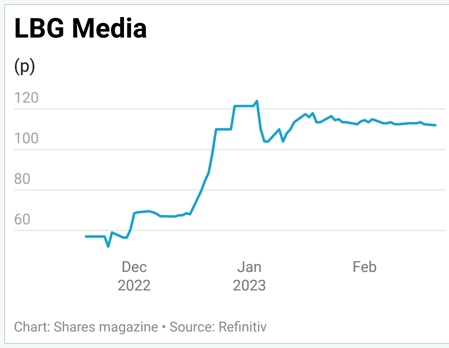
An award-winning artificial intelligence-led pioneer in the fast-growing cybersecurity industry, Darktrace has endured an erratic time on London's stock markets since listing its shares at 250p in April 2021.

Arts and crafts consumer platform **Etsy (ETSY:NASDAQ)** has also come under a short selling attack, accused of being 'one of the largest counterfeiting platforms in the world.'

The allegations were made by Citron Research, which has previously targeted **GameStop (GME:NYSE)** in a shorting attack, where it hopes to profit from falls in target share prices. Citron was one of several short sellers that triggered the 'meme' stock craze two years ago. [SF]

LADbible owner LBG Media more than doubles after strong trading and broker optimism

LBG has the highest number of video views among digital publishers in the UK



A well-timed positive note from Liberum at the end of November 2022 and a strong year-end trading statement (19 December) have helped propel shares in LADbible parent and diversified youth publisher **LBG Media (LBG:AIM)** up more than 120% in just two months to 115p.

The company said revenue accelerated in the seasonally strong second half to reach year on year growth of 20% as both direct and indirect segments contributed to growth.

The company floated on the London stock exchange in December 2021 at 175p per shares which means they are down just over a third from the listing price.

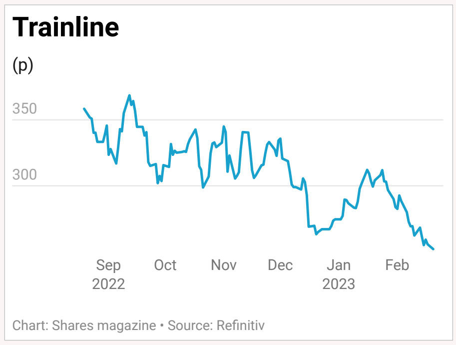
Liberum's analysts see a significant opportunity for the company to grow its direct business in the US and monetise social media platforms beyond Facebook.

LBG has 168 million followers across all its brands' websites and social media channels, two thirds of which fall into the 18-34 age range. Liberum believes this to be a 'highly attractive' but hard to reach demographic which enables the firm to attract global advertisers.

Facebook and LBG entered into an agreement in 2018 to share revenue from in-video advertising within Facebook. LBG earns 55% of revenues from all three-minute videos which are watched for more than sixty seconds, according Liberum. [MG]

Trainline shares down 30% in six months with recovery derailed by strikes

Frequent train strikes have caused the ticketing platform's shares to hit the buffers



Shares in **Trainline (TRN)** have fallen almost 30% over the past six months with the train tickets platform's hoped-for recovery derailed by industrial action.

The rail strikes, which began last autumn, continued into winter and show few signs of letting up as Mick Lynch and the RMT union trade barbs with the UK Government, directly impact ticket sales for Trainline.

In the pre-strikes half to August 2022, Trainline's net ticket sales rose 116% year-on-year to £2.2 billion as the rail industry continued its recovery across Europe and the company benefited from e-ticket growth in the UK. An ongoing structural driver for the business as people move away from paper tickets. Liberum argues strike disruption and its impact on estimates is 'a transient issue'.

The broker also notes that the competitive threat from state-owned platform Great British Railways is diminishing as 'the project continues to be delayed and seemingly diluted. This provides a clearer path and a return to the share price trading on fundamentals over the medium term.' [JC]

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS

24 February: International Consolidated Airlines, Jupiter Fund Management

27 February: Centralnic, Globaldata, Greencoat Renewables, RHI Magnesita, Senior

28 February: Abrdn, Croda, Derwent London, HUTCHMED, Intertek, Kitwave, Man Group, Morgan Advanced Materials, Ocado, Rotork, St James's Place, Travis Perkins, Uniphar, Unite, Videndum, XP Power

1 March: Aston Martin Lagonda, Capital & Counties Properties, Getbusy, Nichols, Persimmon, Rathbones, Reckitt Benckiser

2 March: Alfa Financial Software, Beazley, Cairn Homes, Capita, Capital & Regional, Coats, CRH, Flutter Entertainment, Grafton, Hunting, London Stock Exchange Group, Melrose Industries, National Express, PPHE Hotel, Schroders, Spire Healthcare, Synthomer, Taylor Wimpey, Tritax Big Box REIT, Tyman

HALF-YEAR RESULTS

24 February: CVS

27 February: Dechra Pharmaceuticals

28 February: Bluefield Solar Income, Mcbride

1 March: Haydale Graphene Industries

TRADING UPDATES

27 February: Associated British Foods

All eyes on earnings and dividends as housebuilders report next month

Investors will be hoping activity picks up and payouts are at least maintained

After analysts at Deutsche Bank recently cut their recommendations on four leading housebuilders, investors will be keen to hear from **Persimmon (PSN)** and **Taylor Wimpey (TW.)**.

Persimmon, which reports full-year earnings on 1 March, revealed in November it had seen cancellation rates spike as high as 28%, putting its full year completions target in question.

The firm also confirmed it had ended its capital return programme and would reveal its new dividend policy to shareholders with its results.

Taylor Wimpey, which reports the following day, said cancellation rates spiked to 23% in the second half of last year, while net private reservations were down nearly 45% on 2021, although it made no comment on its dividend policy. [IC]

ITV's new streaming service is set to take the spotlight

Free-to-air broadcaster will update on ITVX platform

When **ITV (ITV)** reports its full year numbers on 2 March a lot of focus will be on the performance of its new streaming platform ITVX – its answer to the growth of streaming and structural decline of linear television.

Unveiled to widespread investor scepticism a year ago and launched in December 2022, the platform got off to a decent start thanks to a winter World Cup. The free ad-funded streaming service delivered a 55% increase in streaming hours in the first month after launch compared with the same period a year ago. Exclusive content on the platform was said to have performed well.

Shore Capital analyst Roddy Davidson is positive on the appeal of free-to-air platforms with deep content at a time when consumers seem set to scrutinise their commitment to subscription services. [TS]

Price war brewing as Rivian set to announce record losses

EV start-up under all kinds of pressure amid robust competition

Already grappling with falling cash reserves and a weak economy, electric vehicle start-up **Rivian (RIVN:NASDAQ)** is now bracing for what may be an industry-wide price war.

Revenue for the three months to 31 December 2022, due on 28 February, are expected see rough $729 million sales, 28% higher than the previous quarter and up from $60.5 million a year ago, but analysts are projecting its biggest ever loss per share of $1.96. In September, Rivian had $13.3 billion in cash, down from over $18 billion a year earlier. [SF]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

27 February:
Berkshire Hathaway, Occidental, Workday

28 February:
Autozone, HP, Rivian, Target, Verisk

1 March:
Lowe's, Monster Beverage, Salesforce

2 March:
AMC Entertainment, Hewlett Packard Enterprise

Can activists help Salesforce turn round its flagging performance?

The cloud-based software company hired too many staff heading into an economic downturn

Sales growth at Marc Benioff-bossed **Salesforce (CRM:NYSE)** has slowed significantly over recent quarters and investors will be are concerned to see how demand is holding up when the cloud-based software company posts fourth quarter and full year earnings on 1 March.

Following a rough period for the shares, the acquisitive customer relationship management software giant has rallied 23% year-to-date on hopes five known activists including Elliott Management, Inclusive Capital Partners, Starboard Value and Third Point can help improve the group's performance.

In January Salesforce, the leading player in front office digital transformation for large enterprises, announced it would lay off 10% of its workforce and cut office space in some markets in a bid to turn around performance, having taken on too many people during the pandemic and ahead of a downturn. [JC]

Why you should book your holiday with Jet2, and buy the shares too

Hard won reputation helping travel firm win market share and bolster margins

JET2 (JET2:AIM)
Price: £12.97 Market cap: £2.77 billion

People are still prizing their week in the sun despite the strain put on household budgets by soaring inflation, and we believe that airline and package holidays firm **Jet2 (JET2:AIM)** will emerge as one of the big winners as the travel and tourism resuscitation continues.

Jet2 has experienced several false dawns in its pandemic recovery, yet the brand has earned numerous plaudits for the way it put customers first during the Covid-19 pandemic, something not all travel companies can say. That's important from an investment point of view, it should mean taking market share from rivals that have handled things less well, or from those that simply have not been able to survive.

Evidence of this was recently seen in UK Civil Aviation Authority data which put Jet2 as the UK's number one holidays firm by passenger numbers, overtaking **TUI (TUI)**.

Data from the company itself has also been knock-out. In a trading update on 26 January, Jet2 said it would beat market expectations for the March 2023 financial year, prompting analysts to rip up forecasts for both the 2023 and 2024.

The company steered investors to expect pre-tax profits of between £370 million and £385 million, way beyond the £317 million previously pencilled in by analysts, thanks to strong winter bookings and a highly promising ledger for summer 2023.

The company said that on-sale seat capacity for summer 2023 is 6.6% higher than the summer 2022 season at 15.2 million seats and forward bookings are 'encouraging'. Load factors (how many seats are filled) are above pre-pandemic levels with pricing and margins 'significantly' higher.

Jet2 is also seeing a positive mix with 60% of its business coming from package holiday customers – up 16 percentage points on pre-Covid levels.

Challenges haven't evaporated entirely, and the holidays firm still faces input cost pressures from fuel, a still relatively strong US dollar and higher wages for staff. In late January, Jet2 announced a pay deal for staff that saw average wages rise 9%, the profit bonus pool deepened and an extra day holiday.

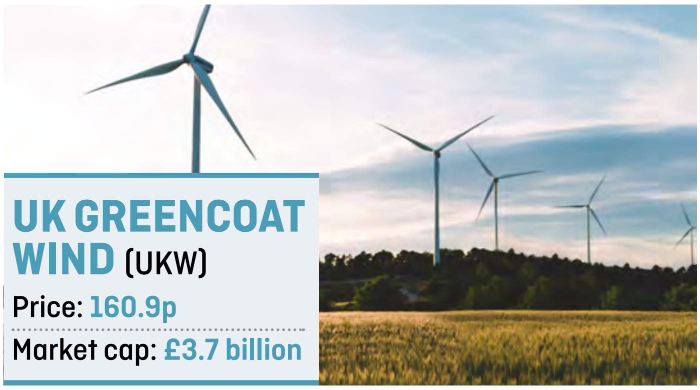
True, the share price has already enjoyed a good run, rallying almost 38% so far this year, but this was coming from a low point. On Numis' forecasts for 131.3p of earnings per share, the stock still trades on a price to earnings multiple of less than 10 even now, plus shareholders are expected to receive an extra 13p to 14p per share of dividends for the March 2024 full year. That payout could rapidly increase if things go better than conservative projections.

The balance sheet is also in good shape, with an anticipated £456 million of net debt come end of March implying comfortable headroom at a net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio of 0.8 times. [SF]

Chart: Shares magazine • Source: Refinitiv

Invest in renewables winner UK Greencoat Wind for a handsome 5.4% dividend yield

The investment trust is set to increase its payout by 13.4% in 2023 as it maintains a RPI-linked target



UK GREENCOAT WIND (UKW)

Price: 160.9p

Market cap: £3.7 billion

The transition to cleaner energy is a long-term trend which will involve significant investment in areas like renewables. **UK Greencoat Wind (UKW)** is a good way to play this transition while offering a stream of income from dividends which are rising in line with inflation.

The trust generates strong cash flow from its portfolio of onshore and offshore wind farms, reinforced more recently by strong power prices. Often trading at a premium to net asset value, it is currently at a modest discount of 3.3%.

Revenue from operating wind farms in the UK is made of up of several components. The main one is the sale of power produced under long-term agreements to utilities who are obliged by law to purchase a certain percentage of power from green sources.

Since its launch in 2013 Greencoat UK Wind has paid an RPI-linked dividend and it reaffirmed these inflation-busting income credentials in January as it confirmed a 2023 target to increase dividends by 13.4% to 8.76p. That puts the stock on a 5.4% prospective yield.

Dividend cover in 2022 was 3.2 times which leaves surplus cash of £395 million, according to estimates by research group Kepler, which can be reinvested in the portfolio, helping to lay the foundations for further growth in the dividend.

Greencoat has a committed pipeline of acquisitions and the growth opportunity is highlighted by the estimated total value of UK assets in operation, construction or with planning consent of around £90 billion.

Because the dividend is well covered by earnings, the trust can withstand significant downside in wind volumes and power prices in any individual year.

Analysts at Kepler note the managers' observation that they 'fixed the roof when the sun was shining' in 2022. 'When electricity prices were rising at their fastest rate, they built plenty of conservatism into the net asset value by assuming very significant haircuts to the wholesale electricity prices at which they would sell their energy output. As interest rates started to increase, they raised the discount rate at which they value assets.'

Rising interest rates have led to higher discount rates on long duration assets like renewables infrastructure. Two key elements make up the discount rate – the risk-free rate which is typically taken as the yield on government bonds and the risk premium which is the part which reflects the risk associated with investing your money. The risk-free rate has moved materially higher.

This has already had an impact on the valuation of trusts in this space and we now think it is fully factored in by the market. [TS]

Greencoat UK Wind

Chart: Shares magazine • Source: Refinitiv


BING!
BING!
BONG!

There are plenty of reasons still to like Moneysupermarket after our gains

The revival of energy switching is moving closer every week even if a full 2023 return is not on the cards

Moneysupermarket (MONY) 233p

Gain to Date: 34%

We recommended money-saving website operator **Moneysupermarket (MONY)** in May 2022 on the basis the cost-of-living crisis would lead everyone to start comparing what they pay at the moment for services like insurance and broadband with what they could be paying if they switched to a different provider.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

We're pleased to say that, with food inflation hitting double digits and housing costs in general (rent, mortgages, fuel bills, electricity) going through the roof, activity has taken off not just in obvious areas like services but also in sectors like travel as people have used the opening up of the airline market to get away from the daily grind.

> "We would keep hold of Moneysupermarket as it is a unique franchise in terms of listed UK companies"

Chart: Shares magazine • Source: Refinitiv

At the same time, as interest rates have risen, borrowers have been scouring the site for cheaper deals on mortgages, loans and credit cards, while those with savings have been looking for deposit accounts with attractive rates.

In the year to December, the firm reported a healthy 22% increase in revenue driven by strong performances in its travel and money channels and solid trading at the core insurance business.

The disappointments, such as they were, are that the big money-spinner of energy switching seems unlikely to return in full this year, and the firm didn't increase its dividend from the previous year's 11.7p per share, which upset a few investors.

The shares were initially marked down 8% on the report, but they ended the day in positive territory as buyers stepped in.

WHAT SHOULD INVESTORS DO NOW?

We would keep hold of Moneysupermarket as it is a unique franchise in terms of listed UK companies.

While the lack of energy saving services is a hindrance, it is surely temporary and every day that passes brings its return closer.

Also, maintaining last year's (uncovered) dividend at 11.7p made sense to us as the company needs to maintain flexibility.

If it can't find any interesting organic or acquisitive growth opportunities, the board has already said shareholders will have money handed back to them in a 'special distribution'. [IC]

Indivior's surprise $290 million provision highlights litigation risks

The uncertainty over future liabilities means we think it would be wise to step away

Indivior
(INDV) £15.99

Loss to Date: 6.8%

Consistent upgrades to earnings from both the company and analysts resulting from strong growth in OUD (opioid use disorder) treatment Sublocade prompted us to turn positive on **Indivior (INDV)** in November 2022.

We argued the shares looked too cheap against the growth potential of the business but caveated the positive narrative because of the potential for adverse legacy litigation.

Both scenarios seem to be playing out at the same time after a recent trading update (16 February) showed better than expected growth, but also an unexpected $290 million exceptional provision related to legacy multi-district litigation cases.

> **"It seems to us an impossible task to assess the reasonable likelihood of 'new information' cropping up on legal cases"**

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

The shares have dropped around 15% since the trading update which saw the company fall into a full year net loss of $183 million.

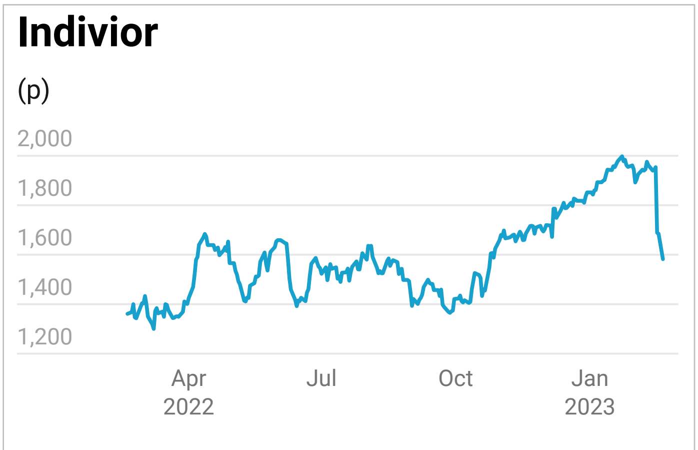


Chart: Shares magazine • Source: Refinitiv

The company said initial mediation meetings in late January 2023 provided new information on the 'previously disclosed contingent liability'.

The provision is the board's best guess and Indivior was keen to point out the final aggregate costs may be 'materially' different from the provision set aside.

This casts a shadow over what were otherwise positive strategic developments. Peak sales from Sublocade are expected reach more than $1.5 billion while sales of extended-release schizophrenia drug Perseris are expected to reach peak sales of between $200 million to $300 million.

The company also confirmed plans for a secondary US listing on Nasdaq which is expected to happen in the spring.

Indivior ended 2022 with cash and investments of $991 million, slightly down from $1.1 billion in the prior year after completing a second $100 million share repurchase programme which resulted in the company cancelling around 3% of its outstanding shares.

WHAT SHOULD INVESTORS DO NOW?

Although we recognised litigation as a risk, we did not expect the magnitude of the latest provision on top of the $607 million Department of Justice settlement agreed in 2020.

It seems to us an impossible task to assess the reasonable likelihood of 'new information' cropping up on legal cases which turn contingent liabilities into future provisions. We think it would be prudent to cut our losses now. [MG]

Green shoots for global markets in 2023?

- *There are many risks for the global economy in 2023, but there are also encouraging signs*
- *Asia is benefitting from the reopening of China and improving investor confidence*
- *Reliable cash flow and dividends are likely to be highly valued by investors this year*

Last year saw a significant adjustment in financial markets, as inflationary pressures ushered in a new era of rising interest rates. Markets also had to contend with sliding economic growth and a squeeze on household and corporate spending. So far in 2023, the outlook still warrants caution, but there are green shoots emerging.

These green shoots are perhaps most evident in Asia. China is reopening as it moves away from its zero-Covid policy. This creates economic momentum across the region, as activity resumes. At the same time, Asia's post-pandemic debt hangover is not likely to be as severe, with governments remaining more circumspect about spending than their Western peers and inflationary pressures lower. This means the path to recovery appears clearer.

Asian markets

In Asian financial markets, valuations have been hit hard. The region saw a significant bounce in the first month of 2023 as confidence has returned. Gabriel Sacks, manager of abrdn Asia Focus, says: "It has been an exciting start to the year for Asia. Inflation has been relatively benign, particularly in China. Increasingly, there is an expectation that there might be pent-up spending – household savings have increased a lot. This is worth bearing in mind."

He admits there are still some reasons for caution. It is still not clear how high interest rates could go and this could impact certain markets, such as India. He adds: "2023 could be a tough year for growth and earnings could also slow. But Asian companies have been more conservative and economies have generally been managed in an orthodox way. This positions Asia well and it should remain the powerhouse for global growth."

Elsewhere, more caution is warranted. Martin Connaghan, Murray International Trust manager, says the team is still finding plenty of opportunities, particularly in sectors that have been sold off, but remains diversified and defensive: "We have holdings across Latin America, Asia and Europe. The only area we don't hold is Japan – we have a level of frustration with Japanese companies on their conservative capital allocation. We are well-diversified across industries and sectors, holding energy, consumer staples and telcos. We are underweight those areas that don't offer high or consistently growing dividends, including the software space of technology and most consumer discretionary companies.

"We're still quite cautious, particularly after the recent rally. We expect to see S&P 500 earnings at around 3% and sales growth slowing to a similar level. In general, employment has had to drop further before the cycle turns. Activity has fallen, but we need to see unemployment numbers tick up to bring prices under control."

Stay diversified

Nalaka De Silva, manager of Aberdeen Diversified Income & Growth Trust, is similarly circumspect. He says core inflation is proving persistent and 'soft landings' are difficult to orchestrate: "The US Federal Reserve is effectively killing the cycle and we have yet to see where rates peak through this year. The extent of the recession is also unknown."

The trust is split into three main areas: equity, fixed income and credit, and reduced beta assets, which includes areas such as listed alternatives and infrastructure. De Silva says exposure to private markets brings a long term perspective to the portfolio. He admits there has been some concerns that valuations of private equity holdings do not yet reflect the weaker economic environment. He believes the high yields on offer more than compensate for any potential re-set on valuations. There are also significant discounts on many of the private equity trusts. The fund holds private equity managers rather than making individual private equity investments, which gives greater diversification.

The trust is also looking for opportunities in equities and credit markets as the economic downturn unfolds and value re-emerges. He says visibility of cash flow and inflation protection is important. As such, he has trimmed back non-investment grade bonds and unrated credit, maintaining a weighting in investment grade where there is less chance of default. The fixed income portfolio tends to be shorter-duration, with less exposure to interest rates.

De Silva believes yield is likely to be particularly important in the year ahead, as investors look for stability while capital values remain volatile and uncertain. The fund looks to have a broad mix of income sources, including listed infrastructure, real estate, private infrastructure and private credit. This helps create a stable portfolio of income-generative assets.

There are green shoots in the year ahead, but until there is greater clarity on the turning point for inflation and interest rates, some caution is warranted on financial markets. At abrdn, the focus is on finding assets with reliable, inflation-adjusted cash flows and income.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein, and not as an investment recommendation or indication of performance.

TIME TO INVEST IN THE UK

Funds to play a resurgent stock market

By **Daniel Coatsworth** and **James Crux**

Finally, everyone is talking about UK stocks. The spotlight is back on the country after the UK's FTSE 100 was one of the few major indices globally to record positive returns in 2022 and this year it has broken through the 8,000 level and hit a new record high. Hopefully, this will lead to the return of foreign investors who have shunned the UK since the Brexit vote in 2016.

Investors can either buy individual shares or obtain broader exposure via funds, investment trusts or exchange-traded funds. This article offers some investment ideas and explains what to consider with the large, mid and small cap parts of the market.

LARGE CAPS

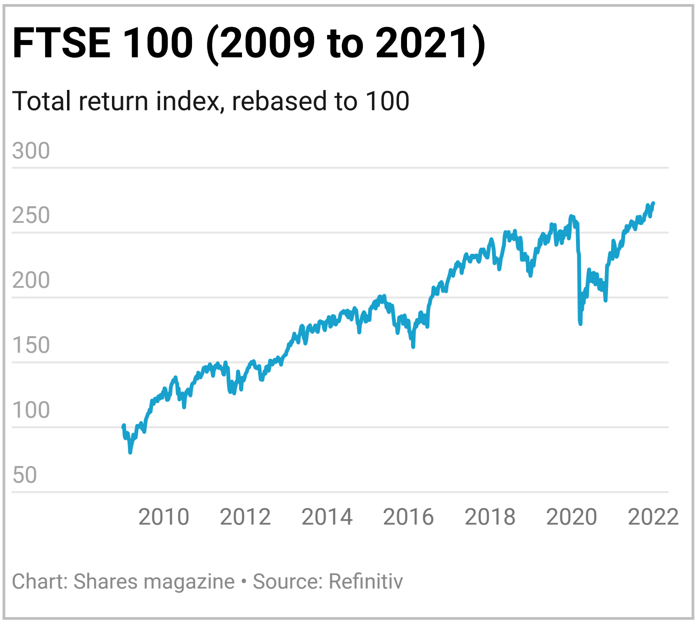
The FTSE 100 is an index of the biggest companies on the London Stock Exchange, dominated by pharmaceuticals, oil producers, banks, miners, consumer brand companies and tobacco manufacturers.

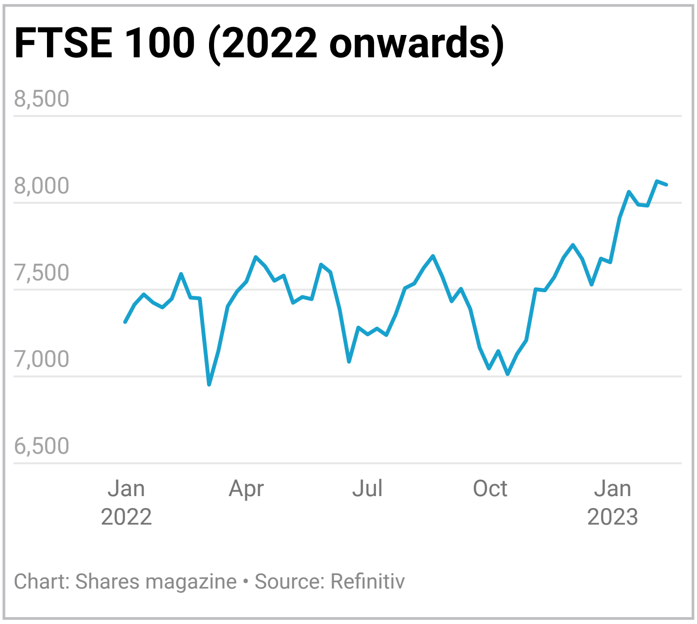
The one thing that unites these sectors (excluding consumer brands) is cheap valuations. The reasons behind many of these low price to earnings ratios is two-fold. First, oil companies, miners and banks are highly cyclical industries and have unpredictable earnings. They typically trade on low price to earnings ratios as a result.

Second, oil companies and tobacco producers sell products deemed unfriendly in the modern world from an ESG (environmental, social and governance) perspective. Many investors will not touch these stocks full stop, hence they carry a market discount.

The FTSE 100 has lagged the S&P 500 index in the US for more than a decade but finally came out of its shell in 2022 when there was a market rotation towards value stocks, many of which can be found on the UK stock market.

Investors were less willing to pay high multiples of earnings to access growth companies in a rising





interest rate environment, so value stocks shone in 2022. The FTSE 100 with its multitude of lower growth, but profitable and cash-generative firms suddenly became in vogue.

Last October, investors developed a bigger appetite for risk, with previously sold-off areas such as small and medium-sized companies and US stocks beginning to bounce back. Interestingly, the FTSE 100 did not go into reverse; instead, it has continued to push ahead. That tells you we are not simply seeing a rotation back to the areas which previously did well before the big sell-off that started in late 2021.

We may only see a couple more interest rate rises this year but there are not expectations for rates to suddenly come down at a rapid pace, so a higher cost of borrowing is something that consumers and businesses will have to stomach. That suggests value stocks could continue to do better than growth stocks for the foreseeable future.

Inflation is also proving to be stickier than previously anticipated, despite key components such as energy coming down in price. Therefore, there is a good argument to suggest that large cap UK stocks will remain in demand.

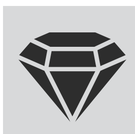
'A recession may not a big surprise now, at least from a share price perspective, and if we get an alternative outcome – such as stagflation, inflation and stickier-than-expected interest rates – the UK equity market's charms may become more apparent,' says Russ Mould, investment director at AJ Bell.

'There is the potential for upside to earnings estimates, especially as the slant of earnings towards oils, miners and banks means the FTSE 100 may be one of the indices that is better suited to an inflationary or stagflationary out-turn which could mean interest rates stay a bit higher for a bit longer than expected and that the yield curve turns out steeper than expected.'

THE SECTORS THAT MATTER

It's important to think about the sectors that dominate the index as these will be the drivers to help the FTSE 100 reach even higher levels.

OIL PRODUCERS: Investors have realised these companies are still making significant amounts of money and dividends are growing again. Demand for oil remains robust despite a global shift towards renewable energy and companies like **BP (BP.)** have realised the transition away from fossil fuels is going to take longer than previously expected. Valuations remain cheap.



MINERS: A lack of investment in new projects over the past decade provides support for commodity prices as supplies are getting tighter across metals and minerals.

The reopening of China's economy provides a tailwind for commodities demand and there is a structural growth driver from decarbonisation. The transition to renewable energy and a shift from internal combustion to electric vehicles require significant amounts of metals and materials.

The mining sector is sensitive to economic news, so buying shares when the outlook is mediocre to gloomy is better than buying when everything seems rosy as you should get a better entry point.

BANKS: We have returned to a more normal interest rate environment, and one where banks should be able to make better earnings than the past decade or so of low rates.

Longer term, the banking sector is not an attractive place to invest due to regulatory pressures and elevated levels of competition. But short term it could be a source of positive returns.

Banks are better capitalised as we enter a potential economic downturn. That said, **Barclays' (BARC)** poorly received results on 15 February show it is not all plain sailing.

'By the very nature of markets, there will be some so called "Hot Money" involved,' says Rob James, a fund manager at Premier Miton. 'Banks that have missed forecasts, even marginally, have seen sharp (downward) share price movements as the hot money leaves. But to me, this is noise. Interest rates are not returning to the zero band.

'Sure, there are some headwinds to consider. Inflation is affecting everyone, so costs will have to rise. Higher rates will inevitably lead to higher bad debts. But the juggernaut of interest income has a powerful engine, and will reward shareholders through significant capital returns, be that in the form of dividends or share buybacks, the latter of which boost earnings per share for those that remain invested.'

TOBACCO: Stocks remain cheap because investors either do not want exposure to this sector for ethical reasons or they question the long-term growth in a world when regulation is tightening, more people are health conscious and there is a structural shift from tobacco to vaping.

However, tobacco companies have continued to churn out the profits and cash which fund large dividends and share buybacks. If lacklustre economic conditions continue for the rest of 2023, defensive names such as tobacco stocks could be in fashion again.

CONSUMER GOODS: Owners of prized brands have been pushing up prices but there are concerns that if they go up too much then consumers will look for cheaper alternatives. Despite this risk, **Unilever (ULVR)** and **Reckitt (RKT)** are both undergoing management changes which the market hopes will result in a sharper focus and hopefully stronger returns in time.

BEVERAGES: Diageo (DGE) is the only stock in this sector that really matters to the FTSE 100. It has benefited from the reopening of the hospitality industry post-Covid, more people travelling (as it shifts a fair number of whiskey bottles via airport shops), and the shift towards premiumisation with regards to alcohol choices.

PHARMACEUTICALS: GSK (GSK) is one of two big players in this sector within the FTSE 100 and trades at a 20% discount to its industry median, providing investors with a value stock opportunity. A string of good news from company is helping to revive its share price.

TWO WAYS TO PLAY THE UK LARGER COMPANY SPACE

Temple Bar (TMPL)

243p

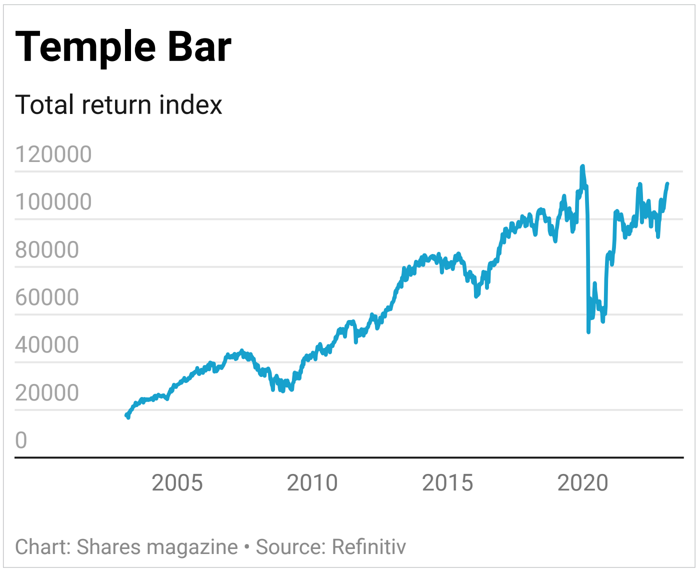
BUY

DISCOUNT TO NET ASSET VALUE: 7.1%

YIELD: 3.9%

ONGOING CHARGE: 0.48%

This is a value-focused investment trust well suited to the current market environment. Co-managed by Redwheel's Ian Lance and Nick Purves, Temple Bar seeks to achieve a greater



total return (share price gains and dividends) than the benchmark FTSE All-Share index by investing in UK shares.

Performance has turned round significantly since Redwheel's appointment as manager in 2020.

Lance and Purves consider a company's growth prospects and sustainable levels for profit margins and then calculate an intrinsic value for the business, looking to invest when the shares trade below this intrinsic value.

The onus is on larger companies selling cheaply which have strong enough balance sheets to survive any short-term problems.

The top 10 as of 31 December included retail bellwether **Marks & Spencer (MKS)** and broadcaster **ITV (ITV)** as well as energy giants BP and **Shell (SHEL)**, **British Gas owner Centrica (CNA)**, education publishing group **Pearson (PSON)** and banking group **NatWest (NWG)**.

City of London Investment Trust (CTY) 425.5p

BUY

PREMIUM TO NAV: 1.8%

YIELD: 4.7%

ONGOING CHARGE: 0.37%

Investors seeking a conservatively-managed income fund offering exposure to the 'best ideas' of the FTSE 100 and an attractive 4.7% yield should buy shares in **City of London (CTY)**.

Managed by Job Curtis since 1991, City of London is renowned for its 56-year record of unbroken annual dividend increases.

Targeting long-term income and capital growth from high-quality large caps with strong balance sheets, City of London is a happy holder of so-called 'sin stocks' including cigarette makers **British American Tobacco (BATS)** and **Imperial Brands (IMB)**, defence contractor **BAE Systems (BA.)** and alcoholic drinks giant Diageo.

It also invests in the likes of consumer goods giant Unilever and information services group **RELX (REL)**.

City of London Investment Trust

Total return index

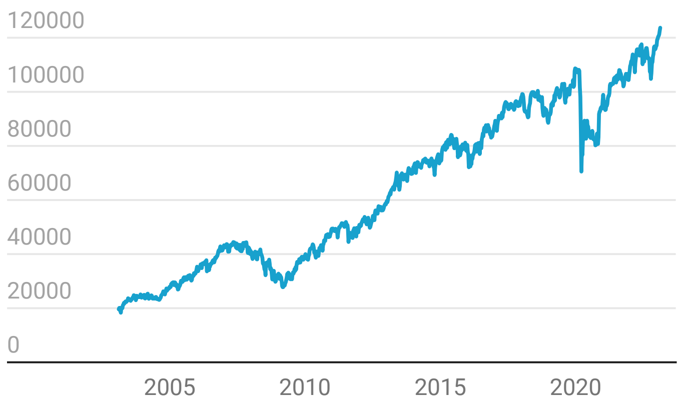


Chart: Shares magazine • Source: Refinitiv

FTSE 250

The FTSE 250 features the next biggest companies on the London Stock Exchange after those in the FTSE 100.

Whereas the FTSE 100 increased by 1% in value in 2022, the FTSE 250 slumped by 20% as the mid-cap index has a greater weighting to industries that might suffer should there be an economic slowdown. This includes areas such as retail, travel, leisure and industrials.

The flipside of a sharp correction in the value of the index means mid-caps are now trading on more attractive valuations.

'The market has been anticipating that earnings would come under pressure,' says Richard Bullas, manager of the **FTF Martin Currie UK Mid Cap Fund (B7BXT54)**. 'We have had six to 12 months

FTSE 250 outperformance after interest rates peak (1985-2022)

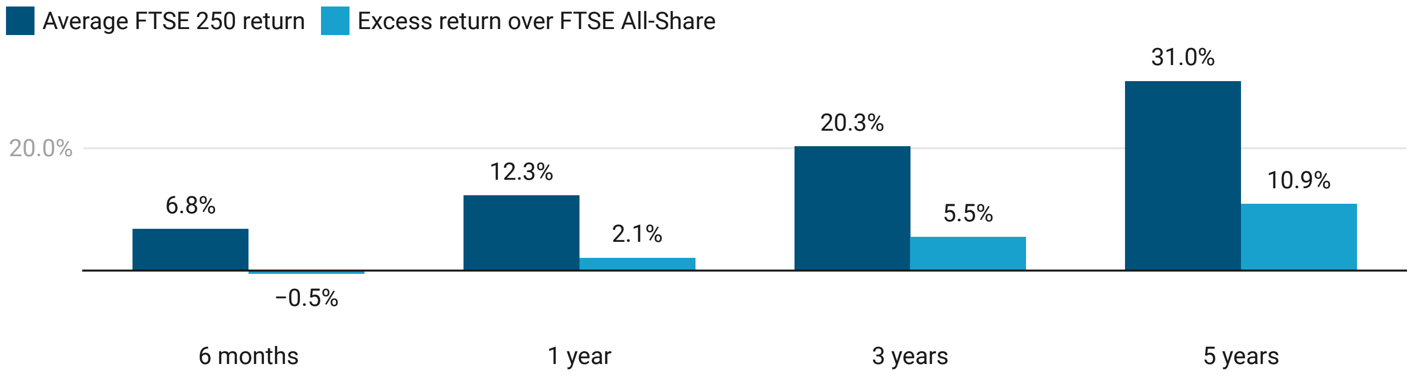


Chart: Shares magazine • Source: Martin Currie

of downgrades to earnings forecasts. While we are still seeing downgrades, we think we are past the worst. That makes us more optimistic.'

Yes, mid-caps have started to bounce back from the late 2022 lows, but there is still further to go before they recover all the lost territory.

For example, **Halfords (HFD)** fell 64% from a starting point of 345p in January 2022 to a low of 125p in August. A 75% share price recovery since last summer sounds very impressive, but that only takes the stock back to 218p. It needs to rise a further 58% before returning to the 1 January 2022 share price level.

Admittedly there is no guarantee any of these shares will return to their previous highs, particularly if earnings expectations have fallen. Yet there is a feeling that earnings forecasts for mid-caps in general might start to go up from here, because so much potential negativity has already been priced in and many experts believe we will not get such a severe recession as previously thought.

'We can see a manageable downturn. We have not had mass jobs layoffs and unemployment remains low,' notes Bullas.

If the optimists are wrong and we get a nasty downturn, the FTSE 250 does not have the type of defensive stocks where investors can hide. Instead, we would feasibly see another sell-off but that is merely an opportunity to buy more shares in good companies at a cheaper price, in the view of Bullas.

Richard Champion, deputy chief investment officer at Canaccord Wealth Management, says many mid-caps last year suffered from supply chain problems and rising costs, putting a squeeze on margins. He believes these issues have now rectified as shipping costs fall, so headwinds are now tailwinds for earnings.

Outperformance of FTSE 250 after a year of negative returns (1985-2022)

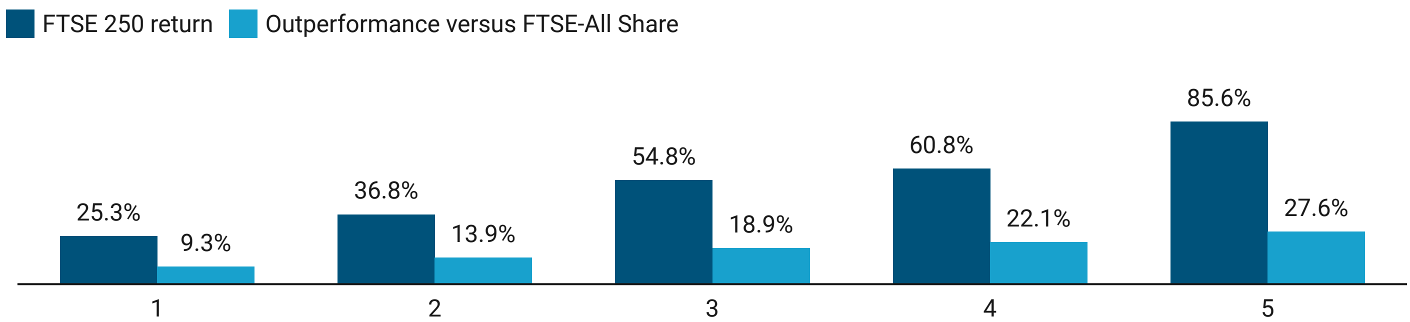


Chart: Shares magazine • Source: Martin Currie

TWO WAYS TO PLAY THE UK MID-CAP COMPANY SPACE

Schroder UK Mid Cap Fund (SCP) 603p

BUY

DISCOUNT TO NAV: 9.7%

YIELD: 3.2%

ONGOING CHARGE: 0.89%

The share price rebound at **Schroder UK Mid Cap Fund (SCP)** should have further to run should interest in British shares be rekindled in 2023, hopefully narrowing the 9.7% discount to net asset value on the UK All Companies sector's best one and five-year share price total return performer, according to AIC data.

Managed by Jean Roche and Andy Brough, Schroder UK Mid Cap aims to deliver a total return in excess of the FTSE 250 (ex-investment companies) index.

The managers refer to the FTSE 250 as the 'Heineken index' given its potential to 'refresh' portfolios in a way other parts of the UK stock market cannot.

The fund's three leading sector allocations are to industrials, consumer discretionary and financials, while top portfolio positions span global autos distributor **Inchcape (INCH)**, fantasy miniatures maker **Games Workshop (GAW)**, homewares retailer **Dunelm (DNLM)** and multi-utility supplier **Telecom Plus (TEP)**.

BlackRock Throgmorton Trust (THRG) 636p

BUY

DISCOUNT TO NAV: 2.7%

DIVIDEND YIELD: 1.7%

ONGOING CHARGE: 0.55%

Should we see a significant decline in inflation and investors begin to peer past the peak in interest rates, this could benefit funds focused on UK small and mid-caps and would augur well for **BlackRock Throgmorton (THRG)**.

Disappointingly, the Dan Whitestone-steered fund's net asset value fell by 31% and underperformed the Numis Smaller Companies plus AIM ex-IC index in the year to November 2022 as Whitestone's growth style fell out of favour as investors focused on energy, lower growth value and defensive stocks.

Yet despite the tough backdrop, Whitestone is sticking to his tried-and-tested focus on high quality, financially strong, highly profitable and cash generative growth companies that can weather the storm and has been rewarded by a recent pick-up in performance.

BlackRock Throgmorton, which has delivered strong 10-year annualised total returns of 13.4%, offers exposure to mid-cap names such as **WH Smith (SMWH)** and specialist distributor **Diploma (DPLM)** as well as interesting small cap stocks.

Schroder UK Mid Cap Fund

Total return index

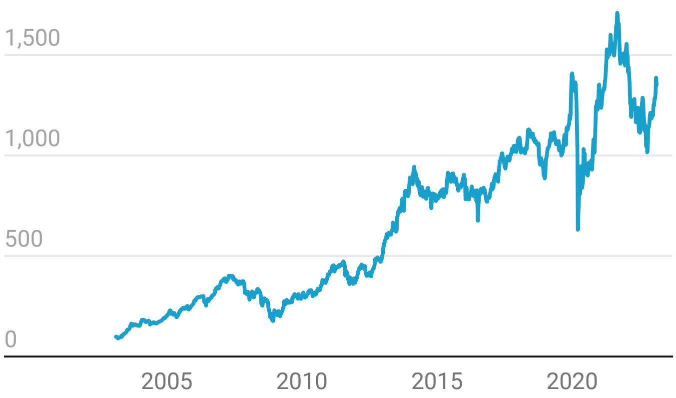


Chart: Shares magazine • Source: Refinitiv

BlackRock Throgmorton

Total return index

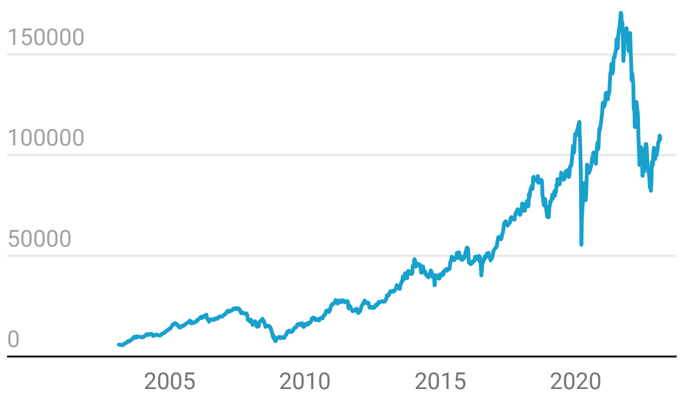


Chart: Shares magazine • Source: Refinitiv

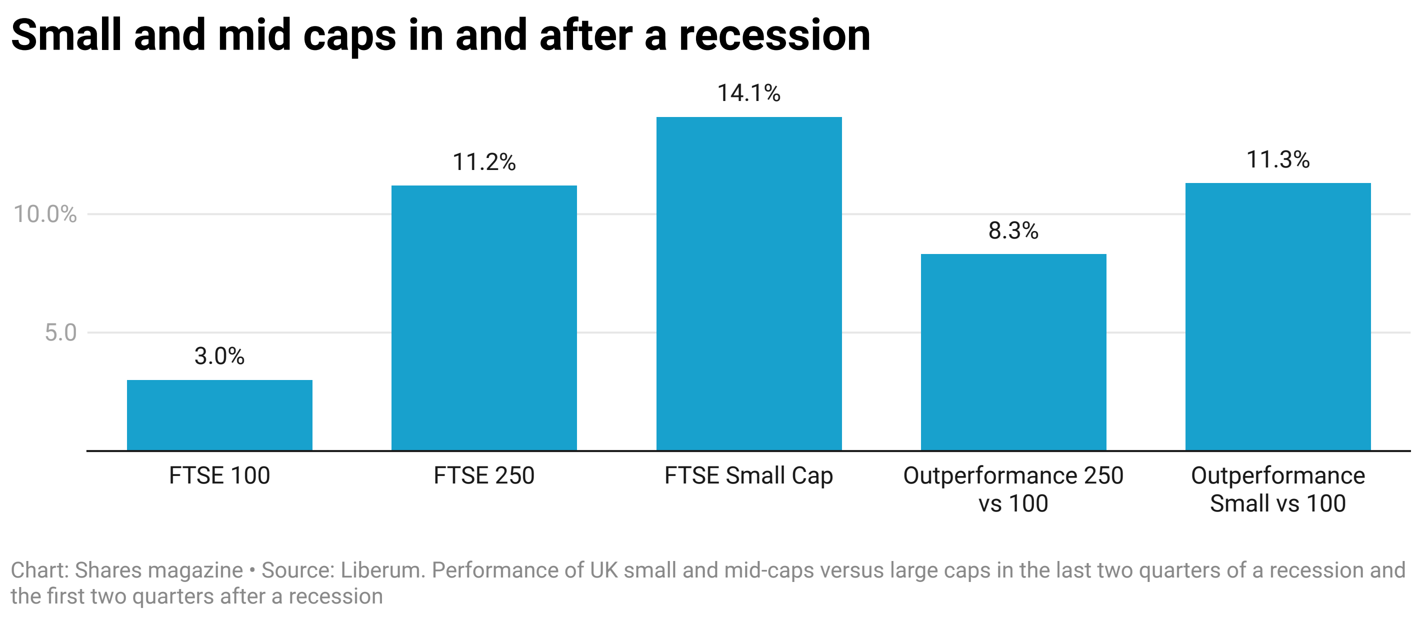


Chart: Shares magazine • Source: Liberum. Performance of UK small and mid-caps versus large caps in the last two quarters of a recession and the first two quarters after a recession

The UK small cap space is home to interesting companies, many of which are not on the radar of mainstream investors. This is where using a fund manager really comes into play as they have the time and expertise to hunt out good opportunities.

Champion at Canaccord Genuity Wealth Management suggests one approach is to have a blended portfolio of small and mid-cap stocks. 'Some may double or triple in price, which is enough to allow you to make some mistakes elsewhere in the portfolio,' he adds.

Liberum believes small and mid-caps will outperform large caps when we are in a recession. 'Earnings are just one part of the story, while discount rates (i.e., long-term bond yields) are the other. Share price reactions are some 10 times more sensitive to changes in discount rates than to changes in earnings. Thus, especially towards the end of a recession, small and mid-cap stocks typically outperform large caps as bond yields decline.'

The accompanying bar chart below shows the performance of UK small and mid-caps versus large caps in the last two quarters of a recession and the first two quarters after a recession. 'The FTSE 100 in these 12-month periods was up slightly, while small and mid-cap stocks showed double-digit returns. Pretty much exactly what we expect for Q2 2023 to Q2 2024,' says Liberum.

TWO WAYS TO PLAY THE UK SMALL CAP COMPANY SPACE

Aberforth Smaller Companies (ASL) £13.56

BUY

DISCOUNT TO NAV: 11%

YIELD: 3.5%

ONGOING CHARGE: 0.8%

This investment trusts looks for smaller companies trading below intrinsic value while also managing a portfolio with the ability to

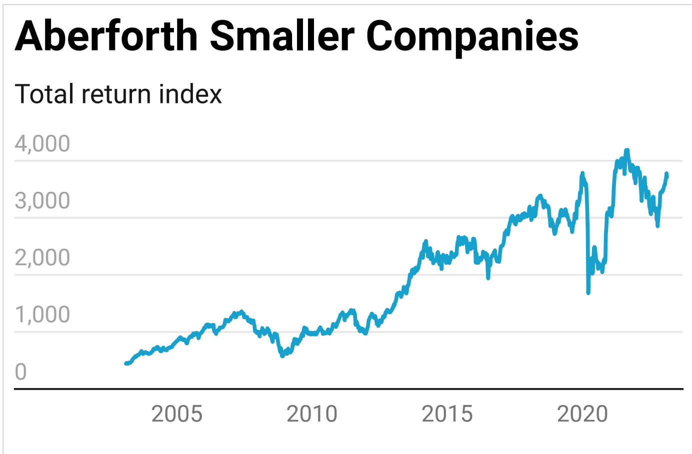


Chart: Shares magazine • Source: Refinitiv

deliver a growing stream of dividends. The trust's value discipline leads the managers to stocks with higher-than-average yields and the portfolio has generated respectable 10-year annualised total returns of 9.2%.

An 11% discount to net asset value presents a compelling entry point for new investors while a 3.5% yield offers some downside protection.

Resurgent demand for UK equities generally should prove positive for this diversified portfolio of 80 stocks at last count, among their number greeting cards-to-gifts purveyor **Card Factory (CARD)**, business publishing and training firm **Wilmington (WIL)**, recruiter **Robert Walters (RWA)** and van rental outfit **Redde Northgate (REDD)**.

FTF Martin Currie UK Smaller Companies Acc (F7FFF70) 295p

BUY

YIELD: 1.2%

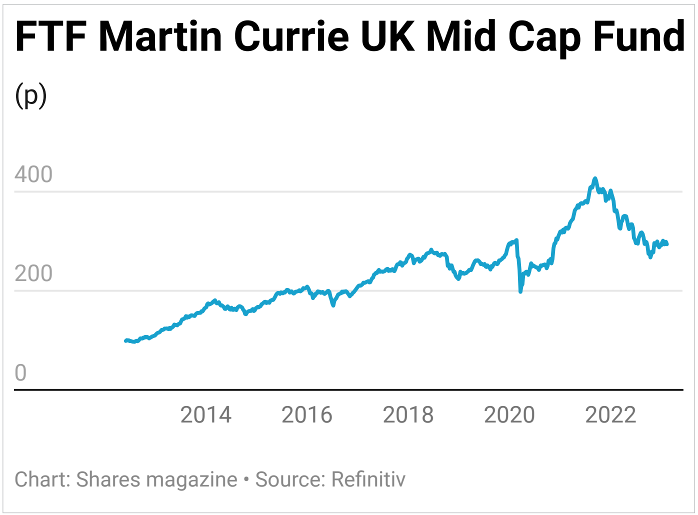
ONGOING CHARGES: 0.8%

For those after a growth companies-focused portfolio with proven pedigree, **FTF Martin Currie UK Smaller Companies (B7FFF70)** fits the bill. Managed by Franklin Templeton's Dan Green with input from Richard Bullas, the £196 million fund focuses on quality companies that are reasonably valued on metrics such as enterprise value to earnings before interest, tax and amortisation (EV to EBITA), price to book and free cash flow yield.

The managers take a longer-term view of opportunities in the small cap space and they look to add value by capitalising on market inefficiencies that can arise among under-researched small cap stocks.

Strategic themes include digital economy, decarbonisation and consumer brands and turnover in the 40 to 50 stock portfolio is generally low, emphasising the Franklin Templeton team's consistent longer-term approach.

The fund, which has generated 10-year annualised total returns of 9.8%, has positions in the likes of financial solutions company **Alpha Group (ALPH:AIM)** and infrastructure-to-private equity fund manager **Foresight (FSG)**, as well as video games publisher and developer **Tinybuild (TBLD:AIM)**, remote people monitoring technology business **Big Technologies (BIG:AIM)** and sweet treats specialist **Hotel Chocolat (HOTC:AIM)**.



DISCLAIMER: AJ Bell owns Shares magazine. The authors (Daniel Coatsworth, James Crux) and editor of this article (Tom Sieber) own shares in AJ Bell.

The £5 investment challenge. Get on board and invest a little bit more each month

Finding modest savings here and there could help you reach your financial goals a lot quicker

Saving and investing often works best if you set yourself small incremental challenges to put more money away.

In this article we look at how you might start a 12-month period by investing £100 per month into the markets and then increasing the amount by £5 each month.

By doing so you would be saving £155 or 55% more at the end of the exercise. The impact of that over time is powerful.

According to our calculations, and assuming an investment return of 7% a year, it would take less than five years (four years and seven months to be precise) to reach a total of £10,000 if you started with £100, put £5 per month more in for the remaining 11 months of the first year and then £155 per month thereafter. Investing £100 per month it would take six years and nine months to reach the same sum.

This example is for illustrative purposes only, with the 7% return calculated at the end of each year or part-year for simplicity's sake rather than every month.

Also, in the interests of clarity, we have laid out the challenge over a calendar year but you could obviously start whenever you like – you don't need to wait until the start of a new year. And these are just ideas and suggestions, not all of them will be applicable to you. They are intended to show how relatively simple changes could help your money work harder.

HOW TO GET STARTED WITH THE INVESTMENT CHALLENGE

To find the £100 in the first place is probably a job for a wet Sunday when you can go through all your incomings and outgoings and work out where you might make some savings on your big bills and expenditures.

Banking apps make the process a lot easier as they allow you to divvy your statements up by category.

Consumer finance champion Martin Lewis sets a 'Money Makeover' challenge on the Moneysavingexpert site to save at least £1,000 through things like haggling with phone, broadband and mobile providers, more efficient food shopping and switching your insurance.

That would go a long way to giving you the starting point of £100 per month. Once you've managed that you can think about what to invest in. To avoid a big chunk of your returns being eaten up by charges it is worth considering investing in an exchange-traded fund. This will provide diversified exposure to the markets for a relatively modest cost.

If you have a reasonably long time frame in which to invest and to ride out ups and downs in the market, we think a product tracking the mid cap FTSE 250 index could be a good option. Companies in this index have more growth potential than the more mature businesses in the FTSE 100 but are more likely to pay dividends and are less volatile and risky than smaller companies.

One example is **Vanguard FTSE 250 (VMIG)** which has an ongoing charge of just 0.1%. This is the accumulating version of the fund – which means all dividends are automatically reinvested.

Because you are investing regularly you should benefit from a reduced dealing charge. AJ Bell's platform, for example, charges £1.50 for its regular investing service. This an important consideration when the typical dealing charge of closer to £10 for

JAN £100

Write down out all the money coming into and leaving your account each month. See if you can switch utility providers to save at least £100 a month, giving you the cash to start your investment challenge and the backbone for future instalments.

FEB £105

Increase your monthly investment by being clever with your streaming subscriptions. If you pay for Netflix and Disney+ each month, limit yourself to just one at a home. That could save you at least £5 a month, giving you the extra money to add into the pot for regular investments.

MAR £110

Make sure you use any vouchers you get from your regular supermarket of choice. Sometimes these can be put towards items other than paying for groceries, saving you money and helping to add another £5 to the monthly investments.

APR £115

Invest in a reusable insulated thermal cup and, instead of those on-the-go hot drinks from one of the high street chains or your local coffee shop, make your own at home.

MAY
£120

Check if you have any workplace benefits which entitle you to discounts on cinema tickets or eating out. That should free up more cash and enable you to pay in £120 this month.

JUN
£125

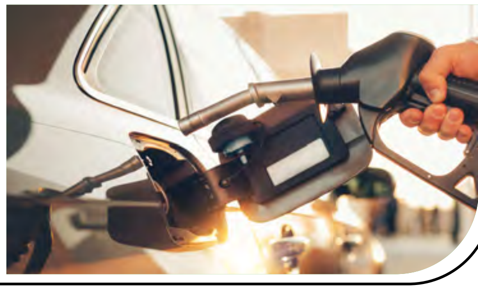
If you typically rely on a meal deal for lunch at work, try making at least a couple of packed lunches.

JUL
£130

If practical try walking, running or cycling to work a couple of times a month instead of getting the bus or the train. That should certainly save you the extra £5 needed for July’s investment contribution.

AUG
£135

Go to PetrolPrices.com and find the cheapest filling stations in your area and save money on filling up the car. Or think about getting a lift from a friend or family and saving at least £5 on your monthly petrol bill.



SEPT
£140

Instead of buying a glossy magazine to keep you occupied during a long journey, join your local library and you will often be able to ‘borrow’ a range of digital magazines (as well as books and audiobooks) instead.

OCT
£145

Download a free automatic savings app which rounds up transactions to the nearest pound and saves the difference for you. This is a good way to tuck away a small amount of money which can then go into your investment account.

NOV £150

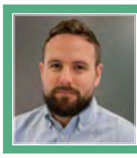
Start your Christmas shopping early. Use cashback websites such as Quidco and you should be able to earn money when buying stuff from popular retailers online. You'll soon be able to collect the extra £5 needed for this month's investment into the stock market.

DEC £155

Get organised with your Christmas card list and make sure you send any in time to arrive by second class post. Or you could go one further and send virtual Christmas cards, freeing up cash that can now go into your ISA or SIPP.

individual trades would take a material chunk out of your monthly investment.

Investments will be made on a certain day of the month and you need to make sure the funds are in your account and ready to go – setting up a direct debit can be a good way to avoid missing the boat. If you invest through an ISA, you protect any income and capital gains from HMRC and don't have to worry about the hassle of filling in a tax return.



By **Tom Sieber** Deputy Editor

ADVERTISING PROMOTION

Fidelity INTERNATIONAL

Fidelity China Special Situations PLC

An AJ Bell Select List Investment Trust

If you want to take full advantage of the incredible growth of China's middle classes and a seismic shift towards domestic consumption, you need real on-the-ground expertise.

Fidelity China Special Situations PLC, the UK's largest China investment trust, looks to capitalise on an extensive, locally based analyst team to make site visits and attend company meetings. This helps us find the opportunities that make the most of the immense shifts in local consumer demand.

China's growth story

Since its launch in 2010, the trust has offered direct exposure to China's growth story; from tech giants right the way through to entrepreneurial medium and small-sized companies, and even new businesses which are yet to launch on the stock market. Portfolio manager Dale Nicholls looks to identify and invest in companies that are best placed to capitalise on China's incredible transformation.

Investing in China's most compelling growth drivers

Dale believes a vast and still expanding middle class is increasingly driving stock market returns in China.

"China is well established now as a major driver of growth and investment performance, not just in Asia, but in the wider world. The sheer size of China's economy, its continued growth and ever-increasing global importance, should see investors increase their exposure to China as part of a balanced investment portfolio."

Past performance

	Jan 2018 - Jan 2019	Jan 2019 - Jan 2020	Jan 2020 - Jan 2021	Jan 2021 - Jan 2022	Jan 2022 - Jan 2023
Net Asset Value	−20.1%	9.0%	75.9%	−26.2%	−1.2%
Share Price	−21.5%	13.2%	92.7%	−27.4%	−2.1%
MSCI China Index	−13.4%	5.6%	40.2%	−27.6%	−2.0%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 31.01.2023, bid-bid, net income reinvested. ©2023 Morningstar Inc. All rights reserved.
The MSCI China Index is a comparative index of the investment trust.

Important information

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The Trust can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility.

The latest annual reports, key information documents (KID) and factsheets can be obtained from our website at www.fidelity.co.uk/its or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. The Alternative Investment Fund Manager (AIFM) of Fidelity Investment Trusts is FIL Investment Services (UK) Limited. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited.

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ELITE RATED by FundCalibre.com

Discover the funds and stocks which pay monthly and quarterly income

Dividends aren't only useful for those in or nearing retirement

Lots of people like to use the income from stocks and funds to help meet their monthly outgoings. In this article we look to help with the process of selecting appropriate investments by examining the range of UK stocks, funds and investment trusts paying monthly or quarterly dividends.

Bearing in mind the need to avoid concentrating too much on one area of the market, taking a judicious approach it should be possible for most investors to build a portfolio of relatively high-yielding assets.

A STEADY MONTHLY INCOME

To the best of our knowledge there are no individual UK stocks paying a monthly dividend, although we are happy to be corrected.

However, there are several open-ended funds and closed-end investment trusts paying monthly dividends, so we have compiled a list of the top 10 highest-yielders making sure they have assets of more than £100 million to avoid any issues with liquidity.

Top of the list with an 8.8% yield, before charges and tax, is the **NB Global Monthly Income Fund (NBMI)** which is managed by Neuberger Berman.

Investment trusts and funds with more than £100m in assets paying monthly dividends

Trust or Fund	Historic Yield
NB Global Monthly Income	9.2%
TwentyFour Monthly Select Income	8.4%
Schroder High Yield Opportunities	7.4%
Artemis High Income	6.2%
L&G Active Global High Yield Bond	6.1%
Jupiter Monthly Income Bond	6.0%
Quilter Investors Dynamic Bond	5.8%
Fidelity Enhanced Income	5.8%
Invesco Monthly Income Plus (UK)	5.8%
Scottish Widows High Income Bond	5.6%

Data correct as of 14 Feb 2023

Table: Shares magazine • Source: FE Fundinfo

Like the bulk of monthly dividend payers, NB Global Monthly Income invests in credit, including corporate loans, across traditional, alternative and private markets.

The fund has market value of £159 million, trades at around a 10% discount to NAV (net asset value) and is diversified across sectors to give it a low correlation with traditional assets while accessing above-market yields.

In the 12 months to 21 February, it has paid out 6.8p, which with the shares currently trading at 74p puts it on an historic yield of 9.2%.

The **TwentyFour Select Monthly Income Fund (SMIF)** also invests in credit, has a market value of £186 million and is currently trading on an historic yield of 8.4%.

Unlike the Neuberger Berman fund, which invests in short-term, non-investment grade credit, TwentyFour Select invests mostly in medium-term credit with a rating of B or better from well-known issuers like Nationwide Building Society.

UK stocks paying quarterly dividends

Stock	Estimated Yield
British American Tobacco	7.2%
Imperial Brands	6.9%
GSK	5.2%
Unilever	3.5%
BP	3.3%
Shell	3.2%
Diversified Energy	12.7%
Duke Royalty	8.1%
Winkworth	6.5%
Greencoat Renewables	5.6%
Caledonia Mining	4.1%
Smart Metering Systems	3.3%

Data correct as of 14 Feb 2023

Table: Shares magazine • Source: Morningstar

COMPANY DIVIDEND 'HEROES'

While there are no stocks paying monthly dividends, we have found a dozen which pay quarterly dividends.

Half are members of the FTSE 100 index, which means liquidity isn't an issue, while one is in the FTSE 250 mid-cap index and the remaining five are listed on the AIM market with varying degrees of daily liquidity.

Top of the list are tobacco firms **British American Tobacco (BATS)** and **Imperial Brands (IMB)**, which both yield around 7% on an historic basis.

Yields tail off quickly, however, especially since oil giants **BP (BP.)** and **Shell (SHEL)** decided to 'rebase' their payouts during the pandemic.

The standout is independent natural gas company **Diversified Energy (DEC)** which is trading on an historic yield of 12%.

Operating in the Appalachian Basin and the central US states of Louisiana, Oklahoma and Texas, the firm looks to acquire and manage low-risk, low-cost, long-life gas-producing assets.

'Protecting our cash flow and, in turn, our dividend and debt payments have always been core to our strategy', says chief executive Rusty Hutson Jr.

Investors should get a steer on the outlook for 2023 when the firm releases its full-year results on 21 March.

PLENTY OF CHOICE IN FUNDS AND TRUSTS

There are plenty of open-ended funds and trusts paying quarterly dividends, although they differ greatly in which assets they tend to own.

Many of the highest-yielding trusts for example invest in property which, as an illiquid, long-dated asset, is much better suited to the closed-end structure and 'permanent' pool of capital of a trust

Investment trusts with more than £100m in assets paying quarterly dividends

Trust	Estimated Yield
Regional REIT	11.0%
VPC Specialty Lending	9.4%
Real Estate Credit Investments	8.4%
Henderson Far East Income	8.4%
Target Healthcare REIT	8.4%
GCP Asset Backed Income	8.1%
Sequoia Economic Infrastructure	8.0%
AEW UK REIT	8.0%
Schroder European Real Estate	7.5%
GCP Infrastucture Investments	7.3%
Taylor Maritime Investments	7.0%
TwentyFour Income	7.0%

Data correct as of 14 Feb 2023

Table: Shares magazine • Source: AIC

Open-ended funds with more than £100m in assets paying quarterly dividends

Trust	Estimated Yield
Baillie Gifford Emerging Markets Bond	8.3%
Schroder Asian Income Maximiser	6.9%
SJP Global High Yield Bond	6.9%
Schroder Income Maximiser	6.9%
FTF Brandywine Global Income Optimiser	6.9%
SJP Strategic Income	6.8%
Invesco High Yield UK	6.8%
SJP Diversified Bond	6.3%
M&G Global Floating Rate High Yield	6.1%
Baillie Gifford High Yield Bond	5.6%

Data correct as of 14 Feb 2023

Table: Shares magazine • Source: FE Fundinfo

than the open-ended structure of a fund, which has to sell assets if it gets redemptions.

Most funds on the other hand own liquid assets such as high-yielding bonds or stocks which they can sell in an instant if they need to raise cash.

Interestingly, two of the highest-yielding funds – the **Baillie Gifford Emerging Markets Bond Fund (B7MCJT4)** and **Schroder Asian Income Maximiser (B581S49)** – are both tilted towards emerging markets, where profit and the level of dividends relative to that profit are rising faster than in developed markets.

THE ROUTE TO SUCCESS

We should say that although a typical inspiration for looking at monthly and quarterly income payers is to boost post-tax incomes in retirement, there is a strong argument for investors of all ages owning them as part of a well-diversified portfolio.

With inflation looking like it may have peaked but with interest rates likely to stay high for some time, holding high-income assets is a good way to build wealth.

Moreover, by reinvesting these high yields and buying more shares you are putting the magic of compounding to work as each month or quarter you are increasing your shareholding, which means more income, which in turn means more shares, and so on.

To quote Josh Peters, editor of the Morningstar Dividend Investor monthly letter and author of 'The Ultimate Dividend Playbook', dividends may not be the only path for an individual investor's success, but if there's a better one, we have yet to find it.

Disclaimer: The author owns shares in NB Global Monthly Income, and TwentyFour Monthly Select Income

By **Ian Conway** Companies Editor

Revealing the bargain stocks which may have been left behind

Stocks offering genuine value are cheap relative to the free cash they generate and have growth potential

With the FTSE 100 hitting new all-time highs and global stock markets in the ascendency since the Autumn it has arguably become more difficult to find stocks which offer good value.

This article delves into the unloved parts of the UK stock market to search for opportunities which investors may have missed. A problem with looking at cheaper stocks is they may be cheap for good reason and they are often of lower quality.

This could be problematic if the economy falls into recession because lower quality companies tend to be the most vulnerable. To avert this risk *Shares* has applied a quality filter to the stock search.

WHAT CRITERIA DID WE USE?

Using the Stockopedia data platform we created a screen based on enterprise value to trailing free cash flow, setting the threshold at 10 times. Cash flow metrics are more reliable than earnings-based measures, which can be manipulated.

Enterprise value or EV for short is the total value of a business including its debt. Turn the ratio of EV to cash flow on its head and its reveals a free cash flow yield.

For example, oil and gas explorer **Gulf Keystone Petroleum (GKP)** has an EV to Free cash flow of 1.9 times which means the yield is (1 divided by 1.9 times 100) 53%.

This implies the company could generate cash equivalent to its enterprise value in two years which seems incredulous. This appears a case of investors not believing the free cash is sustainable.

In the case of Gulf Keystone, it operates in the politically sensitive and war-torn area of the Kurdistan region of Iraq which probably explains investor scepticism.

While it is not possible to eliminate all value traps, or situations where shares could stay cheap indefinitely, we have tried to reduce this risk by stipulating companies must have positive free cash flow growth over the prior five years.

To reduce the risk of inadvertently including low quality companies we have screened out stocks with a Stockopedia quality and value rank below 90.

In other words, the stocks which make the final list are the top 10% in terms of quality and value. This adds another level of diversification because the ranks are comprised of several metrics.

The value rank is a composite score ranked across six metrics including price to earnings ratio while the quality score is a composite score ranked across five metrics including long-term average return on capital employed and long-term operating margin stability.

BARGAIN BASEMENT STOCKS

The list of qualifying stocks is an eclectic bunch of names operating across diverse industries.

There are several metals and mining companies and a few oil and gas companies including **Shell (SHEL)** which has been throwing off lots of cash as energy prices have spiked due to the war in Ukraine.

How sustainable those cash flows will prove to be is questionable and it is also worth being mindful that resource and mining companies tend to look cheap around earnings peaks.

It is surprising to see managed hosting and cloud services company **Iomart (IOM:AIM)** on the list.

Bargain UK stocks

Company	FCF five-year compound annual growth rate (%)	EV/FCF TTM
Gulf Keystone Petroleum	25.1	1.9
Ferrexpo	20.9	2.3
Anglo-Eastern Plantations	66.7	2.6
Impellam	34.2	3.0
Smiths News	8.1	3.1
Seplat Energy	3.4	3.4
Mears	30.2	3.7
Sylvania Platinum	46.5	3.8
Shoe Zone	32.8	5.5
Central Asia Metals	35.3	5.6
Shell	25.3	5.7
Card Factory	8.4	6.2
Barratt Developments	0.2	6.7
Airtel Africa	n/a	7.1
Iomart	3.6	7.2
Epwin	15.1	7.8
Rio Tinto	26.9	8.3
Marks and Spencer	11.3	8.3
Anglo American	29.7	9.1
James Latham	38.5	9.5
Sureserve	5.4	9.7
Somero Enterprises	19.7	9.9
N Brown	4.8	10.0

FCF-Free Cash Flow, TTM=Trailing twelve months, EV=Enterprise value

Table: Shares magazine • Source: Stockopedia, Refinitiv

However, profit hasn't increased for several years and the growth in free cash flow is nothing to write home about.

Likewise, retailer **Marks & Spencer (MKS)** has an uninspiring earnings record and analysts expect a declining trend in the next couple of years. Speciality retailers **N Brown (BWNG:AIM)** and **Card Factory (CARD)** have had terrific runs in the last few months with the latter's shares doubling and the former up over 40%.

N Brown finds itself in an interesting position after Mike Ashley's **Frasers Group (FRAS)** swooped in to take a 12.6% stake while leading shareholder Lord David Alliance has also been increasing his 43% stake in the company.

By **Martin Gamble** Education Editor

SHARES' TWO TOP PICKS

SHOE ZONE Price: 245p

One share we believe is undeservedly cheap with good prospects not just in the current environment but long term is discount footwear retailer **Shoe Zone (SHOE:AIM)**.

The free cash flow yield of 18% looks very attractive against a five-year compound annual growth rate of 33% a year. The business doesn't need to offer loads of growth if it is throwing off cash and paying it out to shareholders.

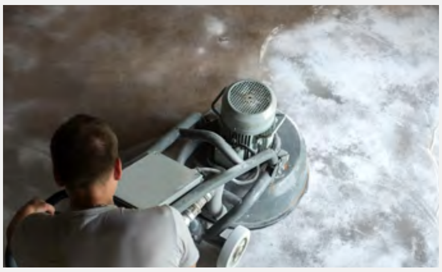
The company delivered strong results for the year to 31 October with adjusted pre-tax profit up 18% to £11.2 million. The board announced a special dividend of 8.2p per share in addition to a final dividend of 3.3p per share.

Including two interim payments of 5.5p the 2022 payout equates to 17p, giving a dividend yield of 7% In addition, the firm purchased nearly one million shares reducing the share count and boosting earnings per share.

The balance sheet is solid with a net cash position of £24.4 million, representing 21% of the market capitalisation.

Shoe Zone is benefiting from the cost-of-living squeeze as consumers look to trade down within their non-discretionary budgets.

The firm can be competitive on price due to the high volumes it orders direct from factories. It sells a wide range of brands including Skechers, Kickers, Lilley & Skinner and Heavenly Feet.



SOMERO ENTERPRISES Price: 405p

Laser assisted concrete levelling equipment maker **Somero Enterprises (SOM:AIM)** is a quality business with strong barriers to entry which emanate from its intellectual property.

The 10% free cash flow yield looks attractive against a 20% five-year compound annual growth rate. In September 2022 *Shares* discussed the possibility of Somero being a value trap.

The shares do not appear to be a trap mainly because investors have already priced in the risks and probability of a recession. The cyclicality of the construction industry means profits can quickly turn into losses.

But it is important to look beyond the cycle and over the long term the company has grown profit by a compound annual growth rate of 15% a year.

If investors are prepared to accept greater share price volatility due to the cyclicality of the business the future rewards look attractive relative to the low rating.

At a recent trading update (31 January) Somero said it expected 2023 revenues to around the same record levels as 2022 ($134 million) and a lower EBITDA (earnings before interest, taxes, depreciation, and amortisation) margin as the company invests to add 'strategic resources for future growth'.

Why isn't Manchester United worth more than $6 billion?

Despite their cultural appeal and commercial potential there are reasons serious investors steer clear of football clubs

Amid all the frenzied coverage of a possible takeover of **Manchester United (MANU:NYSE)** – one question occurred to this observer. Why isn't it worth more than the reported price tag of $6 billion slapped on the club by current owners the Glazers?

For now, it looks as if the Qataris and their main rival bidder – the owner of chemicals firm INEOS, Jim Ratcliffe – are unwilling to meet this asking price. Yet Manchester United is a huge brand which transcends the world of football. According to consultancy Brand Finance's Football 50 rankings in 2022 it comes in at number five among all global football clubs and it has often been higher than that on the list.

Think about the level of loyalty displayed by your average football fan – it arguably exceeds even that of the fandom of devotees of the Star Wars franchise. Even if the product isn't up to scratch most football supporters are fans for life and will grimly stick with their team through periods of underperformance. Tapping into this can be extremely lucrative – either by selling match tickets and merchandise or by attracting sponsorship from businesses which want to be associated with the brand.

Added to this, sport is one of the few categories which guarantees a live TV audience and broadcasting rights for the Premier League run into the billions.

Manchester United hasn't delivered on the pitch for years when you compare the trophies won in the last decade with the haul of silverware secured under legendary manager Alex Ferguson before his retirement in 2013. But the club has proved rather more adept at exploiting commercial opportunities.

"the club has proved rather more adept at exploiting commercial opportunities"

Why then is Manchester United potentially worth less than cardboard box firm **Smurfit Kappa (SKG)**?

The answer is two-fold – and is revealing of the truth that football clubs are not typically good investments for ordinary punters or those trying to buy them outright.

First, ownership of a football club conveys certain responsibilities and is subject to regulatory pressure from the various football authorities – Manchester United's city rivals at the Etihad are a good example.

Manchester City is facing more than 100 separate charges from the Premier League which could, at the more extreme end, result in its expulsion from the competition – severely undermining its commercial value.

Fans can also bring significant pressure to bear if they feel owners are not acting in their interest. Just witness the rapid unravelling of the European Super League proposals put forward by several big clubs including Manchester United in 2021.

The other key factor is the amount of money which goes towards playing talent in a competitive market – both in the form of transfer fees and wages. Injuries and loss of form mean there is no guarantee player acquisitions will even work out.

Despite spending more than £1 billion on players over the last 10 years, Manchester United arguably needs further investment in the playing squad to truly compete at the very top of the European game. The training facilities and the stadium infrastructure are also in need of an upgrade.

Discover the emerging markets stocks picked out as growth champions

The MSCI Emerging Markets Growth index focuses on companies expanding their earnings

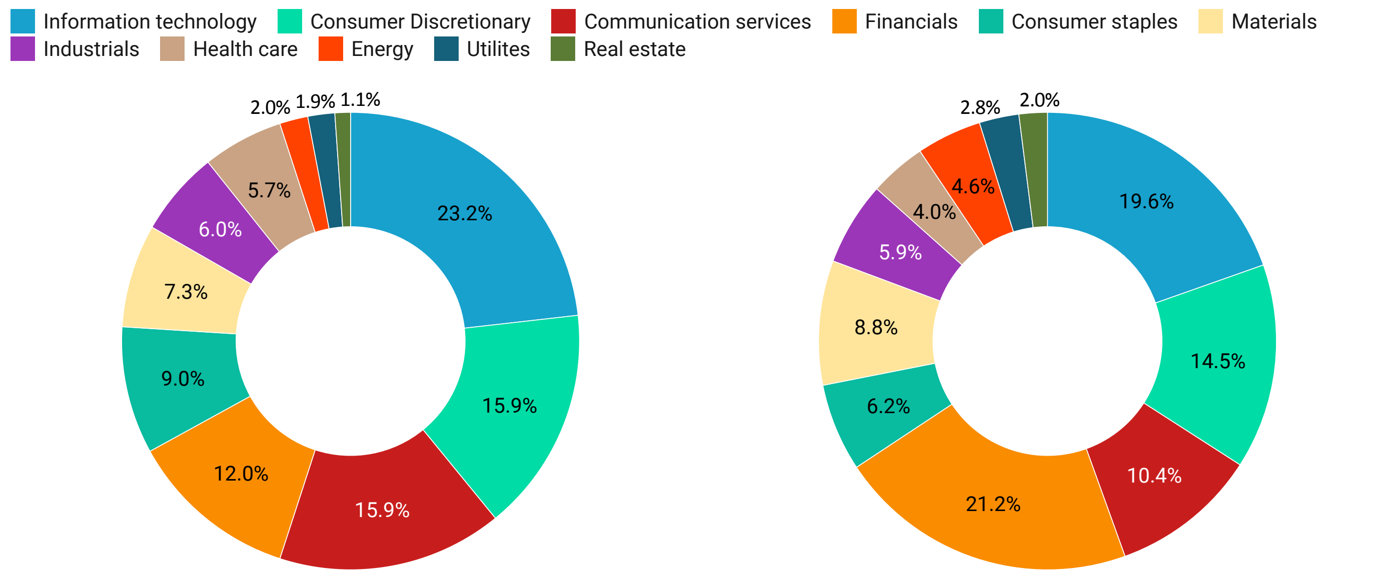
The MSCI Emerging Markets Growth index seeks to capture the performance of large and mid-cap stocks with 'growth style characteristics' across 24 emerging markets countries.

It uses five different criteria to create the basket of shares including long and short-term forecast earnings growth as well as the long-term earnings and sales trends. This narrows down the universe of developing world stocks to around 761.

In the three months to 31 January the index chalked up gains of nearly 25% as growth stocks came back into fashion. As you'd expect constituents of the index have a higher average forecast PE (price to earnings) ratio and lower average dividend yield than the wider MSCI Emerging Markets index. The PE for MSCI Emerging Markets Growth is 18.8 times versus 12.1 times for the broader benchmark while the yield is 1.5% versus 3.2%.

Some familiar names like China's **Tencent (0700:HKG)**, **Samsung Electronics (005930:KS)** and **Taiwan Semiconductors (2330:TPE)** make the list.

Notably the index has more of a bias to the information technology sector than MSCI Emerging Markets with weightings of 23.2% and 19.6% respectively.



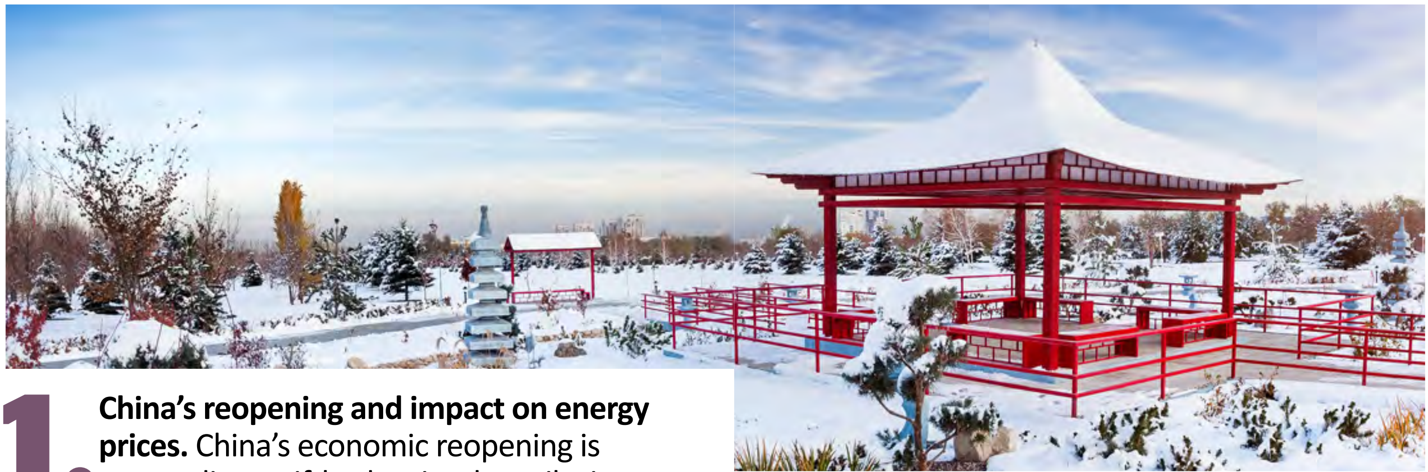
MSCI Emerging Markets Growth – sector weightings

MSCI Emerging Markets – sector weightings

Chart: Shares magazine • Source: MSCI, data to 31 January 2023

Emerging markets: a cold winter for China and growth back in favour

What has caught the eye of Franklin Templeton experts this month



1. China's reopening and impact on energy prices. China's economic reopening is proceeding swiftly, despite the spike in Covid-19 cases in early January. Investor attention has recently switched to the reopening's impact on energy prices. In contrast to Europe, China is experiencing a bitterly cold winter, with average temperatures 15ºF below average for the month of January. This is increasing demand for natural gas, the majority of which China imports from overseas. Liquid natural gas (LNG) prices in Asia and Europe have not yet reacted to the frigid weather in China, as Europe is experiencing temperatures on average 15ºF above average over the same period. However, if this were to change, LNG prices could rise, reigniting global inflation concerns and limiting China's room for fiscal maneuvering given gas subsidies provided to households.

2. Markets pivot toward growth. January witnessed a dramatic shift in the performance of growth stocks, with the MSCI Emerging Markets Growth Index posting double-digit returns. Value stocks witnessed positive performance but lagged behind. This is a reversal of the 2022 performance trend, wherein value stocks performed better than growth stocks as rising interest rates undermined the outlook for the latter. Looking ahead, the likelihood of a continuation of this January's trend will likely be dependent on the direction of interest rates and the US dollar, among other factors.

3. Emerging markets (EM) earnings outlook. Consensus expectations are for a recovery in emerging market earnings in 2023, following a sharp decline last year. China's reopening and economic recovery is expected to drive earnings, particularly in the financials and consumer discretionary sectors. High interest rates typically benefit banks, and a recovery in consumer technology business prospects looks likely to us, including e-commerce.

How to buy and sell shares, investment trusts, ETFs and funds

The mechanics of choosing a platform and executing your first trades

You've started thinking about your investment goals and what you want to invest in. Now it's time to convert thoughts into action and start putting your money to work in the markets. This article will explain, step by step, how to invest in shares and funds.

First you need to find an investment platform and open an account. It is far less expensive and for most people more straightforward to invest online than over the phone.

HOW DO YOU CHOOSE A PLATFORM AND THE RIGHT ACCOUNT?

When it comes to choosing your platform provider cost is one of the key considerations. Healthy competition in this market means charges for dealing individual shares as well as other vehicles listed on the stock market like ETFs (exchange-traded funds) and investment trusts are typically £10 or less.

Dealing charges on funds are even lower. AJ Bell charges £9.95 for an individual trade in a share, trust or ETF and has a dealing charge of £1.50 for funds, for example.

A quick scan of the provider's website should give you a good idea of the different charges you will face when investing in funds and shares. Remember, as well as dealing costs you will also pay the platform provider a fee (known as a custody charge) for holding your investments. This can be levied on annual or quarterly basis depending on who you use. You will also pay stamp duty when trading shares and investment trusts (but not ETFs and funds) regardless of the platform.

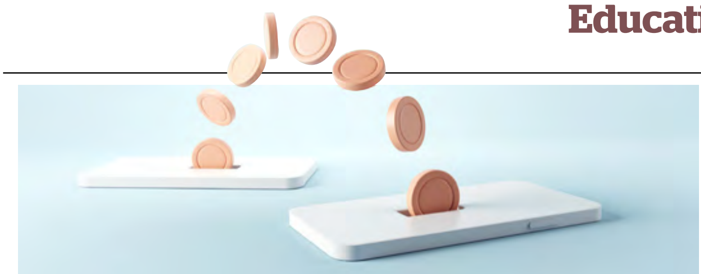
For most people the most obvious choice of account is a Stocks & Shares ISA as any returns and income are protected from the taxman. Exceptions might be if you have already exceeded your £20,000 ISA allowance this tax year or if you are investing for your retirement, then you might opt for simple dealing account or SIPP (self-invested personal pension) instead.

OPENING A STOCKS & SHARES ISA

The process is straightforward and can take as little as 10 minutes. Typically, you will be asked to provide:

- **Your address details for the past three years**
- **Your debit card details**
- **Your telephone number**
- **A valid email address**
- **Your National Insurance number**

Once you have completed the online form you need to have a spin through some documentation. Assuming your application is successful you will receive your account number at the end of the process.



INVESTING FOR BEGINNERS

This is the second in a series of articles aimed at demystifying the markets for anyone just starting out with their investing. Look out for the next part of the series in a future issue of *Shares*

Now it's time to fund your account. You have two main options: transfer a lump sum from your bank account using your debit card or set up a direct debit to fund your account on a regular basis.

As soon as the money is in your account, you are good to go.

WHY YOU MIGHT OPT TO INVEST THROUGH FUNDS

Many inexperienced investors start off with funds and this can be a sensible option for two key reasons.

First, you benefit from diversification as you gain exposure to lots of different holdings rather than having your returns dependent on one or two individual shares. If something goes wrong with one or two investments in a fund the rest of its holdings should help cushion the blow and hopefully limit any losses.

Second, a fund manager is a professional who typically has lots of knowledge and experience and whose full-time job is making investments.

If you know the fund you want to invest in then you can input the name into your platform and bring up the relevant page which will include information about its performance, fees and portfolio. If you can't find the right fund straight away it's worth trying some key words as abbreviated fund names can sometimes catch out search engines. Sometimes platforms will have lists of their 'favourite' funds, which can be a useful starting point.

It is also worth checking which version of the fund you are buying – specifically whether it is the 'inc' (income) or 'acc' (accumulation) version. If you invest in the accumulation version of the fund then any income generated from the underlying investments will be automatically reinvested back into the fund, while the income version will see dividends paid out to you as cash.

You can buy and sell when you want or use a regular investment service where you pay a reduced transaction fee to invest on a specific day each month. The investment platform will group your order with ones placed by other investors and do everything in one go, thereby reducing its own trading costs.

HOW TO MAKE THE TRADE

For a one-off investment you will start by clicking on the deal or trade button. This places an order which is an instruction to buy or sell your chosen investment.

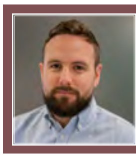
You need to have enough cash in your account to fund any charges. If you don't then small bits of existing investments could be sold to pay these fees when they're due to be paid.

Before you trade a fund, you will need to confirm you have read the necessary information about a fund including the Key Information Document or KID. This is a short document that provides important background about a fund which can help you decide if it is a suitable investment for you.

It often takes at a day for the order to buy a fund to be processed and completed. This means if you select to buy a certain number of units in a fund you will not know the total cost straight away, but you can also opt to buy units in a fund up to a certain monetary value.

For a transaction in shares, investment trusts and ETFs you will be provided with a time-limited quote to buy (or sell) at a certain price, reflecting the fact that their prices move around all the time. In a similar way to funds you can either select how much money or how many shares you want to trade. You will then be shown the total cost of the transaction.

DISCLAIMER: AJ Bell owns Shares magazine. The author (Tom Sieber) and editor (Daniel Coatsworth) of this article own shares in AJ Bell.



By **Tom Sieber** Deputy Editor

Beware: there is a sneaky tax rule that eats into your child's savings

More of us could end up paying tax on the money we put away for our offspring

Parents who diligently put money away in savings accounts for their children wouldn't expect to be hit with a tax bill, but a little-known rule means that taxman could take some of the interest from your child's savings.

This tax rule means that once your child earns £100 or more in interest on their savings account or from investments that aren't in an ISA, all of the income is taxed as though it's the parent's money. The intention is to stop parents from just funnelling their savings into accounts in their children's names in a bid to avoid paying tax on it.

When interest rates were low, it would have taken a decent chunk of savings before you hit this £100 limit. But we've seen savings rates rise, including on children's accounts, meaning you don't have to have a fortune stashed away for your child before you hit the threshold.

HOW RISING RATES HAVE HAD AN IMPACT

For example, according to Moneyfacts the top children's easy-access account pays 3.9%, which means that once you have more than £2,550 in there, you'll hit that £100 limit. If you opt for a fixed-rate account you can earn even more, with the top two-year fixed rate kids account paying 4.4% (also according to Moneyfacts), so once savings reach £2,250 you'll hit that £100 limit.

The rule also applies to any shares or investments gifted by a parent, that earn dividends each year and are not within an ISA. If the dividend level is above the £100 limit it will breach this rule and also be counted as the parent's income.

If you reach the £100 mark then all of that interest (not just the interest over £100) is counted as though it's the parent's and will count towards their Personal Savings Allowance (PSA). The PSA means that basic-rate taxpayers can earn £1,000 in savings income before they pay tax on it, while higher-rate taxpayers have a £500 allowance. Additional-rate taxpayers have no allowance.

If your savings interest plus your child's is still within your PSA then you'll have no tax to pay. But if you've already used up the allowance (or your child's savings tips you over) then you'll have to pay tax on that money, at your income tax rate.

Tax hit on your child's savings

Child's savings pot	Tax cost - basic rate	Tax cost - higher rate
£3,000	£23.40	£46.80
£5,000	£39.00	£78.00
£10,000	£78.00	£156.00
£20,000	£156.00	£312.00

Figures assume interest rate of 3.9% on child's savings, that the money has been entirely contributed by parents and that the parent has already breached their Personal Savings Allowance.

Table: Shares magazine • Source: AJ Bell

HOW CAN I AVOID THIS RULE?

There are a few caveats that mean parents can avoid being hit with an unwanted tax bill if they are smart. First, the limit only applies to money given to the child by parents, any money belonging to grandparents, other family or friends which is paid into the accounts doesn't count towards the limit. HMRC say that parents should keep hold of any evidence that payments have been made by other people, so they can prove it later should they need to.

But also the limit is £100 per parent, per child. This means parents should think carefully about how they gift money to their children. If each parent has an account in their own names, they should ensure they are making equal payments to their children, rather than one parent making all the transfers to their child's savings account – as they could hit the tax limit far quicker. If they have a joint account the money will be assumed as coming 50:50 from each parent.

YOU COULD USE AN ISA

The other option is to use a Junior ISA or Junior SIPP as any money paid into an ISA is free from tax. You can pay in up to £9,000 per child each tax year into a Junior ISA and pick either a cash or investment ISA. A big difference between this and a normal child's savings account is that the money will be locked up until the child turns 18 and can't be withdrawn before then.

If this is a concern you could save the money in your own ISA, assuming you have some of the £20,000 annual limit remaining. This means you can access the money whenever you want (but it won't be neatly ringfenced for your child).

How it works in practice

Mary and Martin have one child, Frank. If Martin transfers £3,000 into an account in Frank's name paying 4% interest, he will earn £120 a year in interest. This will tip him over the £100 limit and means that all of the £120 interest will be counted as though it's Martin's. However, if Mary and Martin each transferred £1,500 into Frank's account, still earning 4% interest, he would earn the same £120 a year interest, but as it's from two parents only £60 interest is generated per parent, meaning they are not tipped over the £100 limit and no tax is due.

By **Laura Suter**
AJ Bell Head of Personal Finance

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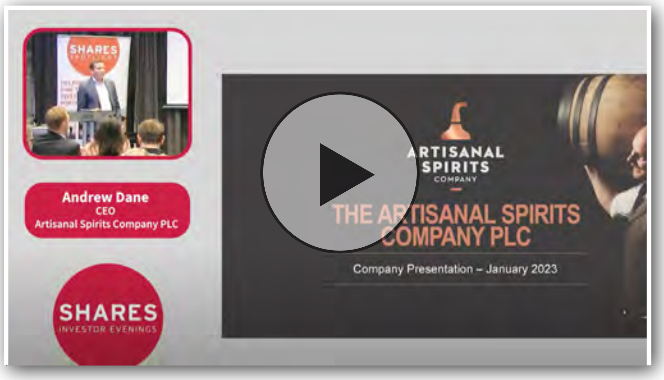

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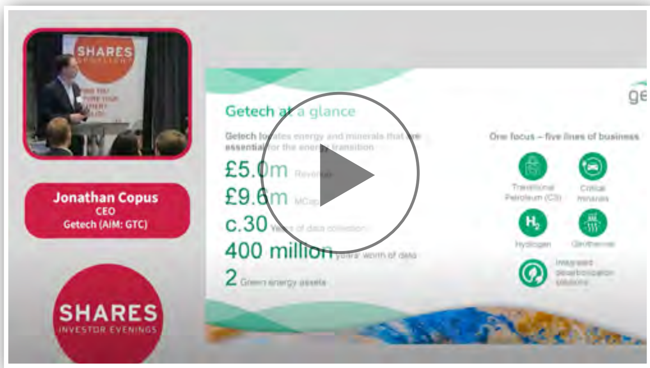

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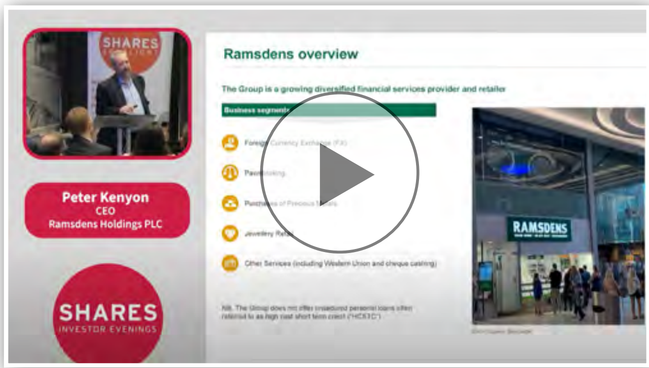

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Is the US headed for a hard or soft landing in 2023?

The world's largest economy could be returning to a sluggish pre-pandemic trajectory

American musician and bandleader Frank Zappa once asserted that: "The mind is like a parachute. It doesn't work if it isn't open.' Investing is surely just the same. No-one has a crystal ball and financial markets are at their most volatile – and therefore ripe with opportunity – when consensus opinions are coming under duress. Mood follows price and both the bull and bear case always seem most compelling at, or at least near, the peak and trough respectively.

This is why the debate over whether the US is going to go into recession in 2023 matters. Right now, share prices are assuming that inflation will gently decelerate, interest rate hikes will stop and then become rate cuts and as a result the world's economic powerhouse will suffer nothing worse than a soft landing, or even start to soar once more after avoiding an encounter with the ground altogether.

If so, then all may be well and good. But what if the consensus is wrong and such a glorious hat-trick does not fall into investors' laps? Applying Zappa's maxim, it must be at least worth looking out for possible danger signs and considering what could go wrong if the core scenario does not develop as anticipated. Where the US goes, the world tends to follow, after all.

Is the US economy returning to its pre-pandemic trajectory?

US GDP growth, annualised rate

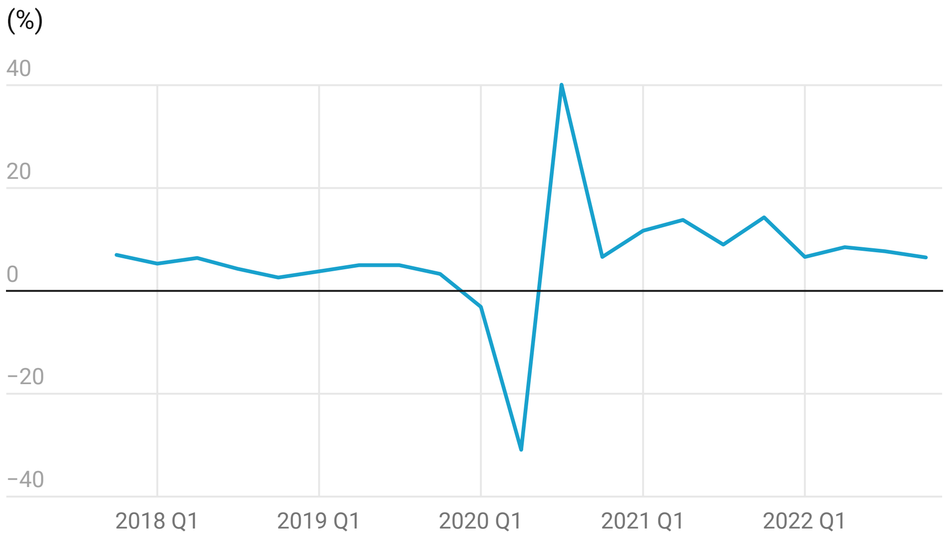


Chart: Shares magazine • Source: FRED – St. Louis Federal Reserve database

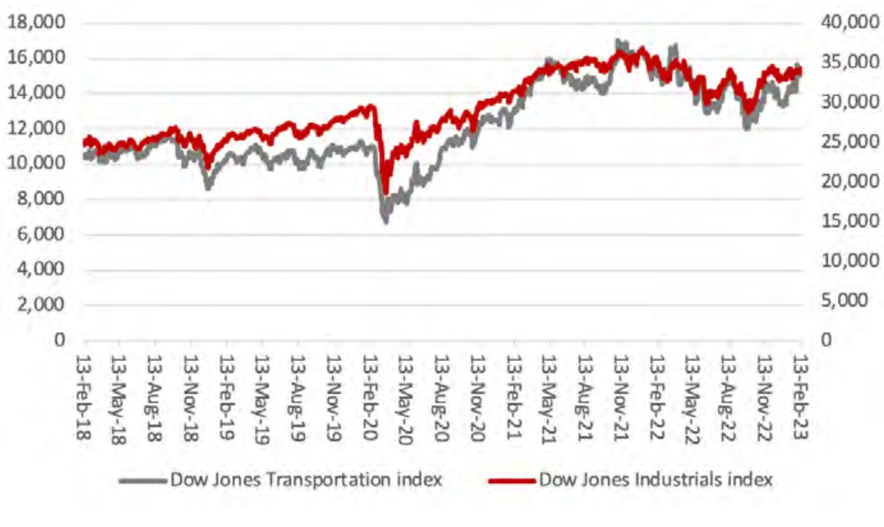
BACK TO THE FUTURE

One useful exercise may be to try and block out 2020 to 2022 altogether, given the extraordinary challenge posed by Covid-19 and the massive amount of monetary and fiscal stimulus (let alone scientific research) that were deployed to beat it off.

Think back to 2019. The US economy was losing momentum and then president

Russ Mould: Insightful commentary on market issues

Is the rally in the Dow Jones Transportation index running out of track?



Source: Refinitiv

Trump was trying to goose it into life before 2020's election, not least by leaning on the Federal Reserve to keep policy loose. It can be argued that the US is now returning to that trajectory as the Fed steps away from ultra-loose policy, Capitol Hill stops authorising stimulus cheques and the debt taken on during 2020-22 starts to weigh.

One of this column's preferred indicators, the Dow Jones Transportation index, was going nowhere fast in 2019 and it has lost momentum over the past year. The benchmark has thus far failed to recapture its November 2021 high, even after a furious rally from the autumn low. This is worth bearing in mind if Dow Theory holds good, and the Industrials index follows where its Transports counterpart goes.

DOLLARS AND CENTS

Most tangibly of all, US corporate profits are starting to feel the strain.

A year ago, analysts were looking for aggregate earnings per share (EPS) from the S&P 500 index of $225, up from $198 in 2021, with further progress to $247 in 2023. Consensus forecasts now think earnings *fell* in 2021, to $197, while 2023 estimates are down to $220. If the US economy does hit a bump, then even 12% earnings growth this year could be hard to achieve, even allowing for some of the fierce cost-cutting already in evidence at some of America's largest corporations.

Those earnings forecast downgrades help to explain why the S&P 500 is still lower than it was at this time last year. A soft landing or unexpected growth could quickly cure the ills that trouble corporate earnings and boost the index, but a sharp downturn could put earnings forecasts, and the benchmark, under more pressure.

Granted, investors still think the US Federal Reserve can save the day with interest rate cuts, and they may well be right. But history shows the Fed starts to cut only once something has snapped – the economy, the markets or both – and frantic rate cutting did not provide immediate succour in either of the 2000-03 or 2007-09 bear markets.

Will US corporate earnings forecasts stay under pressure?

Source: S&P Global Research

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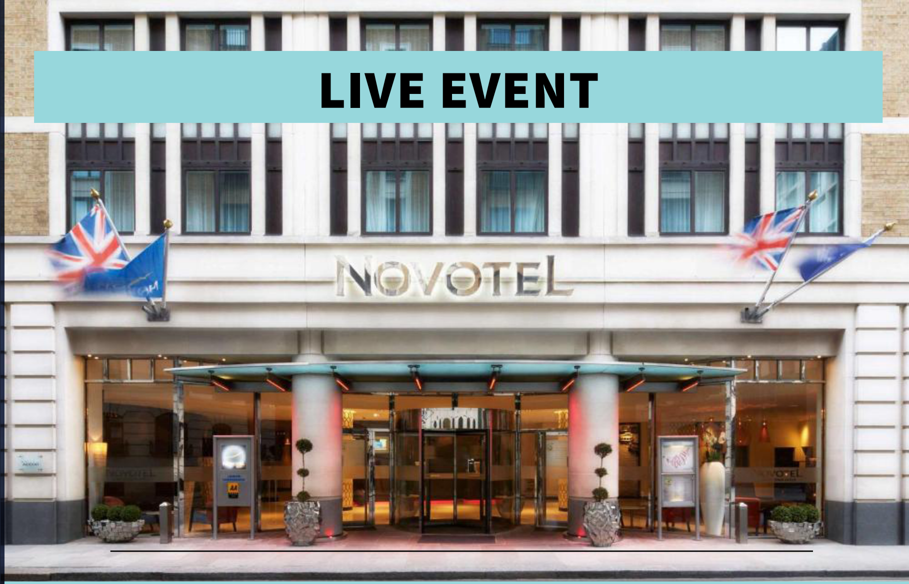

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With the FTSE 100 going past 8,000 should I take on riskier pension investments?

Milestones for the UK's flagship index should have nothing to do with how you invest for retirement

With the FTSE 100 going past 8,000 for the first time, should I be taking more investment risk with my pension? I am 45 years old and not planning to touch my fund until my late 60s, all being well.
Paulo

Tom Selby, AJ Bell Head of Retirement Policy, says:

It is worth explaining exactly what the FTSE 100 is before digging into the things you need to consider when investing your retirement pot.

The FTSE 100 is simply an index of the 100 largest UK-listed companies. There are other FTSE indices, such as the FTSE 250, and different countries, regions and sectors have their own indices too.

When the FTSE 100 was first created in 1984, it was set at a notional value of 1,000. You can see from the table below how long it has taken for the FTSE 100 to reach each 1,000 milestone. While growth in the first 15 years or so was rapid, the last 20 years has been more of a struggle.

In short this means nothing for your pension. The FTSE 100 passing 8,000 might be a moment

FTSE 100 crosses	Date	Time since last 1000 mark	Price increase
1,000	**January 3, 1984**	FTSE 100 launch	**N/A**
2,000	**March 4, 1987**	3 years 2 months	**100.0%**
3,000	**August 11, 1993**	6 years 5 months	**50.0%**
4,000	**October 2, 1996**	3 years 1 months	**33.3%**
5,000	**August 6, 1997**	10 months	**25.0%**
6,000	**April 1, 1998**	7 months	**20.0%**
7,000	**March 20, 2015**	16 years 11 months	**16.7%**
8,000	**February 15, 2023**	7 years 10 months	**14.3%**

**completed months, based on closing prices*
Table: Shares magazine • Source: AJ Bell

in history, but it should make not one iota of difference to your retirement investment strategy.

As your pension pot is being invested for the long term, it makes sense to set your strategy up for the long term as well. This should be based on sound investing principles such as:

- Only take investment risks you are comfortable with;
- Understand that the value of your fund could go down as well as up, especially in the short-term;
- Make sure your investments are diversified, so all your eggs are not in one basket;
- Keep your costs and charges as low as possible.

Attempting to time markets is a high-risk investment strategy that can go wrong. Take the FTSE 100, which has been driven higher by oil and gas stocks (which have been boosted by rising prices) and financial firms (which have benefited from rising interest rates).

Just because those companies have risen so far in 2023, does not mean they will continue to do so.

Drip feeding your investments and having a steady strategy, rather than reacting to events, is a simpler way to invest for retirement and helps smooth out this timing risk.

If you want a fund that follows the performance of the FTSE 100, there are low-cost tracker products known as exchange traded funds that can do that. But whatever decision you take, make sure you understand your investments and are focused on generating long-term returns.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

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