TRENDWATCH

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

Will President Jackson have the last laugh from his grave?

JUST AS we said it soon would, gold broke through to a new all-time nominal high an ounce last week. Why? The main reason is the one to which we've been devoting so many column-centimetres recently: the decline and fall of the once-almighty dollar. Gold was also helped by much lower sales by central banks – just 155 tonnes in 2008-09, far below the agreed ceiling of 500 tonnes.

On Tuesday of last week, gold soared to $1,040 per troy ounce, easily surpassing the previous record of $1,030.80 set in March 2008. On Tuesday, this week, it went as high as $1,069. However, it's still far short of the inflation-adjusted peak of $2,300 seen in 1980, which gives you some idea of the potential upside.

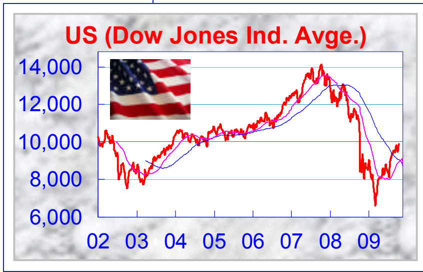
The reason for the surging gold price (and a major contributory factor in the rise of many dollar-denominated commodities such as silver, platinum, oil and even soft commodities) is, of course, the tumbling dollar. With a somewhat sinister symmetry, last week, the greenback hit a new 14-month low against a basket of currencies, having fallen 14% in 7 months. How long will it be before central banks around the world, who hold billions of dollars, say "enough's enough"?

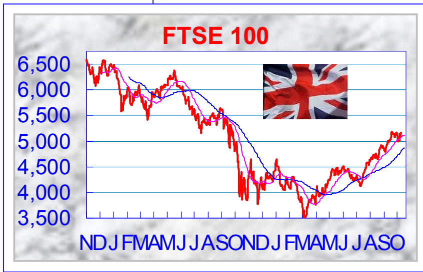
Well, they already are. A number of Asian central banks are so concerned about the effect of the dollar's decline on their own export competitiveness that they were active in the foreign exchange markets last week, trying to moderate the appreciation of their currencies against the dollar. China was way ahead of the game. In July 2005, it allowed the renminbi to rise in value by unpegging it from the dollar. After a 20% rise in the renminbi, China in effect did say "enough is enough" and re-pegged its currency in July last year.

The reason for the dollar's fall is, of course America's spiralling debt. The Congressional Budget Office predicts that federal receipts this fiscal year will be $2,100 billion (about 4% higher than they were in 2000), while outgoings will be $3,500 billion (almost double the level in 2000).

Extraordinary happenings are in train in the States as a result of the declining dollar. For example, right across the US, there is an upwelling of anger against the policies of the Federal Reserve. Remember when former Fed chairman Alan Greenspan was regarded as a sort of demi-god; a man who could do no wrong as he piloted the economy straight to the heart of the technology bubble? Then, just as we went into the new millennium, the bubble burst, the stockmarket collapsed; and suddenly Mr Greenspan's reputation crumbled as people began to hold him responsible for stoking up the bubble by keeping interest rates too low for too long.

Then in 2006 came Ben Bernanke; and for a while, he too was lauded as a safe and experienced pair of hands – until he too was torpedoed by the sub-prime crisis mutating into the credit crisis, then into the banking crisis, then into a global recession; all on his watch.





Critics of the Fed, led by former presidential candidate Ron Paul, see it as an undemocratic institution that is not enshrined in the American Constitution, responsible for deliberately weakening the dollar by printing money at will, serving special interests (notably the finance sector), stoking up inflation and creating financial bubbles. They see it as responsible for diverting billions of dollars of taxpayers' money to prop up insolvent banks and financial institutions, with no certainty that the money will ever be repaid.

They believe the Fed should be stripped of its responsibilities for protecting consumers because it so patently failed to protect consumers when the banking system all but collapsed. And what is the point of it having bank supervisory powers when it was powerless to avert the banking catastrophe? Nearly 100 US banks have gone belly-up this year alone.

Above all, having been largely responsible for racking up a gargantuan debt mountain, the Fed knows that it has only one policy option left: to inflate away the debt by destroying the dollar... with hardly any debate.

Thanks largely to the Fed, America is now in a debt trap from which there is no escape. In the 2009 fiscal year, the US had to pay $361bn interest on public debt. That's around a quarter of all tax revenue. Using the US administration's own projections, public debt is expected to double over the next 10 years. By that time, it will become impossible to balance the budget – well over half of all tax revenues will disappear in interest payments. Long before that, the US government will face default, and a catastrophic dollar collapse.

No wonder the Fed's critics don't just want to see it reformed; they want it abolished.

From where we sit, it's difficult to disagree with the Paulians.

This is not just the ranting of a lunatic fringe (we ourselves have ➤

TRENDWATCH Barometer
London-listed shares

% of total no. of shares monitored	28-Sep	12-Oct	% change on 2 weeks
OFFICIAL LIST (exc. Investment trusts):			
Uptrends	45.02%	32.86%	-12.16%
Indeterminate	52.14%	63.49%	+11.35%
Downtrends	2.84%	3.65%	+0.81%
AIM-LISTED:			
Uptrends	32.83%	26.38%	-6.45%
Indeterminate	59.65%	62.83%	+3.18%
Downtrends	7.52%	10.79%	+3.27%
INVESTMENT TRUSTS:			
Uptrends	54.21%	50.35%	-3.86%
Indeterminate	43.43%	47.07%	+3.64%
Downtrends	2.36%	2.58%	+0.22%
EXCHANGE-TRADED FUNDS / COMMODITIES:			
Uptrends	57.43%	55.45%	-1.98%
Indeterminate	37.12%	42.07%	+4.95%
Downtrends	5.45%	2.48%	-2.97%

In this issue....

Investment overview (continued)

➢ had several rants against the Fed over the years, and we are not lunatics). Mr Paul has introduced a bill to Congress to "audit" the Fed – which he sees as the first step towards abolition. The bill has the support of more than two-thirds of the House of Representatives.


Paper money hater President Andrew Jackson's image on the face of a 20-dollar bill.

The bill is thought unlikely to succeed despite that level of support – it may well run aground in the Senate. And having been set up in 1913. The Fed has already survived two World Wars and many financial crises.

But the precedents for abolition have already been set. The Fed is actually America's third central bank. The first was abolished in 1811 after only 20 years of existence. And the second was destroyed in 1836 by the seventh US president Andrew Jackson, who was not only vehemently opposed to the concept of a central bank, but also famously regarded paper money as an abomination.

In one of the greatest ironies in history, it appears that the founders of the current Fed devised a cunning plan to mock for all time President Jackson's opposition to paper money. They engraved his portrait on the face of the $20 bill, where it remains to this day.

One day, the joke may backfire. As the greenback's value continues to lurch ever further down the slippery path towards its date with destiny, continually eroding the power of America and the wealth of the American people, so historians may come to view Andrew Jackson's opposition to the twin concepts of central banks and paper money as evidence that here was a man 200 years ahead of his time. ❑

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

Inflation falls to its lowest for 5 years

THE LAST issue went to press just after the quarter end, so only now can we tell you that the third quarter of the year was the London stockmarket's best quarterly performance for a quarter of a century, rising 21% between July and September. Since the rally began in early March, the Footsie has gained an extraordinary 47.3%, driven by a combination of an economic outlook that is perceived to be improving, plus interest rates at near-zero, and forecast to stay that way for some time to come.

The early days of October then saw the Footsie closing down on four successive days, its worst losing run for 6 months. That took the index back below the 5,000 level once again – though it has now regained that level again and put on another couple of hundred points for good measure.

Last week saw the publication of a key number that illustrates just why we have been pouring so much scorn recently on the green-shootists. The Office for National Statistics reported that manufacturing output dropped 1.9% in August, its lowest since 1992. Analysts had been expecting a 0.3% *rise*. This means that manufacturing output during this recession has fallen 14.8% from peak to trough. No wonder unemployment is rising.

In fact, it's even worse than that. Industrial production as a whole fell 2.5%, its weakest since September 1997.

So unlike France and Germany, there is currently no meaningful sign that the UK is pulling out of recession.

There are no meaningful green shoots in the US either, despite Fed chairman Ben Bernanke's assertion that the recession there "was very likely over". Consumer credit fell at a year-on-year rate of 10.4% in July, which is actually the fastest rate of decline since the global financial crisis began two years ago. No one can quite work out whether the fall is because consumers are cutting borrowings to reduce their debt, or whether it's more to do with the banks refusing to lend.

Just as we go to press, we learn that inflation in the UK has fallen to its lowest level since September 2004. The Consumer Prices Index (CPI) dropped to an annual rate of 1.1% in September from 1.6% in August.

Meanwhile, the Retail Prices Index (RPI) inflation measure, which includes mortgage interest payments and housing costs, fell to -1.4% from -1.3%. In other words, we're deep into deflation.

Our leading editorial on page 1 majors yet again on the decline of the dollar, but our own dear sterling is in the same dire straits, thanks to the inflation figures, which indicate that interest rates will remain low for some time. Consequently, the pound fell on Tuesday by 0.5% against the euro to a 6-month low of €1.0628; and to a 5-month low against the dollar of $1.571.

But it's probably those same low interest rates that are continuing to drive the London stockmarket onwards and upwards. For how much longer, we wonder? ❑

World stock markets ☺ uptrends

* Jordan (Amman SE) 5
Argentina (Gen.) 145
Australia (All Ord.) 130
Austria (ATX) 140
Belgium (BEL20) 130
Brazil (Bovespa) 150
Canada (Metals/Minls.) 175
Chile (IPGA Gen.) 20
Colombia (CSE) 185
Cyprus (CSE Gen) 30
Denmark (KFX) 55
France (SBF 250) 130
Germany (FAZ Aktien) 130
Greece (Athens Gen) 130
Hong Kong (Hang Seng) 135
Indonesia (Jakarta Cmp) 185
Ireland (ISEQ Overall) 125
Italy (Banca Comm. Ital.) 125
Luxembourg (Lux.Gen) 105
Malaysia (KLSE Comp.) 145
Mexico (IPC) 120
Netherlands (AEX) 110
New Zealand (Cap 40) 115
Norway (Oslo All-Share) 25
Pakistan (KSE-100) 60
Peru (Lima Gen) 150
Poland (Wig) 135
Portugal (PSI Gen) 140
Romania (BET) 135
Russia (RTS) 25
Singapore (SES All S'pre) 135
Slovenia (SBI 20) 20
South Africa (JSE All Sh) 125
Spain (Madrid SE) 130
Sri Lanka (CSE All Sh.) 165
Switzerland (SMI) 115
Taiwan (Weighted Pr.) 35
Thailand (Bangkok SET) 130
Turkey (IMBK Nat 100) 135
Venezuela (ZSE Ind) 25
Vietnam (VNI) 105

World stock markets ☹ downtrends

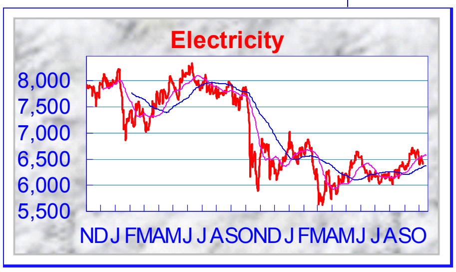
Kenya (NSE20) -20
Slovakia (Sax) -75

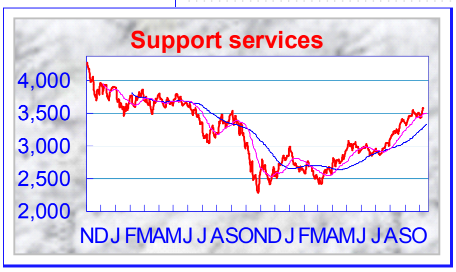
Stock market sectors ☺ uptrends

Beverages 104
Electronic / electrical eq. 45
Equity inv. instruments 126
Food producers 107
FTSE 100 112
FTSE 250 ex Inv Co 127
FTSE 350 ex Inv Co 119
FTSE AIM 143
FTSE All-Share ex Inv Co 119
FTSE Fledgling ex Inv Co 163
FTSE SmallCp ex Inv Co 127
General financial 126
General industrials 46
General retailers 145
Household goods 102
Industrial engineering 57
Life assurance 103
Media 45
Mining 27
Nonlife insurance 35
Oil & gas producers 24
Oil eq. & services 169
Personal goods 180
Pharmaceuticals & biotech 91
Software & comp. serv. 185
Support services 124
Tech. hardware & eq. 151
Tobacco 79
Travel & Leisure 35

Stock market sectors ☹ downtrends

NONE





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

West China Cement quintuples in 7 months

HOW STRANGE! It's still happening. We mentioned it on this page in the last issue. Our portfolio seems to be on a regular-as-clockwork four-week cycle, where we have massive gains to report in one fortnight, followed by a quiet fortnight, then more massive gains the next fortnight, and so on. In the last issue, we reported a quiet period; so now here we go again with another cornucopia of gains. These drove our overall gain from 32.8 to just under 39½%; while our outperformance of the market rose sharply from 15½% to over 21%.

We had 6 double digit gains, with four other shares almost getting in on the act with gains of 9%-plus. There was only one corresponding faller, so let's get that one out of the way first. It was **ImmuPharma**, down just under 13%. There was little cause to criticise its interim results. As the company observed, the first six months of 2009 was a momentous time for it. US pharma Cephalon exercised its right to licence Lupuzor, its lead candidate for the treatment of Lupus, a chronic, life-threatening autoimmune disease. Cephalon made a licence payment of $30m and will assume responsibility for all future costs and activities associated with Lupuzor's development and commercialisation. The various future cash milestone payments upon the achievement of certain regulatory and sales milestones are likely to total around $500m. On top of that, ImmuPharma will receive royalties on commercial sales of Lupuzor. The licence has strengthened the Group's cash position, enabling it to progress its other 4 drug candidates in the coming years – not to mention its patented chemical library of over 300,000 small molecules and a technology for converting small peptides to drugs that can be applied to potentially generate further compounds. In view of the distortions caused by the lumpy licensing payments, the pre-tax profit is pretty academic: £13.65m compared to a loss of £1.49m a year ago.

That was supposed to be the bad news. Now let's look at the big winners.

Incredibly leading the field for the second fortnight running is that little software out fit **Maxima**, up nearly 40% – that's on top of the 15¾% rise reported in the last issue. We can identify no reason for the rise, but this is one of those companies where over 50% of the shares are held by institutions or directors, so a little buying can go a long way. Next, the extraordinary **West China Cement**, up over 24½%. Again, there was no news to explain the rise. This share has now quintupled in value since we recommended it in March, raising it to sixth position in our *Top Twenty* list of all-time best performers (see bottom of back page).

Centamin Egypt rose 22%. We attribute its rise partly to its graduation from AIM to the Official List, and partly to the gold price breaking through to an all-time nominal high. **Northern Petroleum**, a quiet market of late, burst into life with a rise of over 19¼% following the release of its interim results. For what it's worth, it made a pre-tax loss of €0.531m (profit of €1.68m a year ago) on flat revenue of €2.8m. Of far more interest was progress on its current projects, especially in the Netherlands, where the first major commercial gas flows are expected before the end of the year, with a further major step increase early in the new year, when two further fields come on stream. In this regard, the most important project has been the five-field hydraulic reservoir fracturing programme, the results of which have exceeded Northern's expectations. The current indication is that the initial production from just four fields will now exceed that previously forecast from six fields and with considerable potential upside in reserve. This is just the beginning in The Netherlands. Northern's focus will then move on to the development of the Ottoland and Papekop oilfields with further production drilling in the gas fields and drilling of previous discoveries in the ➤

The TrendWatch portfolio: Valuation as at 12 October 2009

Share (and EPIC code)	Date bought *	Buy price (p) *	Price now (p)	gain/ loss (%)	Net yield (%)	Mkt. gain/ loss (%)	Outperf. (%)	STOP-LOSS **
Aero Inventory (AI.) AIM	25/06/09	197.75	267.25	35.15	13.1	22.39	10.42	230
Afren (AFR) AIM	23/07/09	59.25	89.50	51.05	-	14.14	32.34	68
Albemarle & Bond (ABM) AIM	23/10/08	188.50	237.00	25.73	3.7	29.29	-2.75	195
Axis-Shield (ASD)	11/06/09	318.00	435.75	37.03	-	16.50	17.62	350
Bisichi Mining (BISI)	28/05/09	145.00	170.00	17.24	2.1	18.71	-1.24	130
CareTech Holdings (CTH) AIM	05/03/09	330.00	405.00	22.73	0.9	48.21	-17.19	330
Carillion (CLLN)	20/08/09	294.90	290.10	-1.63	4.5	8.74	-9.54	245
Centamin Egypt (CEY)	17/09/09	100.50	113.50	12.94	-	-0.07	13.02	90
Chaucer Holdings (CHU)	23/07/09	43.25	50.75	17.34	10.8	14.14	2.80	41
Chemring (CHG)	09/07/09	2124.00	2637.00	24.15	1.3	25.06	-0.73	2110
China Medical System (CMSH) AIM	03/07/08	131.50	237.50	80.61	4.0	-4.05	88.23	195
Climate Exchange (CLE)	09/07/09	983.00	812.00	-17.40	-	25.06	-33.95	770
e2v Technologies (E2V)	01/10/09	74.50	76.50	2.68	3.5	2.38	0.30	60
easyJet (EZJ)	20/08/09	323.20	404.90	25.28	-	8.74	15.21	325
Eros International (EROS) AIM	11/06/09	122.50	191.50	56.33	-	16.50	34.18	160
ETFS Physical Gold (PHAU)	17/01/08	88.28	103.91	17.71	-	-11.56	33.10	84
GEONG International (GNG) AIM	25/06/09	33.00	41.00	24.24	-	22.39	1.52	38
Group NBT (NBT)	09/07/09	216.50	291.00	34.41	1.0	25.06	7.47	235
Healthcare Locums (HLO) AIM	08/01/09	127.00	257.50	102.76	0.8	17.52	72.52	219
ImmuPharma (IMM) AIM	28/05/09	84.00	81.00	-3.57	-	18.71	-18.77	75
KSK Power Ventur (KSK) AIM	16/04/09	260.50	460.00	76.58	-	28.01	37.94	340
Maxima Holdings (MXM) AIM	25/06/09	91.00	144.00	58.24	3.1	22.39	29.30	110
Medusa Mining (MML) AIM	06/08/09	137.00	193.50	41.24	-	10.39	27.95	150
Northern Petroleum (NOP) AIM	20/08/09	132.00	157.50	19.32	-	8.74	9.73	125
OPG Power Ventures (OPG) AIM	23/07/09	61.75	87.00	40.89	-	14.14	23.43	70
Petrofac (PFC)	19/02/09	449.75	1005.00	123.46	1.6	31.36	70.11	805
Platmin (PPN) AIM	03/09/09	67.50	75.50	11.85	-	7.76	3.80	70
Premier Oil (PMO) [1]	02/04/09	919.08	1282.00	39.49	-	26.99	9.84	1120
Provident Financial (PFG)	14/08/08	886.50	945.00	6.60	6.7	-5.06	12.28	755
RCG Holdings (RCG) AIM	01/10/09	84.00	88.50	5.36	-	2.38	2.91	65
Research Now (RNOW) AIM	30/04/09	312.50	362.50	16.00	-	22.25	-5.12	290
Salamander Energy (SMDR)	06/08/09	209.00	236.80	13.30	-	10.39	2.64	190
San Leon Energy (SLE) AIM	01/10/09	21.50	23.50	9.30	-	2.38	6.76	19
SOCO International (SIA)	17/09/09	1458.00	1466.00	0.55	-	-0.07	0.62	1175
Spice (SPI)	28/05/09	68.25	87.25	27.84	1.7	18.71	7.69	70
Stobart Group (STOB)	05/02/09	95.00	116.80	22.95	5.1	25.14	-1.75	93
System C Healthcare (SYS) AIM	05/06/08	36.00	60.50	68.06	1.1	-13.02	93.21	48
Tarsus Group (TRS)	02/04/09	72.50	111.50	53.79	5.4	26.99	21.10	92
Telecom Plus (TEP)	17/09/09	302.00	320.00	5.96	5.5	-0.07	6.04	255
Velti (VEL) AIM	14/05/09	147.50	161.50	9.49	-	19.50	-8.37	137
West China Cement (WCC) AIM	05/03/09	78.50	425.00	441.40	-	48.21	265.30	320
Xchanging (XCH)	06/08/09	215.30	217.20	0.88	1.2	10.39	-8.61	190
Averaged gains (%):				39.46	3.9	15.14	21.13	

TrendWatch portfolio's percentage profit: 39.46% Change on fortnight: +5.79%

Market's percentage profit (tracker fund)†: 15.14%

TrendWatch has outperformed market by: 21.13% [See 'Technical notes' (p12) for how this figure is calculated]

[1] Buy price adjusted for rights issue (4 for 9 at 485p) in April 2009.

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

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

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

Performance review (continued from page 3)

➤ Utrecht licence. Meanwhile, it sees enormous potential in Italy, where it now manages the largest exploration-licensed area in that country, about 15,000 km². Several further applications have been recently submitted.

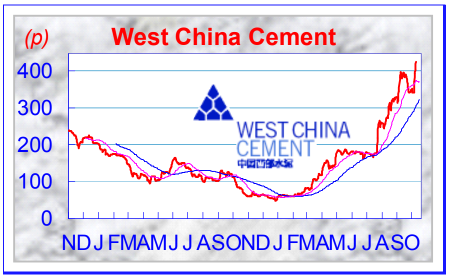
Next, another energy company, **Afren**, up 16¼%, following its announcement that it and its partner Oriental Energy Resources have started drilling operations at the Ebok field offshore South East Nigeria. In addition, Arbuthnot began coverage of the stock with a "strong buy" rating and a 130p target price. The last of the big gainers was **Chemring,** up 10.33% to a new all-time high following news that its Tennessee-based subsidiary Kilgore Flares has been awarded an IDIQ (indefinite delivery/indefinite quantity) contract for the supply of infra-red (IR) decoy flares to the US Department of Defense. The flares are used by the US Army and US Air Force to protect aircraft from the threat of IR guided missiles. This is a 5-year contract with a maximum potential value of $804m. A first delivery order valued at $42 has already been placed.

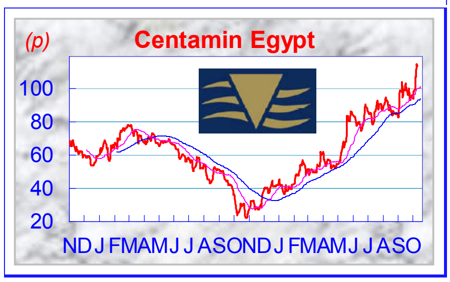
Albemarle & Bond issued strong full-year results. Pre-tax profit at the operator of 115 pawnbroking branches increased by 42% to £14.6m. This reflected in part the high gold price which has allowed it to increase loan sizes per pledge, and to benefit from higher scrap prices. This enabled it to reduce its net debt from £36.5m to £30.8m (60% gearing) and to push up the final dividend by 44%. It said it had made "a very strong start to the new year". The shares rose over 2¾%.

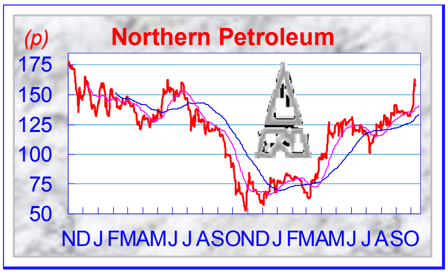
India receives among the highest amount of solar radiation in the world. Not surprising, then, that Indian power generator **KSK Ventur** has announced its intention to become a leader in solar power-generation technology to help meet India's fast-growing energy needs. To this end, it has signed a contract with US-based Applied Materials, Inc. to purchase two Applied SunFab thin film production lines for manufacturing high-power output 5.7m² solar panels. The SunFab lines will be installed in a state-of-the-art facility, including an R&D centre, which KSK plans to build in the "Fab City" located in Hyderabad, India, at a total project cost (including land and buildings) of approximately USD $500m. When completed, the annual capacity of KSK's facility is expected to be about 150MW, making it the largest solar photovoltaic (PV) factory in India. Its alliance with Applied Materials will help KSK play a significant part in India's new Solar Mission to build 20GW of solar power by 2020. The shares gained nearly 6½%.

Telecom Plus (better known by its trading name of the Utility Warehouse) issued a trading update ahead of its interims. It said that the first half of the current financial year has seen a continuation of strong organic growth, with customer numbers increasing at an annualised rate of 25% during the period to around 316,000 (31 March: 281,175) and service numbers increasing by around 110,000 to more than 904,000 (794,118). Almost 5,000 new distributors (net) joined the business in search of a secure and reliable part-time income, bringing the total to just under 32,000 at the end of September (27,051). The shares fell back 2¾%.

Other news in brief: Film distributor **Eros** (down 4½%) had a very strong second quarter. Following the resolution of a dispute with Indian multiplex operators, Eros began film releases to them in July and has already scored two big hits: *Kambakkth Ishq* and *Love Assj Kal*. Given the strong release schedule and anticipated cash generation in the second half, it expects to see a material reduction in net debt. By the end of the financial year ending March to 2010, it expects to have listed on the Bombay Stock Exchange. **EasyJet** (up 8%) carried 4.4m passengers in September, up 5.3% on September 2008. The load factor was 88.1% compared to 86.9% a year earlier, making 85.5% for the rolling 12-month period. **Carillion** (up 6.3%) said in an interim management statement that "it remains on track to deliver materially enhanced earnings in 2009, despite challenging market conditions". High-tech electronic equipment make **e2v** (up nearly 2¾) said in an interim management report that trading has continued in line with expectations, reflecting lower demand, partially offset by cost reductions. The good news is that it has reduced debt by £32m to £105m, and its order book is higher than at this time last year. It has also a waiver of its September banking covenant tests, which enables the management to concentrate on preparing for an equity fund raising later this year. ❑







Top-down selection – our recommendation from London's hot sectors

Collapse of Carter & Carter eases the path for Melorio

DOES training work?

You have to face facts no matter how proud you may be of your country, you would need more nerve than we have to deny that large numbers of our young people (for whatever reason) appear to be less than well-motivated and well-trained for the tasks necessary to maintain our standard of living. And it not only social conditions and educational policy that have contributed to this state of affairs, for the vanishing of the apprenticeship system is a blot on many industries. (It still flourishes in Germany, for example, and although that country has its economic problems just as we do, unsustainable trade deficits are not one of them.). And if you want to take the gloves off entirely, neither the present government nor the next (no matter what political party wins the election) is surely going to be willing or able to sustain the levels of public expenditure necessary to ensure able-bodied and destructive idleness to continue at present levels. Effective training is surely a must.

So, does training work?

One company, **Melorio** thinks it does, and in its most recent annual report (for the year to March) claimed that nearly 90% of those completing its IT Academy Advanced Apprenticeship went into ➤

Top-down selection (Melorio – continued from previous page)

➢ jobs or higher/further education; and that almost 70% of young people completing an Apprenticeship in its Construction Academies went on to full employment. And we don't have to stress the present state of construction in the United Kingdom.

So what is Melorio?

The company came to the market two years ago with a board well-experienced in navigating the dense infrastructure which links national and local government quangos, industry associations and training establishments. The strategic plan was to use the quoted entity to make acquisitions and build a group the core of which was devoted to the cultivation of excellence and consistency in a sphere whose disseminated nature was the natural enemy of such qualities. But there was solid evidence of good commercial performance too. So what is the situation now?

It has made three acquisitions and now employs about 500 people, operating from 28 centres across the country. It's focused on sectors of industry where there is strong demand for training and assessment, and where, by popular consent, demand is set to continue across the economic cycle. These acquisitions are as follows:

First, Zenos, which is one of the leading providers of vocational training in the ICT sector. Learners undertaking training programmes consist of school leavers aspiring to enter the ICT industry as well as those already employed within it. Zenos has worked with over 200 organisations located across the UK, including many leading multi-national ICT services companies. 36% of group revenues emanated from this source last year.

Second, it owns Construction Learning World, claimed to be the leading provider of on-site assessment and training to the UK construction and infrastructure industry. It also owns HB Group, a long established provider of construction apprenticeships. There is a client base of more than 1,800 organisations located across the UK, including many of the UK's largest construction and infrastructure companies. Construction was responsible for more than half of revenue.

The junior member of the triumvirate (less than 10% of revenue) is Logistics Learning World which provides training and assessment to the UK logistics and allied industries.

Only last month the company released a trading statement to the effect that the performance in the first half had been particularly pleasing in terms of demand, a high level of achievement rates, and the career progression of graduates - adding that these positive trends are expected to continue into the second half. Six new Academies opened in September, and there has been an increased the number of classes in existing establishments.

The record to date and the forecasts on record present the following picture:

Year:	2008	2009	2010	2011
Revenue (£m)	7.83	31.42	52.28	59.89
Pre-tax profit (£m)	1.73	7.62	12.15	14.76
Earnings per share (p)	6.81	18.46	21.44	25.76

You have to be more than a bit careful with companies that are acting as a consolidator for fragmented sectors, for very often the first flush of accelerating earnings is damped down by the uncovering of previously concealed problems and thickening overhead costs. There are the problems of ensuring the smooth flow of monies from the bureaucratic tangle that (as ever was) stands between public policy and crisp execution of that policy on the ground. Then there is the gearing – in the case of Melorio we're talking about £14m at the year end, a ratio of just 33% - but of course if anything does go wrong, the attributable value of the unavoidable accumulation goodwill in the balance sheet (almost £60m) can come down with a bump. There is still moreover almost £10m estimated to be payable to the vendors of Zenos. So seekers after investment income will be shopping elsewhere for some time to come.

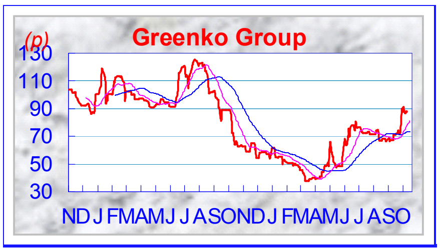
On the other hand, cash generated from operations last year was not far short of £10m. We have mentioned the compelling nature of the activity. And if the forecasts are accurate we're looking to a price:earnings ratio of 6.6 in the current year and 5.3 the following year. If those targets are hit, the current share price won't be there to greet them. **BUY** (137.5p; yield: nil; initial stop-loss: 110p; EPIC: MLO; sector: Support Services; classification: AIM; website: *www. melorio.com*; tel: 020 7389 6800). ❑

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

Three-phase power for our portfolio: KSK, OPG and Greenko

MANY OF you will be well aware of our fondness for players in the great game of assisting India's economic development by allowing her to overcome her energy deficit. That's why we have KSK and OPG in our portfolio. This being so, it was with greater interest than usual as that we pored over the accounts of a company called **Greenko Group** a couple of weeks ago, as it posted its figures for the year to March 2009.

The company came to AIM just under two years ago, raising £30m in the process. Like other members of its peer group it was the deregulation of the sector and the tolerance of favourable tariffs for private investment that had been the company's driver; but the principals had paid particular heed to the requirement for 10% of all new energy to come from renewable sources and had already acquired a portfolio of biomass, hydroelectric and wind plants. The strategic intention is clear and ambitious - to become the leading clean energy producer in India



The method employed is the purchase of existing schemes and new-build projects, from which the company aims to maximise returns by improving operating efficiencies and selling directly to end users. But even by the time of flotation, existing projects were generating Carbon Emission Reduction units (CERs) which are of course sold on to end users seeking to fulfil their obligation under the Kyoto Protocol. Planned increases in the Group's asset portfolio were said to be capable of producing 1.2m credits per annum by 2010 – a secondary income stream of some importance.

Here is the record to date (next column):

Year to March:	2008	2009
Revenue (€m)	13.12	13.87
Pre-tax profixt (€m)	2.82	3.17
Earnings per share (c)	6.13	3.91

A combination of a modest increase in profit and the need to service the additional capital caused the 2009 earnings per share to fall by more than one-third from the level recorded the previous year. Cash balances at the year end totalled more than €11 million. During that year the company operated six biomass facilities totalling 41.5 MW of capacity. In addition two hydro assets of 49.5 MW became operational post year end and a third is expected to be commissioned soon. The biomass plants were being operated at less than optimum capacity due to a period of shut-downs as part of the tariff negotiations but were able to meet the targeted financial parameters for each project. The hydro projects should be entering optimal loading about now as capacity is slowly ramped up in its first year of commercial operation.

There was a stock of 156,000 CERs at the year end. That market has of course seen lower levels in the light of the downturn in related commodity markets. The board of Greenko are of the opinion, however, that the December Copenhagen Summit will provide clarity on market direction for the future. (The market is currently trading at *circa* €13 per tonne.) We'll see about that – our interest in the future of this type of trading goes further than the fortunes of Greenko – or India for that matter.

Clearly the continued evaluation of a range of qualifying projects lies at the centre of the company's operations, but a very recent stride forward of some significance was to acquire the licence for ➢

Bottom-up selection (GreenKo – continued from previous page)

➢ a 96MW run of a river hydro project at Dikchu in the province of Sikkim, North East India. Sikkim has significant hydro potential due to its proximity to the Himalayas. Not unconnected with this move was the news of a subscription of $46 million a major clean energy investor based in the United States.

India's continued economic growth may have slackened as international troubles have developed but with an annual GDP growth of 5.6% predicted for 2010, it is still no slouch. Short-term electricity prices in the country have tripled over the last five years, with forecasts of a further rise, as the peak shortage is projected to exceed 18% by the end of this fiscal year. Between April 2008 and March this year India suffered from an overall power deficit of 11% and peak deficit of 12%. A report by McKinsey suggests that if India's economy continues to grow at an average rate of 6% for the next 10 years, the country's demand for power will soar from around 140 GW at present to 315 - 335 GW by 2017, approximately 100 GW higher than earlier estimates The present *per capita* electricity consumption is only 23% of the global average.

Here's what Greenkp's's broker thinks the immediate future has in store for Greenko.

Year to March:	2010	2011
Pre-tax profit (£m)	3.11	9.42
Earnings per share (p)	3.84	11.79

The original flotation took place at a then equivalent price of 98p per share and the most recent capital injection agreed upon is to be in the form of Preference Shares with the rights to convert into what would become a 29.9% holding – the conversion option becoming attractive at the same price.

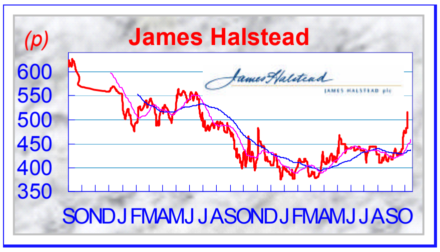
There it is. A period of intensive investment and the (almost inevitable) teething problems as newly-commissioned units build up the full operating capacity is not the ideal background for short-term growth in earnings – and as for dividends, forget it.

But Greenko claims the visibility to deliver upon its initial target of 400 MW installed capacity; and on the available evidence we believe has a scalable model which would allow a target of 1,000 MW of secured capacity by the end of the financial year 2014. And don't forget about what would be the icing on the cake if the sales of CERs hit their full stride in terms of volume and price.

A year from now we could be looking to a prospective p/e of just 7. The shares stand below the debut price. We think that there is plenty of headroom here. **BUY** (89.5p; yield: nil; initial stop-loss: 72p; EPIC: GKO; sector: Electricity; classification: AIM; website: *www.greenkogroup.com*; tel: 91 (40) 3291 5858). ❑

Putting a (commercial) floor under our portfolio

COMMERCIAL flooring looks to be a pretty dull business at the best of times, its allure not noticeably heightened in times such as these, when falling real estate values signal to developers that the blueprints have to put away for a season, and those that depend for their livelihood on public sector development projects are casting anxious glances in the direction of Whitehall.



Well, **James Halstead** is in the commercial flooring market (the flagship brand is Polyflor). And it looks not only dull, but simple too as the chairman himself has stated in times past: *"sourcing and producing the right products, effectively servicing our customers' needs, defending our market position and maintaining our reputation and credibility for the future"* adding that *"our technical knowledge and worldwide industry-recognized expertise continue to keep our products on the short list of choice for commercial flooring installations in a vast array of projects around the world."*

It has been around since 1915 as a business which coated textiles with rubber, being a major supplier of groundsheets to the army in World War II. It floated as long ago as 1948.

More than 50% of the group sales take place outside of the UK; notably in continental Europe (Germany in particular) and in Australasia; but with a fast-growing Far Eastern presence. The manufacturing base is in this country but year-on-year capital expenditure and constant marketing innovation speak of a completely professional outfit do say nothing of its scouring the globe to find product ranges which it does not manufacture but which it is happy to distribute.

Here are the five-year figures:

Year to June:	2005	2006	2007	2008	2009
Revenue (£m)	112.35	126.02	137.25	158.74	169.26
Pre-tax profit (£m)	13.76	17.48	23.50	29.86	33.00
Earnings per share (p)	9.60	23.80	31.10	39.70	48.30
Dividends per share (p)	9.88	12.25	16.50	20.75	24.25

Nothing dull about that, is there?

Net cash at the year end was at the year end of £27m but that after 2009 expenditure of £9 million on fixed asset formation and after £11 million in respect of dividends paid. The full report and accounts for 2009 are not to hand, but the 2008 figures in respect of the geographical spread of activities in terms of sales was as follows:

United Kingdom 42% *Australasia and Asia 16%*
Europe and Scandinavia 36% *Rest of the World 6%*

But what of the outlook now?

The chairman admitted that the significant uncertainties in the earlier part of the second half of the company's financial year as the banking crisis extended into the wider economy slowed markets down. Management then promptly focused on cost control and credit appraisal. But he went on to say this:

"Though major projects and new builds are always welcome, our business model is founded on the supply of resilient floor coverings into refurbishment and repair work in the commercial sector. We have always found in previous economic downturns that the refurbishment market has been robust and, in these difficult times, the focus on value for money brings resilient vinyl floor coverings increasingly to the forefront of the short list of suppliers prepared by specifiers....the general economic climate is fragile and we remain cautious as to the outlook... but trading since the year end continues to hold up well and we look forward to progressing our worldwide business in the coming year".

Three brokers track Halstead and this is the consensus forecasts:

Year to June:	2010	2010
Pre-tax profit (£m)	33.25	34.95
Earnings per share (p)	44.29	46.49
Dividends per share (p)	26.00	27.00

All right then, that's dull. So why are we here?

The truth is, so far as the UK is concerned the company has no manufacturing competitors of substance in its core markets of healthcare (public and private) and education. New-build is the icing on the cake. Although given the range and nature of its purchases it would be unwise to read too much into it, sterling weakness must be a major strategic benefit given the scope of the enterprise.

However the investment case goes beyond strength at home and respect abroad. Investors have to live with the fact that whilst as a rule chairmen and chief executives do not actually lie or dissemble, the vast majority cast the account of their doings in the best possible light – and events, past or future do not always live up to the billing. Over the years this family firm, which does not prattle, has been a model of understatement and of making the figures do the talking for them; and in turn has cultivated the twin virtues of periodically returning cash to shareholders (over and above a handsome and progressive distribution policy) and being regularly in a position to inform the market that results are going to exceed expectations. The self confidence this breeds extends to the only area where there might be even a hint of a problem – a pension-fund actuarial deficit – but the acid comment in the accounts on the methodology by which the accounting profession justifies the treatment of such matters is a joy to read. (The 'deficit' excluding tax offset is £15.6m by the way.)

The present share price values Halstead at just over 11 times earnings – not on the face of it over-cheap. There is a yield of just over 5%. The shares have never climbed much above 600p – heaven knows why - but in our view they are heading there again, maybe faster that the analysts think. And the income is not to be sneezed at. The innate quality limits the downside risk. **BUY** (545p; yield: 4.4%; initial stop-loss: 440p; EPIC: JHD; sector: Construction & Materials; classification: AIM; website: *www.jameshalstead.com*; tel: 0161 724 8008). ❑

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

New uptrends whose positives seem to outweigh the negatives. There is a good probability that the trend will persist.

HIT!	BULL POINTS	BEAR POINTS
GreenKo	See page 6.	
Melorio	See page 4.	
James Halstead	See page 5.	
Public Sector Property Inv. (Anglo-German renter of a portfolio of tial and care homes)	Whilst we recognise the investment implications of European demographics and the merits of the tangible nature of property, we have not been very fortunate in the main in fitting these valuable qualities into our normal share-purchasing criteria. But we had a long look at this conservatively managed business, which sells at a sharp discount to net asset value; has a progressive earnings record; and a fat (7.5%) prospective yield.	Of course cash is the *other* stock in trade and financial-market conditions are uncertain. But what really puts us off is our inability to imagine that buyers will pile into the sector in the short/ medium term.

New uptrends whose bull and bear points appear to counterbalance each other

MAYBE	BULL POINTS	BEAR POINTS
Amino Technologies (maker of set-top boxes for the delivery of IPTV)	The Amino product range is designed to provide a cost effective means for a telecom or internet service provider to deploy an IPTV (Internet Protocol Television) service, which enables major telecom providers and large media groups to implement closed, proprietary TV systems delivered via IP-based secure channels. This is an expanding market and the company has a strong position within it. If the latest earnings forecasts are correct 2010 should see the shares selling at less than 10-times earnings.	The company is taking an unexpected bath in the current year on the back of lower first-half sales and increased costs.
GlobeOp Financial Services (provider of back-office services to hedge funds)	The company is a leading, independent financial technology specialist concentrating on the hedge-fund sector. It provides automated, integrated, middle-and-back-office services. Web-based accounting and valuation, processing and settlement services, investor relations, shareholder records and reporting functions can all be hndled. The shares are selling at just 8.7 times next year's forecast earnings.	We thought that there would be more pressure earlier than this for hedge funds to cut costs and that such pressure would outweigh downward pressure on income from financial turmoil. We were wrong, our error made appear much worse by the costs of settlement of a large financial claim.
GMA Resources (gold production and exploration).	The company holds an exploitation permit over an area of 1400 square kilometres in Southern Algeria, which includes the Tirek gold mine, the Amesmessa gold deposit and a major prospect, ZITA. A gold resource of approximately one million ounces had been confirmed at Amesmessa, whilst at Tirek the equivalent figure was estimated to exceed 500,000 ounces. The latest forecast, if achieved, would see the shares selling at 5.4 times the anticipated outcome to December 2010.	Whilst we never tire of pointing out just how long it takes to get mines into positive cash flow, GMA has been tardy even by industry standards. A recent announcement concerning production shortfalls, bureaucratic obstacles and shipping difficulties for key spares tells you why.
Platinum Australia (South African platinum miner and processor)	It has two separate sites from which it intends to mine platinum; one at Smokey Hills in South Africa's Limpopo Province and one, Kalahari Platinum (Kalplats) located about as far west of Johannesburg (300 kilometres) as Smokey Hills is to the north. Another string to the bow is that it has also developed a new metallurgical process for the recovery of platinum-group metals, the Panton Process, which was developed as part of a feasibility study.	Global turmoil has taken the shine off much of the sector, and this combine with the low maiden profitability expected this year may se the shares idle until things pick up again.
ROK (property maintenance)	ROK is a construction company with a difference. In an industry which for many decades has been firmly dedicated to operating techniques designed to stimulate productivity and ensure control through the use of subcontractors, ROK proclaims itself as the only large-scale national company offering small-scale building and repair work through directly-employed and trained operatives. The claim is that that its property maintenance activities are winning market share as a result of this; and the shares are selling on a current-year p/e ratio of just 6 if the forecasts are correct.	The exit from the new-build sector halted the company in its tracks, and it may take some time to rebuild momentum.
Rotala (bus operator)	This company is engaged in the provision of bus services to public and private bodies and tailored transport solutions to a wide range of private customers; it has been loss-making to date, but the broker is forecasting earnings of 5.8p per share for the year to November next, 7.5p next year, and 12p the year after that. Hitting these target figures would mean a price:earnings ratio of just over 7 in immediate prospect with earnings multiples of 5.6 and 3.5 to follow.	The company is only capitalised at £11 million, and there is no yield.

TAM – a progress report

TAM master account's annualised gain is almost 100%

AT THE close of business on Monday of this week, the TAM master account was showing a gain of just under 25%. Considering we only really got properly under way at the beginning of July, this is indeed a remarkable performance for this ground-breaking vehicle – equivalent to almost 100% a year on an annualised basis.

No wonder *TrendWatch* subscribers and a few others have now entrusted over £1.33m of funds to TAM. Marketing to the outside world is only now beginning to get under way.

The investment managers are now totally confident of their ability to make big profits in decent market conditions. Not surprising really – after all, we've been doing a similar job for the *TrendWatch* portfolio since 2000.

But the real test will come when the markets turn. When that happens, TAM should have a huge advantage over *TrendWatch* because of TAM's ability to go short.

So far, the investment managers have not been tested in a serious market downturn. But they're up for the challenge. As George W Bush (remember him?) once said: "Bring it on". ❑

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

New uptrends we think you should ignore – unless, of course, you know otherwise.

MISS

IT'S A long time ago since we chanced our arm with AIM-listed software house **Access Intelligence.** It wasn't a success then and we cannot uncover any convincing evidence that going back in again would be a good idea now. Nor do the exotic charms of main-market listed **Anglo-Eastern** (rubber and palm oil – Malaysia and Indonesia) cast any allure. Back on the junior rung, veterinary product specialist **Animalcare** looks sound, but it's hard to imagine that its investment standing is not reflected in the share price. And will **Avacta**'s revolutionary bench top instrument (providing drug developers with vital information at an early stage of the drug development process) be the exception which proves the rule in this notoriously difficult market? Who can tell? **Berkeley Mineral Resources** (for the present at any rate) is making the kind of financial progress on its Zambian mining as it did on its previous software business. That's right. Nil.

Back to big board and to the familiar territory where **Biocompatibles** is located – drug development, where it is hardly possible to question the utility of the enterprise nor ignore the reports of progress but where the investment signals remain stubbornly at red. Crimson might be a better description in respect of AIM's **Caledonia Mining** where the recent resumption of gold production is marred by the location – Zimbabwe – and where Mitsubishi have withdrawn from a platinum exploration project. You never know with these miners; but if value there is, it is buried in more ways then one. **Capita,** capitalised at nearly £5 billion is of course a leading outsource specialist and probably has the critical mass to enable it to crash through any problems that future markets may develop, but its virtues are well recognized we think, not least in the share price. Also on the Official List, **Care UK**, a solid if unexciting entity which provides health and social care services has seen its share shoot up on a private equity approach – and stay there, despite having rejected its suitor. So downstairs again, where £1 million telecommunications support company **Cellcast** fails to connect; where catheter company **ClearStream** doesn't make the heart beat faster; and where sports and entertainment marketing group **CSS Stellar,** which has manifestly failed to sparkle might just have a glint in its eye now.

On the big board again, Irish conglomerate **DCC** has concluded a strategic review and decided that it's a fine business that needs to be left untouched. So we won't touch it. And although the business of **De La Rue** – printing money of course – is being supported by the Bank of England's recent decisions, the earnings outlook for next year is still flat. Back on AIM, property group **Dolphin Capital**'s recent figures have not been very good and it looks as though it's going to flip out of the public arena now. Long ago we thought that the business model of staffing company **Empresaria** was likely to prove more robust than that of its competitors. We were wrong.

Enegi Oil is resuming exploration operations after a bad spell. We can sympathize with that. Provider of ancillary services to the pharmaceutical and biotechnology sectors **EpiStem** is slated to come good in the year to June next, but that's a long way away and the indicated earnings multiple – over 30 – doesn't set one atingle either. **European Convergence Development**'s property development portfolio is in the south-east of the Continent, an area in which we have not been known to stray. AIM veterans will remember a long mooted coal project in Bangladesh, and might care to note that it now rests with **GCM Resources,** the board of which now hopes for signs of political stabilisation in that country. Stabilisation of a different kind might be taking place under the Channel as a Goldman Sachs fund becomes the largest shareholders in **Groupe Eurotunnel** – but that is a speculation. Despite its name, **Jaques Vert** actually has no French connection (not even with French Connection) and the doughty battler in the high street fashion world usually gives a good account of itself; but that does not add up to an investment case, our kind of investment case anyway. A working agreement with a division of Siemens is the thread to the investment prospects of home automation enterprise **JSJS Designs,** but it's very early stage. An unfortunate acquisition halted Scottish-based **Lees Foods** in its tracks; and although it looks to have shaken of the effects of that, it's a very small enterprise. The board of **Marwyn Materials** is dedicated to the search for investment opportunities in building materials business – let's hope that they have more luck than we have. South American gold miner **Minera IRL** is at that awkward in-between stage in its investment programme. Something similar might be said about **Minoan Group** as it struggles with bureaucracy and market conditions in regard to the Cretan luxury development which is its *raison d'etre.* On the Official List again for a brief call on **MS International** a stout engineering group - but perhaps its stoutness will be a handicap to moving very fast in current conditions. AIM's **Nautical Petroleum** has impressive hydrocarbon reserves and enough cash to develop the most advanced of them, but seems primarily to be one to lock away – and as such, not in accordance with our normal criteria.

Novera Energy's portfolio of 'green' assets is at once a bit harder to value and a bit closer to ordering the black ink, but as we're talking about the year to December 2010, perhaps not close enough. And to the extent that that is true, it pitches loss-making developer of 'green' fuels **Nviro Cleantech** (there are no forecasts) deep into speculative territory, not our terrain of course. Similar ground is occupied by fully-listed **NXT,** a developer of 'bending wave haptics ' for audio and touch technology. As we go to press (and go back to AIM) shareholders of **Orsu Metals Corporation** are waiting to hear if the proposed sale of the Varvarinskoye Gold-Copper Project in Kazakhstan will be concluded. Even if it does, the vast bulk of the consideration will have to be marshalled to deal with debt, so we're not holding our breath – even vicariously. **Ovoca Gold** is building a portfolio of gold assets. (So are we, at least in part).

Prime People is caught in the web of the economy as it affects demand for staff; and shows no evidence of being able to extricate itself yet. **Sagentia** is a technology transfer company and is apparently right in the mainstream of that intriguing sector – that is, it doesn't make any money. **Simigon** is in the area of simulation products for civilian and defence purposes; capitalised at £4 million, it has not made any money and there is no forecast on record. **Sound Oil** seeks appropriate assets; there is no record of profitability and no known prospect of it. **Sterling Green** is in the debt management business and, unless it can eliminate its losses, might find a client closer to home than it would like. **Sunrise Diamond** has properties in Finland – but no diamonds yet. Provider of digital marketing services and publisher, **Totally**, is miniscule even by AIM standards. **Ultima Networks** develops and supplies computer-based application software and services to the legal profession; develops consumer and specialist electronic goods; and is involved in the development of solar power parks. Being debt free is a good start, but having registered a loss in the year to June and having less than £100,000 in the bank kind of puts the thing in context. Loss-making **Upstream Marketing & Communications** is to change its name – to *Hameldon Resources* that is upon the sale of its present businesses, the move allowing it to become an investment company and stalling any temptation for tasteless jokes about being up creeks. **Watermark Global**'s operation is in South Africa and is focused on acid mine drainage; but is early-stage. And **Zenergy Power** is also early-stage, and a much classier operation as it seeks to harness the almost limitless benefits which would accrue from the commercial application of superconductivity. Alas, all that has meant so far is heavy losses, and the indication that there are more to come. ❑

OFFICIAL LIST SHARES IN UPTREND (excl. inv. companies and warrants) 32.86%

* Anglo-Eastern 5	Alphameric 43	BATM Adv'd Com. 123	Catlin 20	Corin 45	Diploma 112	Glaxo SmithKline 67
* Biocompatibles I. 10	Alterian 131	BHP Billiton 60	Centamin Egypt 27	Cranswick 21	Domino's Pizza 61	Goldshield 197
* Capita 6	Aminex 14	Bisichi Mines 19	Chaucer Holdings 33	Creston 20	Dunelm 64	Grainger Trust 55
* Care UK 8	Anglesey Mining 87	Boot (Henry) 35	Chemring 31	Croda 51	e2v Tech. 21	Guinness Peat 27
* DCC 4	Antisoma 21	Brightside 37	Chime 148	Cropper (James) 25	EasyJet 45	Halfords 18
* De La Rue 4	ARM Holdings 151	Britvic 118	Chrysalis 63	Daejan 49	Emblaze 34	Halma 95
* GlobeOp Fin. S. 8	Aseana Prop. 107	Brown (N) 19	City of London Gp. 87	Dail Mail 'A' 41	Euromoney 41	Hansard Global 42
* Groupe Eurotunnel 6	Ashmore Group 36	BSkyB 73	Clarkson 176	Daily Mail & Gen. 80	Experian 59	Helphire 15
* MS International 1	Assd. Brit. Eng. 74	Bunzl 46	Cobham 47	Dairy Crest 25	Fenner 116	Hilton Food 32
* NXT 6	Autonomy 19	Burberry 172	Compass 24	Delta 55	Fresnillo 24	Hiscox 30
* ROK 7	Aviva 100	Business Post 17	Computacenter 115	Derwent London 126	Fuller Smith & Turn. 14	Hogg Robinson 21
Aggreko 35	Axis-Shield 90	Carnival 36	Connaught 95	Dialight 85	Galiform 141	Homeserve 28
Alba 33	Babcock Intl. 36	Carphone Wareh. 150	Consort Medical 14	Dimension Data 128	Genus 28	HSBC 103

☺ OFFICIAL LIST SHARES IN UPTREND (excl. inv. companies and warrants) continued

Hyder Consulting 95	Lancashire H. 18	New World Res. 43	Psion 134	S & U 41	St James Place C. 81	Uniq 107
Imperial Tobacco 73	Legal and General 41	Next 198	PZ Cussons 99	SABMiller 112	Stagecoach Gp. 45	UNITE Group 120
Innovation Group 113	Lon. Fin. & Inv. 112	Northamber 20	Quarto Group 43	Safestore 127	Standard Charter. 127	United Bus. Media 27
Intec Telecom S. 151	Lon. Stock Exchge. 24	Ocean Wilsons 187	Randgold 20	Salamander En. 26	Standard Life 27	Vedanta 27
InterContinental Ho. 51	LSL Prop.Serv. 52	Old Mutual 127	Rank Group 54	Sappi 19	Synergy Healthc. 95	Victrex 128
Intertek Group 41	Man Group 24	OPD 103	Rathbone Brothers 26	Senior 118	Tate and Lyle 97	Visonic 138
Intl. Personal Fin. 44	McBride 32	Oxford Instruments 49	Reckitt Benckiser 35	Serco Group 92	Ted Baker 44	Walker Crips 35
Investec 127	Meggitt 52	Paddy Power 125	Renishaw 36	Signet Group 145	Telecom Plus 30	Wilmington Group 40
IS Solutions 36	Melrose 123	Paragon 118	Rensburg 129	Smart (J) Cont. 37	Tex Holdings 16	Wolseley 43
ITE 26	Minerva 52	Park Plaza Hotels 120	Rio Tinto 17	Smith (DS) 45	Thorntons 48	Wood (John) 23
Jardine Lloyd Thom 47	Misys 173	PartyGaming 17	Robert Walters 98	Smiths Group 49	Trafficmaster 41	Worthington Group 15
JKX Oil & G. 62	Mondi 105	Pearson 36	Robert Wiseman. 168	Soco International 24	Travis Perkins 45	WPP 36
Kcom Group 20	Morgan Crucible 51	Petropavlovsk 129	Rolls-Royce 105	Spice Holdings 99	Trifast 117	Xstrata 96
Keller Group 33	Mothercare 104	Photo-Me Intl. 53	Rotork 57	Spirax-Sarco 57	Trinity Mirror 120	Yamana Gold 21
Kesa Electricals 49	Mouchel 16	Plaza Centers 103	Royal & Sun Allce. 14	Spirent 147	Tullow Oil 28	Zotefoams 45
Kofax 12	Nestor Healthc. 45	Provident Financial 38	Royal Dutch 'A' 28	SSL Intl. 97	UMECO 93	
Lamprell 116	Network Tech. 42	Prudential 64	Royal Dutch 'B' 20	St Ives 26	Unilever 107	

☹ OFFICIAL LIST SHARES IN DOWNTREND (excl. inv. companies & warrants) 3.65%

* Goodwin -1	* Vislink -8	Blacks Leisure -23	Cosalt -250	Jessops -74	Pinewood
* Nationwide Acc.R. -6	Accident Exchange -61	Bodisen Biotech -52	DRS Data -32	Luminar -11	Shepperton -20
* Puricore -2	Alexon Group -47	Carr's Milling -15	French Connect. -66	Manganese Br. -11	Renovo Group -15
* Sportech -4	Barr (AG) -15	CML Microsys. -17	Gresham Comp. -30	Oxford Biomedica -19	SkyePharma -88

☺ AIM-LISTED SHARES IN UPTREND (excl. inv. cos. and warrants) 26.38%

* Access Intellig. 6	* Upstream M.& C. 6	Billing Services 105	Datatec 127	Healthcare Loc. 133	LPA Group 22	Ottoman Fund 34
* Amino Tech. 6	* Watermark Glo. 10	Billington 108	Desire Petrol. 127	Heavitree Brewery 105	Lupus Capital 30	Palmaris Capital 112
* Animalcare 5	* Zenergy Power 7	BioEnergy Africa 96	Deutsche Land 23	Heavitree Brew. 'A' 12	M & C Saatchi 32	Pan African Res. 27
* Avacta 5	2Ergo 17	Birmingham City 46	Dewhurst 'A' 118	Hellenic Carriers 23	Macau Prop. Op. 141	Penna 71
* Berkeley Min. R. 6	Abbey Protection 117	Blackstar Inv. 17	Dhir India 58	Herencia 20	Mariana Res. 25	Petmin 25
* Caledonia Min. 1	Abcam 153	Blinkx 23	Digital Market. 34	Hexagon H.C. 19	Matchtech 39	Petra Diamonds 31
* Cellcast 6	ACM Shipping 132	Booker Group 132	Discovery Metals 52	Hidefield 36	Matra Petroleum 121	Petroceltic Intl. 37
* CIREF 6	ACP Capital 149	BPC 21	DM 20	Highland Gold 49	Maxima 17	Plant Health Care 44
* ClearStream T. 4	Adept Telecom 11	Brady 62	Dori Media 121	Horizonte Min. 95	May Gurney 57	Plastics Capital 15
* CSS Stellar 8	Adv'd.Comp.Soft. 13	Brooks MacDon. 200	Dragon-Ukranian 18	Hutchison China M. 65	Maypole Group 94	PME African Infra. 66
* Dolphin Cap. 4	ADVFN 177	Brulines 19	Eastern Platinum 14	Hydrogen Group 13	Medical House 44	Polar Capital 124
* Empresaria 3	Afren 140	Byotrol 98	EcoSecurities 134	Ideal Shopping Dir. 18	Medusa Mining 52	Portland Gas 22
* Enegi Oil 9	African Consol. R. 70	Canaccord Cap. 145	Education Dev. 16	ILX Group 94	Merchant Sec. 115	Portrait Soft. 119
* EpiStem 5	African Minerals 162	Cape 147	Energetix 24	Immedia Broadcast. 24	Meridian Petrol. 51	Powerleague 43
* Europ'n Conv.D 7	AI Claims Solns. 14	Capital Pub Co. 24	Energy XXI 19	Immunodiagnostic 142	Metals Explorat. 24	Pressure Tech. 25
* GCM Resources 3	Alba Mineral Res. 33	CareTech 77	Enova Sys. 45	Impact Holdings 119	Mirada 51	Prime Active C. 83
* GMA Resources 3	Albemarle & Bond 28	Caspian Holdings 25	Equest Balkan 11	Impax Group 26	Mirland Develop. 19	Prosperity Vosk. 107
* Greenko Group 10	Allergy Therapeut. 20	Cassidy Brothers 16	eServGlobal 33	Impellam 25	Mission Marketing 25	Proton Power S. 26
* Jacques Vert 10	Allied Healthcare 159	Catalyst Media 20	Essentially 102	Ind. Media Dist. 117	Morson Group 17	Public Service Prp. 15
* James Halstead 10	Alpha Strategic 51	CBaySystems 65	E-Therapeutics 55	IndigoVision 46	Motive Television 20	Publishing Tech. 140
* JSJS Designs 9	Alternative Netw. 40	CEPS 18	European Goldf. 25	Inspired Gaming 51	Moto Goldmines 95	Quayle Munro 29
* Lees Foods 8	Ambrian Capital 32	Ceramic Fuel C. 32	eXpansys 11	Intelligent Environ. 12	Mount Engineer. 16	Raven Russia 26
* Marwyn Materials 7	Amerisur Res. 36	Chaarat Gold 39	Fairpoint Group 18	Interbulk Inv. 41	Moydown Min. 111	RCG Holdings 18
* Minera IRL 1	Amphion Innov. 32	Character Gp. 79	Faroe Petroleum 32	Intl. Brand Licens. 105	Mulberry 79	Red Rock Res. 43
* Minoan Group 8	Andes Energia 47	China Medical S. 118	Feedback 89	Internat. Greetings 54	Mwana Africa 41	red24 137
* Nautical Pet. 9	Angle 44	Chromex Mining 13	First Artist Corp. 18	IPSA Group 25	Natasa Mining 18	Renewable En. G. 17
* Novera Energy 7	Aortech Intl. 18	Churchill Min. 26	Fiske 154	Jarvis Securities 20	Nautilus Min. 13	Renewable P.& L. 51
* Nviro 10	Apace Media 56	City of Lon. Inv. 34	Forest Sup. S. 35	Jetion Holdings 14	Naya Bharat 152	Resaca Exploit. 72
* Orsu Metals 3	Archipelago Res. 159	Claimar Care 45	Freshwater UK 19	John Lewis of Hun. 17	Netcall 66	Research Now 19
* Ovoca Gold 2	Arden Partners 70	Clipper Windp. 18	Frontera Res. 28	Johnson Service 41	NetDimensions 50	Rockhopper Ex. 25
* Platinum Austral. 3	Asia Resources 158	Cluff Gold 26	Gable Holdings 134	Judges Scientific 50	Networkers Intl. 20	Serabi Mining 122
* Prime People 3	Asian Citrus 114	Coal of Africa 23	Genetix 61	Just Retirement 20	New Europe Prop. 65	Shanta Gold 94
* Rotala 3	Autoclenz 27	Coastal Energy 36	Gladstone 48	KDD Group 44	Next Fifteen 19	Silverdell 14
* Sagentia Group 8	Avarae Global C. 26	Coburg Group 124	GoldStone Res. 12	KSK Power V. 166	Nipson Digital 15	Sinclair Pharma 24
* San Leon Energy 2	Avesco 13	Coms 18	Gooch & Housego 26	Landore Res. 72	Norseman Gold 179	Sirius Exploration 21
* SimiGon 8	Bankers Petrol. 63	Concurrent Tech. 35	Group NBT 77	Leeds Group 17	Northern Petrol. 36	Sirius Real Est. 115
* Sound Oil 3	Baobab Res. 45	Conroy Diam. 91	Gt. Eastern En. 110	Leyshon Res. 16	Numis Corp. 44	Skywest Airlines 36
* Sterling Green 8	Begbies Traynor 14	CPL Resources 90	GTL Resources 40	LIDCO Group 52	Off-Plan Fund 73	Somero Enterp. 46
* Sunrise Diam. 3	Beowulf Mining 18	Craneware 25	Gulf Keystone Pet. 46	Lifeline Scientific 20	On-Line 113	Sportingbet 26
* Totally 8	Best of the Best 56	Cryo-Save Group 26	Hardy Oil & Gas 22	Lo-Q 22	OPG Power V. 103	Stadium Group 26
* Ultima Net. 1	BGlobal 70	Cyril Sweett 46	Hartest Holdings 111	Low Carbon Acc. 29	Ora Cap. Prtnrs. 109	Starvest 18

☺ AIM-LISTED SHARES IN UPTREND (excl. inv. cos. and warrants) continued

Statpro 165	SWP Group 40	TGE Marine 71	Treveria 14	Valiant Petrol. 27	Win 48
Steppe Cement 17	System C 30	Thorpe (F W) 12	Tricorn 13	Vero Software 19	Work Group 17
Sterling Energy 92	Taihua 12	Tikit Group 11	Ukrproduct 17	Vertu Motors 154	Workplace Sys. 72
Straight 181	Tandem Group 92	Timestrip 16	Ultimate Finance 119	Volga Gas 122	Yinggao Hldgs. 31
Strategic Nat. R. 44	Tanzanite One 21	Touchstone 29	United Carpets 125	Volvere 146	Young & Co Brewer-
Sunkar Res. 38	Teleset Networks 57	Trakm8 35	Universe 42	West China Cem 164	ies 'A' 22
Swallowfield 46	Tenon Group 33	Trans-Siberian 17	Uruguay Min. Ex. 24	Westmount En. 65	Zamano 16

☹ AIM-LISTED SHARES IN DOWNTREND 10.79%

* Adili -5	* Trinity Capital -1	Cohort -16	Hydrodec -36	Medic Vision -47	Shariah Capital -184
* ADL -8	* Vane -10	Consol. Ass. M. -108	IDatech -13	Mercury Recycl. -74	Songbird 'B' -17
* AMZ Hldgs. -10	* Zytronic -9	Crawshaw Group -51	IFR Capital -15	Metrodome -55	Sopheon -45
* Bango -8	1st Dental -126	Croma Group -48	Independ. Res. -50	Minorplanet -300	Spitfire Oil -15
* BlueStar SecuT. -7	Adalta Real -42	Cubus Lux -85	Indian Restaur. -211	Money D. & Cr. -180	Sportswinbet -22
* Business Control -2	Advanced Power	DataCash -21	Individual Rest. -57	MTI Wireless Ed. -22	Tanfield -59
* Ceres Power -6	Components -53	Davenham -60	Innovision R.& T. -59	Nasstar -105	Telit Comm. -27
* Clarity Comm. -1	Adventis -48	DCD Media -54	Integr. Asset Mgt. -50	Norman Hay -21	Tembusu Inv. -435
* Dillistone -10	Aisi Realty -56	Discover Leis. -18	IQ Holdings -43	Northern Bear -104	THB Group -32
* Eredene Capital -4	Altitude Grp. -56	Draganfly Inv. -12	Jourdan -40	OMG -53	Touch Group -11
* Europ'n Islamic -6	Antonov -47	Earthport -22	Just Car Clinics -15	Ondine Biophar. -36	Venue Solns. -14
* Handmade -2	Avisen Group -12	Eleco -18	Kedco -61	Osmetech -58	Vindon Healthc. -65
* Japan Leis. H. -3	Bateman Litwin -13	Energybuild -37	Kenetics -17	Pantheon Res. -47	Vitesse Media -321
* Medilink-Global -4	BP Marsh & Pt. -41	Enfis -42	Landkom -30	PAQ Intl. -72	Vyke Comm. -77
* Mobile Doctors -7	Camper & Nichol. -38	Eruma -36	Leed Petroleum -67	Patsystems -20	West African D. -13
* Mobile Streams -7	Capital Mgt. & I. -44	Essenden -12	Leni Gas & Oil -34	Private & Com. -43	West Pioneer P. -322
* NetServices -6	CBG Group -163	Frenkel Topping -52	Lombard Med.	Real Office -42	Works Media -48
* Prologic -9	Champion -93	G.R. (Holdings) -38	Tech. -82	Redstone -109	WorldSpreads -59
* Redhall Group -8	Chapelthorpe -13	Gas Turbine Eff. -48	LonZim -29	Richoux Gp. -11	Xcounter -442
* SCOTTY -6	China Gateway -58	Globus Maritime -48	Maple Energy -52	Sarantel Group -15	XG Technology -58
* Serica -9	Clapham House -57	Helesi -37	Matica -64	SeaEnergy -52	YouGov -47
* Syndicate Ass.M. -9	Clarkson Hill -65	Hertford Intl. -74	Mavinwood -28	Sefton Res. -16	Zirax -39
* Telephonetics -3	Climate Exchge. -12	Huveaux -11	Max Petroleum -16	SerVision -32	

☺ EXCHANGE TRADED FUNDS (ETFs / ETCs) IN UPTREND 55.45%

* ETFS Natural Gas (£) 5	DB X-trackers MSCI World 64	iShares DJ Euro STOXX Select	iShares JPMorgan USD
* iShares S&P Glob.Clean En. 5	DB X-track. S&P 500 Shariah 44	Div. 64	Emerging Mkts. Bond (£) 35
DB X-trackers DJ Euro STOXX	DB X-trackers S&P CNX NIFTY	iShares DJ Euro STOXX Small	iShares JPMorgan USD
50 Index (£) 50	India 24	Cap 123	Emerging Mkts. Bond $189
DB X-trackers DJ Euro STOXX	DB X-trackers S&P Europe 350	iShares DJ Euro STOXX Val. 66	iShares MSCI AC Far East ex
Select Dividend 30 120	Shariah 66	iShares DJ STOXX 50 112	Jap. SmallCap £ 185
DB X-trackers DJ Islam.Mkt.	DB X-track. S&P Glob.Infras. 99	iShares Euro Govt.10yr Term 37	iShares MSCI AC Far East ex
Titans 100 37	DB X-track. S&P Select Front.18	iShares Euro Govt. 1-3yr Tm. 25	Japan SmallCap $ 179
DB X-trackers DJ STOXX	DB X-trackers S&P/ASX 20 66	iShares Euro Govt. 30yr Tm, 40	iShares MSCI Brazil 185
Global Selected Div 100 123	ETFS Coffee 17	iShares Euro Govt. 5yr Term 33	iShares MSCI East. Europe 25
DB X-trackers Em. Asia 137	ETFS Cotton 19	iShares Euro Govt. Inflation-	iShares MSCI Em. Markets 128
DB X-trackers FTSE 100 119	ETFS Dow Jones EURO	Linked All Maturities 37	iShares MSCI Emerging
DB X-track. FTSE All Share 114	STOXX 50 Leveraged (2x) £ 14	iShares FTSE 100 112	Markets Islamic ($) 142
DB X-trackers FTSE/XINHUA	ETFS FTSE 100 Lever. (2x) 14	iShares FTSE BRIC 50 27	iShares MSCI Emerging
China 25 128	ETFS Gold (£) 28	iShares FTSE EPRA/NAREIT	Markets Islamic (£) 153
DB X-trackers LPX@ MM	ETFS Gold 25	Asia Prop.Yield Fd 114	iShares MSCI Europe 112
Private Equity 120	ETFS Physical Gold (£) 28	iShares FTSE EPRA/NAREIT	iShares MSCI Europe ex-UK 66
DB X-trackers MSCI AC Asia Ex	ETFS Physical Gold 27	Global Prop. Yield Fund 111	iShares MSCI Far E.ex-Jap. 138
Japan Index $ 43	ETFS Physical Palladium 165	iShares FTSE EPRA/NAREIT	iShares MSCI Korea 153
DB X-trackers MSCI AC Asia Ex	ETFS Phys.Prec.Met. Bskt. £ 29	US Prop.Yield Fund 48	iShares MSCI North America 45
Japan Index £ 43	ETFS Phys.Prec.Met. Bskt. $ 27	iShares FTSE Eurofirst 80 66	iShares MSCI Taiwan 28
DB X-trackers MSCI Brazil 185	ETFS Physical Silver (£) 27	iShares FTSE/EPRA Euro Prop.	iShares MSCI Turkey 127
DB X-trackers MSCI EMEA 128	ETFS Physical Silver 26	Index Fund 51	iShares MSCI USA Islamic £ 44
DB X-track. MSCI Em.Mkts. 128	ETFS Prec. Metals DJ-AIGCI 26	iShares FTSE/Macquarie Global	iShares MSCI World 64
DB X-trackers MSCI Europe 118	ETFS Silver 26	Inf 100 37	iShares MSCI World Islam. £ 61
DB X-trackers MSCI Korea 153	iShares $ TIPS 32	iShar.FTSE/Xinhua China 25 28	iShares S&P 500 42
DB X-track. MSCI Latin Am. 153	iShares AEX 66	iShares FTSEEurofirst 100 66	iShares S&P Em.Mkts.Infr.£ 128
DB X-trackers MSCI Russia	iShar. DJ Asia/Pac.Sel.Div. 126	iShares iii Euro Cover. Bd. £ 34	iShares S&P Global Water 43
25% Capped Index 21	iShares DJ Euro STOXX Gr. 64	iShares iii Glob.Inf-Lnkd.Bd £ 34	iShares S&P Listed Priv.Eq. 120
DB X-trackers MSCI Taiwan 28	iShares DJ Euro STOXX Mid	iShares JPMorgan USD	iShares S&P MIB 118
DB X-trackers MSCI USA 45	Cap 120	Emerging Markets Bond € 43	iShares S&P SmallCp.600 $ 123

Technical Notes

TREND DEFINITION

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

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

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

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

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

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

PRICE CHART KEY:

——— **65-day moving average.**

——— **25-day moving average.**

☺ EXCHANGE TRADED FUNDS (ETFs / ETCs) IN UPTREND continued

iShares S&P SmallCp.600 £ 46
iShares UK Govt. Inf.-Linked All Maturities 49
iShares US Treas. 10yr Term 32
iShares US Treas.1-3yr Term 16
Lyxor China Ent. (HSCEI) £ 128
Lyxor CRB GBP 18
Lyxor CRB Non Energy GBP 20
Lyxor ETF Braz. (Iboves) £ 185
Lyxor ETF Brazil (Iboves) $ 152
Lyxor ETF MSCI Em.Latin America ($) 165
Lyxor ETF MSCI Em.Latin America (£) 153
Lyxor ETF MSCI Em.Mkts $ 132
Lyxor ETF MSCI Em.Mkts £ 128
Lyxor FTSE 100 64
Lyxor FTSE All Share 66
Lyxor Gold Bullion GBP 28

☹ EXCHANGE TRADED FUNDS (ETFs / ETCs) IN DOWNTREND 2.48%

DB X-tr. FTSE 100 Short -120
ETFS Dow Jones EURO STOXX 50 Double Short € -14
ETFS FTSE Super Short Strategy (2x) Fund -14
ETFS Live Cattle -15
ETFS Short Gold -27

☺ INVESTMENT COMPANIES IN UPTREND (excl. warrants) 50.35%

* Albion Tech. & General VCT 1
* Allianz Dresd. End.Pol. 2010 8
* Bedford Row VCT 5
* China Growth Opportunities 4
* Framlington AIM VCT 2 10
* Northern AIM VCT 8
* Northern Venture Trust 7
* Pantheon Intl. Particip. Red. 7
* Proven Growth & Inc. VCT 6
* Puma VCT II 6
* Utilico 5
3i Infrastructure 24
Aberdeen All Asia IT 122
Aberd'n Asian Smaller Cos. 126
Aberdeen New Dawn IT 127
Aberdeen New Thai IT 107
Aberforth Gd. Cap. & Income 17
Absolute Return Trust 128
Acorn Income 114
Active Capital Trust 21
Advance Dev. Markets 36
Advance Frontier Markets 99
Advance UK Trust 119
Africa Opportunity Fund 135
Albion VCT 67
Alliance Trust 27
Anglo &Overseas 118
Artemis AIM VCT 2 88
Artemis Alpha 162
Ashmore Global Opport. $ 106
Ashmore Global Opport. £ 107
Ashmore Global Opport. € 106
Aurora IT 123
AXA Property Trust 60
Bankers' Trust 26
Baring Emerging Europe 127
BlackRock Abs. Ret. Strat $ 138
BlackRock Abs. Ret. Strat.£ 136
BlackRock Abs. Ret. Strat.€ 136
BlackRock Brit. Smlr. Cos. 164
BlackRock Latin American 128
BlackRock World Mining IT 27
Blue Plan. Gr. & Inc. 120
Blue Planet Euro. Fin. 38
Blue Planet Worldwide Fin. 26
Bluecrest Allblue Euro 169
Bluecrest Allblue Sterling 180
Bluecrest Allblue US$ 179
Bluehone Aim VCT2 11
Brit. Empire Secs. & Gen. 26
British & American 108
British Portfolio IT 118
Brit. Smlr. Tech. Cos. VCT 2 85
Brookwell 155
Caledonia Inv. 111
Canadian General Inv. 146
Candover Investments 49
Capital Gearing 41
Cayenne Trust 123
Cazenove Absolute Equity 65
Charter Pan-European IT 123
Chelverton Growth Trust 24
City Merchants High Yield 105
City Nat.Res.High Yield 161
City of London IT 104
Close European Accel. 120
Close High Income Property 16
Crown Place VCT 12
Dexion Absolute 79
Dexion Absolute EUR 79
Dexion Absolute USD 78
Dexion Equity Alternative 47
Dexion Trading 14
Dhir India Investments 58
Diamond Circle Capital 88
Directors' Dealing IT 123
Dunedin Smaller Cos. 53
Edin. US Tracker 36
Edinburgh Dragon 127
Edinburgh New Income 113
Edinburgh UK Tracker 121
Edinburgh Worldwide 127
Electra Private Equity 134
EP Global Opportunities 112
Epicure Qatar Equity 116
Establishment IT 111
F & C Capital & Income 112
F & C Private Equity 'Ord.' 118
F&C UK Select 123
Fidelity Asian Values IT 138
Fidelity Europ'n Vals. Equity 27
Finsbury Worldwide Pharma 62
F & C US Smaller Cos. 112
Foreign & Colonial 24
F & C Eurotrust 104
Framlington AIM VCT 111
Gartmore European 64
Gartmore Irish Growth Trust 115
Glasgow Income 117
Graphite Enterprise 14
Hansa Trust 127
Hansa Trust 'A' 125
Henderson Diversified Inc. 100
Henderson Eurotrust 118
Henderson Far East Income 27
Henderson High Income IT 118
Henderson Opportunities 20
Henderson Private Equity IT 69
Henderson TR Pacific IT 127
Herald IT 149
HG Capital Trust 21
Hygea VCT 13
Impax Env. Mkts. 26
Independent IT 21
Indochina Capital Vietnam 178
ING UK Real Est. Inc. Trust 127
International Biotechnology 61
INVESCO Asia Trust 127
INVESCO English & Int. IT 162
INVESCO Lever. High Inc. 109
INVESCO Perp. Europ. 110
ISIS Property Fund 2 51
JPMF Chinese IT 27
JPMF Emerging Markets 27
JPMF Inc. & Cap. Units 116
JPMF Smaller Companies 124
JPMF US Discovery 123
JPMorgan Asian 27
JPMorgan Elect Mgd. Grth. 116
JPMorgan Elect Mgd. Inc. 110
JPMorgan European 43
JPMorgan Indian 19
JPMorgan Overseas 127
JPMorgan Private Equity 69
JPMorgan Russian 24
JSM Indochina 18
Jupiter Dividend & Growth 112
Jupiter European Opport. 123
Jupiter Green IT 34
Jupiter Primadona 20
Jupiter Second Split Growth 62
LMS Capital 93
Local Shopping Reit 44
London & St Lawrence Inv. 140
M&G High Inc. Cap. Shares 17
M&G High Income 23
M&G High Inc. Pack. Units 113
Martin Currie Portfolio 112
Matrix Inc. & Growth 2 VCT 68
Merchants Trust 104
Mid Wynd Int. Inv. 35
Midas Income & Growth 96
Monks IT 26
Montanaro Eur. Smlr. Cos. 124
Montanaro UK Smaller Cos. 127
Murray Intl. Trust 78
Murray Intl.'B' 123
MW Tops ($) 94
MW Tops (£) 99
MW Tops (€) 104
New Century AIM VCT 40
New India IT 137
Noble AIM VCT 91
North American Bks. 18
Northern 2 VCT 84
Northern 3 VCT 84
Northern Investors Trust 112
Oryx Intl. Growth Fund 121
Oxford Technology 3 VCT 90
Pacific Alliance China Land 93
Pacific Assets 128
Pacific Horizon IT 166
Personal Assets IT 67
Polar Capital Tech. 170
Premier Energy & Water 34
Premier Renewable Energy 14
Private Equity Investor 84
Prosperity Russia Domestic 109
Puma VCT 27
Renaissance US Growth 143
Rights & Issues IT Cap. 103
Ruffer Investment Co. 105
Schroder Asia Pacific IT 128
Schroder Income & Growth 27
Schroder Oriental Income 184
Schroder UK Growth 128
Scottish American Invest. 124
Scottish IT 27
Scottish Mortgage & Trust 126
Scottish Oriental Smr. Cos. 184
Shires Investments 115
SR Europe IT 127
SR European IT 110
Standard Life Equity Trust 35
Standard Life UK Smlr.Cos. 142
SVM UK Emerging Fund 17
Templeton Emerging Mkt. 128
Terra Catalyst Fund 21
Third Point Offshore (£) 94
Third Point Offshore (€) 92
Throgmorton Trust 132
TR European Growth 126
TVC Holdings 111
UK Select Trust 130
Unicorn AIM 2 12
US Special Opport. Capital 16
US Special Opport. Income 80
US Special Opportunities Units 50
Utilico Emerging Markets IT 19
Value & Income Trust 43
Value Catalyst Fd. 55
Vietnam Opportunity Fund 20
Vision Opportunity China Fund 44
Witan IT 123
Witan Pacific 122

☹ INVESTMENT COMPANIES IN DOWNTREND (excl. warrants) 2.58%

* Aberd'n Growth Opp. VCT -10
* Morant Wright Japan Inc. -8
Aberdeen Dev. Cap. -72
ARC Capital Holdings -11
Marwyn Value -15
Octopus Eclipse VCT 2 -288
Pennine AIM VCT 5 -442
Pennine AIM VCT 6 -321
Pennine Down. AIM VCT 2 -42
Principle Capital IT -23
Yangtse China Investment -261

Technical notes

OUR SHARE SELECTION PROCESS

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

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

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

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

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

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

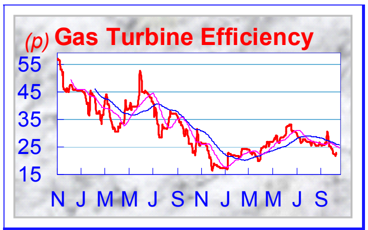
As described in the previous Technical Note (*Trend Definition*), the 65-day moving average is our prime moving average. Remember that, for a share to get into the list, all other criteria as set out in the above Technical Note have to be satisfied. If they are not, the share will disappear from the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

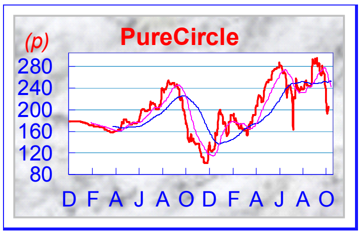
Share sales

ALTHOUGH our table (below, right) is headed "Stop-loss sales" and shows that three shares were sold during the fortnight, only two of them were actually stop-loss sales. **Emerald Energy** is actually a delisting as a result of the completion of its acquisition by Sinochem. The cash consideration was 750p per share. The court-sanctioned Scheme of Arrangement took effect on Monday. If you bought this share and you've indicated your acceptance of Sinochem's bid, expect to receive your cheque or bank transfer on or shortly after 26 October, postal strikes permitting. If you bought at the time we recommended this share, you'll be pleased with your gain of around 75%.

There was no good reason to explain why either of the other two shares breached their stop. We covered **Gas Turbine Efficiency** in the last issue, when we reported on its interim results. There were references in that report to a "very challenging marketplace" and a reduced order backlog. On the other hand, it did say that it expected group revenues to be 10%-15% ahead of last year. At least we came out with a small profit.

As to sweetener maker **PureCircle**, we thought there was little possibility of us being caught out by another price spike such as the one in March. Alas, this could be a case of history repeating itself. ❑





TrendWatch Portfolio performance summary

Valued as at 31 Dec:	Gain/ loss (%)	Mkt. gain/ loss (%)	Out-perf. (%) *
2000	55.41	0.64	54.42
2001	3.79	-3.07	7.08
2002	-4.33	-10.66	7.09
2003	17.82	5.13	12.07
2004	24.77	7.54	16.02
2005	24.08	9.87	12.94
2006	28.91	11.54	15.58
2007	20.29	5.58	13.93
2008	-5.02	-10.74	6.42

If you had:

i) on 1 Jan. continued to hold the shares that we had previously recommended; and

ii) during the relevant year, bought the shares when we recommended them; and

iii) sold any share that breached its stop during that year...

...then your profit as at 31 Dec. would have been as shown in the table (left).

Stop-loss sales during 2009

Share	Date bought	Date sold	Buy price (p)	Sell price (p)	Gain/ loss (%)	Mkt. gain/ loss (%)	Out-perf. (%) *	Annualised gain (%)
Sales previously reported in Jan. - Sep. 2009: (28 shares)					-3.25	0.28	-3.51	
Most recent sales:								
Emerald Energy[1]	22/01/09	09/10/09	420.00	750.00	78.57	30.51	36.83	
Gas Turbine Efficiency	05/03/09	29/09/09	23.00	24.25	5.43	47.85	-28.69	
Pure Circle	03/09/09	05/10/09	293.50	193.50	-34.07	4.70	-37.03	
Averaged gain / loss (%):					16.64	27.68	-8.65	

Percentage profit on most recent sales:	16.64%
Percentage market gain (tracker fund):	27.68%
Trendwatch has underperformed market by:	-8.65% *

[1] Acquired by Sinochem in Oct.2009 for 750p cash

* See 'Benchmarking' note [panel, right] to see how this figure is calculated.

The TrendWatch Top Twenty – our all-time best-performing recommendations

Rank	Share	Date bought	Date sold	% gain	Rank	Share	Date bought	Date sold	% gain
1	ARM Holdings	04/02/99	24/03/00	937.50	11	Bizspace	10/04/03	30/06/05	320.22
2	Amstrad	25/11/98	31/03/00	879.45	12	Peter Hambro Mining	03/01/03	10/05/04	301.96
3	Bloomsbury Publishing	03/09/98	18/02/01	522.45	13	Burren Energy	01/04/04	18/05/06	294.94
4	Flomerics	20/08/98	18/04/00	489.29	14	Independent Energy	18/02/99	18/04/00	293.82
5	Tanfield	11/05/06	15/08/07	468.63	15	Domino's Pizza	04/12/03	01/10/07	291.09
6	West China Cement	05/03/09	-	441.40	16	Misys	14/02/96	13/08/98	285.45
7	Alphameric	22/07/99	17/03/00	422.15	17	Datacash	16/01/03	06/10/04	274.26
8	Trafficmaster	12/11/98	05/04/00	407.78	18	Chiroscience	02/03/95	23/05/96	269.35
9	Psion	21/01/99	31/03/00	394.01	19	Telecom Plus	27/03/02	12/03/04	262.90
10	Axon Group	22/07/99	06/04/00	349.00	20	Topps Tiles	12/09/02	24/03/05	260.15

THIS TABLE shows our all-time biggest gainers since *TrendWatch* was published.
IN THE NEXT ISSUE we'll show our best performers over the past 12 months, including shares still in the portfolio (regardless of when they were bought).

Technical notes

BENCHMARKING

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

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

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

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

((100 + actual gain) / (100+ tracker gain) x 100 – 100

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