Chapter Seven
Where to find advice and information

Anyone who thinks there is safety in numbers hasn't read the stock market page.

IRENE PETER

After a long life I have come to the conclusion that when all the establishment is united it is always wrong.

HAROLD MACMILLAN

Advice

Whose advice can you trust?

At the simplest level, nobody's. Take even the broadest outline advice. Nathan Rothschild said 'The way to make money on the Exchange is to sell too soon.' Another member of the same banking family, Solomon Rothschild, agreed: 'One must get into the market as into a cold bath – quick in and quick out.' Timothy Bancroft on the other hand said 'Buy good securities. Put them away. Forget them', which is much the same advice as the Sage of Omaha, Warren Buffett.

As Chapter 5 pointed out, everybody who can find a publisher produces a theory, a system, a formula or an explanation, and a good many bookshops have yards of shelving filled with their infallible advice. Making a major fortune is evidently a doddle.

How about on individual shares though? Think of it this way – what sort of philanthropy could it be that persuades some nice people to make you rich instead of themselves? If journalists really knew which share to buy and when, would they still be hacking away at the computer instead of lolling on some Caribbean beach? How can the authors of books like *Make a Killing on the Stock Exchange*, *How to Pick the Winners*, *Selecting the Soaring Shares* and so on afford to spend all those hours writing when they should be too busy becoming billionaires by trading? Indeed if they were good, why would they share the secret when your buying might inflate the shares they would have wanted to buy?

All advice should be treated with scepticism – even this one. There used to be an old Stock Exchange maxim: 'Where there is a tip there is a tap.' What that meant was that if somebody is persuading you to buy a share there is probably some self-interested motive such as having large amounts of that company's shares on tap.

This is not a defeatist view or insistence that all advice should be rejected, just a recognition that nobody is always right, that some people are unreliable, and that the decision lies with the investor. No excuses, no defences, and no attempts at shuffling off the blame: you choose.

Scepticism should extend to financial advisers. Stockbrokers have an incentive to encourage trading because they make money from commissions on deals. Most of their analysts are clever graduates but few have ever got their fingernails dirty in industry, so although they understand all the corporate ratios, meet the chairmen and finance directors, and sometimes even visit factories, they have little feel for commerce. What they do understand is the stock market, so they have a better feel than the lay investor for how the City, including institutional investors, will react to a company and its performance. Since those are the people who influence share prices, this information is valuable. Its value is about the market, but not about any individual company or about strategy.

Stockbrokers plod through annual reports and issue circulars on companies, but the average small investor does not have access to these circulars, and would probably have little use for them if he or she did. By the time the circulars are printed the professionals have already acted on any insight in them, and there is little evidence that stockbrokers are markedly better prophets than the rest of us. It is not a matter of asking, if you are so clever why are you not rich (because many of them are pretty comfortably off), but once again, would they still be working for wages if they could make amazing fortunes by merely investing?

At least the better newspapers and magazines, unlike stockbrokers' analysts, assess the performance of their share tips at the end of the year. If they do not, you can be pretty sure performance has been dismal. Even that is not a guide though, because personnel change.

There are several reference books, like *REFS*, *UK Major Companies Handbook* and *UK Smaller Companies Handbook* that provide statistics and facts about business and companies. These are on top of the guides to the Stock Exchange and other investments, plus other explanations of the financial markets.

In summary, there is lots of advice about but little of it is disinterested and even that is not always right. So listen to as many as you can, weigh them against common sense and use them as a factor but not as the final arbiters of an investment decision. Remember that their criteria may be different. As Shaw said, do not do unto others as you would have them do unto you; their tastes may not be the same.

Newspapers

Newspapers, daily and Sunday, devote many pages to business investment and finance. They provide news, comment and advice. On top of that there are many business and investment magazines, ranging from the venerable *Investors Chronicle* to a wide and growing range that includes *Your Money*, *Money Management, What Investment, Moneywise*, *Personal Finance*, *Bloomberg Money*, *Shares*, *Money Week* and *Money Observer*. There are also specialist journals such as *Your Pension* and *Which Mortgage* and general business journals like *Fortune*, *Forbes* and *BusinessWeek*.

Serious newspapers carry company news including reports of results from smaller or less interesting companies, which concentrate on turnover, profit and exceptional items plus directors' pay. They also have columns that concentrate on analysing corporate financial results – eg Questor, Lex and Tempus. These columns do not always make explicit recommendations to buy or sell, but the general message of their comments is usually obvious.

They, like many of the Sunday papers, also reprint advice from stockbrokers. In addition, journalists meet people, sometimes including the management of companies they write about, look at results, talk to brokers and their analysts and trade associations, and discuss business with independent commentators. In the course of this they may come across companies that justify a better rating and are currently being ignored by the market. They may therefore alert investors to shares that are undervalued, and by drawing attention to them may prompt an upward re-rating.

Tips like this can move a share, especially if it is in a tight market – there are not many free shares on issue. The rise is not purely because of buying, but also because market professionals read newspapers too and so anticipate demand by moving up the prices. One consequence is that by the time you have read the buy recommendation, the price at which it was said to have been a bargain can be just a memory.

It may still be worth acting on such recommendations to buy, but it is notable that newspapers are less good at spotting shares that are due to fall. It may be fear of the fierce defamation laws, or that journalists are just more geared to finding winners, but investors should not rely on newspapers for warnings of when to sell a share, although it can be just as important a piece of advice. And nobody is much good at spotting in advance when the market as a whole is about to turn.

The financial pages also carry stories about takeovers and other dramatic events, and have interviews with the top managers. In addition, they carry details of plans, new products, investments, changes of tactics, recruitment of new senior staff, changes at board level, sales of subsidiaries and a host of other indications of how a company is approaching its business. In the course of these articles journalists usually give strong hints about how the management and products of a company are regarded. That gives an added layer of information to the investor.

People have a tendency to say they believe nothing they read in newspapers, but then act as if journalists were omniscient supermen. Journalists know only what somebody has told them, and though the good ones do conscientiously dig behind the facts and try to interpret and test what they hear, they are fallible like the rest of us. They do, however, mix in the City world, talk to all the people who are directly and indirectly involved and keep an eye on what is going on. Anybody getting into investments would be foolish to lose out on the flood of information that is available. There is daily detail on a wide variety of companies and sectors, discussing the managers, products, performance, deals and prospects. Some of it may be nothing but gossip or a space-filler, but in the reputable press there is often more and better-informed early news about what is happening than comes out of stockbrokers. The more authoritative writers do get read and as a result may move public opinion about a company and hence the share price.

With so many newspaper pages devoted every day to finance and companies, and the large number of magazines concentrating on investment advice, it is hard to see what the tip sheets can add.

Magazines

Specialist magazines provide greater depth of information on a wide range of investments. The *Investors Chronicle* reports a wide range of stock market and economic information and has a speedy summing up of major company results.

Its chartist section requires extensive knowledge of the language and methods of technical analysis; without it one could well be little better off for being told 'the current rally could conceivably take the index through its daily cloud and as high as the black falling trend-line which would likely result in overbought momentum', or references to 'a time-cycle turning-date'. But the pictures make it clearer.

Financial advisers

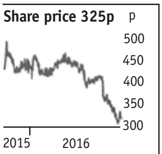
Advice from newspapers, magazines, radio, television, newsletters and mail shots may be readily available, and some of it free, but investors still have to collect and sort it all, sift the material and test it to see if any of it is worth acting on. This is not only a long and tedious task but the testing is tricky for someone inexperienced in the stock market. In theory, having a professional adviser can improve on that. The stockbroker or adviser can take on board the investor's preferences and needs and so produce tailor-made investment recommendations. Such hand-holding can be valuable, and the good advisers can produce a far better portfolio than an individual who has a living to earn and so cannot spend all day evaluating the options.

Like everything else worth having, it costs money, so its price has to be checked against its value. In addition, no sensible investor hands over the future without asking questions and testing the answers against common sense. Just as an intelligent patient asks the doctor what is wrong and what effects the medicine will have, and a careful client asks the lawyers how the law stands and what the advice is based on, so a shrewd investor should ask financial advisers why they advise a particular course and what assumptions lie behind the recommendation. It is at that point that common sense and personal experience re-enter. If you disagree with the adviser's forecasts of the next six months or five years (and your guess may be as good as anybody's) it is important to say so, so that the portfolio can be adjusted to the satisfaction of both of you.

FIGURE 7.1 Information in the *Investors Chronicle*

INDUSTRIAL TRANSPORTATION

Pressure on payout for Braemar



With the oil majors continuing to delay or cancel offshore exploration projects, the technical division of **Braemar Shipping Services (BMS)** continued to suffer in the first half. And although chief executive James Kidwell is confident that seabed drilling will eventually pick up, the sector's current parlous conditions were highlighted by the division's operating loss of £2m, including £1.5m in restructuring charges.

That restructuring is focusing the business on south-east Asia and India rather than the North Sea, where costs are higher and confidence lower. Elsewhere, the logistics division put in a consistent performance, contributing £0.9m in operating profit, although higher freight forwarding rates put some pressure on margins.

Freight rate pressure also weighed on the shipbroking business's bottom line, although transaction volumes picked up and the company could yet benefit from the recent collapse of container giant Hanjin Shipping. Although a small client of Braemar's, the broker could benefit from a role in the fire sale or scrapping of the South Korean group's vessels.

Prior to these figures, analysts at Edison forecast adjusted pre-tax profit of £8.8m and EPS of 22.6p in the 12 months to February 2017, down from £13.4m and 34.7p last year.

Management has not committed itself to the full-year dividend, but declined to tell us whether this might mean a full cut or a lowering of the payout rate. The potential £1.5m sale of Baltic Exchange to SGX, and a weakened pound should both help, but such uncertainty could negatively impact the shares in the short term. *AN*

Back to hold

Ord Price: 325p **Market Value:** £98.2m
Touch: 325–328p **12-Month High:** 500p **Low:** 311p
Dividend Yield: 8% **PE Ratio:** 32
Net Asset Value: 336p* **Net Cash:** £0.7m
*Includes intangible assets of £79.9m, or 265p a share

Half-year to 31 Aug	Turnover (£m)	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (p)
2015	79.6	5.20	13.3	9.0
2016	70.2	0.15	0.38	9.0
% change	−12	−97	−97	–

Last IC view: Income buy, 460p, 17 May 2016 Ex-div: 17 Nov Payment: 16 Dec

Such advisers/brokers charge either commission or a flat fee, or a commission on trade (see Chapter 8 on costs and value).

Information

Share prices

Newspapers' share price lists show companies under market sectors. These are allocated by the Stock Exchange and the company will also be a constituent of that part or heading of the FT-Actuaries sector index. It is, however, a bit confusing that not all the newspapers label the sectors in the same way. The choice of sector is not always obvious and some companies feel they are in the wrong group – especially when that becomes unfashionable – so occasionally there is a change of allocation by the Stock Exchange authorities, though that happens mostly when the company itself has altered the emphasis of its work.

There are over 2,500 companies quoted on the London Stock Exchange, some with several types of issues, plus the Alternative Investment Market (Aim), Techmark, ISDX, etc. The majority of companies are traded infrequently, with the greatest volume of interest and trade being in the hundred largest companies by market value. Those are the components of the FTSE100 Share Index (called the 'Footsie'), which is the main indicator of stock market trends. The major companies in it make them important in the investment strategy of the large financial institutions. The concentration of institutional interest is shown most clearly at the time of the quarterly review when the market values of companies on a specific date are reviewed and there is a change in the composition of the Index. The moment a company drops out of the Index its shares may take a sudden fall, sometimes by as much as 5 per cent, while the new member of the elite sometimes sees a sudden additional jump. Some tracker funds and investors see the way things are going and deal in the shares before the company gains or loses its status in a particular index, which can mean the shares do not move much. Another index review worth watching is the Morgan Stanley Capital International (MSCI). While the focus is global, UK companies do regularly move in or out of the Index, which can lead to moves in share prices.

Below that top level is the second tier, made up of the next 250 companies measured once again by market capitalization – that is, in both these categories it is not turnover, profit, asset value or any other measure that counts, merely the aggregate value of issued shares. All the 350 largest companies are in the lists of the serious newspapers' prices pages, which also contain several hundred other companies. But none of the papers has the space to show all the securities available. Even the *Financial Times*, which devotes more pages than the others to share prices, can show only part of the list actually quoted. Newspaper lists are not necessarily a signal of significance – most of the companies pay to have their shares listed in the prices pages.

Newspapers display a range of information apart from the latest share price, including how the share price moved from the closing of the previous day, and so on.

FIGURE 7.2 *Daily Telegraph* prices page entry

	Price	+/-Chg	52 Week High	52 Week Low	Yld	P/E	Vol 000s
Industrial Engineering							
Bodycote	587.50	9.00	644.50	489.90	2.49	19.86	313.2
Castings	417.00	9.88	514.50	388.10	3.29	12.78	23.1
Fenner	233.50	9.00	240.00	95.25	5.14	–20.67	469.4
Goodwin	1857.5	7.50	2385	1410	2.28	16.05	0.4
Hill&Sm	1220	–22.00	1263.11	636.00	1.70	29.33	94.9
IMI	911.00	–4.50	1138	717.00	4.22	23.66	910.5
MelroseInd	168.00	2.50	2046.17	135.75	2.45	–150.00	4243.2
Renold	39.25	–	60.00	28.20	–	17.07	2.2
Rotork	202.60	0.80	227.60	150.30	2.49	28.62	2424.0
Severfd	62.25	2.25	75.00	43.00	0.80	135.33	107.6
SKF SKr	157.70	–0.20	161.80	120.00	3.57	20.24	2148.2
Spirax-S	4174	–31.00	4745	2664	1.65	28.32	125.2
Tex	115.50	–2.50	132.00	96.50	6.06	6.28	9.4
Trifast	179.50	0.50	183.51	101.96	1.17	21.44	640.6
Vitec	632.50	1.50	640.50	485.00	3.89	23.08	0.8
Weir	1721	9.00	1821	764.50	2.56	–19.10	1220.4

Figure 7.2 is an example of the *Daily Telegraph* prices page. It shows in the first column the company name, sometimes in abbreviated form, and if the shares were not issued in sterling, the currency is also given. Almost always what is quoted is the ordinary share (called 'common stock' in the United States), but some companies issue other quoted paper, such as irredeemable preference stock, convertibles, warrants and so on, and these are normally listed underneath. Sometimes there are additional symbols. For instance, in the *Financial Times*:

\$, €, ¥	a currency symbol next to the company name says the shares are not priced in sterling;
*	high and low share prices have been adjusted for capital changes;
†	interim dividend increased or resumed;
‡	interim dividend since reduced, passed or deferred;
#	dividend price at the time the dealing in the share was suspended;
c	cents;
d	fair value net asset value is more than 3 per cent different from the par value NAV;
q	undated;
P	dividend adjusted for consolidation or split in the shares;

xd	the recently declared dividend will be retained by the current holder of the share;
xr	the same for rights issue – the buyer will not be entitled to subscribe to new shares;
xR	buyer does not get the scrip issue;
xa	ex-all – several of those rights remain with the current holder;
	there no longer seems to be a symbol for the most traded stock.

The *Daily Telegraph* share price codes are:

bold type	FTSE100 index shares;
◆	FTSE250 index shares;
*	ex-dividend;
†	ex-scrip;
§	ex-rights;
‡	ex-all;
#	share dealings have been suspended;
A	report and accounts are not ready.

The second column gives the price at which the shares stood at close of trading the previous night or the last trading day. Anybody who has bought holiday money knows the price of buying is always higher than the price at which you can sell, and that difference is called the 'spread'. The published price is the average of the two, so no investor can hope to buy at the price or sell at it, even if the market had not moved by the time the newspaper arrives through the letterbox. If trading in the shares has been suspended – say because the company is being reorganized, or there are questions about the figures, or because it is subject to a takeover – the price listed is the last one before suspension, with # next to it.

With shares the spread will depend on a range of factors that affect the dealer's risk. One is what the market calls 'liquidity': how many shares there are available and how many people are prepared to trade in them. A good measure as far as the stock market is concerned is how much the price moves when you try to trade. Try to buy shares in a company with few on issue, and most of those locked up by holders not prepared to be tempted out by a small rise in the value, and the price will suddenly bounce.
Massive companies like British Telecom, Vodafone, etc have millions of shares on issue and there is always somebody in the market wanting to

FIGURE 7.3 *Financial Times* prices page entry

Notes	Price	+/-Chg	52 Week High	Low	Yld	P/E	Vol 000s
Tech – Software & Services							
Alterian.....q	104.50	+2	134.50	46.50	–	8.9	36
Anite.........‡	39	+1	44.70	23.10	2.3	14.2	402
AVEVA........q	727	+6	£16.40	449.50	1.3	11.7	283
Computcnt..	206.75xd	+2.75	213.75	66.50	4	7.6	203
Dimensn.....	56	+0.50	59.50	22.25	1.9	12.8	7,047
DRS Data....	16	+1.50	22	10.50	1.9	–	–
Elecdata.....	42.50	+1	63.99	37	6.4	19.2	–
Invensys..q	231	–3.50	321.50	115.33	0.6	14.2	4,269
Kewill........†	74	+0.50	97	33.50	1.1	26.4	48
Kofax..........	137	+1.50	217	101	1.8	32.6	9
Logica........	70.75	–1.75	145.50	57.50	4.2	21.6	4,661
MicroFoc...†	374	–11.50	454.25	186.25	2.6	18.7	282
Microgen....	55.50	–	57	35.50	3.8	10.6	–
Misys........‡	158.75	–1.75	180.25	78	3.1	14.8	783
Morse.......‡	12.25	–	54.50	4.51	10.6	42.7	94
NCC Gp.....†	352.50	+2.50	420	265	2.2	16.4	2
PhoenixIT..q	193	+4.50	326.50	127	3.3	11	12
RM...........†	165xd	–1	211.52	137	3.6	13.5	127
Sage........†	182.30xd	–1.40	227	143.50	4	13.3	6,133
SDL...........	340.50	+5.50	395	187	–	17.8	162
Telecity......	293.75	+0.50	318	130	–	22.6	114
TriadGp......	32.50	–	34.50	10.50	–	–	–

deal in them. By contrast, a relatively small business with a market capitalization of £10 million, of which the manager and family own half and directors own another quarter, with most of the rest held by the initial investors, are very difficult to trade in. Its size means few people have heard about the business, so not many want to deal in the shares, and even if they did want to, it could be quite tricky to find a counterparty. So the first will have a relatively narrow spread because the more trade there is in a share the more confident the dealer is in getting shot of any, while the latter will probably have a frighteningly wide spread. The width of the spread also depends on the state of the market. In wildly fluctuating shares, market-makers are loath to stick their necks out and they carefully widen the spread. So the middle market price is just an indication of the actual rate the shares will fetch in a real deal.

People who deal over the telephone can ask the broker, who will look at the Stock Exchange screen showing all the people dealing in the shares and their prices. The broker can specify exactly what the price is then and, if the agreement is swift, may be able to deal at that price. An alternative is to get access to the prices pages via the internet, and check the prices for oneself.

The third column in the *Daily Telegraph* shows the price change from the previous day's closing level, also at the mid-market price. The next two columns show the highs and lows the share price has reached over the previous year overall. That will indicate whether the share is near its maximum or minimum. So if the share price is currently 127p and the high and lows are 478p and 123p, you can immediately tell that the price is very near the bottom level it has reached in the past year.

Volume of trade in the final column of the *Financial Times* shows how many thousands of shares changed hands on the previous trading day. The figure is the total of equities bought and sold – in other words, there is double counting. The figure shows the level of interest in the company's shares and is an indication of the liquidity in the market. It is salutary to see how many were not dealt in at all. Some newspapers print a separate table of the previous day's most highly traded shares.

Yield is the percentage return you get if investing at the share price listed in the table and at the current rate of dividends. The formula is: multiply the annual gross dividend by 100, and then divide by the share's market price. So if the shares cost 200p and the latest year's dividend was 14p, the yield is 7 per cent. This is normally reported gross, ie before tax has been deducted, though almost everybody gets the dividend cheques net and the tax is not reclaimable.

The *Daily Telegraph* prices pages print the letter 'b' to indicate the interim dividend has been raised; 'c' means the interim dividend has been reduced or it has been omitted altogether.

The P/E stands for price/earnings ratio, and is probably the best known method of assessing equities. It is calculated by comparing the current share price with the level of earnings per share (found in the company's accounts).

The company's accounts may say something like, 'attributable to ordinary shareholders £850,000' and at the bottom of the profit and loss table it will say something like 'earnings on each of the 10 million shares on issue 8½p'. To get the P/E ratio you divide this 8½ into the prevailing market price of the shares. If those stand at, say, 170p, then 170/8½ = 20. If the share price halves to 85p the P/E ratio would be 10, and if the shares shot up to 255p the P/E would be 30.

One can then inspect the other companies in the same industry sector listed in the newspaper and see how they compare. If most of the companies are on a P/E of between 12 and 16 and one of the companies is on 25, either the market knows great things are on the way from it, or the shares are grossly overpriced. Conversely, if all the sector is on a P/E of 18 to 20 but one of the companies is on 4, either the market knows there is some nasty news on the way from the management or they are wrong and the shares are grossly underpriced.

The Wealth Management Association also produces indices – see www.thewma.co.uk/private-investor-indices.

Investment trusts

Instead of price/earnings ratios, the column for investment trusts shows 'NAV', which stands for net asset value. That is a calculation of the investment trust's holdings as a value per share. Like the share price, it is quoted in pence. The *Financial Times* also has a column showing 'Dis or Pm (–)'. That is a calculation of the difference between the net asset value and the actual price of the share – 'Dis' means the shares are at a discount as the price is below the asset value; 'Pm' means the shares are at a premium to the underlying value of the investments. Perversely and confusingly, a discount is shown as a positive figure, while a premium is shown with a minus sign.

The Association of Investment Companies produces a monthly booklet on the prices and detailed other figures of its members.

Gilts

There are also price tables for gilts – government-issued securities. These are usually split into short, medium and long-dated. There are also the two undated ones, and index-linked stocks. Foreign governments also issue bonds that are obtainable in Britain and are quoted sometimes with a lower yield than native varieties. (See page 73 for the *Daily Telegraph* prices page.)

Unit trusts

The heading of the prices pages is actually 'Unit Trusts and Open-Ended Investment Companies Prices'. The various units are grouped under the management company, such as Aberdeen, M&G and so on, with the addresses and telephone numbers (for trading, information, prices, etc) so one can call for application forms and information – investors do not have to go through stockbrokers to buy them but can go direct to the company. Some of these companies have regular savings plans. Along with the name, some of them have a number in figures, eg (1200) F, which means the prices were set at noon (using the 24-hour clock) and

FIGURE 7.4 *Daily Telegraph* unit trust prices page entry – OIECS are listed only with bid prices

M&G SECURITIES LTD
PO Box 9039, Chelmsford, CM99 2XG
Enq: 0800 390 390. UT Deal: 0800 328 3196.

Charibond Inc.................	–	114.7		+0.1
Charibond Acc................	–	2386.1		+0.9
Charifund Inc..................	–	908.36	908.36	–7.25
Charifund Acc.................	–	£90.44	£90.44	–0.72
Corporate Bond..............	3.0	29.89		. .
Dividend Inc....................	4.0	41.84		–0.34
Dividend Acc...................	4.0	311.36		–2.56
Managed Growth............	–	*53.9		–0.5
Managed.........................	–	*35.01		–0.12
N.A.A.C.I.F. Inc...............	–	52.75		–0.25
N.A.A.C.I.F. Acc..............	–	3412.25		–18.0
Recovery Inc...................	4.0	83.64		–0.79
Recovery Acc..................	4.0	176.3		–1.66
Global Basics Inc............	4.0	439.67		–7.31
Global Basics Acc...........	4.0	653.84		–10.88
Extra Income Inc.............	4.0	*486.77		–3.26
Extra Income Acc............	4.0	*2992.11		–20.0
UK Growth Acc................	4.0	*2052.56		–23.67
UK Growth Inc.................	4.0	*1535.15		–17.71

the company uses forward pricing – orders are taken from investors and the price is determined from the next valuation.

Noon is the most common time for setting prices. An investor telephoning an order at 11 am would be buying at a price set an hour later, but another one calling at 1 pm would have to wait until the next day for the price.

The 52-week highs and lows are similar to those for shares, but for unit trusts the papers print a buying and selling price and a change in the mid-market price from the previous ones. Some also provide a column to show yield gross as a percentage of the offer price (at which the investor buys).

Mondays

On Mondays, with no news on the trading front (readers will presumably have got the week's closing prices from the Saturday newspaper, if not off the net), the newspapers have the chance to print different or additional material.

Market capitalization is the total value of the company on the stock market at the current share price. So if Consolidated Alaskan Coconut Plantations has issued 50 million shares and they are currently being traded at 85p, the company is valued at £42.5 million at the moment and that is how much it would cost to buy all its shares. This is of no help in deciding whether it is a good buy or not, but newspapers have always printed such figures and they do at least give some indication of its standing.

If it is in the FTSE100 then it is one of the largest companies in the country, and you can gauge the market rating by combinations of price/earnings ratio, yield and market capitalization. Do not be fooled by the size though – Polly Peck was a huge company in the FTSE 100 Index just before it imploded when the man who ran it jumped bail to flee to northern Cyprus.

There is also information like the percentage change of price during the week, the last dividend (usually shown net of tax), when it was last quoted xd (ex-dividend); † in the *Financial Times* indicates an increase in the interim dividend in the current financial year and ‡ shows a decrease; dividend cover shows the number of times that level of dividend could have been paid out of the latest profits. There is often a separate table for the most recent issues.

Indices

To get a flavour of the economic circumstances and to judge the tenor of the market as a whole, a wide range of indices specify sector movements in most of the markets in the world. In Britain the most commonly used is the FTSE100. It contains the largest hundred companies by market capitalization – their worth by the total value of their issued shares. That inevitably means the constitution of the index changes as some corporations fall from grace or get taken over, and others grow or become popular. And sure enough, the Stock Exchange does indeed continuously update the constituents of the FTSE100.

A little further down the pecking order is the next crop of large companies, the FTSE250, and those two are sometimes combined into the FTSE350. Wider still is the 650 All Share (which does not in fact include all shares). The *Financial Times* produces a full list of the FTSE indices compiled and calculated under formulae developed by actuaries. Newspapers sometimes print figures for the movement of indices for industrial sectors such as engineering and machinery, or construction and building materials – which are then aggregated to form wider industrial indices such as Basic Industries, General Industrials – and some describe the type of company, such as 'small cap' (small total market value of the shares).

Every stock market around the world has its indices to indicate market movement as a whole, but the ones reproduced in Britain are generally confined to the local equivalents of the FTSE100. Some of the better known and more commonly used ones are the Dow Jones (actually the Dow Jones Industrial Average), Nasdaq 100, NYSE Composite, and Standard & Poor's for the United States, though there are larger coverage indices as well such as the Russell 2000 and the Wilshire 5000; Toronto 300 for Canada; Nikkei 225 for Japan; Hang Seng for Hong Kong; Dax for Germany; CAC40 for France; AEX for Amsterdam; BEL20 for Brussels; IBrX for the hundred largest Brazilian companies; and Eurotop 100 for the hundred largest market capitalization companies on European exchanges. There is also the MSCI world index.

In the *Daily Telegraph* there are two tables of indices on the prices page. One is for the 12 largest foreign stock markets excepting New York and Toronto, which are in the Key Markets table on the facing page, though Tokyo's Nikkei index appears on both pages. The other table shows the major British share indices including the FTSE100 and 250 (plus the 350, which is just those two together) and the 30, which was the FTSE100's predecessor. There is also the Techmark, which is the Stock Exchange's attempt to show backing for the newcomers and high-technology companies by separating them into a go-go index, which has turned into a bit of a go-stop-go. There is also a table of the highest volumes of trade.

Online

The internet means we are no longer dependent only on the morning paper for information, though there are electronic versions of newspapers and some magazines, often carrying stories that will appear in the next morning's printed version. The archives can also show what they previously said about a company or the state of the economy.

Other information about investments and companies (including from their own websites), and some comment is also available. As with all internet advice and comment however, trust only those with reliable provenance, known record and evident independence.

There are many online brokers, such as Hargreaves Lansdown (www.hl.co.uk), some of which offer commentaries, as well as 'real time' prices (the ones being quoted at that moment on the Exchange computers), occasionally for an additional subscription. The advantage is that you can deal immediately on the information and at the price. Google Finance also provides share prices, charts and commentaries on most companies quoted in London. In addition, there are news services such as www.bloomberg.com and specialist services such as www.thestreet.com.

Other online sites worth exploring are Home & Finance (www.fmlx.com) for investment tools; the publishers of the *Company Guide* and *REFS* (www.hemscott.co.uk); Moneyworld for share prices, indices, new issues, news, etc; and www.news-review.co.uk for a summary of useful news and information.

Company accounts

Much of the analysis of suitable investments for both professionals and private investors starts with the company's annual report and accounts, and most of the ratios are calculated from figures taken from the annual report. Most companies will be happy to forward a copy on request and large numbers of them are available on the internet from Company Annual Reports On-Line (CAROL). Quite often, companies put their accounts on their websites, and they can usually be found on the investor home page.

Annual reports and accounts are formidable documents apparently designed to ward off insomnia in all but the most dedicated. But you don't get owt for nowt – investing your time before investing your money reduces the chances of doing something spectacularly silly. So it is worth learning a little of the meanings behind the figures, and the conventions used to prepare them. For a true understanding of a business and how the company fares one really needs to talk to production foremen, sales staff, van drivers, internal auditors, purchasing managers and the finance director to supplement the picture from the published figures. Unhappily this is not open to investors, though it would be for stockbrokers' analysts if they bothered to avail themselves of it.

The first rule to remember is not to be taken in by the spurious accuracy of having it all set down in precise-looking numbers. Everything in the annual report is the result of approximation, estimation, interpretation or guess. Accounting standards may limit the range of flexibility but the company still has scope for a pretty fair range of subjective assessment.

That is in part because the rules themselves have to apply to a wide range of types and size of business and an enormous range of circumstances. As even the Accounting Standards Board conceded many years ago, corporate accounts can be relevant or comparable, but not both. It has in the main gone for relevance (the figures are tailored more to produce a fair picture of the business) at the expense of producing readily comparable accounts, which means investors get a better picture of the business itself but must put in some extra work to try and measure one business against another.

The second rule is that the purpose of accounts is to demonstrate that the business is being run honestly and the investors' cash is not being embezzled. There is no intention to demonstrate competence, much less efficiency, though that is what investors need. In the absence of direct hints about how clever the managers are, investors need to dig into the annual report to deduce it from the available information.

It is partly to help that process that the accounting profession has for decades gone way beyond the demands of the Companies Acts in the amount of disclosure. The theory is that if all possible information is there, crooks and fools will have nowhere to hide. On the other hand, Britain is approaching the United States in the size of corporate documents and few can sift relevance from the mountain of figures. Some of it is unquestionably helpful in getting down to the details of how the numbers relate, but that usually acts as a substitute for finding just what makes a business tick.

A company's annual report and accounts may have plenty of material for the careful calculations of stockbrokers' analysts but much of it will be incomprehensible, boring or irrelevant to most investors. Nevertheless the document does contain the occasional gems that indicate where the company is going and whether it is headed for riches or the knacker's yard.

Relying on the auditors too heavily is a mistake. They are accountants, nominally appointed by shareholders but in practice by directors, who are supposed to take an outsider's dispassionate view of the figures and to see that they have some relation to reality. Their main criteria are supposed to be derived from the requirement that the accounts represent a true and fair view, but increasingly they prefer the less contentious approach of saying the figures have been compiled in line with the rules. Even when they are conscientious, independent and rigorous, auditors are governed by the same uncertainties in the figures as the company itself, and in any case they cannot possibly check everything. As they themselves keep saying, they are guard-dogs, not bloodhounds – in other words they are there to check the figures add up and the stocks really are in the warehouse but do not see their job as hunting through the business for signs of fraud or even incompetence. That is why auditors clearly say at the end of the report it was the directors who prepared the accounts and who must take responsibility for them.

Such statements are also an attempt at a pre-emptive defence against litigation. When companies go under or are found to have been subject to massive fraud, creditors sue auditors because they have large professional indemnity insurance, rather than directors who may have carefully salted money away in overseas trusts or their spouses' names and therefore seem to be people of no substance. Directors are, however, responsible both in law and in fact for running the company, and shareholders should resist pressures to reduce their liability no matter how worthy the cause appears to be.

Another thing to remember is that accounts represent the past. They will not therefore necessarily give an accurate picture of where the company is now, much less where it will be in the future, especially in fast-moving trades or changing economies. Accounts are prepared on a 'going-concern' basis, which means, among other things, that assets are valued not by how much they would fetch in a break-up but at their worth to the business.

None of this is intended to suggest that accounts are useless or misleading, merely that they need interpretation, are imprecise and represent the past. That means a little more work in trying to evaluate just what they really do suggest.

First, some conventions. Like the government, companies generally do not stick to the calendar year. Financial years start at any time, sometimes not even at the beginning of a month. There may be nothing sinister in this. Financial years start when the company was originally registered and it could be that it has just stuck with it. Some businesses reckon their sales are seasonal and set the financial year so the second half gets the benefit of the upturn.

Any number in parentheses is a negative. So, at the profit level of the accounts, £12.8 million indicates a profit but (£385,000) shows a loss.

The numbers in the main pages of the accounts are mostly sums of various groups of numbers that are then shown in greater detail in the notes – there is normally a little number next to each line to show which note relates to it. It is also worth remembering that many of the numbers in the report are a bit barren on their own and have a far greater significance when related to other numbers in the accounts, set against previous years or by comparison with other businesses.

The main items in the document are the directors' report, the profit and loss account, and the balance sheet. In addition there are the extensive notes, which are supposed to amplify or explain the figures; the source and application of funds, which show where the company got its cash and how the money was used; and the auditors' report.

Chairman's and directors' report

Right at the front is a brief word from the chairman and the directors' report. These should say what the company does and sum up significant highlights of the year just completed, possibly with some comments on the performance and how the figures should be interpreted. There is often a word about prospects, which is only fair considering most reports are produced several months into the next financial year, but seldom give more than a cursory suggestion. The usual formula is something like, 'Despite the difficult financial circumstances we hope to continue developing the company and hope for further improvement in the results for the current year.' If the results turn out worse, shareholders cannot sue for misrepresentation even on that small scale and, to be fair, even three months into a year may give a misleading picture of the results for the whole 12 months. One has therefore to learn to read between the lines and see what the phrases indicate and what the report is hinting at. Some do try to be as explicit as circumstances permit, and so can offer a veiled message.

Accounting policies

Most of this is extremely boring and can safely be ignored as routine prescribed by the laws and accounting standards. Just occasionally, however, a company reckons the standard rules would produce nonsense and, rather than mislead, it intends to depart from the normal presentation. The report then should explain what standard is being breached and why. The explanation of this may not always be the most lucid prose and is not primarily aimed at the layperson, but a bit of careful attention will usually unravel it. If the auditors reckon it is a bit of flummery or specious excuse they will comment on it in their report.

Profit and loss account

Turnover

The profit and loss account starts by showing the company's trading over the previous financial year. That shows turnover, which just means sales and sometimes is actually labelled so. Drinks companies sometimes then take off excise taxes to show net sales value. One can then see how this latest year compared with the previous one. Even if it looks healthy it is probably wise to flip to the note associated with the figure and see if there are breakdowns. Some companies show the sales by product, by geographical area, by market sector and so on. This will show whether there are any peculiarities, like one product supporting the sagging rest or one geographical area turning distinctly dodgy. If there is anything like that, turn to the chairman's and directors' reports to see if there is any explanation. The answer may be something simple like an acquisition or a disposal. If there is no explanation, such distortions or odd figures should prompt questions and trigger caution.

Operating profit

Next are the operating costs of running the company including everything from stationery to wages, which are often broken down into major components such as cost of manufacturing, distribution, administration, and research and development. These can sometimes suggest questions, such as: why is administration so expensive, or why has the company been cutting back on research for several years? When the cost of sales is deducted from the total turnover figure, the result is the operating profit.

Other incomes

In larger companies you then get a variety of other incomes such as money paid to the parent company by subsidiaries, or occasionally the other way, and some exceptional items that are not the normal part of the company's trading operations. A business has to pay interest on money it has borrowed. Any sharp movement in interest out or in that is out of line with prevailing interest rates should prompt searches in the notes and statements for explanations. It could be borrowings for acquisitions or for a large redundancy programme.

Pre-tax profit

When the operating costs and other incomes have been accounted for, what is left is the pre-tax profit, which is the figure normally used in newspaper accounts of results. Taking off Corporation Tax and dividend payments leaves retained profit, which the business is planning to reinvest.

Accounting standards say exceptional items such as profit from the sale of an office building or the cost of a major reorganization and redundancy of many employees, have to be separated out.

Other items

The other items are fairly straightforward. The profit and loss table shows the amount being paid to shareholders in dividends, sometimes with preference shares separated out. Anything left after that is transferred to reserves. This does not mean it goes into the company coffers, and the term is confusing, so some companies have opted instead to call the amount 'retained profits' or, to be even more explanatory, something like 'profits retained in the business'. This is the money that builds the company. It goes into buying machinery, factories or raw materials, or financing work in progress. Some companies have starved themselves of this vital reinvestment because institutional shareholders demand a growing dividend cheque every year even if that means depriving the enterprise of cash – if the business suffers they will just ditch the shares and move on to another company.

There is nothing in the accounts that would suggest, for instance, a good start to the year but the whole business falling out of bed in its last three months with plunging sales and profits. All of that should be mentioned in the reports from chairman and directors with explanations as to why it happened and what they are doing about it.

A cliché is to talk about the bottom line, which is reckoned to come from the accounts. In fact the bottom line of the profit and loss account, after the retained profits figure, is usually the earnings per share. Dividing the share price by this figure provides the P/E ratio, or to be precise the historic P/E.

Balance sheet

While profit and loss accounts show an accumulation of transactions over the whole financial year, the balance sheet is the picture (traditionally called a 'snapshot' to emphasize how briefly relevant it is) of the financial position and assets on the last day of a company's financial year. Everything it owns or is owed on that day is shown under a range of headings. By the time shareholders see the totals, the figures are largely irrelevant because in the intervening months everything could have changed.

The figures are, as with much else in the accounts, open to a degree of flexibility. For instance, valuations of assets are fairly subjective and depend on the purpose for which the figure is being prepared. A machine tool may be vital for the company but would fetch little if the liquidator had to break up the assets. Setting a price on patents, trademarks or brand names is even dodgier and there have been years of arguments about the true valuation of such intangible assets. The physical assets and stocks are often shown at cost, but inflation will have eroded that even if other factors have not altered the valuation. Similarly, land values can move sharply with the vagaries of the economy and the property market.

What the accounts will show is the depreciation reducing the worth of assets. The notes and accounting policies usually elaborate on this, but it is normal for machinery to be written down by a fixed amount each year – straight-line depreciation. Clearly that leaves ample room for a bit of a nudge or window-dressing by adjusting valuations or bringing forward some items and delaying others, to give the total figure the company wants to project. The snapshot may therefore be wholly atypical of the state of its finances on any other day of the year. Despite that, it gives a hint of the financial health of the business, all the more so since the range of manipulations – short of outright fraud – is limited for a number of reasons including accounting standards and the need to be reasonably consistent with the previous years.

In the list of things the company owns the first heading is fixed assets. This comprises things that have been and are likely to continue as long-term investments. So it includes things like factories and equipment, office blocks and the like. Lorries are also included under this heading, probably for want of a better place to put them. The value is normally in there at cost or what they would sell for, or some formula.

Then come investments in other companies. Then there are current assets, which covers the more mobile, changing things like stocks of raw materials and finished products in the warehouse, money owed by customers, and money in the bank.

After that comes a list of the company's debts. First there are current liabilities, or creditors expecting to be paid in under a year. This includes trade creditors (suppliers of goods and services who have not yet been paid), money borrowed short term, the money set aside for the proposed dividend, and the Corporation Tax to be paid on the profits. The total is then deducted from the current assets to show the net figure. This is sometimes called 'working capital'.

Longer-term debt includes things like a term-loan from the bank and provisions for known spending such as restructuring the business, moving the factory or the feared outcome of a legal case. Taking the short- and long-term liabilities from the assets produces the net asset figure.

Once again, there should be comparison not only with the previous year, which most companies provide, but also with the previous five years. Combining the current figure with previous years' and knowing something about the norms in that industry should provide a pretty good measure of the company's financial health.

Cash-flow statement

Cash flow, or flow of funds, or source and application of funds statements are, as the names suggest, a supplementary indication of how the money flows in from profits and investments, and goes out again for tax, dividends and the like. In addition it gives the figures for repayment of capital – redeeming a debenture, for instance – or finance in from raising further capital. There is little point in making a profit if the business just runs out of cash, and this is where the warning should show.

The final figure of the statement shows the growth or decrease in the company's funds during the year. That is a fairly good indication of how successfully it has been managed.

Auditors' report

The auditors' report is normally a pretty routine affair, saying the company has abided by the accounting standards, Companies Acts requirements and other rules; that the directors are responsible for the accounts and the auditors merely take samples and tests as required by the Auditing Practices Board; and that as far as they can tell the accounts represent a true and fair account of the state of play. Just occasionally it is a qualified report.

In essence there are two sorts of qualification, as a result of uncertainty or from disagreement with the way directors treat some item. The effect may be much the same but the message is signalled in different ways.

If the uncertainty is big enough to mention but not fundamental to the business, the auditors normally say that, subject to the specific doubts, which they will normally spell out, the accounts are all right. That may just be awaiting the outcome of a court action and hence are inherently uncertain, but it could also say the auditors could not tell if proper accounts had been kept in one part of the business.

Sometimes it is a straight disagreement about the treatment of an item. Once again, if it is a biggish number in the context of the accounts but not serious enough to undermine the survival of the organization, the auditors normally say it is all true and fair except for the specified item. The auditors may, for instance, say a debt in the balance sheet is not recoverable despite all the directors' optimism.

On a few rare occasions the split between the board and the auditors is so serious, or the auditors have stumbled on something so crucial to the company's viability, that a more serious warning is inserted into the accounts. If the doubts about record-keeping or the reliability of information generally is so great that the auditors have serious doubts about the whole thing, they will say they could not discover whether the stocks are present or the sales are as stated; they may say the books and figures were not available; some tests of the books were frustrated; or they had some deep problem about verifying what was going on and so on, and as a result they can give no opinion on whether the accounts are true and fair.

Sometimes there is just a fundamental disagreement between the directors and auditors about what things are worth or how they should be treated. If these are such major items that they are fundamental to the state of the business, the auditors normally set out the problem – say the valuation of major long-term contracts – and state that the accounts are as a result misleading. They normally add that had the accounting treatment been as they suggested, the profits would have been so many millions lower.

Such major rows are rare because the board and the auditors argue about such items at enormous length, and auditors bend over backwards to avoid such open conflicts, if only because it is almost always the prelude to a change of auditor, so the accountants will lose a source of revenue.

Another worrying comment from the auditors is that the accounts have been prepared on a going-concern basis, which is a warning that the figures would be unjustified if the business went bust. Clearly that sort of point is not going to be made about a business with a booming present and a flourishing future.

Notes

Behind all these are the notes, frequently running to dozens of pages. It is a frightening and long set of technical-looking statistics. In fact this is where the real meat is generally buried.

A series of reports on corporate governance has produced the Combined Code, which the Stock Exchange backs, that instructs companies to include mention in their annual reports of how far they complied with the requirements. In addition, some companies provide unaudited supplements giving breakdowns by product area and country of sales, sometimes by country of manufacture and other details.

This is the section where you will find how much directors earned and what sort of incentive and share-option packages they have. It will also show how many employees there are and how that total changed during the year.

Also at the back but not usually a formal part of the notes is a table showing previous years' performance, going back at least five and sometimes 10 years. That means one can check whether sales have risen faster than the rate of inflation and whether the trend has been a steady one or erratic. It also tends to show the step change when the boost to profit and turnover came not from organic growth but an acquisition.

Using the accounts

This then is the start: now these bare figures must be related to something to extract some meaning from them. For instance, the figure of the trade creditors as a percentage of turnover: the higher the percentage the longer customers are taking to pay. This means not only that the company must find expensive finance to bridge that gap, but that its cash and credit control are not very good.

Another significant figure is the relationship between borrowings and share capital. Borrowed money has to be repaid and the interest is due whether the company is making a profit or not. Equity – share capital – is never likely to be repaid and dividends are paid only when the company can afford them. If the profitability is greater than the cost of debt, the profit attributable will be geared up substantially. All the same, there are limits to how much a company may borrow, and borrowing makes a business vulnerable. The ratio between those borrowings and the equity money is called 'gearing' ('leverage' in the United States), and a company with shareholders' funds of £150 million and borrowings of £75 million would be called 50 per cent geared. It varies a bit depending on external circumstances and the industry sector, but if it went to over 60 per cent the company would be called 'highly geared'. Analysis of such ratios can be found in Chapter 6.

One aspect that is easy to study is the trends over time. All accounts provide the previous year's figures and many provide summary tables for the previous five years. These will show, for instance, whether turnover has risen faster than the rate of inflation, and whether profits have risen even faster through increased efficiency, concentration on high-margin products and so on.

Other information from companies

Interim reports

In between the annual reports companies also produce the results of trading in the first half of their financial year. These are generally pretty short documents giving a brief statement of the volume of trade and profit, plus an abbreviated balance sheet minus the copious notes. Some companies give some segmental information as well. The figures are not audited.

Prospectuses and listing particulars

Companies first coming to the stock market must provide extensive details not just about the business but the people running it. The listing rules of the Stock Exchange require all sorts of information about assets, depreciation, government grants, a brief history, auditors, bankers, financial advisers, stockbrokers, solicitors, a complete description of the business, details of management (directors have asked the government to be excused from putting in home addresses in future), staff and premises, what will be done with the money raised, expectations of the immediate future, and so on. So the prospectus is the most comprehensive information about itself that a company ever publishes.

The Alternative Investment Market has slightly less onerous demands for details, but they are still pretty extensive.

Circulars on disposals and acquisitions

Shareholders must be told of any substantial acquisition with details of the offer, why it is being made and how it is to be paid for. In most cases the shareholders will have to ratify the board's decision to purchase.

Some bids are called 'hostile', though it is the business on the receiving end of an unwelcome offer that is belligerent. In such non-agreed takeover battles the target company will send shareholders documents defending its management and trading record, and emphasizing its glowing future as well as the need for continued independence. These tend to be accompanied by extensive disclosures, accounts and forecasts, rivalling the annual report in scope. Sometimes a higher offer seems to conquer such emphatic misgivings.

Newsletters

Shareholder loyalty has grown in importance in recent years, so companies try to keep their investors happy by sending them newsletters. Even more commonly, there are magazines and news-sheets distributed to employees, who sometimes also get a shortened version of the annual accounts. Careless companies sometimes tell a different story in house magazines and shareholder reports.

Other sources

Share buy-backs

A company buying back its own shares should suggest questions. Is it because the business has surplus cash and can find no way of growing the business? Is it a failure of management in finding nothing in the business in which to invest? Is it just an attempt to make its figures look better by boosting the earnings per share, and increasing its share price? Or is it a sign that the business thinks this more sensible than buying overpriced assets through a business takeover?

The shares bought back can be cancelled by the company or kept in 'treasury' for release at a later date.

Directors' dealings

Companies are obliged to tell the Stock Exchange authorities about dealings in their shares by directors. This goes out on the Stock Exchange's news system and is occasionally picked up by an increasing number of newspapers.

Directors may provide very plausible reasons for selling, but it is best all the same to be wary and check what is going on. The director may really need the money for the children's education, to pay death duties, to buy a small chateau in the Dordogne, or to fund a contentious and expensive divorce. But even then, why did that director sell those shares to find the money? Without convincing explanations, one really does wonder what the managers of a business know that other shareholders do not when they start selling the shares in substantial quantities.

Conversely, the fact that several board members seem anxious to increase their holdings does seem pretty encouraging even if they are not acting on insider information. Directors are allowed to trade in shares only when they are not in a 'closed period' of sitting on sensitive information, such as the company's latest set of results or news of a contract won.

Fashion

Fads overtake the world of investment with even greater virulence than women's clothing, and are equally evanescent. The internet bubble is an example, but at least that was related to some underlying business opportunity. It really was true that the system was changing the way people do business, but nobody knew how much or how quickly, much less who was going to win during the trading revolution. As a result there was no obvious way of valuing an internet company. Valuation was made additionally difficult by the variety of software producers, internet service providers, retailers, etc. P/E ratios became insane or irrelevant (there were no earnings yet) and everyone knew the businesses were overvalued, but there seemed no way of stopping the boom – until it stopped.

Unlike the internet fashion, which at least derived from some confused perception of what really was going on, some fashions seem based on nothing but vaporous unrealistic hope. The point here is twofold: it is not wrong to invest in a promising sector such as the internet so long as you can see real value in the business, but it is folly to get caught in the hysteria; and it is vital to separate the booms that are based on real business opportunities from the ones that are nothing but passing fads apparently created by some sort of market ramp.

Sometimes a big takeover in a sector – banking, insurance, pharmaceuticals, retailing and so on – prompts speculation that others will follow, and most of the shares in similar businesses suddenly romp ahead. Whether there is a sheep-like mentality in business, whether financial advisers then see the chance of income and urge their clients to grab a share of what is left, or whether managements really do fear being left behind, the speculation quite often becomes fact. It happened with the demutualization of building societies and insurance companies. When one of those became a public company, owners of the others could not resist the lure of short-term profits and forced a flurry of demutualizations.

When there is a general realignment in the industry of this type, the people who spot it at the start and buy into the companies likely to become takeover targets see healthy rises in the shares. Similarly, carpet-baggers getting into the building societies in time emerge with a few thousand pounds of shares that they can swiftly extract.

Another fashion is for sectors. Suddenly biotechnology is seen as the saviour of mankind with untold riches to be derived from new drugs; software companies are seen as the universal traders; the internet is thought to be a guaranteed means of selling to hundreds of millions of people at no cost at all; or a mining sector is reckoned to be certain to make a fortune from the spurt of demand for its metals. Vogues of this type seldom last more than a year, so it takes nimble minds to spot the trends, but the results can be spectacular. It is possible to increase the value of the holding by anything from five-fold to 20-fold in a matter of months. The point is to get out before the sky falls in.

Conversely, it is dangerous to climb aboard a bandwagon if it seems to have no real engine. If you do not understand what a company does or why it is valued as highly as it seems to be, avoid it.

Stockbrokers/investment advisers

If you have a stockbroker who is providing more than just a dealing service, or an investment adviser, there will be ample advice and information on tap. It may be very good advice, but intelligent investors are not wholly inert, prepared to accept everything they are told. You get better advice if you are informed enough to be able to discuss the market and your needs in an intelligent manner. The investor needs to be continuously keeping up to date and to have his or her priorities clear. This is not just a useful antidote to being baffled by pretentious jargon: it also helps establish whether one's ideas are right.

People without a regular financial adviser and those who distrust the advice they get have to hunt around for other sources. Stockbrokers' circulars are still generally available to them either directly or through the press, but usually after favoured clients have been told the conclusions and have had time to act on them. This is useful information because it gives a lot of background about a business, the calculations and feelings of a professional, and an indication of how the City may view the shares. You can then check what you feel, what the share price is doing and so on, and use the additional insight as an extra aid in decision making.

If you do not have access to a broker's advice, do not despair. Stockbrokers are as likely as anybody to be wrong. A classic case was the carmaker British Leyland. For about two years prior to its demise, investors were getting more and more nervous about the unruly unions, the shoddy workmanship, the short-sighted management and the increasing signs that the company could not make the cars the market wanted and was ill-prepared to make the profound changes needed. So its share slid steadily. Nevertheless, stockbrokers queued up throughout that inexorable tumble into insolvency to recommend the shares as a good buy.

Complaints

If something has gone wrong – inappropriate advice, the investor being badly treated, or instructions not being followed – the first and most obvious step is to take it up with the company concerned. Brokers and advisers all now have a compliance officer whose job is to ensure that the rules are followed and to take action when they have not been.

If that fails, the next step is to take the problem to the ombudsman and/or the regulatory authority. This shows the importance of ensuring from the outset that one is dealing with a properly recognized and authorized firm.

Chapter Eight
What does it take to deal in shares?

Most advisers reckon £2,000 is the smallest sensible amount for a single investment, though many recommend £3,000. It is possible to deal in smaller amounts at one time but it puts up an extra barrier to making a return: stockbrokers set a minimum price on transactions and the dealing costs can overwhelm the profit from the transaction. If you are dealing in a small company's shares that have a wide price spread (the difference between the buying and selling price) the threshold for potential profit is raised still further. And there is also a government tax on dealing (see page 102).

For example, if the dealing cost is £20 for a £500 parcel, the share has to rise by more than 8 per cent just to break even, bearing in mind the likely dealing spread. That means a share standing at 220p would have to rise by over 18p before the investor saw any benefit. It can happen, but it is just stacking the odds against yourself. However, competition among stockbrokers is increasing with the numbers of sites on the internet growing daily, so the cost could start coming down and with it the minimum economic investment.

Mark Twain said there was nothing wrong with putting all your eggs in one basket, but *watch that basket*. That is unlikely to work for the stock market. Scrutinize a company with all the attention possible, analyse its figures and read all the reports available and, despite all the favourable indications, it can still decline, to general surprise. Sudden external changes can overwhelm sound businesses, and inept managers can so fail to keep track of what is happening under their noses that nobody outside notices either until profit warnings show the depth of the problems, or takeover predators or the liquidator move in.

For safety, therefore, one needs to spread the risks over a number of companies. A decent portfolio even for a relatively small investor