Client: Chi Med
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Date: 06 April 2013
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Citigate Dewe Rogerson

Thomas Cook leads the way as ten outpace a stumbling Footsie

Martin Waller
Tempus

So far, so good, then. The FTSE 100 index has lost 3.7 per cent of its value since the market closed on Tuesday, and this column's selections for 2013 have suffered as well. But they are still running almost three times higher on average than the FTSE as a whole.

As ever, I plumped for a handful of solid stocks that would at least hold their value, a few I felt looked undervalued and a couple of outliers that could go either way.

In the event, the portfolio is up by 16.8 per cent since it was selected, while the FTSE has gained almost 6 per cent over the same period. My belief remains that this stock market is being distorted by central bank policy that is lowering the return on cash invested elsewhere.

Against that, you can get a dividend yield of anything up to 5 per cent on stocks that, absent any terrible economic or political crisis, are going to hold their value at least, and that has to be attractive. None of my selections, though, were bought with income in mind, because the purpose of this exercise is to find those that should offer some capital appreciation.

The first selection, **Interserve**, was one of those that I felt had been overlooked by the market, and several good contract wins this week that I have already highlighted indicate why. In late February, when they were a few pence higher than they are today, I did suggest taking some profits. At this level, I would continue to hold.

Fortune Oil was one of those outliers, a little-known penny stock that again looked undervalued on any sensible reading of the sum of its parts. Penny stocks are notoriously volatile, and this one fell. It could end anywhere; at this level, it looks like a good punt.

Thomas Cook was the outstanding performer. I greatly wish I could have picked the shares when Harriet Green was appointed chief executive in July last year, having known her at her last billet, Premier Farnell. At that time they were little more than a tenth of their current value. Still, a rise of 120 per cent will have to do. In an ideal world I would be taking some profits now.

GKN was picked as one of our biggest engineers with a strong position in civil aerospace and, unlike some of its peers, not much exposure to defence budgets. The shares were recovering from what I felt was an unwarrantedly sharp fall after a weakish outlook statement in October. They have outperformed the FTSE by more than twice.

Glencore International shares were ahead of the game earlier this week, but have plunged with the markets. The company has yet again had to delay the closure of the deal to buy Xstrata because of problems with the Chinese authorities, and this continues to overhang the shares.

On the reasonable assumption that the deal goes ahead after some compromise on the part of Glencore, the shares should start to motor again, so this is no time to get out.

BP is consolidating, exiting areas such as American wind power, where arguably, it should never have been in the first place, and has lessened its exposure to Russia, of which much the same might be said. The shares have pretty much tracked the FTSE, so no real complaints.

Lamprell was another good performer, chosen as a potential recovery stock from the disasters of 2012. This is another one where, when the shares were somewhat higher than they are now, I suggested taking some profits. Still, up by a third is nothing to complain about and I can't see them going any lower — unless the new management starts copying the old with a string of profit warnings, which I doubt.

I wrote about **BTG** only the other day. The performance of this mid-cap pharmaceuticals company is a little disappointing. It came up with a promising trading update the other day and the shares surged, but they have since come back. All the elements for further outperformance are there and they have recovered well from sharp falls last year after the failure of an anti-sepsis treatment, but, with their next big compound not expected to hit the market until next year, progress until then may be slow.

Pearson is the worst disappointment. This came in with a profits warning when 2013 was barely three weeks old. I chose the shares because of the company's exposure to the education market, in particular in developing countries. The warning spoke of a slowdown in education in the United States, where a third of the profits come from.

Pearson is in the process of being shaken up by a new chief executive. The drivers for growth, in those emerging markets, are still there; the sale, much mooted, of the *Financial Times* could provide a fillip. Today's price looks like a buying opportunity.

Finally, **Hutchison China MediTech**. This pharmaceuticals company, which produces compounds for the Chinese market and develops new ones in conjunction with bigger producers, was tipped by this column when not much more than a penny share a few years ago and did well. I returned to the shares because of further deals done with Big Pharma, and a confident set of results last month confirmed this potential.

Not bad, then. But though I know I have said this before, I think there are challenging times for the market lying ahead.

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Ten tips for 2013

Company	Sector	Share price Dec 31, 2012	Share price April 5, 2013	% change
Interserve	Professional and suppport services	**388¾p**	**458¾p**	**+18%**
Fortune Oil	Natural Resources	**10½p**	**7¾p**	**-26.2%**
Thomas Cook	Leisure	**48p**	**105¾p**	**+120.3%**
GKN	Engineering	**228¼p**	**255¼p**	**+11.8%**
Glencore International	Natural resources	**351¼p**	**339p**	**-3.5%**
BP	Natural resources	**424¾p**	**447p**	**+5.2%**
Lamprell	Natural resources	**94p**	**121¼p**	**+29%**
BTG	Health	**332p**	**348p**	**+4.8%**
Pearson	Media	**£11.88**	**£11.38**	**-4.2%**
Hutchison China MediTech	Health	**415p**	**466½p**	**+12.4%**
				Average 16.8%