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Citigate
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As stock market predictions go, these are almost the perfect ten

Martin Waller
Tempus



Heaven knows where this will all end. The FTSE 100 is still 5.4 per cent ahead of where it was at the start of the year, but 9.1 per cent behind where it was when it peaked in late May.

So it is encouraging that this column's ten picks for 2012 are, on average, 26.5 per cent higher, not only almost five times ahead of the market but also significantly better than the FTSE gain when the market was at its peak.

There were two spectacular successes, both recovery stocks. Two others are substantially down on the year, one is on about even-pegging. The other five are decently ahead.

I tried to find stocks that offered good opportunities of capital appreciation, some solid shares that I thought would at least hold their value in falling markets and a couple of tiddlers that could go either way. I did not, because of the nature of the exercise, go for income stocks, although elsewhere I have suggested these have offered the best value.

In my last quarterly review, in early April, I forecast that the market was heading for challenging times. I suspect that is still true, even after the sharp corrections of recent weeks. If, as many expect, bonds fall sharply and yields on them rise, that will make the high-income stocks that have held up so well look less

attractive and reverse the flight into equities that we have seen. It could be a tough second half.

I chose **Interserve** for the quality of its management and the prospect of strong contract wins in its chosen

outsourcing markets. The company has not disappointed; at the end of last year, it said in April, the order book was 12.5 per cent ahead, and it has also won a significant contract to work on ten of Britain's nuclear power stations.

Fortune Oil is a disappointment. This, as a penny stock, is one of those outliers that could have gone either way. It went the wrong way. I suspect that the market does not fully understand this diversified Chinese energy company. Again, anything could happen in the second half, because Fortune is still trading at a sharp discount to the apparent value of its individual businesses.

Thomas Cook was a bet on chances of Harriet Green, the new chief executive, turning the ailing company around — indeed, I wish I could have got in when she arrived last summer. The company has been refinanced by a huge rights issue, but this has not dampened down the market's enthusiasm for the shares. I suggested taking some profits earlier in the year, advice that, for the purpose of this exercise, I am not allowed to take.

GKN was chosen as one of our

most solid engineers and one under-appreciated by the market. Last year the company moved to lessen its exposure to the weakening defence sector by buying the aerospace division of Volvo, of Sweden. First-quarter figures in April were already indicating the wisdom of that move.

I suspect the market has yet to perceive the benefits of the **Glencore Xstrata** merger. There seems no logical reason, other than the general malaise in the mining sector, why the shares should have been marked lower. Expect some recovery in the second half.

BP has just about outperformed the market as a whole, which is good enough. Again, I would expect further advances in the second half, not least because dividends are on the rise again.

Lamprell is the other outstanding success. Again, like Thomas Cook, the company was on the ropes, poleaxed by five profit warnings in about as many months. I took the view that the company would either shape up or be shipped out by a takeover offer.

This year will be little better than flat, which is good enough; again, I did suggest taking some profits in February, when the shares were pretty much where they are now.

I wanted some exposure to biotech, a volatile sector, admittedly. I chose **BTG**, which has long harboured plans to kick itself up into the major league. In May the company made its most ambitious move yet, buying two North American businesses; the deal was funded by a share issue at about the level they were when I tipped them.

Though this will have held the shares back, they are still ahead of the market. If those deals work out, they will be higher yet.

Pearson was chosen for its strong position in global education, a market that can only grow further and on hopes that the new chief executive, John Fallon, would make inroads on the rest of the group, perhaps by finally cutting ties with the *Financial Times*. This has yet to happen and a profits warning in January did not help. Again, I would expect further progress in the second half.

The last was another outlier, **Hutchison China MediTech**. Part of this is exposed to the Chinese market for healthcare, a growing proposition whatever the short-term economic trends. Part is working on various interesting compounds, either in-house or with Big Pharma collaborators. No complaints, and there is plenty of further potential.

There must be a huge temptation, given the state of the markets, to take profits from some of these. Alas, I am not allowed to. Still, there is no reason this selection will not end the year ahead of the relevant stock market indices.

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Ten tips for 2013

Company	Sector	Share price			% change
		Dec 31, 2012	June 28, 2013		
Interserve	Professional and support services	388¼p	506p	↑	+30%
Fortune Oil	Natural resources	10½p	7½p	↓	-28%
Thomas Cook	Leisure	48p	129¼p	↑	+169%
GKN	Engineering	228¼p	301¼p	↑	+32%
Glencore International	Natural resources	351¼p	272¼p	↓	-22%
BP	Natural resources	424¼p	455½p	↑	+6.7%
Lamprell	Natural resources	94p	140¼p	↑	+49%
BTG	Health	332p	369½p	↑	+11%
Pearson	Media	£11.88	£11.71	↓	-1.4%
Hutchison China MedITech	Health	415p	495p	↑	+19%
					Average 26.5%