

## **SIGnet Income Protection Strategy**

Many investors have withdrawn money from the equity market since it peaked in October 2007. It is estimated that two thirds of this money has not been reinvested. Most of it is for reinvestment when the next bull market has been identified. It needs to be available on demand or perhaps one month's notice. Until the end of 2008 deposit rates were reasonable – around 5%. However that is no more.

Much has been written about temporary homes for this money – Gilts, leading preference shares, corporate bonds and high income funds.

Relatively little attention has been paid to the higher yielding equities. Some groups of investors in SIGnet (Serious Investors Group Network) have been studying the opportunities and evolving a selection method. One of their worries has been the possibility of the world losing confidence in the £ resulting in devaluation and hyperinflation.

Higher yielding equities are regarded as a high risk area. First, the dividend might not be retained. Second the company might not survive current conditions.

Using sieving software (e.g. REFS) one can identify the 321 companies with a prospective yield of at least 5%.

To support the yield there needs to be dividend cover and it was thought that an acceptable forecast level was 1.5 or 150% which reduces the population to 213.

Another factor supporting the dividend is earnings per share that should be expected to grow rather than fall. Applying prospective growth of at least 5% (brokers' consensus) we have 62 shares left.

To reduce the risk that the company might run into credit difficulties it should have net gearing less than 25%; this reduces the number to 26.

A further attempt to reduce risk is the exclusion of a company with a Market Capitalisation of less than £100m. Leaving 8 companies.

Finally as a protection from devaluation, the 8 were checked for overseas business turnover. All had 50% or more.

This results in the following:-

Company	Sector	MCap £m	Pr DY %	DY Cover	Eps grw %	Net Gearing %	Overseas T/O %
Cable & Wireless	FL Tel	3,412	7.2	1.6	57	-14	50
Diploma	Sup Ser	153	5.8	1.9	7.1	-15	57
James Halstead	Con&M	227	5.6	1.8	5.1	-60	57
Jardine Lloyd Thompson	NL Ins	910	5.3	1.5	10.9	-194	63
Laird	E&EE	256	8.3	1.5	10.0	24	84
Lamprell	Oil Eqp	234	5.6	4.4	60	-41	100

Thomas Cook	Trav&L	1,903	5.4	2.5	6.3	21	65
TUI Travel	Trav&L	2,775	5.0	2.2	19.5	5	68

MCap = Market Capitalisation; Pr DY = prospective dividend yield; Eps grw = prospective earnings per share growth; T/O = Turnover.

The above is a mechanical selection based on data in the June 2009 issue of REFS. The Prospective figures are based on a consensus of brokers' estimates. Sieves usually bring to light dull uninteresting companies that have been overlooked by the crowd. However with their inflexibility sieves can leave out some good opportunities. All the above have a number of brokers' BUY recommendations.

What options does the investor have?:-

- Invest in the lot, treating them as a mini portfolio. So reducing the risk of picking the wrong ones! Then watch for any breaking rank. There is good diversity – seven sectors and four indices.
- Picking those whose business models he or she understands and has confidence in or are in sectors with which he or she is familiar.
- Debating their virtues at a SIGnet meeting thus bringing together the varied investing acumen and knowledge of those present.

While monitoring the situation look out for new companies satisfying the criteria and watch for any changes of story. You sell when you have something better to put your money in. What is better depends on your own judgement.

Looking at the eight above, investors may be surprised to see two travel companies Thos Cook & TUI Travel qualifying in present conditions.

Over the last six months the most common cause of companies withdrawing from this selection method is a rise in share price resulting in the yield falling below 5%. Next is brokers revising their earnings per growth figures. Three companies have stayed the course for the last six months:-

Cable & Wireless, Diploma and Lamprell

Jardine Lloyd Thompson for four months and James Halstead for three months.

Many investors require details of companies' activities. They are listed below in brief but for detail go to [investorchronicle.co.uk/search](http://investorchronicle.co.uk/search) and/or the companies' websites.

Cable & Wireless (FTSE 100) – The provision of telecommunications services operating through two standalone business units – International and Europe; Asia and US.

Diploma (FTSE SmallCap) – The distribution of life science instrumentation and consumables hydraulic seal kits cylinder components, gaskets, specialising wiring connections and control devices.

James Halstead (AIM) – Manufacture of safety vinyl tile & cushioned underlay floor coverings, folding campers and trailers and motor cycle accessories distribution.

Jardine Lloyd Thompson Group (FTSE Mid 250) – Risk management advice, insurance and reinsurance broking and the provision of employee benefits.

Laird (FTSE SmallCap) – Design, manufacture and supply of security products and services to the electronics and building industries.

Lamprell (FTSE SmallCap) – Provision of specialised refurbishment and construction services to the oil and gas industry. Facilities based in the U.A.E. and Thailand.

Thomas Cook Group (FTSE 100) – International travel and leisure activity with a portfolio of brands across Europe and the Atlantic. Formed by the merger of MyTravel and the Thomas Cook tourism unit of Germany's KarstadtQuelle.

Tui Travel (FTSE 100) – Offers a wide range of leisure travel experiences worldwide. Formed by the merger of First Choice with the German TUI's tourism business.

This strategy is to solve a hopefully short-term problem but there may be a bonus in that some of these companies may be worth a long-term place in portfolios. SIGnet will be monitoring their progress.

As these companies have been debated at recent SIGnet meetings, members may well now have holdings in them.