

BULL or BEAR - OUR AUTUMN 2009 SURVEY

Is the Bear Market over?:- Yes – 45% No – 55%

One technical analyst:- It's a massive Dead Cat Bounce 3rd wave asset bubble induced by negative interest rates to prevent recession. A Fundamentalist:- the apparent recovery is caused by money withdrawn in the early stages of the Bear Market being temporarily invested in equities to earn some interest. And as a hedge against inflation. It will be withdrawn when any bad news breaks.

If not, how low do you expect the FTSE 100 to go?:- Average – 3318; Median - 3500

When will it bottom?:- Average and median – middle 2010

What factors are most valuable in selecting shares for a growth market:-

In order of perceived performance;-

Factor	Value required	Coy satisfying	Combined satisfaction
Pros. Earnings/share growth rate	more than 12	445	
Pros. Price Earnings Ratio	6 to 19	392	143
Price Earnings/Growth PEG	0.4 to 1.1	46	21
Return on Capital Employed	more than 17	636	17
Net Gearing	less than 53%	1124	13
Pros. Dividend	3.5% or more	376	2
Cash flow/earnings per share	more than 1.4	24	2
Relative strength 1 year	more than 15%	516	-
5yr earnings per share growth rate	more than 16%	395	-

Factors without sufficient support to provide values required:- PCF, PCB. Other factors suggested were:- History of dividend payments, Directors buying, Competitive advantage, More than 3 brokers in consensus, PSR.

The first five filters brought the population down to 13, a manageable number for individual research:-

Company	Mkt	Sector	Grwt	PER	PEG	ROCE	Gear	Pr. Div	Brok
Amec	100	Sup Serv	14.2	15.2	1.07	24	-78	2.26	9
Bioquell	Fledg	Healthcare	13.6	13.0	0.96	39	-27	1.61	1
BrainJuicer Grp	AIM	Media	24.7	12.7	0.51	46	-48	1.99	1
Brooks McDonald Grp	AIM	Gen Finance	27.7	16.0	0.58	40	-103	1.48	2
Cranshaw	250	Food Prod	12.4	10.5	0.85			3.50	
Group NBT	AIM	Software S	31.5	13.4	0.43	348	-3	1.26	3
HomeServe	250	Sup Serv	18.0	14.2	0.79	179	16	2.6	8
Jardine Lloyd Th Grp	250	N Life Ins	13.6	12.1	0.89	118	-194	4.71	5
Mattioli Woods	AIM	Gen Finance	18.7	11.7	0.63	60	-29	1.92	6
Petrofac	100	Oil Equip	31.1	12.5	0.40	65	-99	2.79	12
Research Now	AIM	Media	18.4	13.0	0.70	160	-30	-	1
SDL	SCap	Software S	14.7	14.1	0.95			-	
System C Healthcare	AIM	Software S	16.6	13.6	0.82			1.25	
Average			18.0	13.0	0.79	60	-30	2.0	

The sixth filter – Prospective Dividend reduces it to Cranshaw and Jardine Lloyd Thompson and the seventh filter – Cash Flow / Earnings per Share > 1.4 eliminates the rest. All but Amec & Research Now have low Beta values.

This feature appears on the Investors Chronicle website in the Investment Guides/Shares Section – January 2010.