

## AlphaScreens: finding dividend diamonds

30 December 2021

### Aim yields are more of a value indicator

*Dividends are an important source of returns and also a useful valuation measure that can be used to identify shares with the potential for capital growth. But it's important to screen out potential value traps when using yield as a guide*

#### **Comment by Alpha editor:**

As 2021 draws to a close, investment companies and cyclical stocks once again dominate the list of FTSE All Share companies that top our dividend screens. Safe dividend paying stocks have not been easy to come by for some time at a reasonable price. Crowded trades have seen percentage yields diminish on the safer investments out there, and in many ways the results of our screens are a source of ideas for value rather than income investors.

One of the reasons real estate investment trusts (reits) rank highly is because they are required to pay 90 per cent of their rental income as dividends. Other types of investment trusts that score well include VPC Specialty lending. The underlying assets for this trust are asset backed loans and other debt products that facilitate lending to parts of the economy under-served by traditional banks. It's an interesting asset class but is not without risks, especially given the uncertain economic outlook harming the prospects for potential borrowers.

Dividends are a nice bonus for investors in Aim companies, but it's probably fair to say these shares are primarily bought for their growth and/or recovery prospects. Companies with cyclical risks are prominent in the screen results this month with Caledonia Mining (CMCL), Springfield Properties (SPR) and Michelmersh Brick Holdings (MBH) the only companies to score full marks.

Other high ranking Aim companies include Steppe Cement (STCM), which pays an attractive dividend but, despite an overall positive upward trajectory, has been a bumpy ride for shareholders. This is the type of risk-reward trade-off investors should consider when looking at Aim stocks on the strength of their yield.

## Dividends are crucial for UK investors

Investors neglect dividends at their peril. Over the 25 years to the end of 2019, the average annual return from the FTSE All-Share based on share price alone stood at 4.15 per cent, compared with a 7.4 per cent total return once dividends are factored in. And the benefit of reinvesting dividends over the long term makes the difference even more pronounced, with the 25-year cumulative total return from the FTSE All-Share standing at 497 per cent, compared with 176 per cent ignoring dividends. As well as providing income, a good yield can suggest a company has attractive qualities that could support share price performance, and a robust dividend record can indicate a company in good financial health with a strong and stable business.

## Large-cap dividend diamonds criteria

Our large-cap screen is tilted towards companies that show signs of having stable prospects associated with dividend staying power. To help assess this, we use a measure of historic share price volatility against the wider market, called beta. Betas of below one indicate that a stock has been less sensitive to market movements and suggest it could boast some defensive qualities. The large-cap Alpha dividend yield screen is conducted on all FTSE All-Share stocks using the following criteria:

- A dividend yield higher than the median (mid-rank) average of all dividend-paying shares screened.
- Dividend covered at least twice by earnings.
- Earnings growth forecast in each of the next two financial years (i.e. dividend cover is not expected to dramatically fall).
- Operating cash conversion of 100 per cent or more (i.e. earnings are being turned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (i.e. interest payments on borrowings are not likely to be a significant threat to maintaining dividend cover).
- Return on equity of 12.5 per cent or more (i.e. an indicator that the business may be of decent quality [if the interest cover test is also met, it suggests high returns on equity are not overly dependent on high debt levels]).
- A beta of 0.75 or lower.
- No dividend cut in the past three years.

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the table, followed by those failing one test, then those failing two tests as detailed in the 'Tests passed' column. All stocks must pass the dividend yield test to

feature in the table that follows. Special dividends are included in the yield calculation used by the screen, and where a special dividend has been paid, it is highlighted in the table's 'Special dividend' column. While the primary ranking of the stocks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according to their attractiveness based on a combination of dividend yield and dividend cover.

## Small-cap dividend diamonds criteria

The small-cap Alpha dividend yield screen is more growth-focused than our large-cap screen. It is conducted separately on the FTSE All-Small and FTSE Aim All-Share indices, with the results presented in two separate tables. While the screen's dividend yield test is more aggressive than the one used by our large-cap screen, the lower average yields from small-caps mean little difference in the absolute level of yield both screens require. The screen uses the following criteria:

- A dividend yield among the top third of all dividend-paying shares screened.
- Dividend covered at least one-and-a-half times by earnings.
- Earnings growth forecast in each of the next two financial years and average growth of 5 per cent or more (i.e. rising earnings to support dividend growth and maintain or improve dividend cover).
- Positive free cash flow (i.e. a weak test that earnings are turned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (i.e. interest payments on borrowings are not likely to be a significant threat to maintaining dividend cover).
- A three-year compound annual dividend growth rate of 5 per cent or more.
- A three-year compound annual earnings growth rate of 5 per cent or more.
- A market capitalisation of more than £10m (i.e. not severely illiquid).

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the table that follows, followed by those failing one test, then those failing two tests as detailed in the 'Tests passed' column. All stocks must pass the dividend yield test to feature in the table. Special dividends are included in the yield calculation used by the screen, and where a special dividend has been paid this is highlighted in the table's 'Special dividend' column. While the primary ranking of the stocks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according to their attractiveness based on a combination of dividend yield and dividend cover.

## Stock screen and methodology by Algy Hall

## FTSE All-Share dividend diamonds (passing at least 6 out of 8 tests)

Name	TIDM	Mkt cap	Price	Fwd NTMPE	EPS grth DY	EPS grth FY+1	EPS grth FY+2	3-mth mom.	Net cash/debt(-) in £	Test failed	Special div	Tests passed (out of 8)
Impact Healthcare REIT	IHR	£419m	119p	15	5.3%	17.7%	11.6%	5.5%	-	na	NO	8
Smurfit Kappa	SKG	£10,563m	4,078p	15	3.1%	9.2%	23.4%	4.1%	-1,190m	na	NO	8
Apax Global Alpha	APAX	£1,095m	223p	-	5.0%	-	-	0.0%	-	/FwdEPSGrth/	NO	7
VPC Specialty Lending Inv.	VSL	£257m	92p	-	8.7%	-	-	3.8%	-	/FwdEPSGrth/	NO	7
Blackrock World Mining Trust	BRWM	£1,076m	586p	-	3.8%	-	-	12.3%	-	/FwdEPSGrth/	NO	7
Henderson Int'l Income Trust	HINT	£335m	171p	-	3.7%	-	-	4.9%	-	/FwdEPSGrth/	NO	7
Ferrexpo	FXPO	£1,784m	303p	5	23.6%	89.8%	-55.0%	-4.7%	-19m	/FwdEPSGrth/	NO	7
LXI REIT	LXI	£1,036m	148p	18	4.0%	2.7%	13.0%	3.5%	-	/EPSGrth/	NO	7
Rio Tinto	RIO	£6,485m	4,846p	8	10.2%	78.6%	-36.2%	0.5%	1,061m	/FwdEPSGrth/	NO	7
JPMorgan Asia Growth & Inc.	JAGI	£432m	442p	-	4.4%	-	-	6.1%	-	/FwdEPSGrth/	NO	7
Polymetal International	POLY	£6,110m	1,290p	7	7.5%	-1.1%	13.2%	4.6%	-180m	/FwdEPSGrth/	NO	7
Royal Mail	RMG	£5,197m	521p	8	3.2%	20.3%	0.5%	19.3%	-1,150m	/DivGrth/	NO	7
Centamin	CEY	£1,013m	88p	13	5.7%	-20.6%	-9.5%	-5.8%	160m	/FwdEPSGrth/	NO	7
Norcros	NXR	£251m	310p	9	3.6%	13.1%	4.1%	5.4%	-76m	/DivGrth/	NO	7
Devro	DVO	£341m	204p	11	4.5%	4.9%	5.8%	-5.8%	-33m	/DivGrth/	NO	7
Dunelm	DNLM	£2,836m	1,399p	19	7.1%	13.3%	5.8%	-2.8%	-107m	/DivCov/	NO	7
B&M Euro. Value Retail SA	BME	£6,366m	636p	17	2.8%	-12.3%	-1.0%	7.3%	-513m	/FwdEPSGrth/	NO	7
Burberry	BRBY	£7,253m	1,802p	19	3.0%	25.9%	14.5%	-0.5%	559m	/DivGrth/	NO	7
Mondi	MNDI	£8,929m	1,839p	13	2.9%	6.2%	16.9%	1.4%	-893m	/EPSGrth/	NO	7
Blackrock Latin American IT	BRLA	£133m	337p	-	6.2%	-	-	-4.4%	-	/FwdEPSGrth/EPSGrth/	NO	6
Invesco Asia Trust	IAT	£235m	351p	-	4.3%	-	-	3.1%	-	/FwdEPSGrth/FCF/	NO	6
Lowland Investment	LWI	£361m	1,335p	-	4.5%	-	-	0.8%	-	/FwdEPSGrth/DivGrth/	NO	6
Aberforth Split Level Inc. Trust	ASIT	£153m	80p	-	3.8%	-	-	-3.6%	-	/FwdEPSGrth/DivGrth/	NO	6
AEW UK REIT	AEWU	£180m	114p	-	7.0%	-	-	9.2%	-	/FwdEPSGrth/DivGrth/	NO	6
Majedie Investments	MAJE	£122m	231p	-	4.9%	-	-	0.0%	-	/FwdEPSGrth/DivGrth/	NO	6
JPMorgan Euro. IT -Income- Class	JETI	£134m	157p	-	3.6%	-	-	3.6%	-	/FwdEPSGrth/DivGrth/	NO	6
Montanaro UK Smaller Cos IT	MTU	£279m	167p	-	3.8%	-	-	2.0%	-	/FwdEPSGrth/FCF/	NO	6
Utilico Emerging Mkts Trust	UEM	£471m	215p	-	3.7%	-	-	-2.3%	-	/FwdEPSGrth/DivGrth/	NO	6
Law Debenture Corp	LWDB	£972m	791p	-	3.6%	-	-	2.2%	-	/FwdEPSGrth/EPSGrth/	NO	6
Imperial Brands	IMB	£15,355m	1,622p	6	8.6%	0.9%	5.5%	3.9%	-9,521m	/FwdEPSGrth/DivGrth/	NO	6
Custodian REIT	CREI	£469m	106p	16	5.2%	10.7%	6.5%	13.7%	-	/DivGrth/EPSGrth/	NO	6
BMO Capital and Income IT	BCI	£362m	338p	-	3.4%	-	-	3.7%	-	/FwdEPSGrth/DivGrth/	NO	6
North American Inc. Trust GBP Ord.Shs	NAIT	£401m	285p	-	3.6%	-	-	-0.7%	-	/FwdEPSGrth/EPSGrth/	NO	6
Diverse Income Trust	DIVI	£414m	114p	-	3.3%	-	-	-2.1%	-	/FwdEPSGrth/DivGrth/	NO	6
JPMorgan Global EM Inc. Trust	JEMI	£427m	143p	-	3.6%	-	-	1.1%	-	/FwdEPSGrth/DivGrth/	NO	6
Invesco Select Trust UK Equity	IVPU	£153m	199p	-	3.3%	-	-	6.7%	-	/FwdEPSGrth/DivGrth/	NO	6
Murray Income Trust	MUT	£1,073m	919p	-	3.8%	-	-	3.0%	-	/FwdEPSGrth/DivGrth/	NO	6
IG Group Holdings	IGG	£3,532m	819p	11	5.3%	-28.0%	12.5%	3.0%	-	/FwdEPSGrth/DivGrth/	NO	6
Ashmore	ASHM	£2,083m	292p	13	5.8%	-36.2%	7.9%	-14.9%	-	/FwdEPSGrth/DivGrth/	NO	6
Paragon Banking	PAG	£1,410m	564p	9	4.6%	1.3%	7.5%	3.4%	-	/FwdEPSGrth/IntCov/	NO	6
JPMorgan Global Growth & Inc.	JGGI	£739m	468p	-	2.8%	-	-	4.9%	-	/FwdEPSGrth/DivGrth/	NO	6
TR Property IT Ord. Shares Class GBP	TRY	£1,552m	489p	-	2.9%	-	-	3.3%	-	/FwdEPSGrth/FCF/	NO	6
3i Group plc	III	£14,282m	1,467p	6	2.7%	70.0%	-25.9%	15.2%	-	/FwdEPSGrth/FCF/	NO	6
TwentyFour Income Fund	TFIF	£654m	115p	-	5.5%	-	-	1.3%	-	/FwdEPSGrth/DivGrth/	NO	6
BAE Systems	BA	£17,375m	549p	11	4.4%	0.6%	6.9%	-3.9%	-6,426m	/FwdEPSGrth/DivGrth/	NO	6
CMC Markets	CMCX	£737m	253p	11	9.9%	-68.2%	26.7%	-8.5%	-	/FwdEPSGrth/DivCov/	NO	6
Kingfisher	KGF	£7,307m	352p	11	3.4%	25.4%	-15.6%	1.6%	-2,041m	/FwdEPSGrth/DivGrth/	NO	6
STV	STVG	£157m	335p	8	2.9%	7.0%	10.2%	-10.7%	-19m	/DivGrth/EPSGrth/	NO	6
Redrow	RDW	£2,497m	709p	8	3.5%	23.0%	1.3%	6.6%	-607m	/DivGrth/EPSGrth/	NO	6
Wincanton	WIN	£445m	357p	9	3.2%	8.2%	12.0%	1.7%	-330m	/DivGrth/FCF/	NO	6
International Biotech. Trust	IBT	£310m	754p	-	3.8%	-	-	2.2%	-	/FwdEPSGrth/DivGrth/	NO	6
Bellway	BWY	£4,150m	3,363p	9	3.5%	10.0%	6.4%	3.4%	-612m	/DivGrth/EPSGrth/	NO	6
Severfield	SFR	£210m	68p	8	4.4%	14.8%	11.9%	-12.8%	-60m	/DivGrth/EPSGrth/	NO	6
Target Healthcare REIT	THRL	£729m	118p	18	5.7%	15.6%	12.7%	2.3%	-	/EPSGrth/DivCov/	NO	6
Taylor Wimpey	TW	£6,447m	177p	9	4.7%	169.0%	8.3%	13.6%	-188m	/DivGrth/EPSGrth/	NO	6
PRS REIT	PRSR	£588m	107p	27	3.7%	199.6%	23.2%	3.9%	-	/DivGrth/IntCov/	NO	6
BHP	BHP	£46,624m	2,208p	10	10.1%	4.2%	-25.1%	18.6%	-835m	/FwdEPSGrth/DivCov/	NO	6

Continued...

## FTSE All-Share dividend diamonds (passing at least 6 out of 8 tests) continued

Name	TIDM	Mkt cap	Price	Fwd NTMPE	DY	EPS grth FY+1	EPS grth FY+2	3-mth mom.	Net cash/debt(-) in £	Test failed	Special div	Tests passed (out of 8)
Bloomsbury Publishing	BMV	£296m	363p	18	5.2%	-1.0%	9.4%	7.7%	-23m	/FwdEPSGrth/DivCov/	NO	6
Vistry	VTY	£2,669m	1,200p	8	3.3%	136.6%	14.2%	0.8%	-625m	/DivGrth/EPSPGrth/	NO	6
Grafton	GFTU	£2,961m	1,237p	16	2.9%	44.3%	-7.9%	-5.2%	-178m	/FwdEPSGrth/EPSPGrth/	NO	6
Morgan Sindall	MGNS	£1,162m	2,505p	12	2.8%	106.8%	-6.6%	5.9%	-578m	/FwdEPSGrth/EPSPGrth/	NO	6
XPS Pensions	XPS	£287m	140p	13	4.9%	4.4%	6.8%	-2.1%	-	/DivGrth/DivCov/	NO	6
Tesco	TSCO	£22,315m	291p	13	3.1%	173.7%	5.6%	13.5%	-12,022m	/EPSPGrth/IntCov/	NO	6
TI Fluid Systems	TIFS	£1,293m	249p	11	3.0%	540.7%	60.3%	-2.9%	-206m	/EPSPGrth/IntCov/	NO	6
Hargreaves Lansdown	HL	£6,482m	1,366p	24	3.7%	-13.8%	9.8%	-5.0%	-	/FwdEPSGrth/DivCov/	NO	6
Rathbones	RAT	£1,243m	2,005p	12	3.7%	24.4%	6.1%	0.7%	-	/EPSPGrth/DivCov/	NO	6
FDM	FDM	£1,389m	1,272p	35	3.4%	8.9%	14.7%	1.0%	29m	/EPSPGrth/DivCov/	NO	6
HomeServe	HSV	£2,977m	885p	17	3.0%	14.2%	12.6%	-2.9%	-365m	/EPSPGrth/DivCov/	NO	6
Goodwin	GDWN	£248m	3,220p	-	3.2%	-	-	-10.8%	-30m	/FwdEPSGrth/DivCov/	NO	6

Source: FactSet, 30 December 2021

## FTSE All-Small dividend diamonds (passing at least 6 out of 8 tests)

Name	TIDM	Mkt cap	Price	Fwd NTMPE	DY	EPS grth FY+1	EPS grth FY+2	3-mth mom.	Net cash/debt(-) in £	Test failed	Special div	Tests passed (out of 8)	
Impact Healthcare REIT	IHR	£419m	119p	15	5.3%	17.7%	11.6%	5.5%	-	-	na	NO	8
Chelverton UK Div Trust	SDV	£43m	208p	-	5.0%	-	-	-6.7%	-	/FwdEPSGrth/	NO	7	
VPC Specialty Lending Inv.	VSL	£257m	92p	-	8.7%	-	-	3.8%	-	/FwdEPSGrth/	NO	7	
JPMorgan Asia Growth & Inc.	JAGI	£432m	442p	-	4.4%	-	-	6.1%	-	/FwdEPSGrth/	NO	7	
Devro	DVO	£341m	204p	11	4.5%	4.9%	5.8%	-5.8%	-33m	/DivGrth/	NO	7	
Blackrock Latin American IT	BRLA	£133m	337p	-	6.2%	-	-	-4.4%	-	/FwdEPSGrth/EPSPGrth/	NO	6	
Invesco Asia Trust	IAT	£235m	351p	-	4.3%	-	-	3.1%	-	/FwdEPSGrth/FCF/	NO	6	
Lowland Investment	LWI	£361m	1,335p	-	4.5%	-	-	0.8%	-	/FwdEPSGrth/DivGrth/	NO	6	
Premier Miton Global Ren. Trust GBP	PMGR	£35m	193p	3	4.5%	654.7%	53.4%	4.0%	-	/DivGrth/EPSPGrth/	NO	6	
AEW UK REIT PLC	AEWU	£180m	114p	-	7.0%	-	-	9.2%	-	/FwdEPSGrth/DivGrth/	NO	6	
Shires Income GBP	SHRS	£83m	269p	-	5.1%	-	-	-0.9%	-	/FwdEPSGrth/DivGrth/	NO	6	
Majedie Investments	MAJE	£122m	231p	-	4.9%	-	-	0.0%	-	/FwdEPSGrth/DivGrth/	NO	6	
Custodian REIT	CREI	£469m	106p	16	5.2%	10.7%	6.5%	13.7%	-	/DivGrth/EPSPGrth/	NO	6	
RM Infrastructure Inc.	RMII	£111m	94p	-	6.9%	-	-	6.2%	-	/FwdEPSGrth/EPSPGrth/	NO	6	
TwentyFour Inc. Fund GBP	TFIF	£654m	115p	-	5.5%	-	-	1.3%	-	/FwdEPSGrth/DivGrth/	NO	6	
Target Healthcare REIT	THRL	£729m	118p	18	5.7%	15.6%	12.7%	2.3%	-	/EPSPGrth/DivCov/	NO	6	
Severfield	SFR	£210m	68p	8	4.4%	14.8%	11.9%	-12.8%	-60m	/DivGrth/EPSPGrth/	NO	6	
Bloomsbury Publishing	BMV	£296m	363p	18	5.2%	-1.0%	9.4%	7.7%	-23m	/FwdEPSGrth/DivCov/	NO	6	
XPS Pensions	XPS	£287m	140p	13	4.9%	4.4%	6.8%	-2.1%	-	/DivGrth/DivCov/	NO	6	

Source: FactSet, 30 December 2021

## Aim dividend diamonds (passing at least 6 out of 8 tests)

Name	TIDM	Mkt Cap	Price	Fwd NTMPE	DY	EPSgrth FY+1	EPSgrth FY+2	3-mth mom.	Net cash/debt(-)/in £	Test Failed	Special div	Tests passed (out of 8)
Caledonia Mining Corp.	CMCL	£109m	895p	4	3.8%	6.7%	47.7%	-0.6%	7m	na	NO	8
Springfield Properties	SPR	£174m	147p	8	3.9%	13.5%	20.7%	-2.6%	-71m	na	NO	8
Michelmersh Brick	MBH	£122m	128p	15	2.9%	69.7%	3.6%	0.0%	-2m	na	NO	8
Sylvania Platinum	SLP	£244m	89p	4	4.5%	-6.8%	11.0%	-3.7%	67m	/FwdEPSGrth/	NO	7
Warehouse REIT	WHR	£743m	175p	26	3.5%	18.2%	11.9%	18.9%	-	/IntCov/	NO	7
Alumasc Group	ALU	£78m	216p	9	4.4%	1.2%	6.8%	2.9%	-19m	/FwdEPSGrth/	NO	7
Polar Capital	POLR	£789m	787p	12	5.7%	-4.8%	20.7%	-0.4%	-	/FwdEPSGrth/	NO	7
Belvoir Group	BLV	£96m	257p	14	3.5%	39.0%	-7.4%	-1.2%	-	/FwdEPSGrth/	NO	7
Jarvis Securities	JIM	£126m	282p	18	4.6%	18.0%	5.3%	-2.6%	-	/DivCov/	NO	7
Steppe Cement	STCM	£90m	41p	8	8.5%	45.2%	4.5%	-8.9%	-3m	/DivCov/	NO	7
Atalaya Mining	ATYM	£581m	420p	6	7.0%	306.8%	-14.1%	32.3%	-77m	/FwdEPSGrth/DivGrth/	NO	6
Pan African Resources	PAF	£400m	18p	5	4.7%	17.9%	4.2%	17.5%	-51m	/DivGrth/EPGrth/	NO	6
Numis Corporation	NUM	£388m	340p	11	4.0%	-38.5%	-	-7.1%	-	/FwdEPSGrth/DivGrth/	NO	6
Duke Royalty	DUKE	£152m	42p	14	5.1%	4.1%	21.6%	-5.0%	-	/DivGrth/EPGrth/	NO	6
Hargreaves Services	HSP	£130m	402p	10	4.8%	-36.3%	-9.5%	-10.3%	-33m	/FwdEPSGrth/IntCov/	NO	6
Anglo Asian Mining	AAZ	£128m	112p	9	5.2%	-28.8%	21.4%	-15.5%	14m	/FwdEPSGrth/DivGrth/	NO	6
H&T	HAT	£118m	296p	-	3.4%	-	-	0.2%	18m	/FwdEPSGrth/DivGrth/	NO	6
Arcontech	ARC	£10m	79p	13	3.5%	-16.0%	0.0%	-47.7%	4m	/FwdEPSGrth/EPGrth/	NO	6
M.P. Evans	MPE	£449m	820p	14	3.3%	181.6%	-24.4%	3.8%	-32m	/FwdEPSGrth/EPGrth/	NO	6
iEnergizer	IBPO	£612m	322p	11	5.1%	33.5%	22.8%	14.2%	11m	/DivGrth/DivCov/	NO	6
Argentex	AGFX	£105m	93p	9	3.0%	33.9%	36.7%	-4.1%	-	/DivGrth/EPGrth/	NO	6
Concurrent Tech.	CNC	£57m	77p	-	3.4%	-	-	-14.4%	8m	/FwdEPSGrth/EPGrth/	NO	6
Xpediator	XPDI	£66m	46p	10	3.3%	13.0%	3.5%	-20.2%	-63m	/EPGrth/FCF/	NO	6
Property Franchise	TPFG	£99m	310p	12	3.4%	42.4%	8.9%	13.6%	-	/EPGrth/DivCov/	NO	6
Redcentric	RCN	£195m	124p	16	2.9%	-0.3%	13.8%	-9.3%	-23m	/FwdEPSGrth/DivGrth/	NO	6
Spectra Systems Corp.	SPSY	£68m	150p	15	4.5%	16.6%	2.5%	-5.1%	8m	/DivCov/IntCov/	NO	6

Source: FactSet, 30 December 2021

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