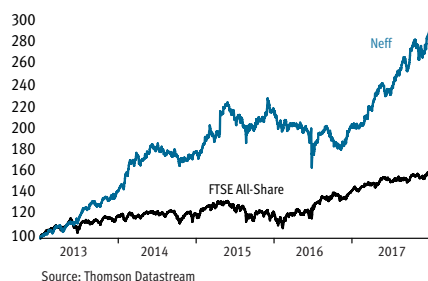




AlphaScreens: The market according to GARP

Growth at a reasonable price, or GARP, has proved a reliable strategy that has previously generated market-beating returns. We run our GARP screens across three indices: FTSE All-Share, All Small, and Aim

Neff 5-year cumulative total return



Algy Hall's view:

Buying shares that offer growth at a reasonable price (GARP) can generate strong returns. Prominent exponents of this style of investing include the likes of Jim Slater, Peter Lynch and, arguably, also John Neff. A key metric to assess whether companies offer the magic combination of value and growth is the price-to-earnings-growth (PEG) ratio. In its most basic form the ratio simply compares a share's valuation against its earnings with its earnings growth rate (historic or forecast). This approach is not overly exacting, but over many years it has proved a very effective way of identifying great investment opportunities when combined with other factors that suggest there are solid foundations to the value and growth measures used by the ratio.

■ Recruiters are on the rise in this month's growth at a reasonable price (GARP) screen results. Both **Hays (HAS)** and **PageGroup (PAGE)** scored full marks in the latest reckoning – passing all 8 of the tests set for inclusion in this screen. Meanwhile, hard on their heels with 7 out of 8 scores are rival recruiters **SThree (STHR)** and **Robert Walters (RWA)**, which failed on the half-year EPS growth and 5-year EPS growth criteria respectively. Recruiters are typically seen as economically sensitive stocks and it is notable that the other companies that scored full marks in this month's screen could also fit that description in the form of property company **Shaftesbury (SHB)**, building materials specialist **Grafton (GFTU)** and packaging supplier **Macfarlane (MACF)**.

■ In the small-cap GARP selection no companies managed to pass all seven tests, although a host of names passed six out of seven, including household goods maker **McBride (MCB)** and property company **Hansteen (HSTN)**, both of which failed on debt tests, while miners **Kenmare Resources (KMR)** and **Gem Diamonds (GEMD)** only failed on forward EPS growth.

■ Eight Aim companies passed all seven tests, with four newcomers – **Springfield Properties (SPR)**, **Swallowfield (SWL)**, **Petards (PEG)** and **Atalaya Mining (ATYM)** – joining **Warpaint (W7L)**, **Scisys (SSY)**, **Sylvania Platinum (SLP)** and **Arcontech (ARC)** with perfect scores.

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Large-cap GARP criteria

Our large-cap GARP screen is run on all FTSE All-Share stocks and uses a PEG ratio based on the historic price/earnings (PE) ratio divided by a combination of the earnings growth rate and dividend yield. The earnings growth rate is calculated based on the average of the five-year historic growth rate and the average forecast growth over the next two years. The screening criteria are:

- A PEG ratio below the median average.
- A PE ratio that is higher than that of the lowest quarter of stocks screened (ie not suspiciously cheap) and below the top quarter (ie not dangerously expensive).
- A five-year historic EPS compound annual growth rate above 7.5 per cent but below 20 per cent (ie high, but sustainably so).
- A five-year historic revenue compound annual growth rate above 5 per cent (ie sales growth underpinning earnings growth).
- Year-on-year EPS growth in each of the past two half-year periods.
- Average forecast EPS growth of more than 7.5 per cent for the next two financial years.
- Positive free cash flow in each of the past three years.
- No downgrade to forecast EPS over the last three months.

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 at the top of page 4, followed by those failing one test, then those failing two tests and so on as detailed in the ‘Tests passed’ column. All stocks must pass the PEG test to feature in the table. While the primary ranking of the socks 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 PEG and three-month price momentum.

Small-cap GARP criteria

Our small-cap GARP screen is run on all stocks in the FTSE All-Small and Alternative Investment Market (Aim) indices, with the results from the individual indices listed in separate tables. The screen uses a PEG based on the historic PE ratio and average forecast growth for the next two financial years. The screening criteria are:

- A PEG ratio in the bottom quarter of all stocks screened.
- EPS growth forecast for each of the next two financial years and an average growth rate over the period of more than 10 per cent and less than 50 per cent (ie high, but sustainably so).
- Either a return on equity of over 12.5 per cent or an operating margin of over 15 per cent (ie an indicator of a quality business that may have a sustainable advantage).
- Either three-month share price momentum better than the median average or earnings upgrades of 10 per cent or more over the past three months (ie recent reasons to feel positive).
- Operating cash conversion of 90 per cent or more.
- Net debt of less than 1.5 times cash profits.
- A market capitalisation of more than £10m (ie 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 tables on page 5, followed by those failing one test, then those failing two tests and so on as detailed in the ‘Tests passed’ column. All stocks must pass the low PEG test to feature in the table. While the primary ranking of the socks 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 PEG and three-month price momentum.

Large-cap GARP selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Forward NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 8)	Test failed
Hays	LSE:HAS	£2,978m	205p	16	1.0	4.3%	11.5%	9.1%	9.4%	123m	GBP	8	na
Shaftesbury	LSE:SHB	£2,831m	923p	50	0.6	1.8%	8.1%	11.2%	-2.1%	-767m	GBP	8	na
PageGroup	LSE:PAGE	£1,760m	561p	17	1.0	4.5%	20.0%	9.7%	-3.3%	87m	GBP	8	na
Grafton	LSE:GFTU	£1,802m	758p	13	1.0	2.0%	8.7%	6.1%	-6.4%	-102m	GBP	8	na
Macfarlane	LSE:MACF	£165m	105p	15	1.0	2.0%	33.1%	6.4%	-8.9%	-11m	GBP	8	na
Marshalls	LSE:MSLH	£864m	437p	18	0.8	2.5%	13.4%	7.9%	6.9%	-49m	GBP	7	/5yr EPS grth/
Ashtead	LSE:AHT	£11,384m	2,357p	14	0.4	1.4%	31.6%	8.7%	4.5%	-3,033m	GBP	7	/5yr EPS grth/
Reckitt Benckiser	LSE:RB.	£49,172m	6,956p	20	1.1	2.4%	4.5%	7.9%	8.2%	-10,769m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
SThree	LSE:STHR	£477m	370p	13	1.1	3.8%	12.8%	13.7%	1.9%	-6m	GBP	7	/HY EPS grth/
S&U	LSE:SUS	£311m	2,590p	11	0.6	4.1%	19.5%	13.5%	-0.4%	-105m	GBP	7	/FCF/
Robert Walters	LSE:RWA	£491m	708p	16	0.6	1.9%	16.5%	7.7%	-2.3%	25m	GBP	7	/5yr EPS grth/
Bovis Homes	LSE:BVS	£1,520m	1,131p	12	0.6	4.2%	43.9%	9.4%	-2.5%	43m	GBP	7	/HY EPS grth/
Paragon Banking Group	LSE:PAG	£1,215m	469p	9	0.7	3.3%	11.5%	9.6%	-2.6%	-6,072m	GBP	7	/FCF/
MJ Gleeson	LSE:GLE	£430m	790p	13	0.7	4.1%	7.7%	10.2%	-2.7%	41m	GBP	7	/5yr EPS grth/
Assura	LSE:AGR	£1,349m	56p	21	1.2	4.6%	9.8%	5.9%	-2.6%	-462m	GBP	7	/HY EPS grth/
Costain	LSE:COST	£458m	430p	12	1.0	3.3%	8.1%	5.8%	-10.5%	78m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Howden Joinery	LSE:HWDN	£2,888m	475p	15	1.1	2.3%	7.3%	7.8%	-10.7%	213m	GBP	7	/Fwd EPS/
Spectris	LSE:SXS	£2,837m	2,456p	15	1.1	2.3%	6.7%	10.7%	-11.3%	-232m	GBP	7	/HY EPS grth/
XP Power	LSE:XPP	£555m	2,900p	16	1.1	2.7%	19.7%	10.5%	-16.5%	-47m	GBP	7	/FCF/
Auto Trader	LSE:AUTO	£4,362m	464p	24	-1.2	1.3%	9.8%	11.2%	9.8%	-337m	GBP	6	/mid PE/5yr EPS grth/
Photo-Me International	LSE:PHTM	£472m	125p	13	0.7	6.8%	-2.5%	8.9%	12.8%	25m	GBP	6	/Av FY2 Fwd EPS growth > 7.5% 5yr Rev grth/
4imprint	LSE:FOUR	£573m	2,050p	22	1.0	2.2%	22.6%	12.1%	14.2%	27m	USD	6	/mid PE/5yr EPS grth/
Barratt Developments	LSE:BDEV	£5,673m	560p	8	0.2	7.8%	3.4%	7.2%	6.1%	791m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
JD Sports Fashion	LSE:JD.	£4,399m	452p	16	0.7	0.4%	8.9%	9.6%	7.4%	-85m	GBP	6	/5yr EPS grth/FCF/
The Unite Group	LSE:UTG	£2,368m	899p	24	0.8	2.5%	14.5%	11.6%	7.0%	-412m	GBP	6	/5yr EPS grth/5yr Rev grth/
Mondi	LSE:MNDI	£10,435m	2,157p	13	0.9	2.6%	18.4%	3.9%	5.6%	-2,457m	EUR	6	/5yr EPS grth/5yr Rev grth/
Kier	LSE:KIE	£1,010m	1,038p	8	0.6	6.6%	12.0%	19.3%	4.3%	-213m	GBP	6	/HY EPS grth/Fwd EPS/
Carnival plc	LSE:CCL	£35,183m	5,000p	15	1.1	3.1%	10.9%	10.9%	4.5%	-8,826m	USD	6	/HY EPS grth/5yr Rev grth/
Ted Baker	LSE:TED	£1,047m	2,350p	17	1.1	2.6%	10.5%	10.1%	4.2%	-112m	GBP	6	/FCF/Fwd EPS/
Vp	LSE:VP.	£427m	1,080p	11	1.1	2.4%	18.4%	5.4%	3.7%	-179m	GBP	6	/HY EPS grth/FCF/
Big Yellow	LSE:BYG	£1,567m	947p	23	0.5	3.3%	8.7%	7.6%	-0.6%	-345m	GBP	6	/5yr EPS grth/Fwd EPS/
Micro Focus International	LSE:MCRO	£5,871m	1,362p	9	0.7	5.2%	-1.7%	4.4%	-1.7%	-4,337m	USD	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Bellway	LSE:BWY	£3,657m	2,977p	7	0.3	4.1%	14.6%	4.9%	-3.1%	-131m	GBP	6	/5yr EPS grth/FCF/
National Express	LSE:NEX	£2,013m	394p	12	0.9	3.4%	12.6%	4.4%	-2.1%	-943m	GBP	6	/5yr Rev grth/FCF/
Electrocomponents	LSE:ECM	£3,210m	727p	21	1.1	1.8%	23.2%	9.0%	-2.6%	-66m	GBP	6	/mid PE/5yr EPS grth/
Arrow Global	LSE:ARW	£435m	247p	6	0.4	4.9%	21.0%	11.0%	-5.8%	-1,010m	GBP	6	/5yr EPS grth/FCF/
WPP	LSE:WPP	£14,303m	1,147p	10	0.5	5.2%	-3.9%	3.8%	-5.5%	-4,632m	GBP	6	/Av FY2 Fwd EPS growth > 7.5% FCF/
Taylor Wimpey	LSE:TW.	£5,545m	170p	8	0.4	9.2%	7.2%	2.0%	-6.4%	496m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
NewRiver REIT	LSE:NRR	£746m	249p	12	0.4	8.7%	9.4%	9.8%	-6.6%	-341m	GBP	6	/5yr EPS grth/HY EPS grth/
Persimmon	LSE:PSN	£7,473m	2,366p	9	0.3	9.9%	11.7%	2.8%	-8.2%	1,155m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Morgan Sindall	LSE:MGNS	£609m	1,360p	10	0.6	3.3%	24.3%	-0.3%	-7.5%	53m	GBP	6	/5yr EPS grth/FCF/
Plus500	LSE:PLUS	£1,692m	1,485p	7	0.2	14.6%	63.5%	-13.6%	-9.9%	512m	USD	6	/5yr EPS grth/FCF/
Workspace	LSE:WKP	£1,797m	997p	24	0.6	2.7%	11.1%	12.1%	-9.6%	-533m	GBP	6	/HY EPS grth/Fwd EPS/
Computacenter	LSE:CCC	£1,521m	1,350p	18	1.0	1.9%	13.5%	3.3%	-8.7%	50m	GBP	6	/5yr EPS grth/HY EPS grth/
Babcock International	LSE:BAB	£3,681m	730p	9	1.1	4.0%	2.2%	3.8%	-14.0%	-1,238m	GBP	6	/Av FY2 Fwd EPS growth > 7.5% Fwd EPS/
Savills	LSE:SVS	£1,066m	777p	10	1.2	3.9%	0.0%	3.9%	-14.9%	-95m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
easyjet	LSE:EZJ	£5,519m	1,395p	11	0.8	2.9%	45.8%	10.4%	-22.4%	665m	GBP	6	/HY EPS grth/FCF/
Clipper Logistics	LSE:CLG	£305m	300p	17	1.1	2.8%	17.3%	11.5%	-29.9%	-52m	GBP	6	/mid PE/Fwd EPS/

Source: S&P CapitalIQ, as at 24 September 2018

Small-cap GARP selection (passing at least 5 of 7 tests)

Name	TIDM	Market cap	Price	Forward NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Haynes Publishing	LSE:HYNS	£31m	202p	12	1.17	3.7%	25.2%	7.9%	-15.9%	3m	GBP	6	/Hi RoE or Marg/
Bonmarché	LSE:BON	£50m	103p	7	0.59	7.5%	12.1%	13.3%	-13.9%	4m	GBP	6	/Mom or Upgrade/
Macfarlane	LSE:MACF	£165m	105p	15	0.97	2.0%	33.1%	6.4%	-8.9%	-11m	GBP	6	/Mom or Upgrade/
Morgan Sindall	LSE:MGNS	£609m	1,360p	10	1.01	3.3%	24.3%	-0.3%	-7.5%	53m	GBP	6	/Fwd EPS grth/
Hansteen Holdings	LSE:HSTN	£411m	99p	17	0.55	6.1%	32.3%	3.5%	-6.9%	-225m	GBP	6	/Debt/
Capital Drilling	LSE:CAPD	£56m	41p	10	0.90	3.2%	24.1%	6.9%	-4.7%	6m	USD	6	/Hi RoE or Marg/
Gem Diamonds	LSE:GEMD	£165m	119p	7	0.73	-	306.8%	-47.8%	-3.1%	29m	USD	6	/Fwd EPS grth/
TClarke	LSE:CTO	£35m	83p	6	0.79	4.2%	8.7%	6.7%	-0.5%	5m	GBP	6	/Fwd EPS grth/
The Alumasc Group	LSE:ALU	£51m	141p	8	0.60	5.2%	24.0%	12.8%	1.1%	-5m	GBP	6	/Cash Conv/
TT Electronics	LSE:TTG	£393m	253p	18	0.95	2.3%	32.3%	17.9%	2.2%	-41m	GBP	6	/Hi RoE or Marg/
Carr's Group	LSE:CARR	£139m	152p	12	0.87	2.8%	45.5%	0.2%	3.4%	-16m	GBP	6	/Hi RoE or Marg/
McBride	LSE:MCB	£274m	150p	10	0.86	2.9%	20.9%	10.4%	8.8%	-115m	GBP	6	/Debt/
Kenmare Resources	LSE:KMR	£266m	243p	5	0.19	-	161.1%	13.1%	11.4%	-9m	USD	6	/Fwd EPS grth/
Hostelworld	LSE:HSW	£197m	207p	19	1.16	7.4%	-33.4%	101.4%	-37.8%	23m	EUR	5	/Fwd EPS grth/Hi RoE or Marg/
GoCompare.com	LSE:GOCO	£423m	101p	12	0.94	1.6%	26.9%	8.5%	-26.3%	-74m	GBP	5	/Hi RoE or Marg/Debt/
Arrow Global	LSE:ARW	£435m	247p	6	0.66	4.9%	21.0%	11.0%	-5.8%	-1,010m	GBP	5	/Hi RoE or Marg/Cash Conv/
S&ULSE:SUS	£311m	2,590p	11	0.72	4.1%	19.5%	13.5%	-0.4%	-105m	GBP	5/Hi RoE or Marg/Cash Conv/		
Pendragon	LSE:PDG	£362m	26p	8	0.83	6.2%	3.8%	12.7%	2.1%	-107m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Empiric Student Property	LSE:ESP	£573m	95p	23	0.38	5.8%	79.2%	28.4%	8.9%	-289m	GBP	5	/Fwd EPS grth/Debt/
Carclo	LSE:CAR	£68m	92p	8	0.62	-	16.4%	7.7%	16.9%	-31m	GBP	5	/Cash Conv/Debt/

Source: S&P CapitalIQ, as at 24 September 2018

Aim GARP selection (passing at least 5 of 7 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Springfield Properties	AIM:SPR	£120m	125p	9	0.58	3.0%	26.7%	12.9%	-3.5%	-15m	GBP	7	na
Swallowfield	AIM:SWL	£53m	310p	14	0.76	1.7%	36.5%	14.1%	-2.8%	-1m	GBP	7	na
Atalaya Mining	AIM:ATYM	£335m	244p	10	0.40	-	59.3%	18.6%	-0.6%	52m	EUR	7	na
Warpaint London	AIM:W7L	£203m	265p	17	0.95	2.0%	47.4%	13.0%	7.2%	5m	GBP	7	na
Scisys	AIM:SSY	£54m	184p	15	0.97	1.2%	23.0%	8.5%	15.8%	-3m	GBP	7	na
Petards	AIM:PEG	£15m	26p	13	0.40	-	43.9%	8.8%	17.6%	1m	GBP	7	na
Sylvania Platinum	AIM:SLP	£64m	23p	7	0.27	1.6%	12.9%	39.7%	34.1%	14m	USD	7	na
Arcontech	AIM:ARC	£19m	142p	22	0.67	0.9%	54.8%	3.4%	84.1%	3m	GBP	7	na
Caledonia Mining Corp.	AIM:CMCL	£93m	530p	-	0.00	-	17.7%	13.7%	-23.6%	5m	USD	6	/Mom or Upgrade/
Goals Soccer Centres	AIM:GOAL	£55m	74p	11	0.34	-	18.4%	24.2%	-14.5%	-30m	GBP	6	/Debt/
Central Asia Metals	AIM:CAML	£399m	233p	7	0.47	7.1%	52.7%	-3.3%	-10.8%	-128m	USD	6	/Fwd EPS grth/
Concurrent Technologies	AIM:CNC	£57m	79p	12	0.54	2.8%	68.9%	5.2%	-9.8%	8m	GBP	6	/Mom or Upgrade/
SDX Energy	AIM:SDX	£197m	58p	-	0.00	-	48.3%	83.8%	-6.5%	25m	USD	6	/Fwd EPS grth/
Warehouse REIT	AIM:WHR	£162m	98p	14	0.14	6.1%	261.5%	-19.7%	-3.0%	-121m	GBP	6	/Fwd EPS grth/
Secure Income REIT	AIM:SIR	£1,273m	396p	26	0.76	3.3%	5.1%	12.0%	3.9%	-812m	GBP	6	/Fwd EPS grth/
Dart Group	AIM:DTG	£1,459m	981p	10	0.58	0.8%	51.6%	-3.8%	18.4%	202m	GBP	6	/Fwd EPS grth/
Pennant International	AIM:PEN	£41m	123p	13	0.60	-	113.2%	-8.5%	39.1%	3m	GBP	6	/Fwd EPS grth/
Serica Energy	AIM:SQZ	£262m	99p	16	0.12	-	3.1%	377.7%	57.9%	30m	USD	6	/Fwd EPS grth/
System1	AIM:SYS1	£27m	215p	12	0.41	3.5%	81.2%	15.8%	-27.1%	6m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Shanta Gold	AIM:SHG	£38m	5p	3	0.11	-	247.5%	-14.1%	-23.2%	-45m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Christie	AIM:CTG	£32m	125p	10	0.86	2.2%	29.6%	0.8%	-19.7%	-3m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
M.T.I Wireless Edge	AIM:MWE	£18m	21p	8	0.41	7.5%	46.2%	8.2%	-21.5%	4m	USD	5	/Hi RoE or Marg/Mom or Upgrade/
Elegant Hotels	AIM:EHG	£60m	68p	8	0.98	3.9%	9.5%	7.9%	-16.1%	-72m	USD	5	/Fwd EPS grth/Debt/
Base Resources	AIM:BSE	£269m	13p	-	0.00	-	12.6%	-40.8%	-15.9%	-59m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Eland Oil & Gas	AIM:ELA	£258m	117p	3	0.12	-	822.0%	-33.5%	-8.1%	4m	USD	5	/Fwd EPS grth/Cash Conv/
Arbuthnot Banking	AIM:ARBB	£224m	1,505p	20	0.88	2.2%	24.8%	42.7%	-5.0%	734m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pelatro	AIM:PTRO	£27m	84p	13	0.69	-	-0.9%	69.5%	1.2%	3m	USD	5	/Fwd EPS grth/Cash Conv/
Trans-Siberian Gold	AIM:TSG	£39m	36p	10	0.17	9.0%	109.6%	66.1%	0.3%	-12m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
Summit Germany	AIM:SMTG	£554m	119p	13	0.28	3.4%	51.0%	-8.0%	2.6%	-392m	EUR	5	/Fwd EPS grth/Debt/
Amerisur Resources	AIM:AMER	£188m	16p	10	0.08	-	883.6%	-35.8%	2.5%	38m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
Real Estate Investors	AIM:RLE	£104m	56p	15	0.88	6.3%	9.8%	10.9%	5.0%	-84m	GBP	5	/Cash Conv/Debt/
Ashley House	AIM:ASH	£8m	13p	4	0.13	-	41.0%	12.2%	6.0%	-2m	GBP	5	/Cash Conv/Mkt Cap/
Randall & Quilter Investment	AIM:RQIH	£245m	195p	15	0.71	4.6%	27.6%	19.3%	13.3%	70m	GBP	5	/Hi RoE or Marg/Cash Conv/
1pm	AIM:OPM	£47m	55p	8	0.77	1.2%	8.8%	12.1%	14.3%	-2m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pan African Resources	AIM:PAF	£164m	9p	5	0.35	-	57.4%	11.5%	21.4%	-86m	GBP	5	/Cash Conv/Debt/
Impellam	AIM:IPEL	£301m	600p	7	0.55	-	24.5%	9.2%	30.5%	-79m	GBP	5	/Hi RoE or Marg/Debt/

Source: S&P CapitalIQ, as at 24 September 2018

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