

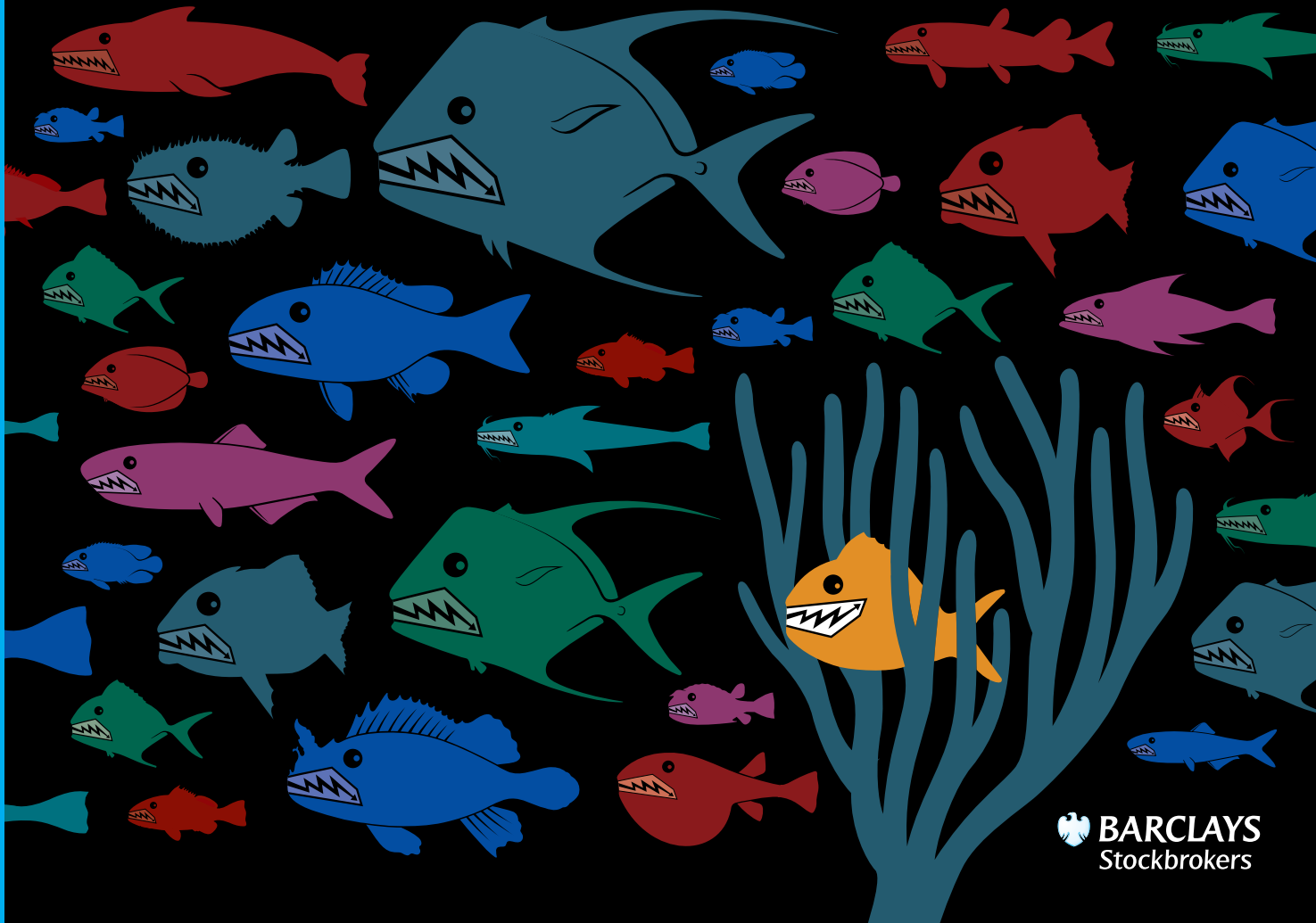
SMART INVESTOR

INSIDE

Exit strategies explained
Research Centre: the expert's guide
Spotlight on ISAs
Portfolio Makeover: risk reassessed

GONE FISHIN'

How bottom feeders
can hook a bargain



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FREE MONTHLY EMAIL

Our monthly email update gives you the latest news, views and stocks to watch – straight to your inbox. If you're not already signed up, email us at stockbrokers@barclayswealth.com with 'Smart Investor email' as the subject line.



SMARTINVESTOR

Taking stock

WE MAY only be a matter of months into 2009, but we can see already that many investors have used the new year to take a hard look at their portfolios, their attitude to risk and their time horizon, and have made changes to their holdings. And that doesn't mean that they have run to 'safe havens': many have increased exposure to shares and to foreign markets. This willingness to move up the risk ladder is explored in our Portfolio Makeover on page 14, a new feature that we think you will find very interesting.

Whatever your investment strategy, in *Smart Investor* we always want to provide you with the information that can aid your investment decisions and the tools to make those decisions a reality. That's why in this issue you will find an excellent article on how an exit strategy can help you avoid unnecessary losses. Our feature on page 4 has some timely insights on how to find value in recovery stocks, and we also give you tips on how to get the most out of the research available on our website. And don't miss the next instalment of our series on the psychology of investing.

Finally, with the tax year about to come to an end, we provide you with some compelling reasons why you should make sure you take advantage of our Investment ISA.

Enjoy your read!

Des Byrne

Managing Director, Head of Barclays Stockbrokers

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Since the first feature in this series 'Hearts and Minds', we have experienced increased economic instability, which requires us to further focus our minds on how to invest smartly for the longer term. During these times, understanding how much your personality can affect your investment behaviour can provide a useful tool, both for investors and investment providers alike.

"Traditional finance theory assumes people are completely rational when very often we are in fact irrational," explains Davies. "Using insights that behavioural finance provides, we can develop structures that protect against knee-jerk reactions and irrational investment decisions."

We have devised a behavioural approach to investing that we call our 'Investment Philosophy'. We are using this to assist Barclays Wealth clients to whom we provide investment advice. This helps us tailor portfolios according to the investment personality of each individual.

The information we use to develop our Investment Philosophy is gathered through psychometric testing. The test focuses on six distinct personality traits, which are measured to help give an accurate assessment of the client's financial personality.

THE SIX TRAITS ARE:

RISK TOLERANCE: a measure of the fundamental psychological capacity of an investor to cope with downside risk in the long run.
COMPOSURE: measures how an individual reacts to and copes with uncertainty in financial situations, especially short-term fluctuations in the value of their portfolio.
MARKET ENGAGEMENT: quantifies the degree to which an individual avoids or engages with financial investment. In the UK population as a whole, individuals have low market engagement and perceive the risk in financial markets to be much greater than in other types of investments.

Driven by insight

In the second of our series on understanding risk, Barbara-Ann King talks to Greg Davies, Head of Behavioural Finance at Barclays Wealth, about the importance of measuring investment personality

However, in a survey of 600 of those who actively invest, high market engagement characterised the group*.

PERCEIVED FINANCIAL EXPERTISE: assesses how familiar investors feel they are with current financial circumstances, with how financial products work, and how confident they are in their investment decisions. The more confident people are that they understand markets, the more they trade. Those who are over-confident eat into their profits by trading too much. In contrast, those with low confidence may not rebalance their portfolio sufficiently. A sample of Barclays Stockbrokers' clients showed consistently high levels of perceived financial expertise.
DELEGATION: measures the desire to delegate day-to-day investment decisions to someone else. "Stockbrokers' clients fit in at the moderate to low end of the scale, meaning that they are more comfortable than most to manage their own investment decisions," says Davies.

BELIEF IN SKILL: describes how much the investor believes that it is worth paying for the ability of an investment professional to make above-market returns. Stockbrokers' clients tend to have lower Belief in Skill, preferring to take responsibility for performance themselves, rather than outsourcing it.

"The psychometric testing allows us to provide detailed reports for our Barclays Wealth advisory clients, which will provide them with a better understanding of their individual investment

personality and how it affects trading behaviours," adds Davies.

All of our current research in this area is available to our self-directed clients on the website under the 'Education Centre' tab. We hope this information will provide the insight they need to make their own sound investment decisions. What's more, Davies and his team are running a number of surveys looking at how risk attitudes change over time. This is particularly important for self-directed investors; it's crucial that they have an understanding of where they sit on the risk spectrum, and why.

In discussing how we map our investment portfolios, an ingenious mentor of mine said to me: "There may not be six billion types of people in the world, but there are more than six." This has stayed with me and it is true that as investors, we are influenced by a number of factors in our personality, as well as overall circumstances. Here at Barclays Stockbrokers we too recognise the need to understand the financial personality of our clients. Davies' work equips us more than ever to constantly evolve our proposition towards Barclays Stockbrokers' client base in order to provide them with the knowledge that might assist them when making their own investment decisions.

If you want to delve deeper into this topic please visit us at: www.stockbrokers.barclays.co.uk and select the 'Education' tab. ✕

BARBARA-ANN KING is Head of Investments for Barclays Stockbrokers.



* From Barclays Wealth Research 2008.

Quite a catch



Reaction to market conditions has depressed some stocks more than is justified by their intrinsic value. Henry Harington examines what opportunities this creates for 'bottom feeders'

We are all Keynesians now," declared US President Richard Nixon in 1971, when he accepted the theories of renowned British economist John Maynard Keynes, which advocated government intervention to prime the pump when markets fail.

Today's investors can learn a lot from Keynes, not by following his economic theories, but by emulating his spectacularly successful investment strategy. Describing his new philosophy in a note to a colleague, Keynes effectively defined 'bottom feeding' for stocks: "My purpose is to buy securities where I am satisfied as to assets and ultimate earnings power, and where the market price seems cheap in relation to these." Perhaps unsurprisingly, his greatest success as an investor followed the 1929 stock market crash.

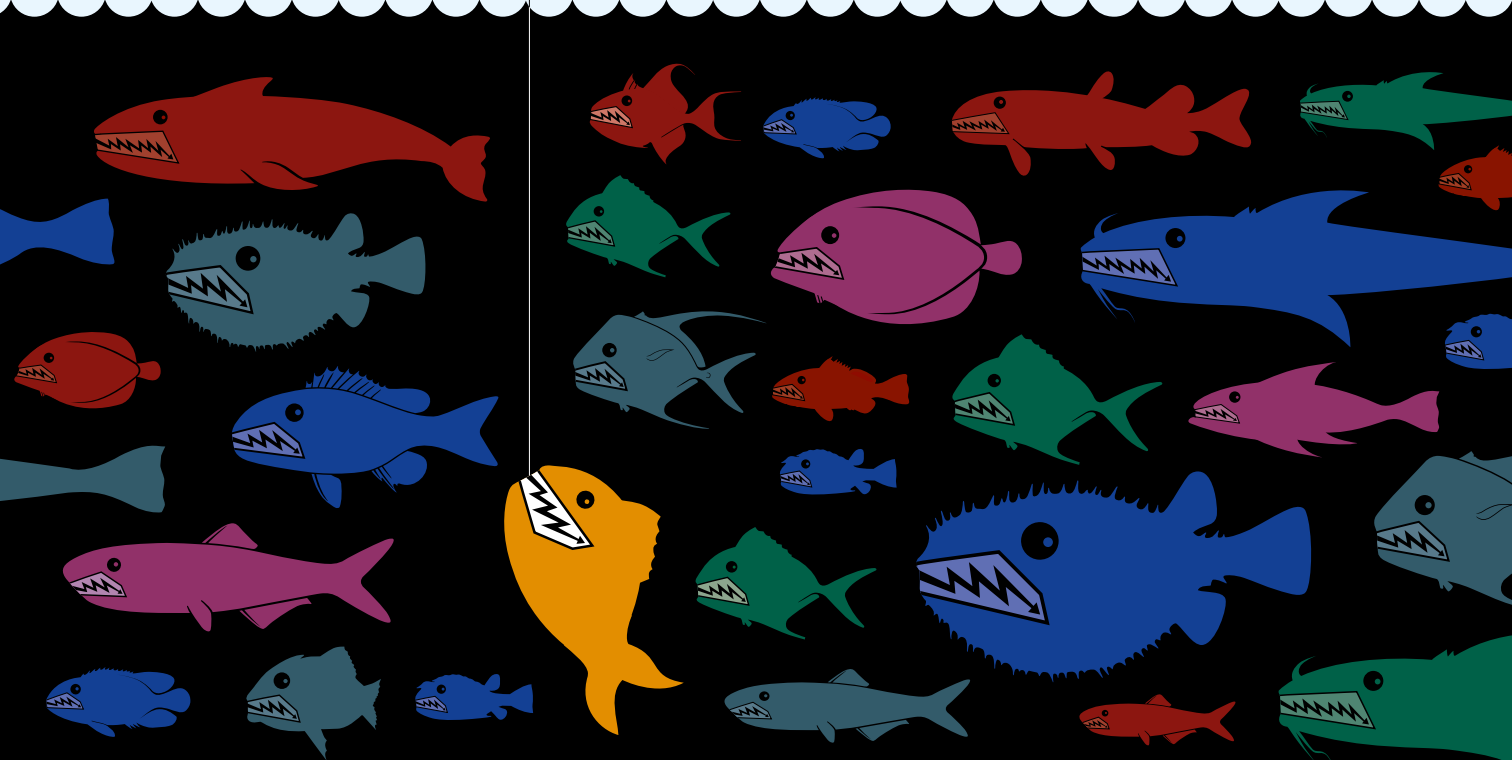
It is now understood that the boom that ended rather messily in 2008 placed too much faith in the remedies of the market. In its effort to revive the economy, the British Government is resorting to borrowing, bailouts and tax breaks. In doing so, it has resurrected the tools of Keynesianism after a long period in which faith in markets and the power of private money have been on the rise.

In seeking out bottom feeding stocks, there is a risk of being duped by the low price of 'recovery stocks'. The prices of bottom feeding stocks have potential to take off because they have overshot on the way down but have an intrinsic value: they have essentially been dragged down by falling markets and are worth more than their current price. However, the prices of those described as recovery stocks have fallen because there is a problem – the market has recognised that they need to shed staff or divisions in order to cut costs or rationalise, or they need a sweep of new management to change tack.

Recovery stocks might be likened to an estate agent's details of a run-down property that 'needs some attention'. The stocks covered in this article are those that can be expected to see through or even benefit from the downturn.

POTENTIAL HIGH FLYERS

According to James Henderson, Manager of the Henderson UK Equity Income Fund, some of the recent selling has been "indiscriminate". He is particularly surprised by the damage suffered by industrial stocks. While such stocks have battled against the headwinds of



a strong sterling, high energy prices and high interest rates in recent years, the tide has now turned in their favour. The parlous state of the pound has become a great incentive to export and translate dollar earnings into sterling.

Among industrials, Henderson believes aerospace is promising, with Boeing and Airbus sustaining the demand for the next generation of bigger, lighter aircraft.

Henderson says that the share price of Senior PLC (SNR), whose business comprises 70% aerospace and 30% automotive, has fallen. However, its order book supplying Boeing, Sikorsky and Airbus is strong. The company operates in the US and its US debt translated into sterling has unnerved investors. But Henderson points out that the value of its dollar assets is up and it promises profitable dollar earning potential.

In the same vein, David Boyle, Investment Manager at Aberdeen Asset Managers, says Rolls-Royce (RR.) has been hit harder than is warranted. He acknowledges that the recession will mean "aircraft will stop flying and will be parked in the desert, but there are things that make the fall of Rolls-Royce unjustified".

He points to their strong balance sheet and cash reserve, and to the 30% fuel saving

its modern engines offer over older aeroplanes, as well as its strong marine, defence aircraft and energy divisions.

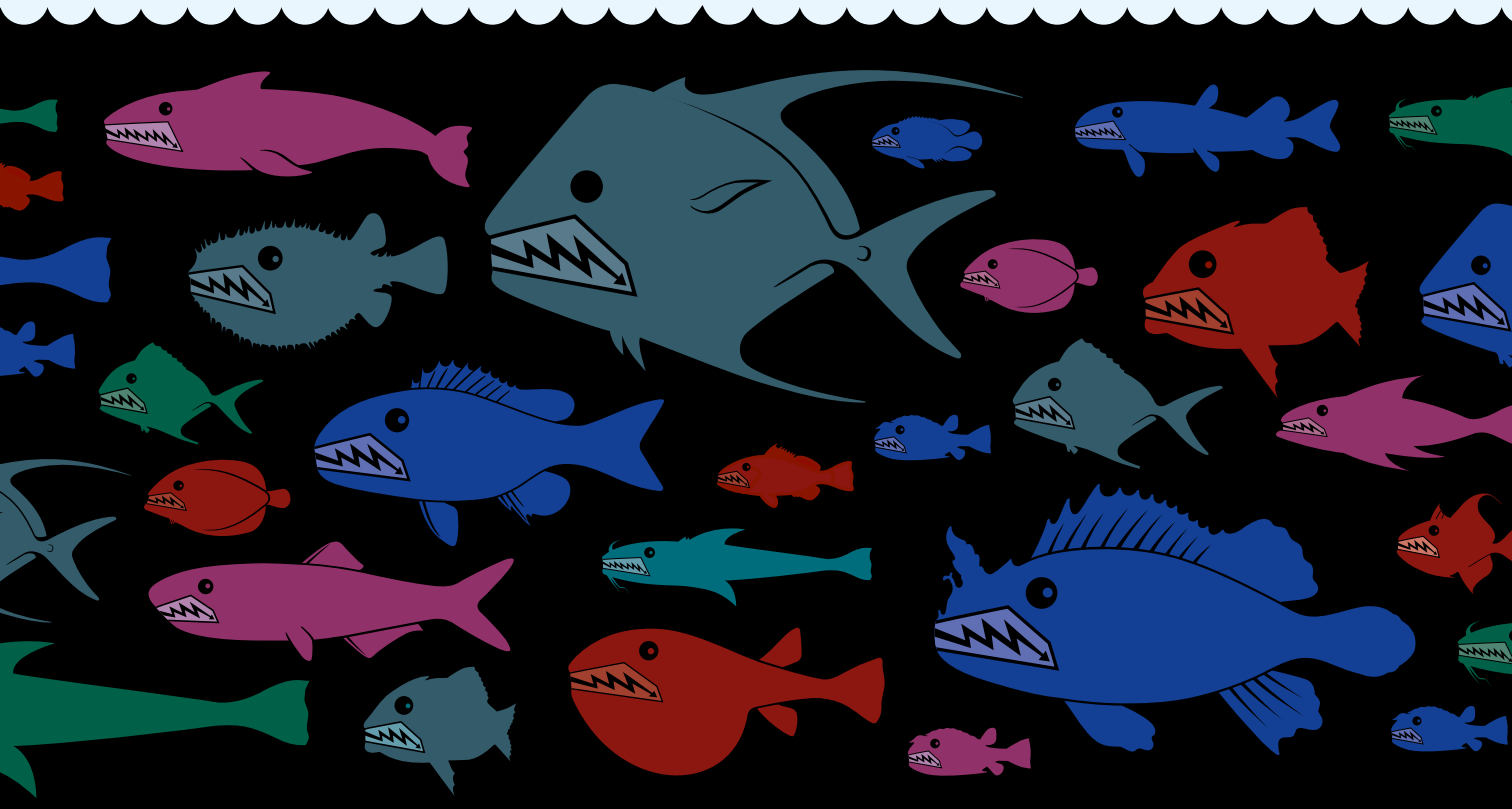
BOUNCING BACK

Looking at other sectors, Henderson rates contracting or support services companies such as Balfour Beatty (BBY) and Carillion (CLLN). They represent a sector that has been weak, but that could benefit from the government's commitment to maintain hospitals and general government expenditure on infrastructure. In addition, he predicts they will gain from numerous private finance initiative (PFI) projects, and, being global, will also profit from non-sterling income.

On the same theme of construction for the government, Henderson says Hill & Smith Holdings (HILS), who are a big galvaniser and make crash barriers, do a lot of work for the Highways Agency and will not see sales fall.

The collapse of Woolworths at the end of 2008 left the UK public reeling as a "national treasure" hit the buffers. David Boyle believes the downgrading of some firms in the retail sector has been overdone. He says Marks & Spencer (MKS) not only has the biggest market share of any clothing retailer; it also ►

The prices of bottom feeding stocks have been dragged down by falling markets and are worth more than their current price



has a huge international business associated with its quality that it is exploiting with trusted franchise partners. While he concedes it is subject to heavy competition from independents, he thinks Marks & Spencer will maintain market share and, as it owns all its property, will not be forking out the rent that the independents pay for their sites.

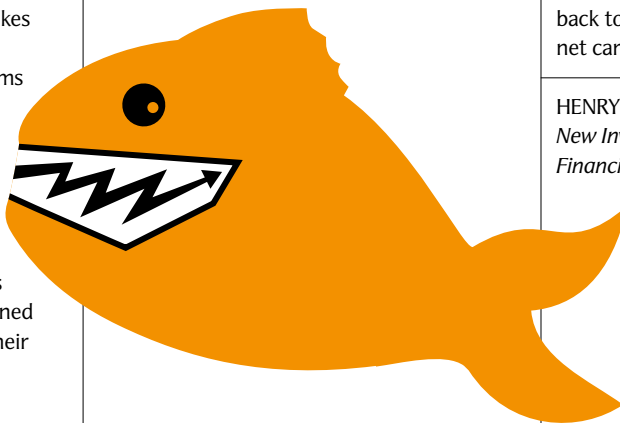
Recessions can benefit some businesses; retail can be resilient as people cheer themselves up with a new set of glad rags, or turn to betting and booze. While Boyle says it is unfair that the price of Ladbrokes (LAD) is off as much as the market, the downgrading of debt-burdened pub firms is justified.

IS BIGGER BETTER?

So how do you identify stocks that are likely to bounce back? Sadly, like most investing, there is no crystal ball. Indeed, all the people I spoke to for this article said that the stocks they mentioned were down in line with the market or their sector, and they were giving me a qualitative rather than a quantitative judgement. Like many professionals, you may have to bring your experience of the markets to bear on your decision-making.

On that note, Jeff Saunders, Investment Director and Head of UK Active at Martin Currie, cautions against bottom feeding if you are not entirely sure about what you are doing. In fact, he goes as far as saying:

Boyle believes the downgrading of some firms in the retail sector has been overdone



“Large-cap stocks are still relatively cheap – you don’t have to go bottom feeding.”

His concern is that people looking for quick (and sizeable) returns can go cheap and end up with nasty. He says: “The money is to be made in avoiding the torpedoes and land mines.” For that reason, investing in large-cap stocks like Vodafone (VOD), Royal Dutch Shell (RDSB) and BP (BP.) is “almost a no-brainer”.

Investing in large-cap may not turn you into a Keynesian investor, but Saunders believes you will sleep more soundly at night. Others may disagree, but this only brings us back to a basic investment rule: cast your net carefully. ☒

HENRY HARRINGTON is the author of *The New Investor’s Toolbox* published by the *Financial Times*.

Find out more

To learn more about the companies featured in this article, log in to the Barclays Stockbrokers website, select Research and enter the company name or code.

THE EXPERTS SAY...

Bearing out the view that this recession is unlike those previously seen in most people’s lifetimes, the approach analysts are taking with regards to recommending bottom feeding stocks is varied.

Neil Shah, Head of Research at Edison Investment Research, says house builders have been “eaten up” by the collapse of the housing market, but he takes the view that “housing market cycles come and go. The housing market will recover.” He singles out Taylor Wimpey PLC (TW.), which he believes will see its share price respond quickly.

If the market does not

perform, Shah says Compass Group (CPG), the catering group, will benefit from costs savings arising from outsourcing, and believes that its management “have been doing a stellar job”.

Shah also believes the collapse of many low-cost airlines means there is less competition for traditional carriers like British Airways (BAY), whose price could take off as a result. That said, Satish Betadpur, Global Head of Research at Independent International Investment Research, says that although the airline industry is in the doldrums, he continues to believe in the sustainability of

Ryanair’s (RYA) low-cost model.

Betadpur also finds value in event-driven situations. With the end of the dispute between British Sky Broadcasting (BSY) over Virgin Media carrying BSKyB’s basic channels, he anticipates strong subscription and advertising revenues over the next two years.

Andy Edmond, CEO of Equity Development, highlights Avanti Communications (AVN), the only fixed-satellite services operator based in the UK, which he thinks will benefit from a shortage of bandwidth as high definition television eats it up, leaving users to find other vehicles for data

transmission. The firm is also a recipient of EU funding to deliver broadband to rural communities. He believes that Avanti’s unique positioning could attract eventual industrial interest in a sector that has already seen some consolidation.

The price and value of investments and their income fluctuates: you may get back less than the amount you invested. Remember that how an investment performed in the past is not a guide to how it will perform in the future. If you are in any doubt about these types of investments, you should consult a financial adviser.

Q&A

Your questions answered

I want to pick stocks that are offering good dividends, but with the markets in turmoil I'm not sure where I should be looking. How can I spot high-yielding stocks?

PAUL INKSTER, ASSOCIATE DIRECTOR, BARCLAYS STOCKBROKERS ANSWERS:

In light of the market volatility that characterised 2008, many investors have gone back to basics with their equity investments and are looking at them as income-generating assets, as seems to be the case here. The ability to derive an income from stocks should also become more appealing now that savings interest rates have fallen to historic lows.

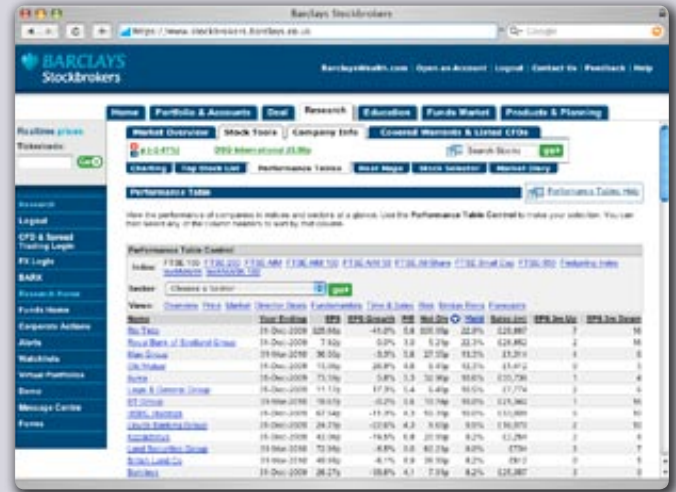
To generate a high level of income from your stock portfolio, you would need to populate it with those stocks that have the highest dividend yields – let's call them the 'Yield Stars'. These stocks pay high dividends as a proportion of their share price and, when expressed as a percentage, their dividend yields should compare favourably

against other stocks and even your deposit savings account.

You can use the following to identify the Yield Stars:

- **Dividend yield discovery tools**
The Barclays Stockbrokers web platform provides tools that help you find high-yield stocks. These tools are Heat Maps and Stock Selector. They are all accessed by first selecting the Research tab.
- **Heat Maps**
From the Research tab, click Stock Tools followed by Heat Maps. In the form that appears, choose the Data Plot Category named 'Income Ratios' and the Data Plot named 'Dividend Yield'.

You will see a table of stocks colour-coded according to how high (and therefore attractive) the dividend yield is. By default, the table will show FTSE 100 stocks, but you can select another index or a specific sector from the dropdown lists.



• Top Stock List

Rather than clicking the Stock Selector tab, you can access dividend yield by clicking on the Top Stock List tab and choosing the Highest Dividend Yield link from the Financials – company fundamentals section. The alternative is to select Stock Tools from the Research tab, followed by Performance Tables.

Clicking the Forecasts link, followed by the Yield column heading (twice, to sort by descending yield) should give you a result similar to the one shown above.

DIVIDEND YIELDS THAT ARE TOO GOOD TO BE TRUE

When choosing your high-yield stocks, stop for a minute to think about why the yield is so attractive. Is it because the company is doing well, making good profits, and wishing to distribute those profits to investors by means of an attractive dividend? Or could this apparently too-good-to-be-true dividend yield be a mathematical aberration resulting, for example, from the company's share price plummeting since the dividend was declared? Remember that a declared dividend of 8% becomes a much more spectacular (but ultimately unsustainable) 16% if the share price halves before the dividend is paid.

So when assessing a company's dividend yield it may also be useful to consider the other company fundamentals. Does the company have good underlying earnings relative to the share price; i.e. a low price/earnings (P/E) ratio? Does the company have good earnings growth; i.e. a low price/earnings to growth (PEG) ratio?

It's also worth looking at the company's price trend. Even if you're in it for the income and not for capital gain resulting from share price appreciation, you're more likely to hold on to a high-yielding stock and reap the rewards if it's on the rise. And a rising share price will require a rising dividend (in cash terms) if the same dividend yield is to be maintained. So if the share price doubles, you could find that your dividend income has doubled too. Of course, if a share price falls, it's possible that your dividend might also reduce. ☒

Do you have a question?

If you have a trading question you would like answered in a future issue, please email it to stockbrokers@barclayswealth.com (Unfortunately, we cannot answer questions personally).

The power of information

If you are going to be a successful investor you need to learn how to get the most out of your research, and there are ways that Barclays Stockbrokers can make it easier, as John Cotter explains

Every investor looks at different things when they are choosing which stocks to buy into or get out of. Some may look at how a share has been performing, some might read the news, others may look at data such as price/earnings ratios, and there are those who prefer more technical analysis.

At Barclays Stockbrokers we are immensely proud of the breadth, depth and quality of the research we offer our clients – not only on our main website, but also through our BARX professional trading platform. We believe that our investors will be able to find everything they need to help with their investment decisions.

We also acknowledge, however, that for many investors, research can be daunting – some people aren't sure where to start and some can get stuck in a comfort zone, using the same type of research all the time. That's why we thought we would take you on a quick guided tour of the Barclays Stockbrokers Research Centre and, more importantly, show you how to tie certain aspects of research together.

IN THE BEGINNING...

Once you have logged into your account and clicked the Research tab, you are taken to the Market Overview page and you are ready to go! From here you can navigate to other sections via the tabs at the top of the page, or you can choose from a range of information such as FTSE risers and fallers, news, tips, broker ratings and other market info. It's a good place to dip in and out of to get a broad sense of what is going on in the market.

On the right-hand side, you will see a section called Barclays Wealth Insight, under which the first option is Daily Briefings. This is a personal favourite of mine and a great place to start your investment day.

The Daily Briefing contains Global Daily, which reviews global economies and markets – showing you how indices have moved and what data, such as inflation and interest rates,



came out yesterday and overnight, and what is expected today. It provides a great snapshot of the market.

There is also Equities Daily. Here you will find the Barclays Wealth view on the markets in general, as well as a focus on any number of specific companies and sectors that are topical and newsworthy on any given day, alongside our recommendations. This can be of real interest to people holding the featured stocks, or to investors looking for new opportunities. Should any of the companies be of interest, you can use the Research Centre to find out more – we'll look at this later.

MINING THE INFORMATION

Before that, I want to look at one of the most powerful sections in our Research Centre – Stock Tools. Click the tab at the top of the page to go to the overview page where you can access our charting tools, performance tables, heat maps, stock selector and a range of other useful and valuable information.

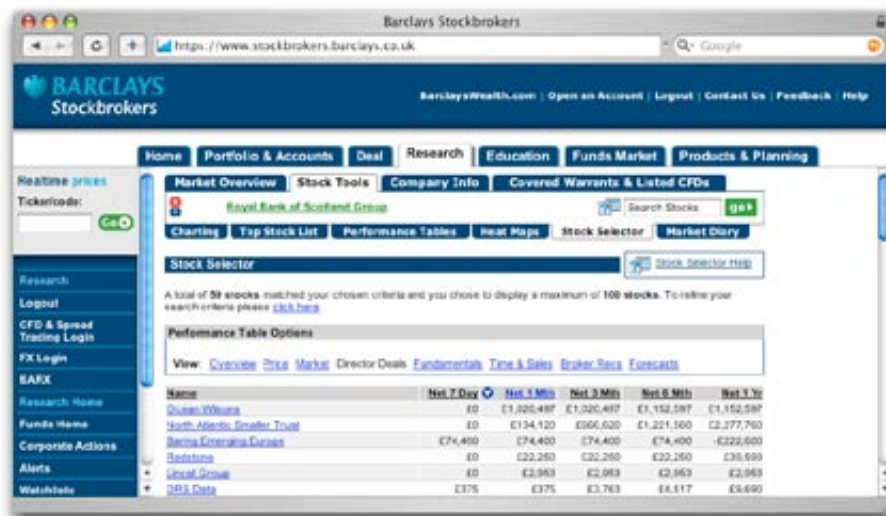
I'd like to focus on the Top Stock List – the starting point for many investors looking for companies that they want to research further. The Top Stock List gives you the companies that are standing out at the moment – for good or bad reasons – and offers information across a whole set of different criteria.

So in this one place alone, you can access the top risers and fallers across different timeframes and from different indices and sectors. You can see who has the highest forecast growth or dividend yield, and much more. And when you start to explore this information in detail, you can begin to choose the companies that may end up in your portfolio.

NARROW YOUR SEARCH

When it comes to investing, I am a firm believer that companies with a low price/earnings to growth ratio (PEG) and with large Directors' Deals – where the directors buy and sell the shares of their own company – are well worth investigating. And you can use Stock Tools to help find out which these companies are.

From the Top Stock List page, choose Lowest PEG under the Financials – Company Fundamentals heading. As I write this, there are 59 companies in this section. Then in the Performance Table Options, click Director Deals. These 59 companies are then sorted alphabetically by the Stock Selector, according to the deals carried out over



different time frames. Now for the clever bit.

You can then reorder those companies according to Director Deals done over the time period of your choice. Look at the picture above and you will see I selected deals in the Net 1 Mth range (indicated in blue and by the arrow). In this instance there are perhaps three companies that I would then be interested in looking at further.

Of course, you may have criteria of your own that you would prefer to use, but you can cross match them in exactly the same way. For experienced investors who have more specific or numerous ranges of data, there is the Advanced Stock Selector, which can be accessed by clicking the link to refine criteria, just under the Stock Selector heading.

GETTING TO KNOW YOU

Probably the most important thing any investor can do before buying into a company is to investigate it as thoroughly as possible. If you were interested in taking a look at any of the companies that featured in the search we just carried out, you would just have to click on the company name and you would be taken straight to its Company Info page. Alternatively, if you were back on the Research homepage you could simply enter the company name or code in the Search Stocks box at the top right of the page.

Every UK listed company has its own page on our website. The level of information often depends on the size of the company, but there is always a wealth of valuable detail for you to draw on. You can check company fundamentals and forecasts, draw simple or complex charts regarding

performance, get information on prices and trades, read the latest company news, see broker recommendations and check those all important Director Deals!

If I were to continue the journey that I was on before, I would go to the Ocean Wilsons (OCN) Company Info page (as that was top of the list). Here I could check current PEG and look at forecast PEG as well as dividend growth; I could also check the specifics of the Director Deals. This way I could make sure the PEG was not fanciful and the deals were at full price.

You can also use charting to back test any deals against price increases. If this all looked good, you could spend as much time investigating the company as possible, you could deal from the page or you could set an email alert to let you know when more Director Deals took place, from the Alerts tab in the left-hand menu.

This really is only the tip of the iceberg of what is available through the research pages on our website, but I hope it has inspired you to go and take a further look. ☒

JOHN COTTER is Associate Director, Barclays Stockbrokers

READ COTTER'S CORNER

John Cotter regularly provides useful articles on similar topics to help and inspire investors. Find them via the homepage on our website.

Get more out of our Research Centre. Sign-up for our free monthly emails – see page 2.

ISAs: a new perspective

There are many reasons why you might want to invest in an ISA, some of which may not be on your radar, as Clare Gascoigne explains



ISAs have been around for the best part of a decade, and everyone is familiar with the great tax benefits they offer – but you shouldn't underestimate the role they can play in your portfolio, whether small or large. If you aren't making the most of your ISA allowance you could be losing out. If you are in a position to take out an ISA and haven't done so, here's why it could be time to take a fresh look at this versatile investment vehicle.

1. TAKE ADVANTAGE OF THE MARKETS (AND YOUR ALLOWANCE)

It's understandable that some people have stopped investing in shares, or share-related products such as funds, in the last 12 months, and this may have meant not taking out an ISA or not adding to an existing ISA. But this might not be the right approach.

It often makes sense to take advantage of markets when they are weak and buy shares when they are good value and may rise. You should invest your full annual allowance (£7,200), because once the tax year is up then that allowance has gone.

2. THERE ARE LONG-TERM TAX BENEFITS

Because an ISA lets you access your money when you need it, many investors think of it as a short- to medium-term investment. But maybe you should start to think of it as a long-term investment that you just happen to have access to.

No-one knows what tax rates are going to be in the future, but the top level of income tax is due to increase to 45% in 2010. Imagine if those rates get higher over time – your liability outside an ISA could also rise. You can protect yourself from paying unnecessary tax indefinitely if you keep your money in an ISA. Although you should remember that the beneficial tax treatment of ISAs may not continue in the future. The amount of tax relief depends on your individual circumstances.

3. EASY ACCESS

Even if you view your ISA as long-term, there may come a time when you need to get to all

Why not go online and read the Smart Investor article 'ISA myths exposed'. Find it at www.stockbrokers.barclays.co.uk/learnmore

or some of the value of your investment, and an ISA will allow you to do this. If you don't need to access it, it can sit alongside other long-term retirement planning, such as a Self Invested Personal Pension (SIPP), which offers tax relief on the way in rather than on the way out, but isn't as accessible. Of course, the downside to this is that you may have to access your ISA when the market is down and you might lose money.

4. YOU GET FLEXIBILITY AND CHOICE

With an Investment ISA, such as with Barclays Stockbrokers, you can choose from a huge range of investment classes – not only stocks and shares listed on recognised stock exchanges (excluding the Alternative Investment Market), but also iShares, investment trusts, funds, gilts and, via Real Estate Investment Trusts (REITs), commercial and residential property. You can even put shares from a corporate savings scheme into your ISA – so you can save as you earn – as well as structured products such as Investment Notes, including those offering capital protection. Choosing your own investments is not for everyone and it's important that you understand their nature and risk prior to investing.

5. PUT ALL YOUR ISAS IN ONE PLACE

If you have cash ISAs, but want to use that cash to invest in the markets, you can transfer funds currently held in cash ISAs into a stocks and shares ISA. What's more, if you have a number of ISAs with different providers you can transfer them all to your Barclays Stockbrokers Investment ISA, which will help you manage your investments more effectively and potentially reduce charges.

6. MOVE EXISTING SHARES INTO AN ISA

If you have no additional money to invest but have investments sitting outside of the ISA wrapper, why not move them into one.

If you have stocks and shares either in our MarketMaster account or with another broker, you can transfer those investments into an Investment ISA. This is subject to the annual ISA limit, which currently stands at £7,200, and with the current low stock valuations any CGT liability on transferring assets into an ISA is likely to be low.

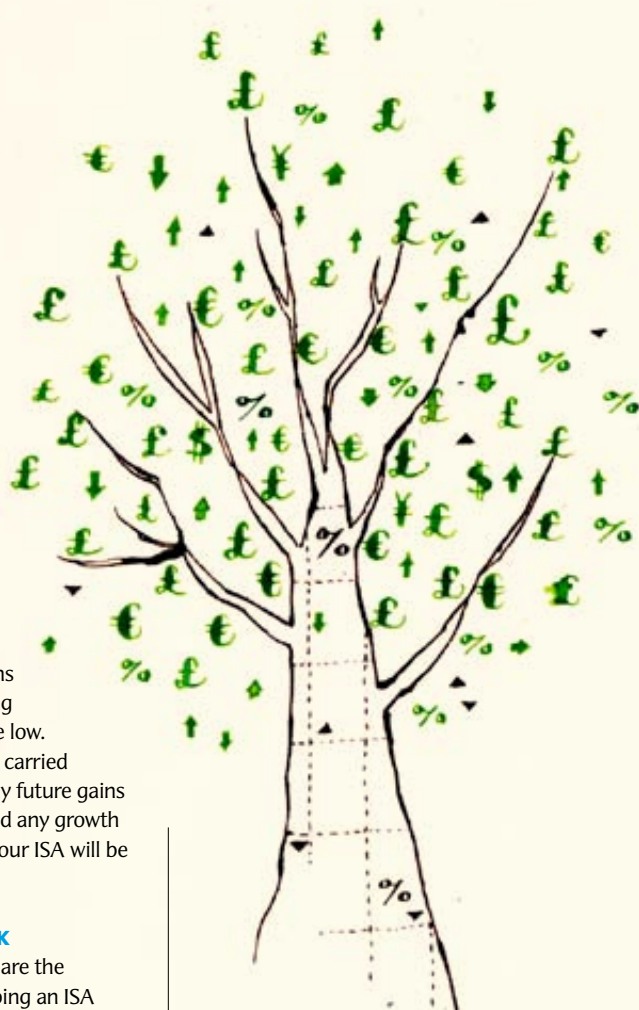
Any losses which result can be carried forward to be offset against any future gains that occur outside your ISA and any growth on the stock transferred into your ISA will be protected from tax.

7. CUT DOWN ON PAPERWORK

Added to the financial savings are the administrative savings – wrapping an ISA around your money puts it under the taxman's radar. You don't have to declare it on your annual tax return or account for it at all – leaving you extra time to concentrate on your investment decisions.

If this has you looking at ISAs in a new light, maybe now could be the time for you to get investing! ☒

CLARE GASCOIGNE is a freelance financial journalist.



Take out an ISA

To find out more about the Barclays Stockbrokers Investment ISA, visit www.stockbrokers.barclays.co.uk and select ISA within the Products and Services section. Alternatively, you can speak to our experts on 0800 068 6688.

THE ISA MILLIONAIRE

An ISA can provide a welcome structure to investing. Most investors learn at an early stage about the benefits of pound cost averaging – drip-feeding your investments into the stock market by making regular purchases regardless of market movements. This can be a great way of smoothing out the peaks and troughs of stock market investing, and is particularly useful during volatile periods when share prices can fluctuate enormously. This may not always be the case, because at the time of monthly investment the markets may be on a high.

Using the ISA maximum as a base to your investment strategy helps set a framework for your trading, which can be a useful

discipline. There are even people who have become millionaires without giving a penny to the taxman as a result of regular investing with an ISA. Yes, believe it or not, Barclays Stockbrokers has a number of customers who, despite the performance of the markets in the last year, have been clever enough (or lucky enough?) with their stock selections over time to have become 'ISA millionaires'.

Of course, it is the investment strategy not the ISA that has made them millionaires. But consider how much they might have had to pay in tax if they held that amount outside of an ISA but had to sell up. They might still only be in six figures and not seven.



Head for the exit

Knowing when to get out of an investment is just as important as finding the right place to get in, as trader and author Tony Loton explains

As viewers of the popular TV show *Dragons' Den* will know, experienced investors do not part with their money unless they have a clear idea of when and how they will get it back. This goes for private equity, venture capitalists and other professional investors. They only go in if they have a well-defined exit strategy.

Many retail investors don't think about exit strategies at all. They define their entry conditions by screening stocks, examining charts and following the news, but they barely give a second thought to their exit conditions.

KNOW THE WAY OUT

Defining an exit strategy allows you to close a position when you want to: when you reach a profit target, when the tide turns against you, or when the fundamentals no longer

hold. If you don't have an exit strategy that allows you to sell out when you want to, then the only time you will sell out is when you have to.

'When you have to' is usually the worst time to sell anything. That's why some property speculators look for sellers who are dealing with debt, divorce or death. They're looking for people who have to sell. Similarly, when a recession bites and times are tough, you might find yourself having to sell some of your investments to realise some cash. And you can guess where the stock prices will be sitting when that happens.

Why not take more control by managing the whole lifecycle of your positions, from entry to exit? Here are some of the more common exit strategies. They do vary in complexity, and you need to find one that fits

with your investment strategy. In each case, however, the point is to define what your exit strategy is in advance, at the time you enter a position, and to stick to your guns.

EXIT WHEN YOU REACH YOUR PROFIT TARGET

Some traders and investors set a profit target for their positions. If you think that a stock will rise by 30%, you might decide to exit when the price had risen by 25%, to allow for some leeway in your estimate.

You can define this exit strategy in advance by placing a limit order to sell at a specified level (say 25%) above your purchase price.

EXIT WHEN THE TREND CHANGES

Some traders and investors don't like profit targets because they want to 'let their profits run'. By selling out at 25%, they might miss out on the 100% rise!

These traders will sell out when the price falls rather than rises. It sounds counter-intuitive, but it can work if you place a trailing stop order to track the rising price upwards and to (automatically) sell out if the price falls back by a specified amount.

Suppose you set a trailing stop order to trail 5% below the current market price. If the price rises by 30%, and then falls back to the stop level, you would have achieved the same end result as in the profit target example. If the price rises by more than 30% before falling back, you will have done even better.

I've kept the maths simple by ignoring the bid-ask spread and the fact that a trailing stop set initially at minus 5% will not stay at minus 5%. If the price doubles (lucky you!) then the same trailing stop level would now be at the equivalent of minus 2.5% – unless you adjusted it.

This exit strategy also has the welcome side effect of 'cutting your losses' as well as 'letting your profits run'. If your chosen stock doesn't rise at all, and in fact falls back soon after purchase, it should fall only as far as the 5% before triggering your stop order.

EXIT WHEN THE FUNDAMENTALS CHANGE

'Fundamentalist' investors buy stocks that have high dividend yields, low price/earnings (P/E) ratios, or low price/earnings to growth (PEG) ratios. But how many of these investors decide at the outset that they will sell the stocks once the attractive fundamentals no longer hold true? A high growth (low PEG)

stock can't grow forever, and there may come a time when the initial entry conditions no longer justify holding on to the stock.

The key here is to review your portfolio at regular intervals and ask yourself one simple question: "Would I buy this stock now?" If the answer is "no", then maybe you should consider banking your profit or cutting your loss.

PARTIAL EXITS

Whichever exit strategy you choose, you might be reluctant to sell out your previously favoured stock completely. So why not exit gradually, for example by selling a proportion of your holding each time the stock price reaches an intermediate profit target? You'll be assured some profit while still being well positioned for any revival of fortune.

MULTIPLE EXIT STRATEGIES

You might think of the three exit strategies as discrete choices, and that you must choose one when you enter a position. When you buy a stock, you might choose from the following strategies:

- I will exit this position when I reach my 25% profit objective
- I will exit this position if the price falls by 5% from any peak
- I will exit this position when the PEG ratio rises above 1.5

The whole point is to define what your exit strategy is in advance, and to stick to your guns

The values 25%, 5%, and 1.5 are not magic numbers that will guarantee your wealth, health and happiness. I have chosen those values simply to make the example easy to follow.

But who says you have to choose just one exit condition? Why not simply combine all three? I will exit this position when I reach my 25% profit objective or if the price falls by 5% from any peak or when the PEG ratio rises above 1.5.

You would implement the combined exit strategy by placing a limit sell order at 25% above your purchase price, by placing a

For more strategies to help you trade, sign up for our free monthly email – see page 2

trailing stop order at 5% below your purchase price, and by regularly monitoring the PEG ratio to ensure it does not go too far beyond its notional 'fair value' figure (which, by convention, is deemed to be '1').

Theoretically, at least, you would never lose more than 5%, you could secure a profit of up to 25%, and you would never be caught on the wrong side of the fundamentals.

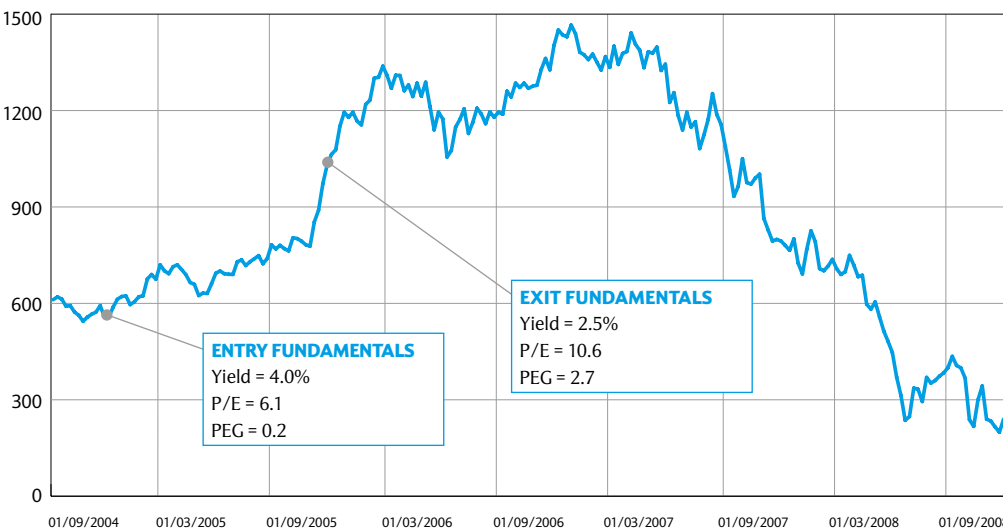
Most importantly, by defining your exit strategies at the outset, you would be selling out when you want to rather than when you have to. ☒

TONY LOTON is author of *Financial Trading Patterns* and *Stock Fundamentals On Trial*.

Order types

To learn more about trailing stop orders, limits and other order types, visit the Barclays Stockbrokers website, click on Education and select 'Introduction to Order Types'. You can find fundamentals, such as PEG, on the Company Info page when you view a company in the Research Centre.

EXITS IN ACTION



At the start of 2005, Persimmon (PSN) had a reported Dividend Yield of 4%, a reported P/E of 6.1, and a reported PEG of 0.2. For many investors, that's three good reasons to invest in the stock.

The investor with a particular exit strategy decided to close his position when the PEG shot up and the fundamentals changed. As a result, he realised a reasonable profit. The investor without an exit strategy was left holding the stock as it fell during 2007. As of December 2008 (shown left), Persimmon's share price is less than his entry price.

The past performance of Persimmon is not an indicator of future returns.

Investor A has been investing for eight years, but doesn't think he is making his strategy work as hard as possible. He believes himself to be a 'seven' on a risk scale of one to 10. He has a UK All Companies Growth Fund and the iShares FTSE 100, and also has shares in some large- and mid-cap companies including Rio Tinto, AstraZeneca, Aviva, Rexam and Compass Group. He is interested in getting into short/long trading but isn't sure how to go about doing this.

Smart Investor asked Paul Inkster, Associate Director and Head of Active Trading Proposition at Barclays Wealth, to share his thoughts.

The first thing that Paul noticed was a difference between what Investor A believes his risk level to be and the assets he is actually holding. He says it is very common for investors to underestimate or overestimate their risk appetite.

"We have experienced a multi-year bull market. Because of this people have felt comfortable with risk because they have had positive returns," he explains. "But in recent months the unprecedented volatility in the market has caused a little more truth about risk appetites to come home. It has focused investors' minds on their portfolios."

Paul says Investor A's portfolio shows some of that confusion, saying he does not reflect a risk rating of seven out of 10, but is more like a five. But Paul believes this client would be willing to have more risk in his portfolio and there are opportunities out there for him to take.

TAKE YOUR TIME

"This is something that really should not be rushed – it should be a 'slowly, slowly' process. Investor A could take it in stages and assess how comfortable he is with the increased risk he has



Portfolio Makeover

For many investors, learning how to get the most out of your portfolio by taking your trading to the next level can be daunting. We help one such investor review their trading strategy

taken on," Paul suggests.

"The first thing he might want to look at is having some foreign exposure. The shares he has are all UK-listed companies. He should first identify which foreign markets to invest in. I would suggest established continental European markets along with the US because of their liquidity. Then he would need to look at how to access them through a managed fund, or an exchange traded fund

such as an iShare. He might also consider emerging markets in the Far East. That's the next step up the risk scale."

Paul says these moves can be made despite the present global economic downturn. "We have a global economy now but there are still various geographical differences. Countries will come out of this period at different rates and different times," he states. "As things unfold you could look at which country is

tackling the problem more aggressively. When the recovery begins, the opportunity to diversify and get into foreign markets will come."

UNDERSTAND THE RISKS

Paul points out that the downturn is already beating up smaller companies, but he thinks that Investor A could also look at adding these to his portfolio alongside his large- and mid-cap holdings. "There could be a good, strong bounce in them when economic confidence returns," he says.

"Exotic funds are another option. He could look for something not correlated to the major equity indices such as commodity funds. There may be opportunities in energy, gold and oil."

As to Investor A's interest in short/long trading, Paul again recommends a stepped and steady approach by starting with Covered Warrants. "If Investor A sees value in being short, Covered Warrants are a good entry point," he explains. "Your losses are limited with these because you can't lose more than your initial investment.

"The next step up the risk ladder is CFDs/spread trading. They are investments where your profits and losses are leveraged. This is something the client should understand clearly as you can lose more than your initial investment."

In conclusion, Paul stresses that the client should make sure he is aware of the risks involved and think of his portfolio in the long term. "You can have some short-term active trading in there, but the idea is to build long-term profits. Just move slowly up the risk scale, don't jump," he says. ☘

PAUL INKSTER was talking to financial journalist David Craik

INTERVIEW

Investor profile

Tony Wilson

Name: Tony Wilson
Age: 66
Occupation: Retired Investment Manager, Barclays Bank
Lives: Greater Manchester
Trading since: 1963
Risk profile: Moderate

On a scale of one to 10, how risky would you say your investment strategy is?

Around five. I feel I can afford to accept losses, but I am certainly very keen to protect what I have, as well as increase portfolio value over a sensible timeframe.

How often do you trade?

Not very often really, certainly less than when I was working and felt closer to the action. The introduction of additional types of investments in recent years, such as iShares and Investment Notes, has reduced my desire or need to trade frequently.

Do you have an investment 'golden rule'?

Diversification is so important. This used to mean little more than spreading equity investment across various sectors, plus some international exposure. Now you can, and should, achieve much greater diversification, not just through unit trusts and investment trusts – look at other vehicles, too. iShares are ideal for exposure to specific countries and commodities, and Investment Notes have the potential for attractive medium-term gains and offer varying degrees of capital protection.

What has been your 'star share'?

Ironically, Barratt Developments (BDEV).

I bought a decent-size holding at approximately £2 and sold successive tranches at prices over £10. Unfortunately, I still hold some at, currently, 80p! It is a similar story with Barclays (BARC), where I can be pleased with scaling down at prices up to £8 but not so pleased with still holding some at, currently, around 116p*.

And any big losers?

I did buy into an investment trust that specialised in second-hand endowment policies – where the original policy holder had decided to, or been forced to, surrender their policy before maturity. The double-digit returns looked assured, provided the life assurance companies maintained their bonus levels. Well they didn't, in fact they were decimated, and I lost almost half my money in an investment that appeared at the outset to carry very little risk.

What is the composition of your portfolio?

It's well diversified and almost entirely spread between ISAs and SIPPs, so tax is not an issue. The tax breaks offered by these are still compelling. I do have a few individual equities, often having held them for many years. I have some unit trusts and investment trusts covering many geographical areas and occasionally commodities. I also have iShares in oil and gold, and recent purchases have introduced corporate bonds as the high yields look worth the risk, even in the current economic climate. I am substantially invested in Investment Notes, where the 'soft protection' looks to justify the loss of income and where the potential for capital profit is definitely attractive in my view.

How have you reacted to the recent market turbulence?

I have increased diversification, trusting that purchases at lower levels will prove advantageous in the medium to long term. While it's tempting to panic out of the market amid so much economic gloom, my experience suggests that this is likely to be the wrong decision. I would support the strategy of 'pound cost averaging' – drip-feeding a regular amount at, say, monthly intervals.

How do you do your research?

In a variety of ways. I am a regular reader of the financial press and subscribe to a couple of financial publications. However, the internet has provided all investors with a huge opportunity to access information very quickly and easily.

Do you have any trading tips?

I feel it is important to emphasise the wisdom of using stop loss orders, at say 10 to 15% below the purchase cost. I wish I had employed this principle religiously throughout the many years I have been investing.

What are you interested in at the moment?

I feel extremely positive about the latest FTSE 100 Accelerated Return Investment Note (B022). We'll have to redefine Armageddon if the FTSE 100 falls below 2,100, so the capital protection should stand. The prospect of capital growth at the rate of five times the FTSE increase, albeit with a cap of 100%, is surely very attractive at the present time. ☘

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