



in brief

Market Statistics

UK Indices

	5/10/11	5/07/11
FTSE® All Share	2,632	3,139
FTSE® 100	5,102	6,024
FTSE® 250	9,568	12,145
FTSE® Small Cap	2,727	3,317
Base Rate	0.5%	0.5%

Overseas Indices

Dow Jones Industrials	10,940	12,570
Nikkei 225	8,383	9,972
Dax	5,473	7,439
CAC40	2,974	3,979
Eurotop 300	917	1,122

New CFD service

Customers often ask us if we offer a Contract for Difference (CFD) service. So, in response to these requests, we have recently launched a new CFD service in conjunction with IG Markets, a leading provider of CFDs in the UK.

If you're currently trading CFDs or are considering starting, our new service could be just what you're looking for. Because they tend to be high risk, CFDs aren't for everyone, but we believe that by teaming up with IG Markets we can provide the tools and knowledge to help manage the risks as much as possible. To check whether CFD trading is for you, you can set up a demo account; this provides £100,000 virtual money and you can trade for 14 days. To see more details about our service and how it works, just go to share.com/cfd

Important petition for financial education

There's a very important petition on the Government website to press for financial education for young people to be included in the school curriculum. If the petition achieves 100,000 signatures, the Government has committed to debate the issue in parliament: this one has already nearly reached 80,000 so it hasn't far to go. If you feel that young people should be better prepared to handle money please visit epetitions.direct.gov.uk and add your support. There is already a broad body of parliamentary interest ready to contribute to the debate – all they need is the opportunity.

New issue for SMEs

The launch of our new issue service for SMEs (small and medium-sized enterprises) in July/August has gone well, with companies undergoing due diligence before being offered to those customers of The Share Centre who have registered (in the 'profile' section after sign-in) to receive details. Shares will normally be traded on Sharemark (www.sharemark.com) after issue. If you haven't already registered, please consider doing so – there's no obligation to apply for any shares, and you will be able to see how The Share Centre is contributing to the UK's private sector recovery.



The FT homes in on Premium

Our new Premium share trading service came under the 'Financial Times' spotlight back in early September (the 3rd to be precise). The service targets more active investors, comes with a host of extra services, and entails no dealing commission, no quarterly administration fee, and an unlimited number of deals. It costs £2,500 plus VAT a year. The 'FT' compared the service with that available from the competition, and said: "Anyone making ten or more (deals a week) would be better off with The Share Centre."



Top trades

Our customers' top buys and sells during week commencing 3 October 2011.

These are updated daily at <http://blog.share.com>

Top shares purchased

- 1 BP
- 2 Barclays
- 3 BG Group
- 4 Tullow oil
- 5 Aviva

Top shares sold

- 1 Barclays
- 2 Aviva
- 3 Lloyds banking
- 4 RBS
- 5 Tesco

Top trades should not be taken as a recommendation to buy or sell and it is not intended as advice. Top trades is only an indication of the buying and selling movements from some of The Share Centre customers during the timeframe stated.

banks well and truly seized up



Gavin Oldham, CEO at The Share Centre, gives us a peek into what's in store in this issue of *shareholder* and looks at the latest woes affecting the banks.

In this issue we return yet again to the banks, who continue to be the major barrier to economic recovery. Besieged by the threat of sovereign debt default, hugely increased regulation and higher capital ratios, the unsecured interbank lending market is back to where it was pre the October 2008 crash: seized up.

Throwing another 75bn at the system through Quantitative Easing will have little effect. If the money won't circulate, it won't do any good. That's why M4 – broad money supply – has plunged over recent months, as the chart shows. It may also explain why the five major central banks took co-ordinated action to supply US dollars to the money markets in mid-September. This action recognised the severe stress the banks would be facing during the last quarter of 2011, and market relief was almost visible. But even this was only buying time.

The chart also shows the house price to earnings ratio, and it is quite scary to note that if the correlation between the two is justified, either earnings must rise or house prices must fall – substantially. Anyone in the real economy knows that it won't be earnings, so watch out for house prices. The only part of that market which has been rising is central London, and that's due to foreign buyers. The problem is that house prices underpin mortgages, and that brings us back to the banking sector.

So how can we get interbank lending moving again to get money circulating? It seems obvious that if they won't trust each other on an IOU, then there must be security charging levels valued against the market daily, to underpin their borrowing and lending. At the moment there's a small repo market, which provides a kind of secured money market, but it needs a much higher profile and a clear message from central banks and regulators that those banks using collateral will benefit from lower capital requirements.

The two challenges to banking are liquidity (getting the money moving) and solvency (having sufficient capital). A secured money market could therefore provide the answer to both. We ask the question "are banks investible?", and, to a large extent, that depends on whether they will need to raise large amounts of extra capital. In fact our UK banks are considerably better capitalised than those in the Eurozone, but they're not in the clear yet. And if house prices do start plummeting, more capital will be needed.

It's a tricky market; a trader's market as we describe it on page 10. The rises and falls can be substantial as we're caught between the continuing opposing forces of strong corporate cash balances and dreadful economics. There is a broad trading range, but woe betide those who get in at the top and out at the bottom! We look at the companies that are managing to hold their heads above water and those that are not

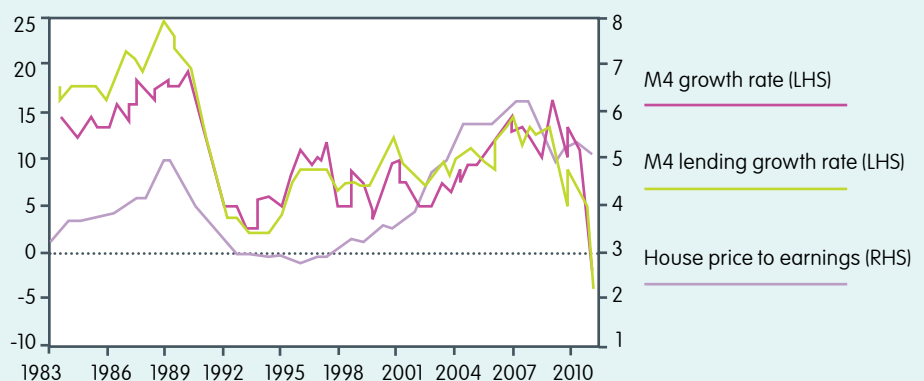


on page 6. It is a time to select shares carefully, as returns will not be generated across the board.

And into all this comes the Junior ISA, the government's answer to what was Child Trust Funds (CTFs). There's no government money now, but families who wish to set aside savings for their children/grandchildren are encouraged to do so. Whereas the CTF was designed for those born after August 2002, the Junior ISA is open to all those without a CTF; so here's a chance for other brothers and sisters to see some benefit.

Steady state investing is a good approach in volatile markets, and many will set up their Junior ISAs in that way. Who knows, by the time they're 18 all these troubles may be behind us – we can always hope!

Broad money supply, lending and house prices to earnings



Source: Capital Economics

whoomp whoomp whoomp. Hear that?



“Don’t forget the kids,” says **Guy Knight**, as he takes a look at how parents can invest on behalf of their children.

Whoomp, whoomp, whoomp. That’s the sound of helicopter parents hovering over their children, worrying every second of the day about their little charges.

But that’s parenting which, according to Wikipedia, is ‘the process of promoting and supporting the physical, emotional, social, and intellectual development of a child from infancy to adulthood’.

It’s to do with providing for a child’s physical needs, protecting them from harm, and teaching them skills and cultural values, but interestingly no mention is made specifically about preparing them for financial independence. Parents who are ‘enjoying’ the phenomenon of Boomerang Kids, when a child having left home returns due to lack of financial resources, will read this with a wry smile (grimace?) on their face.

With new Child Trust Funds (CTFs) ending earlier in the year, those expecting or planning for a baby will be left wondering what to do. Notwithstanding the upcoming Junior ISA (JISA), available from The Share Centre at the product’s national launch on 1 November, there are plenty of other options for parents and grandparents keen to put some money away for a child.

However, many won’t know where to begin because the list of options on offer can seem infinite, from baby bonds to National Savings & Investments, unit trusts and savings accounts.

It may not always be obvious but, despite the current uncertainty around the world, the stock market could be the best place to be when investing for a child. This investment

period could span up to 18 years and data shows that, over the long term, shares almost always produce a better return than cash savings accounts.

When it comes to giving their children a financial head start, no parent wants a ‘could have done better’ report card. But this is precisely what will happen if they are wary of taking risks with their child’s investment. The unintended consequence of over-caring in this department is under-performance of future returns.

When investing for children, the key is to avoid putting all your eggs in one basket and getting a good balance of growth and risk. This is precisely what OEICs and Unit Trusts aim to achieve. But what products do you put them in?



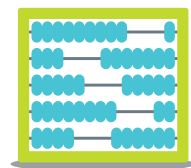
Child Trust Fund (CTF)

CTFs are tax-efficient investment vehicles which were available for children born on or after 1 September 2002, and introduced by the government to encourage saving for children.

CTFs are not encashable by children until they reach 18 and are offered in three colours - cash, stakeholder and non-stakeholder. The latter two, offered by The Share Centre, are invested in the stock market and more than 90,000 children have their CTFs with The Share Centre. Parents are able to transfer from their existing suppliers to us at any time.

With effect from 1 November, the annual subscription limit increases from £1,200 to £3,600 to bring it into line with the upcoming JISA (see opposite), so now there’s a good opportunity to build a worthwhile investment reserve on reaching adulthood.

More detail on CTFs can be found at share.com/ctf.



Please remember the value of investments and the income from them can fall as well as rise, and you may not get back your original investment. Tax advantages depend on your individual circumstances and any benefits could change in the future. Please bear in mind that purchase costs can make small investments inefficient.

Junior ISA (JISA)

With effect from 1 November, a JISA is available to any UK resident child who doesn't already have a CTF, ie those born on or after 03 January 2011 or under 18s born before 01 September 2002. Again, it matures at age 18 when it automatically becomes an adult ISA.

This tax year (2011/12), you can invest up to £3,600 in a Stocks and Shares JISA, a cash JISA, or a combination of both. Please note that The Share Centre does not offer cash JSAs.

A child's annual JISA allowance expires at the end of the tax year (5 April), and there's no 'catching up' next year if you don't invest the full amount. It's a case of use it or lose it! Bear in mind that the end of this tax year is less than six months away...

We offer three types of Stocks and Shares JSAs: Ready-made, Funds and DIY.

Ready-made JISA

Our ready-made JISA invests in our sister company Sharefunds' SF Positive Fund, which is designed to achieve strong capital growth and a steady income, all wrapped up in a medium risk package. The Positive Fund invests in funds from well-known investment houses including, at the time of writing, L & G, Aberdeen, Investec, Blackrock, Standard Life, M & G and Newton: a good spread of risk, and actively managed for your child.

Funds JISA

Catering for those who wish to invest in their own choice of funds (Unit Trusts & OEICs), our Funds JISA enables you easily to diversify your portfolio and benefit from the investment expertise of Fund Managers of your choosing. Direct shareholdings are not included in this account.

DIY JISA

Giving you complete control, our flexible DIY JISA makes it easy to purchase a wide range of JISA-eligible investments, including stocks and shares, funds, investment trusts, gilts, bonds, ETFs and ETCs.

More detail on JSAs can be found at share.com/jisa.



Junior Investment Account

Unlike a CTF or JISA, there are no restrictions on how much you invest or when and where you choose to invest. However, contributions can only be made by the account holder.

We offer two options: Designated Account and Bare Trust Agreement.

Designated Account

The account is opened in the adult's name and designated for the child, eg Jane Smith for Alex Smith. This allows the parent to retain control of the Junior Investment Account (JIA), and decide when it should be passed to the child.

Tax considerations: the adult is personally liable for any Income Tax or Capital Gains Tax (CGT) due. The account is counted as part of their overall assets and would, therefore, be included in their estate for Inheritance Tax (IHT) purposes.

Bare Trust Agreement

The account is held in Trust for the benefit of the child. When the child reaches 18, the control of the account passes to the child.

Tax considerations: the money is treated as the child's for CGT purposes, and makes use of their personal CGT allowance. However, the adult will be liable for Income Tax on any income earned above the £100 per parent threshold. The account is excluded from the adult's personal assets and would not, therefore, have to count towards any IHT that might be due from the estate.

The tax considerations above are given for general guidance only. For more detailed information on investing for children, Inheritance Tax and Capital Gains Tax (CGT), talk to your local tax office or adviser, or visit HM Revenue & Customs website at hmrc.gov.uk.



Regular investing

This can be from just £10 a month and brings with it the benefit of 'pound cost averaging'. By regularly investing the same amount of money each month, more shares or units are bought when the price goes down and fewer shares or units when the price goes up. As such, this avoids the worry about getting the timing of purchases exactly right. And, over time, the shares or units owned are effectively bought at an average price.

If you start when your baby is born, time is on your side. Just £30 a month over 18 years amounts to £6,480 of capital invested: at 6% annual growth net of fees this could be worth c. £10,500.

Who can contribute?

With a CTF or JISA, simply anyone! A child's birthday or Christmas can be an ideal time for grandparents, aunts, uncles and friends to give money to be invested in the child's account. How much more long-lasting or potentially valuable than a toy or computer game!

sinkers and...



It's been a time of turbulence. Some shares have fallen precipitously. Many have merely fallen a bit, and just a few have risen. It's a good moment to look at the recent period of extreme volatility, and ask what lessons can be learnt. **Graham Spooner** takes up the tale.

They say sell in May and go away. In other words, with many traders away on holiday at any one time, summer is a period of unpredictability. This time around was no exception - between August 1 and 19 the FTSE 100 lost 774 points and 13% was knocked off its value.

This begs the question why? We all know that fears of Eurozone debt and the recent loss of the US's top notch credit rating have spooked the markets. But what about individual companies? Find out why they lost, or indeed gained, and we can learn a lesson that may prove most beneficial in times to come.

Take the big sinkers

Scan through the companies that saw the biggest falls during the period in question, and you will see that similar explanations keep cropping up. In some instances, it was just a case of what goes up comes down. The stock in question had a good run, and then, when markets turned, investors felt it was time to turn recent gains into profits. In short, Isaac Newton's maxim about gravity was being applied to shares.

Then there was exposure to the problems in the Eurozone. Fears that some countries may default have led to doubts over the solvency/liquidity of certain banks in the

region. While Lloyds, RBS and Barclays are not, for example, over-exposed to Greece or Portugal, they do have exposure to certain other Eurozone banks. In fact, some French banks have recently seen their credit rating downgraded, which in turn has led to a sell-off in the three UK banks' shares.

Next is the commodity market. Certain commodities, such as oil and metals, rose sharply during the recent recovery, but as doubts surface over sustainability of this recovery, many have concluded that the great commodity run may either be over, or at the very minimum heading for a set-back. To use the jargon, mining shares are considered to have a high beta; they can rise and fall quite sharply with the economic cycle. And so, many of the miners, commodity producers, explorers and marketers in the commodities sector have recently seen sharp drops. Of course, the long term investor, who has held shares in these companies for a while, would have previously enjoyed the price rise.

And finally, there is an impact from the overall economic prognosis. There are growing fears over a possible double dip recession, or at least a very subdued recovery, and this has a negative effect on most shares. But some will be more adversely affected than others.



Sinkers 1-19 August

Share	Loss/Gain %	Reason
RBS (RBS)	-42	Fears about exposure to sovereign debt and bank debt within Eurozone
Lloyds (LLOY)	-23	Fears about exposure to sovereign debt and bank debt within Eurozone
Barclays (BARC)	-33	Fears about exposure to sovereign debt and bank debt within Eurozone
IMI (IMI)	-30	Victim of gravity and concerns about economic climate and exposure to Europe
Kazakhmys (KAZ)	-30	Commodity dependent, especially copper
International Airlines Group (IAG)	-29	Concerns over economic and political climate and competitive pressures
Vedanta Resources (VED)	-29	Commodity dependent
Essar Energy (ESSR)	-29	Commodity dependent
Glencore (GLEN)	-27	Commodity dependent
Xstrata (XTA)	-27	Commodity dependent

...swimmers



So, take IMI. The company is famous for its engineering solutions in the control and movement of fluids. Until recently, its share price had enjoyed a storming run. That reason alone is enough to justify the recent sell-off. But the company is especially famous for providing beverage vending machines in the corporate environment. But in times of austerity, when companies are seeking to cut costs, expenditure on drinks machines is unlikely to be so high. The company also has heavy involvement in Europe, which has not helped. So IMI has been hit by a triple whammy: it had previously enjoyed a startlingly good run, its stock is seen as cyclical, and it is exposed to problems within Europe.

Or consider International Airlines Group, formed by the merger of BA and Iberia Airlines. This company has been hit by a multitude of concerns. Competitors, such as Ryanair and EasyJet are providing a constant threat. The uncertainty in the Middle East and North Africa has hit turnover from flights to those regions. Fears over a double dip recession have also dragged down shares, but for two reasons. Firstly, because of concerns that holiday traffic will be hit, and secondly, because of doubts over the level of business spending on travel.

Swimmers 1-19 August

Share	Loss/Gain %	Reason
Autonomy (AU.)	46	M&A activity
Randgold (RRS)	19	Gold miner - risen with price of gold
Fresnillo (FRES)	12	Silver miner - risen with price of silver
Unilever (ULVR)	3	Defensive/essential consumer goods
National Grid (NG.)	-1	Defensive/Utility
Severn Trent (SVT)	-2	Defensive/Utility
Sainsbury (SBRY)	-3	Retailer providing essentials
United Utilities (UU.)	-3	Defensive/Utility
Tesco (TSCO)	-3	Retailer providing essentials
Admiral Group (ADM)	-3	Shares had already fallen before period in question

But what about the swimmers?

The biggest winner over the period was the software company Autonomy. The company, which produces a search engine that enables companies to extract data from the information they generate (for example emails, voice mails, letters), was sold to Hewlett Packard. It just goes to show that, even in times of hardship, some companies can rise above the parapet. More recently still, and out of the time frame for our analysis, Charter saw strong gains after a bid from Melrose.

In recent years, gold and silver have become more popular. This is down to doubts about sovereign debts growing, and can also be attributed to the fear that we may be in the midst of a currency race, as each country or currency region tries the same tactic of expanding via exports and a weaker currency. It is, of course, impossible for all currencies to fall; they are after all valued relative to each other. But the apparently gradual loss of US dollar hegemony has seen many investors betting that gold will replace the dollar as the preferred asset to be held in foreign reserves. Gold and silver are also seen as hedges against inflation, and, paradoxically, against deflation too. And, to use some more jargon, they are seen as having negative correlation with the economic prospects. So it is that companies such as the gold miner, Randgold, and the Mexican silver miner, Fresnillo, have seen strong gains.

Unilever is seen as a defensive share, and provides the investor with the added advantage that it offers worldwide diversification, with no less than 50% of the company's revenues now coming from so-called emerging markets. The company provides essential household products such as soap (Dove), personal care products (Lynx), home care items (Persil, Comfort, Cif), and other well-known brands, including Flora and Carte D'Or. So the company is considered to be a good defensive stock because it supplies essentials in the West, but a good growth stock because it also provides essentials to the growing proportion of middle classes in the emerging world.

The utility companies are all seen as good defensive companies. They provide essential services, which are unlikely to see significant dips in sales during a downturn. A similar argument can be made for the big supermarkets, such as Sainsbury's and Tesco.

Admiral shares had been falling in the previous two months and in early August there was an analyst upgrade to a buy.

Conclusion

One thing is obvious. Even in times of economic uncertainty, there are shares and asset classes that do well. And while some shares have sunk deep, others are, if not swimming, at least treading water, and remaining buoyant.

banks: a viable investment?

It was three years ago when Lehman Brothers went down, four years ago when people were queueing around the block outside branches of Northern Rock. And here we are during the closing months of 2011 and, once again, banks - or to be more precise fears over the banks - are in the news. So are they still a viable investment proposition? **Graham Spooner** attempts to answer that tough question.

The banks have been hit by one wave after another. What with international regulators, US authorities, the UK Vickers Report, and the small matter of indebted Europe, it is no wonder banks are looking about as stable as molten rock. But will the rock eventually solidify, and can shares ever rise again?

First there are the regulators. The new BASEL III accord requires higher capital requirements. So, once the new requirements come into force, banks will need to hold more capital to back up their lending and, in the good years, make less profit per unit of capital. (Of course it should also mean more capacity to withstand losses during the occasional, tumultuous years.)

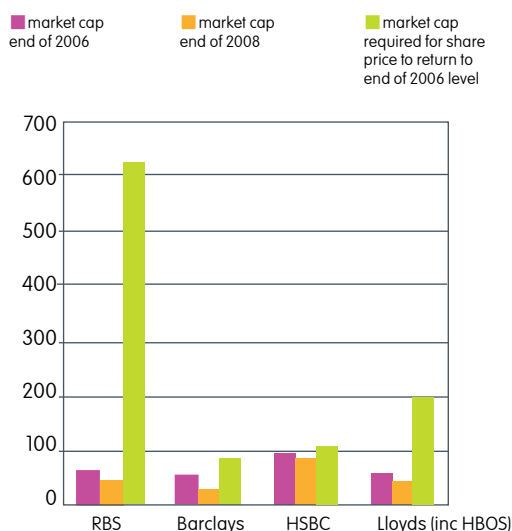
How will banks pay for the tougher conditions that will be imposed by BASEL III? Will we see the end of free banking?

Then there is the recently published Vickers Report for UK banks. This too is suggesting higher capital to lending ratios, as well as ring fencing banks so that the highly profitable, but risky investment banking arms are kept separate from retail banking.

Meanwhile, from the US we saw the news that authorities are suing certain banks in the UK and Europe for the provision of so called liar loans, that is to say loans in which applicants provide false information.

Then there is the small matter of the Eurozone debt crisis.

While British banks have modest exposure to the region's most troubled economies, they do have exposure one step removed. British banks frequently trade money with the banks in France and Germany for example, and many of these banks are exposed to



Source: The Share Centre analysis from Interactive Investor

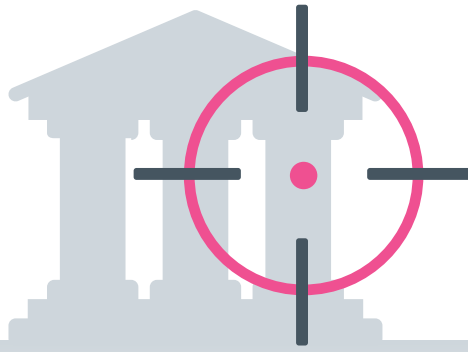
Market capitalisation, the long wait

Investors may think that once banks return to the kind of health they enjoyed in 2006, share prices will also recover. But this is not so. RBS and Barclays issued so many shares during the banking crisis that their market capitalisation would need to be much higher for their share prices to return to the 2006 level. At the end of 2006, RBS had 9.6bn shares in issue, a market capitalisation of £55.4bn, with a share price of £5.80. By the end of 2010, it had 107bn shares in issue and a market capitalisation of £42.9bn. For the share price to return to the 2006 level, its market capitalisation would need to rise to an unrealistic £622bn.

The situation is not as drastic for Barclays. The number of Barclays shares in issue rose from 6.3bn at the end of 2006 to 11.7bn at the end of 2010. For its share price to return to 2006's £7.20 level, its market capitalisation would have to rise from the £30.2bn level of 2010, to £84.4bn.

In contrast, HSBC's market capitalisation would need to rise only modestly.

Lloyds's situation is complicated by the merger with HBOS. At the end of 2006, HBOS's market capitalisation was £40bn compared with Lloyds's £16.5bn. The Lloyds share price was just under £3. The merger with HBOS and the government bailout led to the number of Lloyds shares in issue rising from 5.6bn to around 67bn. 2010 saw the market capitalisation of Lloyds at almost the combined value of the two banks in 2006, but for share prices to return to former levels, the market capitalisation would need to be almost £200bn.



the more indebted countries in the Eurozone. Fears about the level of Greek assets held in French banks, for example, recently led Moody's to downgrade the credit rating of Société Générale and Crédit Agricole.

The parallels with 2008 are clear. Banks are inter-dependent. If one bank fell, the shockwaves were enough to drag the entire sector to its knees. The recent systemic bank downgrades on Friday 7th October is evidence of this being a real danger.

There is also the matter of UK house prices. Average price remains high in comparison with average earnings. Should UK property prices fall further, banks may need to engage in further write-downs.

It is not all negative. Banks' profits may well be reduced by new capital requirements, but equally banks are more likely to be able to withstand shocks. In any case, the Vickers Report recommended that banks should be given seven years before they are forced to comply with its recommendations.

Bear in mind, that shareholdings in many of the banks have been heavily diluted by new issues. See the chart opposite.

So much for banks in general, what about banks in particular?

Looking East: Standard Chartered and HSBC

For all the uncertainty, some banks are well placed to enjoy benefits from the emerging countries. Take as an example Standard Chartered; no less than 90% of its earnings are generated east of Suez. Many see it as a beacon of stability. It is hard to disagree.

As for HSBC, never mind that the letters that make up its name stand for Hong Kong Shanghai Banking Corporation. The bank was hit hard ten years or so ago, and, to use the vernacular, caught a cold in the US. It learned its lesson early, and was already placing more emphasis on East Asia when the financial crisis struck.

The bank has also pursued somewhat more prudent policies than some of its rivals, and is already closing in on the 10% capital requirement. This may mean that when other banks are forced to rein in and build up capital, HSBC may find it is able to pursue more expansionary policies.

The bank also offers an attractive yield. Many felt that with the publication of the Vickers Report much uncertainty had been removed, and consequently felt more confident. Nomura, for example, recently upgraded its view on HSBC from a hold to a buy. The bank certainly appears to offer more attractive prospects for investors than some of the other major UK banks.

Barclays

Barclays is a mixed bag; there are reasons for concern, reasons for optimism. The bank has greater exposure to the markets, and as a result regulators' changes may force the bank to make bigger adjustments than some of its rivals.

On the other hand, the bank's boss, Bob Diamond, was positive about the Vickers Report, and he, along with other directors, has been buying shares in the bank.

The worry relates to the extent of the bank's gearing and no one seems to have a feel for the effect ring-fencing will have.

On the other hand, Nomura also recently changed its rating of Barclays from a hold to a buy. It feels the stock had been oversold.

It may all boil down to your personal feeling on whether we are set to see another major shock to the economic system, and if this happens, the level of its seriousness. If Barclays can see its way through the current turmoil, it may well be nicely poised to benefit during the recovery.

Equally, if the bank does turn the corner, a rapid recovery is unlikely – it will be a long, drawn out corner. If this is a stock you favour, we advise you to tread carefully, and a drip feeding approach, in which your money is invested in stages over time, may be appropriate.

RBS

For RBS the upside really is much longer term, and even then it's uncertain. It appears that the banks will face significant increases in costs, in part because of new regulatory requirements, and it also appears the UK government may find RBS is on its books for much longer than previously expected. The general feeling is that banks may start to look more favourable by 2015/16, but then again, 2015/16 is still a long way off.

Lloyds

For Lloyds there is good and bad. On the plus side, it is the least likely to be affected by ring-fencing investment from retail banking. And while it has been known for some time it will have to sell-off some branches, the worst case fears relating to the Vickers Report concerning Lloyds were not realised, and it was not proposed that the bank engage in even more sell-offs.

On the other hand...

The bank's management recently said that a turnaround in the bank could take up to five years. The problems with the UK housing market are taking their toll by adding to uncertainty, and it seems there is little chance of a dividend for quite a while.

Furthermore, a recent report from the Bank of England indicated that the bank has higher exposure to riskier mortgage debt than others.

Nomura recently downgraded Lloyds to neutral with a target of 40p and said: "A combination of the economic slowdown, funding market weakness and restructuring problems means the medium term prospects are highly uncertain."

Conclusion

Overall, it seems analysts' views vary enormously. Many are cautious. Even those who are more favourable concede that for many banks the time taken to recover will be long. A lot can happen between now and then.

But are banks a viable investment proposition? Clearly some are more than others, but overall we would say "no". The more risky banks may yet provide strong returns over the long term, but only if they do not require significant capital injections to assuage losses caused by Eurozone defaults and housing repossessions. For those investors who want to take the plunge, and buy shares in the more successful UK banks, we advise caution and drip feeding. Risk averse investors should stay on the sidelines for the time being.

You should be aware that the prices and values of stock market investments and the income from them may go down as well as up and you may not get back the amount you originally invested.

how to make volatility work for you

We live in volatile times. With the FTSE 100 doing a pretty good impersonation of a yoyo of late, **Nick Raynor** asks: What strategy should investors adopt?

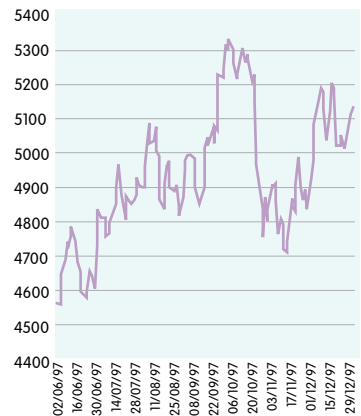


In 1984, there was just one occasion in which the FTSE 100 rose by more than 3% in a day. Between 1 January 1984 and 16 October 1987 there wasn't one occasion when the FTSE 100 fell by more than 3% in a day. However, just under half the days in which the index of leading UK shares have fallen by 3% or more between 1 January 1984 and the present day, have occurred since July 2007.

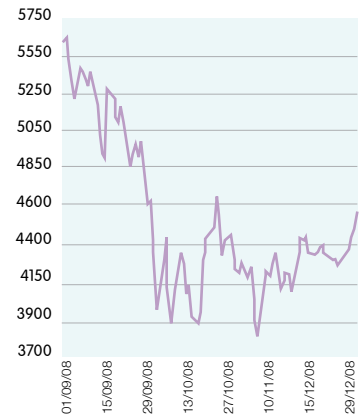
It's a similar story when looking at occasions when the index rose, as the chart below shows.

Drill down and look at the times of volatility, and you will find just a handful of occasions when the markets seemed to soar and then crash, or crash and then soar, followed by periods of very minor changes. Until the late 1990s, 1987 stood out as the year of extreme volatility. The Asian crisis of 1997 and the Russian crisis followed by the collapse of Long Term Capital Management in 1998, then brought 10 years of comparative calm to an end. Other volatile periods include the dotcom crash of 2000, the weeks following 9/11, and then the period of turmoil from 2007, peaking in the autumn of 2008 with the collapse of Lehman Brothers.

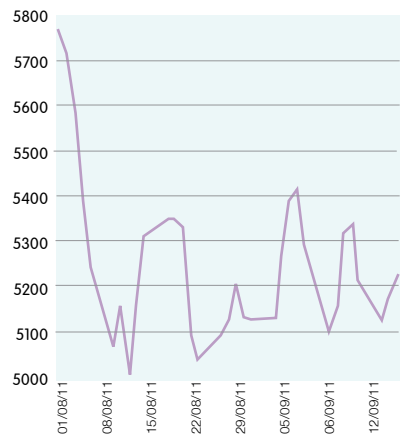
There's no doubt that stockmarkets are becoming rougher, so what should investors do?



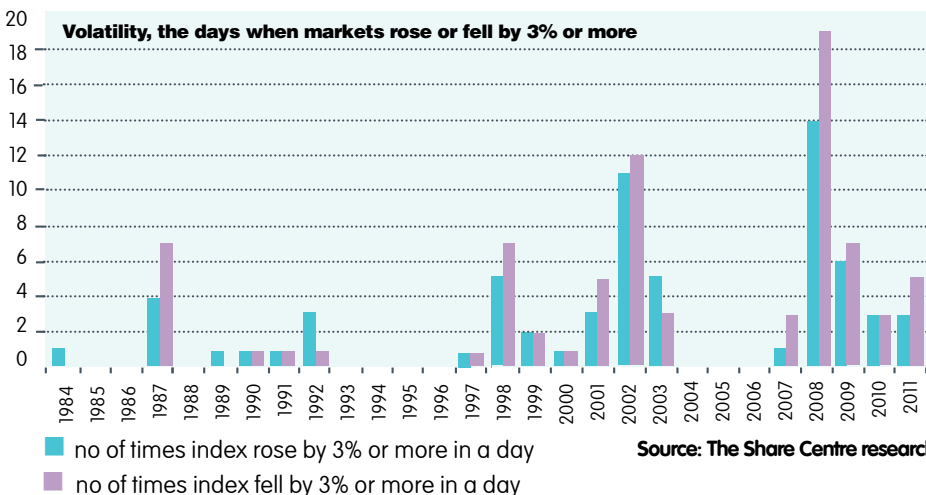
Asian Crisis 1997

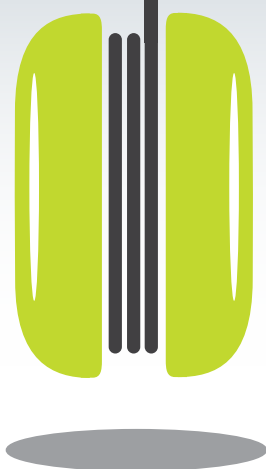


Lehman Brothers collapse 2008



2011 volatility





Drip feed

First and foremost we recommend a drip-feed approach to investing in companies you believe have good long term potential. Don't invest all your money on one day, build up shares gradually, and in that way you mitigate against volatility.

High yielding stock

The current volatility has had the effect of reducing the share price in companies such that they now offer outstanding yields. Take as an example, a company such as Aviva. This is currently providing a yield of almost 10%. The share price may rise and fall with market volatility, but maybe when the yield is that high, the income becomes more important than the rises and falls in the share price.

Stop Losses

It is helpful to follow set rules so that if a share price falls below a certain amount that you had previously set, you sell. The Share Centre can set up an automatic stop loss for you. But, even if you don't make use of this facility, it really is vital to stick to a certain discipline in setting target prices and working to them.

Buy what you know

A company's share prices may rise and fall, but if you buy stock of which you have a good understanding, you may well be able to see through short term volatility. For example, take a company such as Thomas Cook. Recently the share price looked cheap, but it kept on falling. If this was a company and a sector you understood, however, you would have observed a cyclical pattern or trading range which can give you the opportunity to buy when it's low and sell when it's high.

Sometimes a share can fall for no good reason

Just bear in mind that a company's share can get caught up in wider turbulence, even though its performance is unlikely to be much affected by factors that may have driven the sell-off. So, for example, telecoms or utility firms are unlikely to see their turnover and profits affected much by turmoil in the Middle East. Yet their share price did both rise and fall with the wider markets during the Libyan uprising.

Some shares rise when markets are falling

Recent volatility has increased the allure of gold and silver. The more shares fall, the higher such previous metals seem to rise. This means companies such as Randgold and Mexican silver miner Fresnillo have seen prices rise, while all around others were falling.

Our thinking

Gold. This is seen as a safe haven for a variety of reasons. Bear in mind, however, that, as things stabilise, gold may fall. It doesn't offer yield, so in the event of a fall, the investor still holding gold cannot console him or herself with income from this source.

Use the charts, but beware. It is tempting to conclude that if a share has fallen for a few days it may be due a rise. But it is not always like that. Traders often refer to what they call 'a dead cat bounce' in which a stock may temporarily reverse a fall, and rise for a

while, before falling again. But determining the timing of such a bounce is enormously difficult.

Position for a falling market. Some companies with a solid underlying business may be oversold. For example, compare NEXT and Marks and Spencer. The former has had a good run, despite wider market uncertainty, but its share price is beginning to look expensive. Marks and Spencer has not performed so well, but its share price may well be suggesting a buying opportunity.

Falling is easier than rising. Do bear in mind that if a stock falls by, say, 50%, it has to rise by 100% to regain its previous value. That's why stop losses are so important. Even when a stock is recovering, it can take a long time before it regains its previous level.

Trading the Index itself. If the prospect of trading in individual shares in a very volatile market just seems too challenging, consider trading the index itself. The FTSE 100 index is well represented by the i-shares FTSE 100 Exchange Traded Fund, whose code is ISF.

There's no stamp duty charged on an Exchange Traded Fund, and its management costs and bid-offer spread are extremely low. So if you think that the swings in the FTSE 100, which you can't help seeing in the news every day, representing a good trading range, consider trading in and out of the FTSE 100 itself, buying when it's low, perhaps in small steps, then selling when it's high, again in small steps. You'd be surprised the returns you can make by taking advantage of markets which swing so widely between optimism and pessimism.

Conclusion

Volatility can present opportunity for investors, but it can be dangerous. This is why we suggest following certain well-trodden techniques. At least that way you can mitigate against heavy losses, but prepare yourself for recovery: it will come in due course. Please remember the value of investments and the income from them can fall as well as rise, and you may not get back your original investment.

in profile

the benefits of mess, singing and shares



"I like to see mess," says Mick Durham, a customer of The Share Centre, who also runs a retail store.

"Invest in what you understand" goes the classic advice, and Mick Durham understands retail. He has been running a store in Oxford for twenty years now. It's called Tiger Lily and it sells clothes and gifts, along with offering body piercing and tattoos. So maybe Mick's store is not the average high street unit, but it has been a hit with his target audience, and Mick's customers shop in other stores too.

That's the market he knows.

If a shop is untidy near closing time, then that's a sign it was a busy day. A store that is always neat, always ordered and tidy, may well be a store that doesn't have enough customers, or so reckons Mick.

And if there is one retailer that really does impress Mick Durham, it is Superdry. "They opened their second shop in Oxford, quite near me, and I have watched it grow," he says. The store's founder, Julian Dunkerton, is a genius reckons Mick and yet the markets don't appreciate that. "I consider Superdry to be a rival," he says. "Their products are different, but they are targeting similar customers." And that is why Mick

Durham, retailer, is a buyer of shares in his rival.

In fact Mick is new to the world of investing, and has only been really active since January. "And I have learnt a lot already," he says.

To begin with, Mick made the mistake so common to private investors new on the scene. He put it this way: "I bought when shares went up, and sold after they fell." In fact, concedes Mick, he let fear and greed get the better of him.

"I learnt my lesson, and so put stop limits on my shares, but I set the level too high. You've got to let the market breathe," he says. And then Mick quotes a certain Warren Buffet who once said: "If, when making a stock investment, you're not considering holding it at least ten years, don't waste more than ten minutes considering it." And that approach has now become the Mick Durham mantra.

Take software chip company ARM trading for example. Mick likes the company, but says he made the mistake of trading in and out.

"But then again," says Mick "I am learning. At the moment, my main focus is on educating myself. Until recently I have only been investing small amounts, because that way I felt free to experiment."

And how does Mick make his stock selections? "I look very closely at what The Share Centre is saying. It seems I have two choices: I can spend ages doing the research, or let someone else do the hard graft." So Mick goes for the latter. "I also look at Questor in the Telegraph," he adds "and when it tips a share, I then look more closely at the company in question."

And what next for Mick? "I am currently trying to learn about Forex trading," he says.

Mick is also a singer. He is in a choir which largely specialises in Baroque music.

So that's Mick Durham. There's Mick the retailer, amongst other things overseeing his team of tattooists. There is Mick the choir member, singing Bach, Handel and Vivaldi. And there is Mick the investor. No doubt, when he picks the right stock, he will be singing: "Hallelujah! Hallelujah!"



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