# The Alexander David Portfolio

The Alexander David Portfolio offers investors a simple way to invest in a range of 10 hand-picked shares that have the potential to outperform the market in 2009.

Investors benefit from 'advisory' level research and balanced portfolio management with 'execution only' commission charges.

This is a unique opportunity for customers who want exposure to the growth potential of a portfolio of stocks in a range of market sectors. It's simple, cost-effective and balanced.

Access to the Alexander David Portfolio is available for a minimum investment of £2,500, with additional investment available in increments of £2,500.

Alexander David

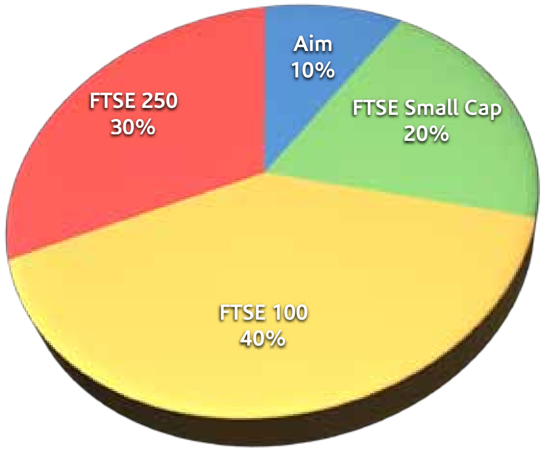
INSIGHT
ADVICE
TRUST

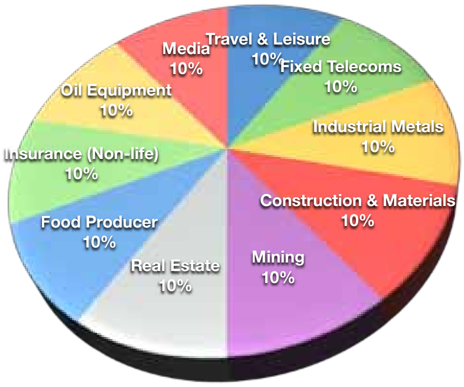
## How the Alexander David Portfolio is structured

Looking down at the portfolio you will notice the portfolio has been split into 10% Aim, 20% FTSE Small Cap, 30% FTSE 250 and 40% in FTSE 100. The portfolio is spread amongst 10 sectors. There is no oil company at this point in the portfolio as we feel that oversupply will continue for the next three – six months and there may be better opportunities in other sectors short term.

Firstly you will notice that the portfolio has avoided two main sectors, the banking sector which we feel still contains too many uncertainties even at these levels and the retail sector requires consumer spending to improve from the current levels which we doubt as all the Government indicators show that the recession may force a lot of small businesses out of business. The reluctance of Banks to lend money and individuals struggling with mortgages backs up our view to avoid these sectors at the moment.

Within the portfolio there are ten stocks each of which has an equal investment of as close as we can of £240 including stamp duty and there is a £10 administration fee per stock so bringing your investment up to £2500. If you decide to sell any individual stock from the portfolio then our normal commission rates will apply but if we advise you that we are rebalancing the portfolio then you will pay just £10 for the sell and again £10 for the buy, advisory for the price of execution.




## Why these 10 stocks?

What we have tried to look for in this portfolio is include well run companies with good management which appear to be oversold in this current market.

We believe that British Airways will continue to be a world leader in the airway industry and emerge a stronger company as it becomes a consolidator within the industry.

BT we believe will continue to generate cash and hold its dividend hence giving it some downside protection.

Galliford Try is an interesting choice although priced in the pennies we believe that the company is in an unpopular sector, we believe this company could well be one of the surprises of the year.

The industrial metal and mining stocks are Ferroexpo and Kazakhmys respectively they both appear very oversold. We believe that, as the world's major industrial nations start to restock on the signs that we are emerging from the recession, these companies both have the ability to be one of the first to benefit.

Yell we have chosen as we feel that management have taken the steps necessary to secure their future with the restricting of its debt and cancellation of its dividend policy. Advertising is one of the first sector that benefit from a growing economy.

Wood Group is an oil services company and we feel that oil will continue upwards in the next year and the company is well run and will be able to consolidate on its position as a major player within this market.

Pure Circle the Aim listed company which many people will not know about is one of those hidden gems in the Aim market. Floated last year it has started to fulfill its early promise by gaining orders for sweeteners from the major companies that it stated in its offer document. At this current level we believe that this does not reflect its potential for significant growth.

Mapeley is a real estate company that we feel is at completely the wrong level and may well benefit as funds rebalance their portfolios next year as they are not depend on businesses but have a vast percentage of Government tenants.

The insurance sector choice is Royal Sun Alliance there is a risk that if the market hits 3600 on the FTSE 100 then there may be problems for the capital requirements of these companies. We feel that there may well be some consolidation within this sector and Royal Sun Alliance may well benefit.

The dividend expectation of the portfolio as a whole is 4.56%. Although this is just an estimate we would hope that this will increase in time but if the companies we have chosen fail to live up to our expectations then the dividends may well be lower.

Trevor Coote

Head of Private Client Broking


## About Alexander David Securities

Alexander David Securities helps corporate, institutional and private clients to realise significant value in a dynamic trading environment, focusing on the very real potential of neglected opportunities.

We are a trusted advisor and critical friend and look to establish long term relationships with every client. We have an old-fashioned commitment to customer service but operate in an efficient, performance-driven culture to deliver results.

Our ethos is to be "in the market", developing the essential insights necessary to provide astute business and investment guidance. We are well connected and bring our contacts, knowledge and experience to bear in every interaction.

Ultimately we deliver the market insight and investment advice you can trust.

There are three values that underpin everything we do:

### INSIGHT

- We look harder and further than others to really understand what is shaping the market.
- We are diligent in our research. We are never complacent enough to assume we know.
- We think deeply about what we are doing and apply our combined experience, skills and contacts to help us understand the issues and drivers shaping the financial markets at both a macro and micro level.

### ADVICE

- We provide accurate, timely and informed guidance. Not just opinion.
- We accept the responsibility that comes with providing this advice and do not take on this role lightly.
- We give our advice impartially and declare our interests where there is a clear need to do so.

### TRUST

- Trust is something that we have to earn.
- It comes from being consistently honest and reliable, even when there are difficult circumstances.
- We are trusted by our customers, partners and associates because first and foremost we act with integrity and with the best interests of our clients in mind.

## What we are expecting in 2009

**Interest Rates:** With interest rates at or around the lowest they have ever been you would expect a massive rush into borrowing money. Unfortunately at present the rate for the private individual may not be at the lowest point yet. We would suggest that the Bank of England may well reduce rates again in the new year and interest rates for the year may well be at their highest in January.

**Inflation:** The recent move in oil to $150 a barrel and the inflation that has been imported into our economy we think will disappear. At present with the economy in recession discounting by retailers has become more and more evident hence price pressure is no longer present. We feel inflation will come down from 5% to about 2.5% – 3% over the year.

**Oil:** Down from $150 to below $40 as the world's economies go into recession helped by the oversupply of oil that was caused as every possible barrel of oil was put into production. OPEC are now cutting production as demand falls very quickly but as always there is a reluctance to cut production as countries become used to the additional income that has been flowing in. OPEC will eventually drive down production as it is not in their interests to allow oil to become too low in price. The price of Petrol and Diesel are becoming more realistic and we feel that Petrol prices may well fall by a further 10%.

**Houses:** House prices are falling with most houses about 20-30% below the peak. A lot of house borrowers have been caught with higher rates as they exited the fixed rates that they have been on for 2 – 5 years.

There are some problems as individuals and families have overextended themselves and have the dread mortgage arrears and could even lose their houses. This will continue to slow the housing market as lenders tighten up their criteria for lending making it more difficult for the first time buyer to enter the market. No longer available will be the 5 times salary mortgages with no deposit in its place will be 2 – 2.5 salary with a 25% deposit.

One further point on mortgages a lot of new mortgages that were taken out over the last five years have been interest only and as house prices fall, we may well see negative equity occur again.

**Exchange Rate:** Sterling continues under pressure we have seen a rapid fall from $2 - £1 to the current level of $1.45. The $1.50 to £1 level has been a guide level for the past 10 years. We feel that the $ may well have the ability to appreciate further we would suggest a level of £1 = $1.25.

The all conquering Euro continues to appreciate vs the Pound and although Europe may well be entering the recession later there may well be a housing crisis to come. We feel the Euro will appreciate further against the $ and the £ a level of £1 = €0.88 may well be seen.

**Indices:** There are various indices but the one everyone talks about is the FTSE 100 (footsie). The range that we suggest for the footsie is a low of 3525 with a high of 4950 with a year end close of 4100.

## British Airways

(Source: Digital Look)

| | |
|---|---|
| Ticker | BAY |
| Market Sector | FTSE 100 |
| Sector | Travel & Leisure |

BA gave a relatively positive trading statement at the beginning of November as it increased revenues and achieved some operational efficiencies despite dramatically higher costs. The fall in fuel costs will benefit the group and it can expect to pick up business from other failing operators. It has been linked with a number of suitors over the past few years as its seeks to be at the heart of consolidation in the airline industry but has so far failed to pull off any deals. The recent collapse of talks with Qantas makes a deal with Iberia more likely although the group may hold off until anti-trust clearance in the USA, this is far from a certainty. In the meantime the £1.7 billion pension fund deficit is expected to be a hurdle in brokering any deal. The business is essentially sound and it remains one of the world's largest and most popular airlines with the strength to survive the current economic turmoil.

## BT

(Source: Digital Look)

| | |
|---|---|
| Ticker | BT.A |
| Market Sector | FTSE 100 |
| Sector | Fixed Telecoms |

BT has been hit by a combination of rising competition and increasingly aggressive regulation in both its domestic and, in particular, its foreign operations. It has also not been helped by the global trend away from fixed line telecommunications to mobile following its decision to demerge O2. However, the business is fundamentally sound and as close to recession proof as we can imagine especially in these difficult times. The scope for further cost reductions and operational efficiencies are expected to be reflected in continuing profitability and dividend payments. We do not expect the dividend to be materially reduced, if at all, and consider the stock a buy for its yield.

## Ferrexpo

(Source: Digital Look)

| | |
|---|---|
| Ticker | FXPO |
| Market Sector | FTSE 250 |
| Sector | Industrial Metals |

This Ukrainian based iron ore producer has had a difficult year as input cost pressures have affected the group as iron demand has fallen. In October the group reported a marked reduction in demand for iron ore that is expected to have a 5-10% negative impact on 2008 sales (Source: Company). However, the group has had some success in offsetting this through greater operational efficiencies and its ability to extract higher-grade ores. Furthermore, producer price inflation in the Ukraine, which had been running at nearly 30%, is now falling as diesel and steel input prices fall and the decline in the value of the Ukrainian currency will both help to mitigate the effects of lower demand. The group is well placed to benefit from any upturn in its markets and we believe the fall in its share price has been overdone.

## Galliford Try

(Source: Digital Look)

| | |
|---|---|
| Ticker | GFRD |
| Market Sector | FTSE Small Cap |
| Sector | Construction & Materials |

Construction company and house builder, Galliford Try is succeeding in bucking the trend in its sector producing a strong set of interim results with pre tax profits up 35% to June 2008. 87% of its £1.9 billion forward order book is now accounted for by public sector work including Wimbledon's centre court and infrastructure for the Olympic Park (Source: Company). The house building operations have slowed in recent months and margins are falling as further sales incentives are introduced and construction projects for private sector clients are beginning to weaken affecting the outlook for 12 to 18 months time. In spite of this, the group has retained its dividend and is maintaining tight control over cash and debt levels. Despite being in the unloved building sector, this is a well-run company with a strong forward order book and good yield.

## Kazakhmys

(Source: Digital Look)

| | |
|---|---|
| Ticker | KAZ |
| Market Sector | FTSE 100 |
| Sector | Mining |

Kazakhmys is one of the world's largest copper producers and has benefited from high copper prices over the past 30 months. The copper price has fallen from $4/lb to around $1.25/lb and commentators do not expect any significant recovery in the medium term. The group has responded to market conditions by reducing output from 340 Kt in 2008 to 300Kt in 2009 and reducing capital expenditure until prices improve. The group has built a 25% stake in domestic rival Eurasian Natural Resources (ENRC) effectively allowing it to block most corporate activity by ENRC although it has said it has no plans to mount a full bid or increase its stake at the moment. Single metal producers have been disproportionately marked down in recent months and we feel that this coupled with a historic 14% dividend yield and bid speculation surrounding this stock are good reasons to be buying the shares.

## Mapeley

| Ticker | MAY |
|---|---|
| Market Sector | FTSE Small Cap |
| Sector | Real Estate |

Mapeley owns the Abbey and HM Customs and Revenues properties in the UK and derives over 90% of its revenues from government or investment grade tenants on average leases of ten years. Despite this, its shares have fallen from a high of £40 in the first half of 2007 to around 100p today on the back of fears of substantial falls in property values. Mapeley's portfolio was valued at over £2 billion to June 30th 2008 with HMRC accounting for 75% of the portfolio. In its third quarter statement to September 2008, the group reported resilient trading completing 78 rent reviews and lease rentals and no significant change in occupancy levels. Debt levels remain high at £1.45 billion but the average life of loans is 6.8 years and 96% is fixed at interest rates of 5.48% giving the group some comfort. The shares were further hit by the ending of bid talks with major investor Fortress in August. The shares have unperformed both the market and its sector but given the quality of its tenants and properties, we feel the shares are oversold at this level.

(Source: Digital Look)

## PureCircle

| Ticker | PURE |
|---|---|
| Market Sector | AIM |
| Sector | Food Producer |

PureCircle is the world's largest producers of Reb-A, a natural, zero calorie sweetener derived from the Paraguayan Stevia plant. It has achieved considerable success over the past year with the renewal of a two year deal with food producer Cargill and new deals signed with Pepsi and Whole Earth, the manufacturer of Canderel. It also received FDA clearance as "safe" as a key ingredient in mainstream food and beverages opening up the huge US sweetener market. Its major problem is likely to be keeping up with demand but the fact that it is still sitting on the bulk of the proceeds from its December 2007 IPO will enable it to increase production. Although still in its infancy, we believe that the growth potential for both the product and the shares is enormous.

(Source: Digital Look)

## Royal Sun Alliance

| Ticker | RSA |
|---|---|
| Market Sector | FTSE 100 |
| Sector | Insurance (non-life) |

Royal & Sun Alliance (RSA) is one of the world's leading insurance groups providing general insurance products to over 20 million customers worldwide. It delivered a strong set of third quarter results in November managing to increase marginally premiums in both personal and commercial insurance against a highly competitive marketplace. The Canadian, Scandinavian and emerging markets businesses all performed well and the group is confident of delivering a "strong result" in 2008. RSA has bucked the trend by targeting profitable business and maintaining strict underwriting rules and we believe it will continue to produce solid results in these difficult markets.

(Source: Digital Look)

## John Wood Group

| Ticker | WG. |
|---|---|
| Market Sector | FTSE 250 |
| Sector | Oil Equipment |

Scotland's largest independent oil services company, John Wood Group, has seen its share price more than half since September as oil prices have fallen leading to concerns over future investment in the sector. In a December trading statement, the group reported "a more uncertain and challenging outlook" with indications that clients are reducing expenditure and some projects being delayed. However, some 55% of its business is derived from operating and maintaining existing facilities that are generally more robust during a recession. The current order book is strong and the group is continuing to win new contracts, particularly in the North Sea. The group's low gearing level of 33%, good international spread and high quality customer base will stand it in good stead throughout what will undoubtedly be a difficult period ahead. We consider the current low share price offers an excellent opportunity to buy into this quality operation.

(Source: Digital Look)

## Yell Group

| Ticker | YELL |
|---|---|
| Market Sector | FTSE 250 |
| Sector | Media |

Yell's share price has collapsed over the past year as concerns mounted about its debt mountain assumed to finance major acquisitions in Spain and the USA. The group dealt with its balance sheet issues in October with a £3.7 billion refinancing deal that gave it sufficient headroom to see it through the worsening economic climate. It suspended its dividends at the time and announced its intention to reintroduce them once EBITDA to debt ratio fell to 4x. It currently stands at 4.9x and expects to reach 4x by 2011. In November the group maintained its full year's earnings guidance despite expectations of a fall in revenues in the third quarter and negative organic growth as the operating environment worsens. The cost cutting measures and efficiencies introduced to date added to a strong first half performance will result in broadly flat EBITDA for the full year. We consider the shares have been oversold and that the group is now much better placed both operationally and financially to benefit from any up turn in its market.

(Source: Digital Look)

| | Current Price | 2008 High | 2008 Low | Historic Div Yield | Forecast Div Yield | Latest PE |
|---|---|---|---|---|---|---|
| British Airways | 180.5p | 333p | 110p | 2.8% | 1.3% | 3.0x |
| BT Group | 139p | 280p | 110p | 11.7% | 9.5% | 5.7x |
| Ferrexpo | 33p | 455.5p | 21.5p | 7.3% | 5.0% | 1.8x |
| Galliford Try | 35p | 100p | 27p | 9.4% | 10.5% | 2.3x |
| Kazakhmys | 250p | 1,943p | 174p | 12.1% | 5.0% | 1.1x |
| Mapeley | 125p | 1,825p | 62p | 179.0% | 6.0% | n/a |
| PureCircle | 202p | 254p | 101p | na | 0.0% | n/a |
| Royal Sun Alliance | 137.5p | 166p | 116p | 5.1% | 5.3% | 7.2x |
| John Wood Group | 193p | 495p | 156p | 2.5% | 3.0% | 7.2x |
| Yell Group | 44p | 392p | 35p | 28.0% | 0.0% | 1.1x |

Sources: Digitallook & Alexander David Securities

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