

25 ways to make a profit in 2008

The year has got off to a shaky start, so we went to a panel of City experts for their tips on how to beat the market

David Budworth

INVESTORS faced a turbulent start to the year after the oil price surged to \$100 a barrel, stoking fears that America will head into recession and sparking a rush to shelter cash in gold.

The FTSE 100 index of leading shares slid 2% to 6,349 in the first three trading days of 2008, as weak jobs data on Friday added to the recession fears.

Oil pushed above its previous record of \$99.21 a barrel, reached in November, to within sight of its inflation-adjusted peak of \$101.70 hit at the beginning of the Iran-Iraq war in 1980. Meanwhile, gold, seen as a safe haven in times of turmoil, jumped to \$861 an ounce surpassing the nominal peak hit 27 years ago. It is still a long way off its inflation-adjusted peak of more than \$2,000 though.

Many commentators expect further turmoil, especially those who follow the January indicator. In eight of the past ten years, the first day's market direction has foreshadowed the outcome for the succeeding 12 months. With the market down 40 points on Wednesday, the indicator suggests a negative year.

Furthermore, if at the close of business on the fifth trading day – Tuesday – share prices are lower than they started the year, then they will almost certainly end the year lower too. The indicator has worked in seven out of the past ten years, although last year was not one of them. The Footsie had fallen 0.4% by the end of the fifth day but finished the year 4% up.

It is easy to scoff at such pointers but it does chime with many experts' fears. The consensus view is that the Footsie will end just 1% higher at 6,550, according to a poll of analysts by The Sunday Times.

There's no need to despair, though, as there are always ways to beat the market. We asked some of the nation's top fund managers, analysts and advisers where they would invest to beat the market. Whether you are cautious or feeling brave, you'll find more than a few ideas to help you profit in 2008.

THE GUNG-HO INVESTOR

If you like big risks, these are the tips our panel think will make the biggest returns. They are highly speculative and you should only invest what you can afford to lose.

1 Bullish on Russia

The Russian market is turning out to be many analysts' top pick. It rose 19% last year, a decent return in most people's eyes, but well behind the performance of many other emerging markets, especially the 97% gain in China. Investec Asset Management describes it as the most attractive of the Brics (Brazil, Russia, India and China) markets.

Martin Majdaniuk at Baring Asset Management said: "Russia is known to be a rich supplier of oil and gas, however it is also a significant provider of nickel, copper, palladium and iron ore, all of which satisfy some of the China's insatiable demand."

Mark Dampier at Hargreaves Lansdown, an adviser, picks Neptune's Russia and Greater Russia fund.

2 Earn more from bank shares than savings accounts

This one is for the very brave: the crisis that has caused leading banking shares to lose nearly 25% of their value over the past six months is not over yet. However, the sector is now at its cheapest for a decade, with an average dividend yield of 5.2% against 3.1% for the Footsie.

David Buik at spread-betting firm Cantor Index would back Barclays on the hope of a recovery in the second half of the year. Jane Coffey at Royal London Asset Management recommends Lloyds TSB and HSBC.

3 Go nuts for Brazil

The Brazilian market has had a storming run: last year it came in third, trailing only behind China and Peru. But that doesn't mean the Brazilian boom is over.

Jim Slater, the City veteran, is a big fan of agricultural commodities and believes the best way to profit is to buy into Brazil. It is second only to Australia as a producer of natural resources and its stock market is dominated by oil and mining firms such as Petrobras and Companhia Vale do Rio Doce. One way in is to buy the iShares MSCI Brazil fund, an ETF tracking the Brazilian index.

4 Sun rises on Korea

Last year was another good one for billion-aire investor Warren Buffett, and one of his best investments was Korean steelmaker Posco, which rose 86%. Buffett describes Korea as "one of the world's most attractively priced markets".

The easiest way to follow him is to buy a managed fund such as Baring Korea, up 40% over the past year, or Barclays Global Investors' South Korea ETF.

5 Build profits

Last year was not a good one to be in house-building shares: they fell 38% as the credit squeeze and fears about the housing market cast gloom over the sector. Some professionals, including Fidelity's star stockpicker, Anthony Bolton, are betting on a revival. To get exposure to the sector, Goldman Sachs backs British Land. Analysts also like Persimmon and Taylor Wimpey.

6 Indian property

The UK commercial property market is in the midst of its most severe downturn since 1990, but there are still parts of the world where analysts

think shops, offices and factories will make double-digit returns.

Mick Gilligan at Killik, a stockbroker, suggests Trinity Capital, a fund that invests in Indian property – principally commercial property, although it plans to buy a some residential housing developments.

7 Ride out the storm

Shares in the American motorcycle manufacturer Harley-Davidson has slumped 36% in the past year amid fears that sales of “dream-fulfilment” goods will be one of the biggest casualties during an economic slowdown.

Alan Steel of adviser Alan Steel Asset Management disagrees. He said: “Harley is exporting to emerging markets, including China, so even if there is a US consumer slowdown its sales should remain strong.”

8 Debt relief

Company collapses are expected to rise this year as a slowing economy and higher borrowing costs take their toll. The number of firms going bust is forecast to rise to 13,492, an 8% increase on 2007 and the highest annual rate since the bear market in 2003, according to Euler Hermes, a credit insurer.

Giles Hargreave, manager of Marlborough Special Situations, thinks investors can exploit this trend by buying into corporate-recovery and rescue firm Begbies Traynor.

9 Israel on the move

British investors have tended to ignore Israel, but its stock market will be thrust into the limelight this year when it is promoted from emerging to developed market status.

FTSE, which creates stock-market indexes, is planning to reclassify Israel in June, forcing many tracker funds to buy into the market for the first time. There are more than 20 Israeli companies listed on the London Stock Exchange. Technology firm BATM Advanced Communications is the biggest: in 2007 its shares fell 5%.

10 The Middle East

With the oil price at a high, City experts are starting to take notice of the Middle East. Growth is being fuelled by huge public spending on roads, airports and other infra-structure as the authorities invest their petro-dollars. Gilligan recommends the Arab Gateway fund, run by Shuaa Asset Management. Profits are taxed as income rather than capital so the best way to invest is through a self-invested personal pension.

COMMODITY INVESTORS

The soaring price of gold and oil, as well as the surge in food prices, has attracted a new band of investors to commodities. Here are the best ways to benefit from the boom.

11 There's money in fertiliser

Potash is being tipped as one of this year's hot commodities. Demand for the raw material has soared as the increasing use of biofuels and growing demand for grain in Asia has led to an increase in demand for fertiliser. Potash is one of its key components.

Potash Corp of Canada is the biggest company in the sector. Other stocks to consider include Mosaic and Agrium.

12 Gold to shine

Ross Norman of the Bulliondesk.com, the top forecaster for the London Bullion Market Association for the past four years, said: “Our view is that there is a possibility of breaking above the \$1,000 mark and quite conceivably reaching \$1,170 in 2008.”

One way investors can get exposure is to invest in Lyxor Gold Bullion Securities – shares that move roughly in line with the gold price. The set-up costs are 0.1%, the annual charge is 0.4% and one share is equivalent to a 10th of a troy ounce of gold.

If the gold price is \$850, each share is worth about \$85. Otherwise, there are managed funds such as Blackrock Merrill Lynch Gold & General.

13 Precious returns

Gold isn't the only precious metal breaking records. Platinum surged to a new high of \$1,553 an ounce last week. But the surprise of 2008 could be silver, which is still a long way off its record high of more than \$40 in 1980. On Friday it cost \$15 a troy ounce.

You can invest directly in platinum or silver via an exchange-traded commodity. Offered by ETF Securities, ETCs track the physical price of both metals.

14 Oil surge

While many analysts think the surge above \$100 will be shortlived, oil company projections are still based on crude at \$50 – and some small exploration firms look to be a particularly good bet.

Analysts recommend Aminex, which has interests in America and East Africa and exclusive rights to drill in North Korea. Gavin Oldham at The Share Centre, a stockbroker, backs Petrofac which designs, builds and operates oil and gas facilities.

If you prefer to invest in a fund that focuses on the smaller end of the market, Dampier at Hargreaves Lansdown backs the CF Junior Oils trust.

15 Rising food prices

Experts including Jim Rogers, the former partner of hedge-fund guru George Soros, believe the bull market in agricultural commodities could continue for at least another decade, despite its strong run last year.

Syngenta, a Swiss firm that produces herbicides and insecticides to protect crops, is tipped by Deutsche Bank. Another company to watch is Yara, a Norwegian manufacturer of fertilisers.

GREEN INVESTORS

Alternative energies will become big business if the oil price stays above \$50. We asked the experts for some tips.

16 Trading profits

A key part of the developed world's strategy for reducing greenhouse gases is carbon trading. Credits are bought by firms that are unable to remain within their CO2 allocation, and sold by those that have a surplus.

To profit from the market, analysts tip Trading Emissions and Camco International.

17 Wind in the sails

Money has been piling into wind power because of the high oil price, especially following the government's announcement at the end of last year that every UK household could be powered by offshore wind farms.

You can reduce risks by buying a fund such as the Merrill Lynch New Energy Technology or Impax Environmental Markets investment trusts.

18 The other black gold

Coal is increasingly being seen as an alternative fuel to oil. The first new coal-powered station was approved in the UK for more than 30 years last week, China is building two coal-fired power stations every week and America is also expanding its coal consumption. This should benefit mining groups such as BHP Billiton, Anglo American and Rio Tinto.

ATH Resources, which operates open-cast mines in Scotland and supplies three of the UK's main electricity generating companies, is another tip. It has a dividend yield of 5%.

CAREFUL INVESTORS

If you want to invest in shares but don't want to be exposed to excessive risk, analysts recommend a switch into defensive areas. Here are their top picks.

19 Supermarket sweep

In troubled times, big is beautiful and in the retail sector no-one is bigger than Tesco. The supermarket receives £1 of every £7 spent in UK shops and is growing fast overseas so it should remain immensely profitable even in an economic downturn.

Richard Hunter at Hargreaves Lansdown, the broker, said: "Without taking its eyes off the core UK market, the success of its international division continues apace, with a flagship Chinese store and the US roll-out yet to make their own notable contributions."

20 Telecoms look good

Many investment banks are tipping Vodafone because it generates plenty of cash and pays good dividends, so has a better chance of withstanding further turbulence.

Last year the world's biggest mobile-phone company increased its dividend by 11% to 6.76p.

After a good run last year its shares no longer look outstanding value at 185.8p but they are still a long way from the peak of 399p in March 2000.

Jeremy Batstone-Carr at stockbroker Charles Stanley said he would buy rival telecom firm Cable & Wireless.

21 Smoking can pay

Another firm that should be able to maintain its profits is British American Tobacco. Even though it doesn't look cheap, many analysts think it has further to go.

Hunter said: "British American Tobacco's marketing ability, the sheer size of its operations and a keen eye for cost containment are all underlying positives. The shares defensive qualities could help investors during a potentially volatile 2008."

22 Drugs do work

Drug firms have been unloved following scare stories suggesting existing products and new ones are not up to scratch. As a result, pharmaceutical stocks have lagged the market. Glaxo Smith Kline and Astra Zeneca were down 5% and 21% respectively in 2007, while the FTSE 100 rose 4%.

But many fund managers think drug stocks are ripe for a revival. Jane Coffey at Royal London Asset Management said: "The derating discounts a lot of the bad news. I am positive on Astra, Glaxo and Shire."

In the healthcare sector Bat-stone-Carr recommends Smith & Nephew, a leading provider of hip and knee replacements.

NERVOUS INVESTORS

23 Funds for storms

If you are looking to hedge your bets in an uncertain market, consider multi-asset funds. Invesco Perpetual Distribution invests in equities and bonds and has managed to produce a return of 2% over the past six months compared with a fall of nearly 6% in the average UK equity fund, according to fund analyst Financial Express.

24 Back bonds

While equity investors have enjoyed a great time over the past few years, those with money in bond funds have seen little in the way of growth. However, the tide for bonds could turn as they tend to perform well when interest rates fall. Darius McDermott at Chelsea Financial Services likes Aegon Sterling Bond.

25 Make the most of cash

Nervous investors who want to shun shares can benefit from some of the highest savings rates for years. Chelsea offers a one-year fixed-rate bond at 6.9% on balances above £1,000. Given that rates could fall, this is a great time to lock into a fixed deal.

CASHING IN ON BOOM-TIME RUSSIA

KEN and Lynne Livesley from Ashton in Makerfield, near Wigan, are hoping that a soaring Russian stock market will give their pension a huge

boost.

The couple, aged 60 and 56, pictured here with their grandchildren Daniel, nine, and twins Matthew and Adam, six, invested in the Neptune Russia and Greater Russia fund through their self-invested personal pension just over a year ago.

Last year the fund gained 39%, but analysts are predicting even better returns from the market this year – even if the global economy slows.

Ken, who is the manager of a food services firm, said: 'It has been an excellent investment so far and the outlook is even brighter.

'Whatever you think of President Vladimir Putin, you can't deny that the Russians know how to make money.'

[Contact our advertising team](#) for advertising and sponsorship in Times Online, The Times and The Sunday Times.

© Copyright 2008 Times Newspapers Ltd.

This service is provided on Times Newspapers' [standard Terms and Conditions](#). Please read our [Privacy Policy](#). To inquire about a licence to reproduce material from Times Online, The Times or The Sunday Times, click [here](#). This website is published by a member of the News International Group. News International Limited, 1 Virginia St, London E98 1XY, is the holding company for the News International group and is registered in England No 81701. VAT number GB 243 8054 69.