



# FTSE Diversification:

## The key to profit in 2016

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### Not all doom 'n' gloom

You'd be forgiven for deducing the markets are all doom and gloom after the UK's flagship FTSE index closed down 5% last year, however, that's a very one-sided use of a single figure. And more than likely based on headlines designed to sell newspapers. What about the 13% rally from late Jan lows to make fresh all-time highs in April? Or the 20% Spring/Summer decline from said highs and subsequent 12% rally in late August?

They say **a picture paints a thousand words** and there is indeed nothing better than a price chart to show the many attractive opportunities 2015 presented in terms of share price moves. Have a look at a FTSE chart. It wasn't all. A terrific journey was to be had along the way if you looked a little further and considered other options.

While the FTSE did indeed fall by 5%, don't forget it is an index of 100 stocks. And one thing is for sure, they didn't all fall 5% last year. For sure, some fell a lot more, widely talked about in myriad annual media roundups over the festive period. But what about the **stocks that fared rather better**, in some cases posting impressive gains of up to 45%? Who's taking about them?

### Did you know?

Certain **housebuilders** rose 30 to 40% thanks to government stimulus programmes and the prospect of low UK interest rates for longer. What about **insurers** whose share prices rallied 20 to 30% thanks to solid growth and continually generous dividend policies? **Travel stocks** climbed 25-30% on low oil prices.

Nearly all media focus has been on **falling commodity** prices and the knock-on for the **Oil and Mining sector**. Because this is what weighs most heavily in the FTSE, or used to be at least. But there's lots going on elsewhere.

### The usual suspects

Digging deeper into the statistics we note that since the beginning of 2015, and including the first few days of the new year, **FTSE declines of 650pts can be 90% attributed to just 25% of its components**. And it is no surprise to see this small group dominated two thirds (16 stocks) by Oil, Financials and Mining stocks. And the remainder can, in the main, be attributed to multiple and persistent profits warnings and well-documented troubles.

Our point is that casting the net wider and **considering other less well-known names** can be highly beneficial to both the short-term trader and longer-term investor. And diversifying can also include trading shares short - if something is trending south, maybe there are profits to be made from further falls.

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## 2015 Winners

Name	Sector	EPIC	% Perf since end-14
1 DCC PLC	Support Services	DCC	53.25
2 Hargreaves Lansdown PLC	Financial Services	HL	40.02
3 Taylor Wimpey PLC	Household Goods & Home Construction	TW.	39.62
4 Berkeley Group Holdings (The) PLC	Household Goods & Home Construction	BKG	39.4
5 Inmarsat PLC	Mobile Telecommunications	ISAT	35.83
6 Provident Financial PLC	Financial Services	PFG	29.2
7 Carnival PLC	Travel & Leisure	CCL	27.42
8 Direct Line Insurance Group PLC	Nonlife Insurance	DLG	27.12
9 Imperial Tobacco Group PLC	Tobacco	IMT	25.28
10 Barratt Developments PLC	Household Goods & Home Construction	BDEV	25.16
11 Persimmon PLC	Household Goods & Home Construction	PSN	23.95
12 ITV PLC	Media	ITV	22.58
13 Sage Group (The) PLC	Software & Computer Services	SGE	22.34
14 Admiral Group PLC	Nonlife Insurance	ADM	21.18
15 International Consolidated Airlines Group SA	Travel & Leisure	IAG	20.5
16 SABMiller PLC	Beverages	SAB	20.14
17 CRH PLC	Construction & Materials	CRH	19.85
18 Sky PLC	Media	SKY	19.19
19 Mondi PLC	Forestry & Paper	MNDI	17.71
20 Reckitt Benckiser Group PLC	Household Goods & Home Construction	RB.	15.38
21 Coca-Cola HBC AG	Beverages	CCH	14.25
22 BT Group PLC	Fixed Line Telecommunications	BT.A	13.79
23 Intertek Group PLC	Support Services	ITRK	13.75
24 St James's Place PLC	Life Insurance	STJ	12.65
25 London Stock Exchange Group PLC	Financial Services	LSE	12.52
26 TUI AG	Travel & Leisure	TUI	12.24
27 WPP Group PLC	Media	WPP	9.63
28 Hikma Pharmaceuticals PLC	Pharmaceuticals & Biotechnology	HIK	9.3
29 Merlin Entertainments PLC	Travel & Leisure	MERL	8.05
30 Capita PLC	Support Services	CPI	7.03
31 BAE Systems PLC	Aerospace & Defense	BA.	6.25
32 Severn Trent PLC	Gas, Water & Multiutilities	SVT	5.56
33 BG Group PLC	Oil & Gas Producers	BG.	5.53
34 Unilever PLC	Personal Goods	ULVR	4.94
35 British American Tobacco PLC	Tobacco	BATS	4.31
36 RELX PLC	Media	REL	3.86
37 Bunzl PLC	Support Services	BNZL	2.95
38 Experian PLC	Support Services	EXPN	2.57
39 Travis Perkins PLC	Support Services	TPK	2.5
40 National Grid PLC	Gas, Water & Multiutilities	NG.	2.33
41 easyJet PLC	Travel & Leisure	EZJ	1.86
42 Dixons Carphone PLC	General Retailers	DC.	1.25
43 Compass Group PLC	Travel & Leisure	CPG	0.86
44 Randgold Resources Ltd	Mining	RRS	0.75
45 Royal Mail Group PLC	Industrial Transportation	RMG	0.72
46 Schroders PLC	Financial Services	SDR	0.56
47 United Utilities Group PLC	Gas, Water & Multiutilities	UU.	0.38
48 3i Group PLC	Financial Services	III	0.19

Source: AlphaTerminal, 7 Jan 2016

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## 2015 Losers

Name	Sector	EPIC	% Perf since end-14
1 Anglo American PLC	Mining	AAL	-79.6
2 Glencore PLC	Mining	GLEN	-72.57
3 BHP Billiton PLC	Mining	BLT	-51.47
4 Antofagasta PLC	Mining	ANTO	-45.46
5 Standard Chartered PLC	Banks	STAN	-45.41
6 Pearson PLC	Media	PSON	-41.89
7 Aberdeen Asset Management PLC	Financial Services	ADN	-41.23
8 Rio Tinto PLC	Mining	RIO	-41.22
9 Rolls-Royce Group PLC	Aerospace & Defense	RR.	-37.41
10 Burberry Group PLC	Personal Goods	BRBY	-35.3
11 Royal Dutch Shell PLC	Oil & Gas Producers	RDSB	-35.09
12 Royal Bank of Scotland Group (The) PLC	Banks	RBS	-27.94
13 Standard Life PLC	Life Insurance	SL	-27.4
14 Tesco PLC	Food & Drug Retailers	TSCO	-27.2
15 Centrica PLC	Gas, Water & Multiutilities	CNA	-26.2
16 Sports Direct International PLC	General Retailers	SPD	-26.09
17 Johnson Matthey PLC	Chemicals	JMAT	-25.64
18 GKN PLC	Automobiles & Parts	GKN	-19.91
19 Smiths Group PLC	General Industrials	SMIN	-19.76
20 BP PLC	Oil & Gas Producers	BP.	-19.56
21 Old Mutual PLC	Life Insurance	OML	-18.69
22 HSBC Holdings PLC	Banks	HSBA	-17.9
23 Barclays PLC	Banks	BARC	-16.09
24 Whitbread PLC	Travel & Leisure	WTB	-13.36
25 Ashtead Group PLC	Support Services	AHT	-11.07
26 Babcock International Group PLC	Support Services	BAB	-10.07
27 SSE PLC	Electricity	SSE	-9.03
28 Lloyds Banking Group PLC	Banks	LLOY	-8.88
29 Intu Properties PLC	Real Estate Investment Trusts	INTU	-8.68
30 Marks & Spencer Group PLC	General Retailers	MKS	-8.56
31 Prudential PLC	Life Insurance	PRU	-8.08
32 Fresnillo PLC	Mining	FRES	-7.31
33 RSA Insurance Group PLC	Nonlife Insurance	RSA	-7.23
34 Wolseley PLC	Support Services	WOS	-5.52
35 ARM Holdings PLC	Technology Hardware & Equipment	ARM	-4.97
36 InterContinental Hotels Group PLC	Travel & Leisure	IHG	-4.55
37 Shire PLC	Pharmaceuticals & Biotechnology	SHP	-4.48
38 Sainsbury (J) PLC	Food & Drug Retailers	SBRY	-4.26
39 AstraZeneca PLC	Pharmaceuticals & Biotechnology	AZN	-3.99
40 Kingfisher PLC	General Retailers	KGF	-3.7
41 Vodafone Group PLC	Mobile Telecommunications	VOD	-3.41
42 British Land Co PLC	Real Estate Investment Trusts	BLND	-3.35
43 Smith & Nephew PLC	Health Care Equipment & Services	SN.	-3.07
44 Hammerson PLC	Real Estate Investment Trusts	HMSO	-2.93
45 GlaxoSmithKline PLC	Pharmaceuticals & Biotechnology	GSK	-2.65
46 Diageo PLC	Beverages	DGE	-2.23
47 Land Securities Group PLC	Real Estate Investment Trusts	LAND	-1.08
48 Associated British Foods PLC	Food Producers	ABF	-1.01
49 Aviva PLC	Life Insurance	AV.	-0.79
50 Legal & General Group PLC	Life Insurance	LGDN	-0.76
51 Next PLC	General Retailers	NXT	-0.4

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## Before you rush

The previous tables show the performance of the FTSE's components since 31 Dec 2014. That's not to say you should rush in and buy all 10 of what did best last year hoping for further solid gains. Or that you should consider the bottom 10 as either recovery or short candidates. The point we make is that the FTSE did fall 5% last year. However, it was by virtue of it being an *index of 100 stocks*, and thus **highly diversified**, that it fell by *only* 5%.

Any manager of a Mining/Oil fund is sure to have taken a bath last year with losses likely >30%. But for reasons not entirely unknown before the start of 2015. China has been growing more slowly and thus demanding less raw materials for a good while now. Therefore anyone who has held on to loss-making positions in anything commodity-related has been stubborn to the point of self-harm as China data disappointed on a monthly basis and the commodity currency USD strengthened in the moved towards December's first Fed rate hike in 9 years.

## Happy New Year Statto!

Our full FTSE breakdown (please ask for the spreadsheet) suggests you had a **25% chance of picking a stock that gained 10-45%** (ignore DCC +56% as it only entered the index late Dec along with PFG and WPG). 15% of shares rose 20%+. If the FTSE -5% is your problem, you still had a 65% chance of picking a stock that outperformed the index last year. Equally you had a **75% chance of not picking one of the few stocks that fell 10-80%**. No surprise to see 8 of the bottom 10 are Miners, Oil or Financials. These are good stats. So long as you respect the need for diversification and to look outside the usual suspects of Banks, Miners and Oil.

## What held the index back?

Name	Sector	EPIC	% Perf since end-14	Pts Contribution
1 Royal Dutch Shell PLC	Oil & Gas Producers	RDSB	-35.09	-129.1
2 HSBC Holdings PLC	Banks	HSBA	-17.9	-69.8
3 BP PLC	Oil & Gas Producers	BP.	-19.56	-47.1
4 Rio Tinto PLC	Mining	RIO	-41.22	-39.6
5 Royal Bank of Scotland Group (The) PLC	Banks	RBS	-27.94	-36.6
6 Glencore PLC	Mining	GLEN	-72.57	-33.9
7 Standard Chartered PLC	Banks	STAN	-45.41	-29.3
8 BHP Billiton PLC	Mining	BLT	-51.47	-29
9 Barclays PLC	Banks	BARC	-16.09	-21.9
10 Lloyds Banking Group PLC	Banks	LLOY	-8.88	-17.4
11 Rolls-Royce Group PLC	Aerospace & Defense	RR.	-37.41	-14.8
12 Tesco PLC	Food & Drug Retailers	TSCO	-27.2	-12.1
13 Prudential PLC	Life Insurance	PRU	-8.08	-11.3
14 Anglo American PLC	Mining	AAL	-79.6	-10.8
15 Centrica PLC	Gas, Water & Multiutilities	CNA	-26.2	-10.8
16 Pearson PLC	Media	PSON	-41.89	-9.4
17 AstraZeneca PLC	Pharmaceuticals & Biotechnology	AZN	-3.99	-8.7
18 Vodafone Group PLC	Mobile Telecommunications	VOD	-3.41	-7.7
19 Standard Life PLC	Life Insurance	SL	-27.4	-7.6
20 Antofagasta PLC	Mining	ANTO	-45.46	-7.3

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The prior table shows what has held the index back most since end-2014. As we said earlier, no surprise to see **Oil, Miners and Banks** making up the bulk of lost points given their exposure to a falling oil price, falling commodity prices and global growth sentiment in general. Of the 650pt FTSE index decline, the bottom 5 (Royal Dutch Shell, HSBC, BP, Rio and RBS) account for a whopping 50%!

Our point here is that the **FTSE's losses and hindrance has been very concentrated** and thus should have been easy to avoid. So long as, and I repeat myself, you respect the need for diversification. Having a position in all the miners or all the banks does not count as being diversified. We're talking about getting out of your comfort zone and considering some of the stocks that are deemed less sexy and less talked about because they are likely just grinding higher and off people's radars. They might not deliver the daily moves many crave for in their quest to double their account in a week, but they are also stocks where you are far likely to get less hurt.

We've written before about **shunning names unfamiliar to you** and missing out on profitable opportunities. Restricting yourself to a select few stocks in only a couple of sectors can of course be highly profitable, but you also run the risk of being more exposed to market news when things go bad. You also risk becoming emotionally attached to the stocks, feeling the need to trade the names repeatedly to replicate gains or indeed recoup losses.

The FTSE offers a wealth of stocks which obviously offer profitable opportunities outside the usual suspects, being just as big/liquid and easy to trade. And we are here to talk about all 100 not just the select few that are mentioned daily in the media because they are helping it rally or fall.

*"It's as much about capital appreciation as it is about capital accumulation."*

### What the brokers are saying

Given the importance of institutional broker opinion and what analysts are saying, we thought it wise to include a comprehensive list of FTSE 100 stocks and what the consensus feeling is. This might help you with your analysis of what to do and how to construct/amend your portfolio.

This isn't what we at Accendo think you should buy, sell (or even sell short) as we don't offer advice. Rather this is a chance to see what the major city institutions are saying and for you to make your own informed decision.

When looking at the table, the final colored column represents a heat-map of how the brokers view the stock with dark green being a strong buy and dark red being a strong sell. The numbers also refer to the strength of the call as is stated below.

**4-5 = Strong Buy**

**3-4 = Buy**

**3 = Hold**

**2-3 = Sell**

**1-2 = Strong Sell**

Please ask us for specific a breakdown of broker on any individual equities if you would like to know more. This is the type of information we offer to clients on a daily basis.

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## Bloomberg Consensus

Name	Ticker	Price (p)	Consensus Rating	Consensus Target	Name	Ticker	Price (p)	Consensus Rating	Consensus Target
SHIRE PLC	SHP LN	4329	4.63	5,967	DIRECT LINE INSURANCE GROUP	DLG LN	370	3.70	395
3I GROUP PLC	III LN	448.8	4.50	562	ASTRAZENECA PLC	AZN LN	4376.5	3.69	4,813
LAND SECURITIES GROUP PLC	LAND LN	1142	4.48	1,445	OLD MUTUAL PLC	OML LN	154.7	3.69	211
INTL CONSOLIDATED AIRLINE-DI	IAG LN	585.5	4.47	735	BRITISH AMERICAN TOBACCO PLC	BATS LN	3646	3.68	3,908
GKN PLC	GKN LN	275.5	4.45	362	HSBC HOLDINGS PLC	HSBA LN	500.4	3.64	580
PRUDENTIAL PLC	PRU LN	1372.5	4.41	1,786	LEGAL & GENERAL GROUP PLC	LGDN LN	246.6	3.63	279
EXPERIAN PLC	EXPN LN	1110	4.39	1,292	WHITBREAD PLC	WTB LN	4133	3.60	5,210
LONDON STOCK EXCHANGE GROUP	LSE LN	2502	4.38	2,800	BT GROUP PLC	BT/A LN	457.75	3.54	508
ASSTEAD GROUP PLC	AHT LN	1019	4.31	1,314	ROYAL BANK OF SCOTLAND GROUP	RBS LN	284.5	3.54	353
ARM HOLDINGS PLC	ARM LN	941	4.31	1,154	BHP BILLITON PLC	BLT LN	673.2	3.53	980
HIKMA PHARMACEUTICALS PLC	HIK LN	2161	4.31	2,539	UNILEVER PLC	ULVR LN	2753.5	3.52	3,010
AVIVA PLC	AV/ LN	481	4.29	617	MARKS & SPENCER GROUP PLC	MKS LN	440.8	3.52	543
BARCLAYS PLC	BARC LN	204.4	4.29	290	BERKELEY GROUP HOLDINGS	BKG LN	3463	3.50	3,770
CARNIVAL PLC	CCL LN	3717	4.29	4,093	INTERCONTINENTAL HOTELS GROU	IHG LN	2477	3.48	2,776
HAMMERSON PLC	HMSO LN	587.5	4.27	741	BARRATT DEVELOPMENTS PLC	BDEV LN	588	3.47	653
DIXONS CARPHONE PLC	DC/ LN	467.6	4.21	520	BURBERRY GROUP PLC	BRBY LN	1058	3.46	1,450
ROYAL DUTCH SHELL PLC-A SHS	RDSA LN	1439	4.20	1,977	TESCO PLC	TSCO LN	137.6	3.46	207
WORLDPAY GROUP PLC	WPG LN	304.6	4.20	319	CAPITA PLC	CPI LN	1154	3.44	1,263
BG GROUP PLC	BG/ LN	917	4.19	1,226	ROYAL MAIL PLC	RMG LN	432.8	3.44	499
DCC PLC	DCC LN	5445	4.18	5,848	BP PLC	BP/ LN	330.1	3.40	405
MERLIN ENTERTAINMENT	MERL LN	431.2	4.18	460	STANDARD CHARTERED PLC	STAN LN	500.2	3.38	669
SMITH & NEPHEW PLC	SN/ LN	1153	4.17	1,220	PEARSON PLC	PSON LN	690.5	3.36	987
WPP PLC	WPP LN	1474	4.13	1,646	BUNZL PLC	BNZL LN	1814	3.35	1,872
BABCOCK INTL GROUP PLC	BAB LN	952.5	4.12	1,175	UNITED UTILITIES GROUP PLC	UU/ LN	922	3.35	975
ROYAL DUTCH SHELL PLC-B SHS	RDSB LN	1447.5	4.11	1,985	SABMILLER PLC	SAB LN	4040	3.35	4,342
EASYJET PLC	EZJ LN	1699	4.11	1,939	SKY PLC	SKY LN	1071	3.35	1,092
RELX PLC	REL LN	1144	4.09	1,222	ASSOCIATED BRITISH FOODS PLC	ABF LN	3124	3.32	3,373
BRITISH LAND CO PLC	BLND LN	752.5	4.09	944	RSA INSURANCE GROUP PLC	RSA LN	402.3	3.30	456
TRAVIS PERKINS PLC	TPK LN	1902	4.09	2,220	INMARSAT PLC	ISAT LN	1084	3.24	1,048
TUI AG-DI	TUI LN	1197	4.07	1,320	NEXT PLC	NXT LN	6800	3.19	7,459
LLOYDS BANKING GROUP PLC	LLOY LN	69.05	4.07	87	COMPASS GROUP PLC	CPG LN	1109	3.18	1,144
TAYLOR WIMPEY PLC	TW/ LN	192.4	4.07	207	PROVIDENT FINANCIAL PLC	PFG LN	3174	3.17	3,100
GLENORE PLC	GLEN LN	82.71	4.03	139	GLAXOSMITHKLINE PLC	GSK LN	1339.5	3.15	1,472
JOHNSON MATTHEY PLC	JMAT LN	2524	4.00	3,157	SMITHS GROUP PLC	SMIN LN	880	3.12	1,061
ST JAMES'S PLACE PLC	STJ LN	915	4.00	1,047	NATIONAL GRID PLC	NG/ LN	941.9	3.05	918
DIAGEO PLC	DGE LN	1799.5	3.97	1,997	SEVERN TRENT PLC	SVT LN	2119	3.00	2,152
SPORTS DIRECT INTERNATIONAL	SPD LN	523.5	3.92	746	SSE PLC	SSE LN	1476	2.95	1,501
RIO TINTO PLC	RIO LN	1762	3.84	2,544	KINGFISHER PLC	KGF LN	328.1	2.92	356
RANDGOLD RESOURCES LTD	RRS LN	4406	3.83	4,496	SAINSBURY (J) PLC	SBRY LN	236.3	2.91	258
VODAFONE GROUP PLC	VOD LN	215.05	3.83	239	STANDARD LIFE PLC	SL/ LN	356.8	2.90	431
RECKITT BENCKISER GROUP PLC	RB/ LN	6019	3.82	6,452	ANTOFAGASTA PLC	ANTO LN	411.8	2.88	509
IMPERIAL TOBACCO GROUP PLC	IMT LN	3561.5	3.82	3,672	SAGE GROUP PLC/THE	SGE LN	570	2.86	555
FRESNILLO PLC	FRES LN	711.5	3.80	754	INTERTEK GROUP PLC	ITRK LN	2645	2.81	2,691
BAE SYSTEMS PLC	BA/ LN	501.5	3.79	535	INTU PROPERTIES PLC	INTU LN	304.3	2.78	348
ITV PLC	ITV LN	263.5	3.78	294	HARGREAVES LANSDOWN PLC	HL/ LN	1418	2.73	1,297
WOLSELEY PLC	WOS LN	3485	3.78	4,165	ADMIRAL GROUP PLC	ADM LN	1607	2.67	1,554
MONDI PLC	MNDI LN	1232	3.77	1,596	ROLLS-ROYCE HOLDINGS PLC	RR/ LN	544.5	2.59	579
CENTRICA PLC	CNA LN	206.1	3.74	250	ABERDEEN ASSET MGMT PLC	ADN LN	252.8	2.56	311
SCHRODERS PLC	SDR LN	2700	3.71	3,264	PERSIMMON PLC	PSN LN	1946	2.53	2,074
CRH PLC	CRH LN	1848	3.70	2,039	ANGLO AMERICAN PLC	AAL LN	247.2	2.34	399
					COCA-COLA HBC AG-DI	CCH LN	1404	2.21	1,374

Source: Bloomberg 7 Jan 2016

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### To conclude:

Amid the doom and gloom there is plenty to be optimistic about. Don't let the media cloud your opinion. They are there to sell papers. Yes the FTSE fell last year, but it could have been worse given the China slowdown, multiple Terrorist attacks, Oil price in free fall and the US Fed pulling the trigger on the first major interest rate hike in almost a decade.

There are many reasons to be cautious amid the tough start to 2016, but this doesn't mean you have to shy away from the markets. On the contrary it is an opportunity to look a little deeper for the pockets of value that still exist. The media won't focus on 62% of FTSE 100 shares rising last year. Or that 35% of those were double digit gainers and some were up as much as 50%+.

Accendo is here to help you look beyond the media headlines. Yes a slowing China and commodity supply glut has seen commodity prices slump but this is something we heard about constantly last year, so why would you carry on buying oil/mining stocks and losing money? The housing sector had another great year thanks to UK rates staying low and the government remains helpful to those at the bottom of the ladder. M&A has been rampant through for the last 2 years with handsome premiums being offered for some big companies.

**"So Mr Client, with that in mind, what stocks do you think did well last year?"** Answer: Housebuilders

**"And which had a tough time?"** Answer: Miners, Banks, Oil

We're not here to tell you what to buy and sell (or even short sell) or what the next big thing is. What we are here to do is keep you updated with breaking news and the latest developments in the sectors and stocks that interest you most and which are doing well/performing badly.

We are always on the watch for a change in sentiment on a sector, especially mining, oil banks and housing. We are analysing every piece of macro-economic data that is released. All of which will hopefully help you in your decisions of what stocks to buy, sell or even sell short.

Potential drivers that we will be keeping clients aware of through 2016 include:

- **Mining companies** suggesting lower supply
- **China growth** stabilising/accelerating
- **OPEC** (or indeed any non-OPEC countries) deciding to pump **less oil**
- The **USD** giving up its strength to the benefit of the **commodities** space (Miners/Oil)
- Hints the **Fed won't raise rates as quickly** as it suggests, could dent the dollar and help commodities
- Any signals about **UK raising interest rates** sooner than expected could hurt **housebuilders**
- What could a **UK exit from the European Union (Brexit)** mean for FTSE stocks
- A **Eurozone recovery** could help global sentiment
- **Geopolitics** and terrorism remains an unfortunate headwind

**At Accendo we're here to help you trade. Allow us the opportunity to do our job.  
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