

Defensive Value Report

Getting Started

If you already have an investment strategy you're happy with, or if you're comfortable with the principles of defensive value investing, the simplest way to use the *Defensive Value Report* is to jump to the *Quick Find* tables towards the back of each issue.

There you'll find a group of large FTSE 350 companies, arranged to bring those shares with the best combination of value, income and growth to the top.

The simple colour coding system makes it easy to spot at a glance which companies have a good (green), average (yellow) or poor (red) combination of those key factors.

Share Name	EPIC	FTSE Index	Sector	PDP10	PE10	Growth (%)	Yield (%)	PE	Dividend
BELLER GROUP	KLR	SMALLCAP	HEAVY CONSTRUCTION	1.90	4.8	10.38	8.80	10.75	11.7
BHP GROUP	BOH	SMALLCAP	BUSINESS SUPPORT SERVICES	1.90	7.18	14.43	7.11	6.44	7.50
TALLET FRESH	TJFB	FTSE250	INVESTMENT SERVICES	1.90	10.81	24.29	5.25	6.40	13.73
FACE	FC	FTSE250	TELECOMMUNICATIONS EQUIPMENT	1.90	7.44	10.35	5.25	2.35	31.00
MORDAN BISHALL	MONG	SMALLCAP	HEAVY CONSTRUCTION	1.90	7.82	10.02	7.30	7.63	30
HILL AND SMITH	HLS	SMALLCAP	INDUSTRIAL MACHINERY	1.90	10.70	12.26	5.54	6.80	12.41
UTV MEDIA	UTV	SMALLCAP	BROADCASTING AND ENTERTAINMENT	1.90	5.27	5.38	4.90	5.83	5.47
ROBERT WEDDAN DARVIS	RWD	SMALLCAP	FOOD PRODUCTS	1.90	8.91	10.11	7.20	6.13	26.16
BALFOUR BEATTY	BBY	FTSE250	HEAVY CONSTRUCTION	1.90	8.98	13.15	5.6	6.82	13.32
GO-AHEAD GROUP	GOO	FTSE250	TRAVEL AND TOURISM	1.90	8.82	11.33	6.77	6.70	6.50
SEVENFIELD-ROWEK	SFR	SMALLCAP	INDUSTRIAL MACHINERY	1.90	8.77	11.84	2.77	21.52	17.80
CAPE	CU	FTSE250	OIL EQUIPMENT AND SERVICES	1.90	17.08	20.78	4.15	7.50	6.10
BAE SYSTEMS	SA	FTSE100	DEFENCE	1.90	8.91	8.02	7.23	6.53	10.53
WEARS GROUP	WGR	SMALLCAP	BUSINESS SUPPORT SERVICES	1.90	16.25	22	3.95	6.32	13.08
CLARSON	CRN	SMALLCAP	TRANSPORTATION SERVICES	1.90	15.9	17.27	4.57	5.20	27.94
ON MALL GROUP	OMG	SMALLCAP	GENERAL SERVICES	1.90	10.23	8.87	6.77	6.20	103
EMPEROR TOBACCO	MT	FTSE100	TOBACCO	1.90	10.55	22.82	4.90	11.8	6.57
RIO TINTO	RTO	FTSE100	GENERAL MINING	1.90	10.82	20.33	2.40	5.98	31.41
CHEMUNG GROUP	CHG	FTSE250	DEFENCE	1.90	21.25	28.7	3.40	7.01	7.17
ATKINS (IN G)	ATK	FTSE250	BUSINESS SUPPORT SERVICES	1.90	11.7	11.12	4.85	6.11	6.42
IBE	ISE	FTSE100	CONVENTIONAL ELECTRICITY	1.90	10.80	15.4	6.13	11.27	6.67
CEAP	CAF	FTSE250	INVESTMENT SERVICES	1.90	14.23	15.58	5.85	7.22	6.14
BP	BP	FTSE100	INTEGRATED OIL AND GAS	1.90	8.7	8.57	3.50	6.82	40.03
VOGAFONE GROUP	VGD	FTSE100	MOBILE TELECOMMUNICATIONS	1.90	14.88	11.93	7.22	10.80	
SPS GROUP	SPS	FTSE250	BUSINESS SUPPORT SERVICES	1.90	10.8	17.42	2.85	11.30	13.08
CARILLON	CLN	FTSE250	BUSINESS SUPPORT SERVICES	1.90	10.23	8.82	5.48	7.17	21.9
JD SPORTS FASHION	JD	FTSE250	APPAREL RETAILERS	1.90	14.38	14.53	3.44	6.42	
ROCKPACT	ROK	FTSE250	SPECIALTY RETAILERS	1.90	7.47	5.96	3.21	6.80	20.01
WATTS AND WATKINS	WWS	FTSE250	BUSINESS SUPPORT SERVICES	1.90	10.23	8.58	5.40	6.20	14.85
BIP BULLION	BLT	FTSE100	GENERAL MINING	1.90	10.8	10.18	3.02	7.3	30.71
ASTRAZENECA	AZN	FTSE100	PHARMACEUTICALS	1.90	13.52	14.40	5.74	6.44	23.23
COOHAM	COH	FTSE250	AEROSPACE	1.90	13.75	11.06	3.67	6.73	5.44
SAVILLS	SVS	FTSE250	REAL ESTATE SERVICES	1.90	11.80	8	4.50	10.10	44.8
ORANBICK	ORR	FTSE250	FOOD PRODUCTS	1.90	14.47	11.32	3.97	10.6	30.02
TRAVIS PERKINS	TRK	FTSE250	INDUSTRIAL SUPPLIERS	1.90	8.38	6.66	2.97	6.44	10.72
ROYAL DUTCH SHELL	RDSA	FTSE100	INTEGRATED OIL AND GAS	1.90	12.24	11.22	4.63	6.23	14.85
GALLFORD TRY	GTR	FTSE250	HEAVY CONSTRUCTION	1.90	8.38	11.13	4.52	11.96	21.80
HOMERIVER	HEV	FTSE250	BUSINESS SUPPORT SERVICES	1.90	10.81	11.50	4.8	6.23	30.20
TANBUS	TBS	SMALLCAP	MEDIA AGENCIES	1.90	14.13	8.07	4.70	6.85	5.38
ANTOFAGASTA	ANT	FTSE100	GENERAL MINING	1.90	27.16	15.16	4.50	10.67	130.61
KBR GROUP	KBR	FTSE250	HEAVY CONSTRUCTION	1.90	12.26	8.79	3.70	8.5	132
LONDON STOCK EXCHANGE	LSE	FTSE250	INVESTMENT SERVICES	1.90	10.43	10.44	3.85	10.21	7.61
ROYAL CANAL	RCA	FTSE250	SPECIALTY RETAILERS	1.90	10.24	8.34	5.40	6.20	14.85
FISHER LAMBERT AND SONS	FLS	SMALLCAP	TRANSPORTATION SERVICES	1.90	11.7	12.8	3.14	10.71	7.6
MTG GROUP	MTO	FTSE250	BUSINESS SUPPORT SERVICES	1.90	20.37	14.37	3.71	11.43	41.80
INDOOC INTERNATIONAL	SAB	FTSE250	BUSINESS SUPPORT SERVICES	1.90	26.12	10.85	3.00	11.50	5.43

Upgrading

Although defensive value investing could be used as part of a 'buy and hold' strategy, it is also suitable to a more active form of value investing which involves the process of upgrading. Upgrading as part of a defensive value investing strategy would involve three simple steps:

1. Buy shares of high quality companies that are in the green zone
2. Hold those shares as long as they stay in the green zone
3. Consider selling if the shares head into the yellow zone or even worse, the red zone. Replace sold shares with new shares from the green zone.

Share Name	EPIC	FTSE Index	Sector	PDP10	PE10	Growth (%)	Yield (%)	PE	Dividend
SANDERSON (S)	SBRY	FTSE100	FOOD RETAILERS AND WHOLESALE	2.30	14.52	5.04	5.30	11.10	10.13
IBF	IBF	FTSE100	INDUSTRIAL MACHINERY	2.30	10.70	4.5	3.90	5.20	20.9
ROBERT WALTONS	RWA	SMALLCAP	BUSINESS TRAINING AND EMPLOYMENT AGENCIES	2.30	10.73	4.80	3.97	12.03	71.30
MCTECH	MCT	FTSE250	SPECIALTY CHEMICALS	2.30	34.28	11.15	3.72	14.1	
COMPASS GROUP	CPG	FTSE100	RESTAURANTS AND BARS	2.30	24.53	5.94	3.73	14.53	15.20
SPECTRIS	SXS	FTSE250	ELECTRICAL COMPONENTS AND EQUIPMENT	2.30	20.52	7.37	3.73	10.85	17.78
ICMROGERS	ICR	FTSE100	ASSET MANAGERS	2.30	23.85	6.06	3.17	11.72	
PEARSON	PSN	FTSE100	PUBLISHING	2.30	20.07	6.51	3.80	13.70	11.74
ROTORC	ROR	FTSE250	INDUSTRIAL MACHINERY	2.30	42.03	10.84	2.57	10.52	
PHOTO INTERNATIONAL	PIW	SMALLCAP	RECREATIONAL PRODUCTS	2.30	20.46	4.36	4.53	10.33	47.78
SPRAYS-ARCO ENGINEERING	SPY	FTSE250	INDUSTRIAL MACHINERY	2.30	20.32	8.77	2.6	10.21	202.80
UNILEVER	ULR	FTSE100	FOOD PRODUCTS	2.30	16.20	11.70	3.94	10.67	10.80
HALBA	HLA	FTSE250	ELECTRONIC EQUIPMENT	2.30	26.33	6.30	2.82	14.54	90.27
ROGARD	RGD	SMALLCAP	BUSINESS SUPPORT SERVICES	2.30	16.17	3.86	3.27	12.82	6.82
3P POWER	3PP	SMALLCAP	ELECTRONIC EQUIPMENT	2.30	20.55	5.34	4.13	6.97	17.91
JOHNSON MATTHEY	JMAT	FTSE100	SPECIALTY CHEMICALS	2.30	23.45	1.28	2.81	14.94	17.80
BAFF (A G)	BAG	FTSE250	SOFT DRINKS	2.30	21.31	6.06	2.42	10	30.67
MCKELEY	MOS	FTSE100	INDUSTRIAL SUPPLIERS	2.30	7.54	-0.36	2.63	12.6	7.7
WTEC GROUP	WTC	SMALLCAP	INDUSTRIAL MACHINERY	2.30	10.81	2.11	3.34	12.94	20.7
ORICA INTERNATIONAL	ORR	FTSE250	SPECIALTY CHEMICALS	2.30	40.50	12.32	3.04	10	31.52
PULLER SMITH AND TOMER	PSTA	SMALLCAP	RESTAURANTS AND BARS	2.30	20.77	6.80	1.73	10.80	7.1
YOLE GATTO AND CO	YGC	FTSE250	SPECIALTY CHEMICALS	2.30	12.50	1.77	1.87	6.22	7
PE EMISSIONS	PEC	FTSE250	PERSONAL PRODUCTS	2.30	34.2	7.88	2.11	20.81	
DE LA RUE	DLR	FTSE250	BUSINESS SUPPORT SERVICES	2.30	23.16	2.08	4.50	27.43	10.63
ADDAXO	AGX	FTSE100	BUSINESS SUPPORT SERVICES	2.30	81.27	10.33	1.1	21.88	31.14
BRAMMER	BRM	SMALLCAP	INDUSTRIAL SUPPLIERS	2.30	20.22	2.36	3.33	12.03	9.34
BFP GROUP	BFP	FTSE100	MEDIA AGENCIES	2.30	10.32	1.12	3.20	10.21	6.3
DANED	DGE	FTSE100	DISTILLERS AND VINTNERS	2.30	23.11	2.72	3.26	15.44	7.82
HEER GROUP	HEG	FTSE100	INDUSTRIAL MACHINERY	2.30	40.32	10.54	1.67	10.53	22.77
AMEC	AME	FTSE100	OIL EQUIPMENT AND SERVICES	2.30	29.73	2.38	3.47	12.82	
BRITISH AMERICAN TOBACCO	BATS	FTSE100	TOBACCO	2.30	26.11	2.48	4.44	14.80	10.30
QOR	QOR	FTSE100	ALCOHOLS	2.30	11.30	-0.73	3.53	6.40	10.20
GENUS	GEN	FTSE250	BIO TECHNOLOGY	2.30	10.37	7.07	1.42	20.85	6.3
LAND	LND	FTSE250	ELECTRICAL COMPONENTS AND EQUIPMENT	2.30	7.47	-0.61	5.33	9.40	7.03
SMITHS GROUP	SMN	FTSE100	OVERSIZED INDUSTRIALS	2.30	14.8	-0.75	4.00	10.02	3.04
TATE AND LYLE	TATE	FTSE100	FOOD PRODUCTS	2.30	10.2	0.48	3.63	13.10	5.53
DEYRO	DND	FTSE250	FOOD PRODUCTS	2.30	20.87	2.86	2.86	13.50	55.47
BOOT (SHVY)	BRY	SMALLCAP	HEAVY CONSTRUCTION	2.30	10.30	-1.44	3.62	10.51	9.12
WHITFIELD	WFS	FTSE250	RESTAURANTS AND BARS	2.30	21.90	1.3	3.13	12.81	8.44
BOOBYOTE	BOY	FTSE250	INDUSTRIAL MACHINERY	2.30	10.80	0.22	3.62	9.41	9.80
IBF SMITH	SMW	FTSE250	SPECIALTY RETAILERS	2.30	10.1	-1.06	4.90	8.82	
IDA AVIATION	IDA	FTSE250	TRANSPORTATION SERVICES	2.30	10.21	-2.04	4.82	5.94	7.20
SENER	SEN	FTSE250	AEROSPACE	2.30	20.80	1.00	2	13.00	7.47
MILLINUM AND COFFINHOE HOTELS	MHC	FTSE250	HOTELS	2.30	21.91	0.86	2.35	13.34	24.42
KINGFISHER	KGF	FTSE100	HOME IMPROVEMENT RETAILERS	2.30	16.43	-1.33	3.50	10.77	20.07
OXFORD INSTRUMENTS	OIG	FTSE250	ELECTRONIC EQUIPMENT	2.30	10.54	1.67	1.04	10.15	30.12
ELDMITS	ELM	FTSE250	SPECIALTY CHEMICALS	2.30	20.20	0.02	2.85	11.40	10.24
HEWLETT	HWS	FTSE250	OIL EQUIPMENT AND SERVICES	2.30	20.48	0.10	2.62	21.9	
OODKING GROUP	ODM	FTSE250	OVERSIZED INDUSTRIALS	2.30	4.21	-4.08	4.20	7.31	9.30
DAUGHT	DA	SMALLCAP	ELECTRICAL COMPONENTS AND EQUIPMENT	2.30	10.2	-0.44	1.17	20.80	

Using the Defensive Value Report

There are many ways an investor could use make use of the information in each issue. Here are three hypothetical examples:

Investor 'A' follows the model portfolio

Investor 'A' likes to hold shares in individual companies rather than just tracking the FTSE 100 because it is more interesting and has the potential to outperform the market (you can't beat the market if you own the market through an index).

Time however, is short, and so investor 'A' intends to buy and sell in order to match the model portfolio, at least most of the time (and after discussion with his financial advisor).

'A' is not keen on defence contractors, and so if the model portfolio invests in a company like BAE Systems, 'A' will do some research and find another suitable investment using the Quick Find tables provided. Most of the time however, he just follows the model portfolio's buy and sell alerts.

During the initial stages as 'A' moved from his previous portfolio towards the model portfolio, he sold his existing holdings at the rate of one every other month on the basis of their defensive value investing score (found in the Quick Find table sorted by company name), as well as using his own judgement and that of his advisor.

Investor 'B' uses the Quick Find tables to build his own portfolio

Investor 'B' has more time than 'A' and likes the idea of picking his own shares.

'B' primarily invests by reading the tables and working his way down, analysing each investment as he goes.

If the model portfolio avoids an investment because it doesn't add diversity, or doesn't seem suitable for some other reason, 'B' may well invest anyway if it fits into his own portfolio which may differ considerably from the model.

However, 'B' is still a defensive value investor following the investment strategy used for the model portfolio. He looks for large, leading companies that have long histories of profit and dividend growth.

Investor 'C' uses the tables as an additional source of information in his own investment process

Investor 'C' is still a value investor who is focussed on large, high quality companies, but he doesn't use the same step by step investment process used to run the model portfolio.

He is a confident investor with experience and a strategy he has developed over many years.

Having read a sample issue of the *Defensive Value Report*, he realised that the scoring system and the tables highlighted the kind of companies which he typically invested in already. Using those tables he can now home in on interesting opportunities much more quickly than with the stock screen he used before.

The Model Portfolio

The Model Portfolio allows you to see how the combination of a scoring system, sorted tables and the process of defensive value investing might be used to build a portfolio of large, prosperous companies bought at attractive prices.

Investment Process

The model portfolio is run using a simple and sensible investment process:

Diversify – Hold 20 companies at all times with no more than two holdings in any one industry. International companies are preferred for additional geographic diversity.

Buy quality – Each new company should be at or near the leading edge in its field, should be currently profitable, paying a dividend and should not be classed as a ‘turnaround’ situation.

Avoid debt – Each holding should have at most a relatively small amount of debt. The only exception is for very stable companies like utilities.

Pick shares from the green zone – This is where high value, high income and high growth shares are more likely to be found.

Give each holding time to perform – Shares will be held typically for between 1 and 5 years. This time-frame gives the company time to pay dividends and grow its earnings which allows the portfolio to gain from the efforts of the company rather than just the speculative moves of the stock market.

Move from lower value to higher value when possible – Over the longer term, investor sentiment can drastically change the valuation given to any company. When this occurs, shares that were previously priced at an attractive level can become less attractive, and the capital tied up in those shares may be better allocated to the shares of a different company.

This situation will become clear if a company’s shares have the worst score in the portfolio and perhaps move into the yellow or red zones. If this occurs, the shares will be sold, but only if a new and suitably attractive alternative can be found in the green zone.

Only move to higher value where it improves the value of the portfolio as a whole -To be a candidate, new shares need to have a score better than the average of the existing holdings. If this rule is not met then it may not be worth buying the shares as they would not be adding enough potential value to the portfolio.

Upgrade slowly – This is not a day trading strategy. Defensive value investing is about holding shares for the medium and long term and being rewarded by dividend payments and growth in company earnings. It is not about trying to predict or capture short term moves in the share price.

The model portfolio will trade at most once per month, alternating buy and sell decisions each time. The maximum number of new holdings in any year will be six, or less than one third of the whole portfolio.

Defensive Value Portfolio Current Holdings

Company Name	FTSE Index	% of portfolio
AstraZeneca	FTSE100	5.0
BAE Systems	FTSE100	4.7
Balfour Beatty	FTSE250	5.1
BHP Billiton	FTSE100	5.4
BP	FTSE100	4.9
Braemar Shipping Services	SMALLCAP	3.5
Chemring Group	FTSE250	2.9
Interserve	FTSE250	6.9
JD Sport Fashion	FTSE250	3.7
Mears Group	SMALLCAP	4.1
MITIE	FTSE250	5.5
Reckitt Benckiser	FTSE100	5.1
Robert Wiseman Dairies	SMALLCAP	3.9
Scottish & Southern Energy	FTSE100	5.0
Tullett Prebon	FTSE250	4.4
UK Mail Group	SMALLCAP	5.0
Vodafone	FTSE100	5.5
CASH		19.5

Current Holdings Summary

Each issue summarises the model portfolio’s current holdings into a handy table. From this table you can see at a glance all the key information, such as the share name, the index, the weighting within the portfolio, as well as the share’s current defensive value investing score.


As with the Quick Find tables, the more green the indicator, the better the score and the longer the share is likely to stay in the portfolio. On the other hand, any yellow or red shares may well be sold in the months ahead.


Buy and Sell Alerts


Each issue covers in detailed step by step fashion the analysis behind any buy and sell decisions that affect the model portfolio. This is a good way to learn about defensive value investing and to see how the process can be applied to a wide variety of businesses.

Colour Coding System

The colouring system used in the Quick Find tables is based on the defensive value score of the FTSE 100. Since the index has a growth rate, an earnings power yield and a dividend yield it can be measured in exactly the same way as individual companies.

 – The darker the green the lower the score. Lower is better so green shares are where to look for defensive value.

 – Yellow indicates the score of the FTSE 100. A slightly green yellow indicates a slightly better score than the index. Slightly red or orange indicates a worse score.

 – Red indicates the highest score and the worst value. If you're looking for defensive value then this is the colour to avoid.

The Quick Find Tables - How Shares are Rated and Selected

The *Defensive Value Report* uses a unique scoring system to rank all of the stocks listed in the UK. The goal of this system is to make it far easier to find good companies that are available at attractive prices, as these top rated stocks will tend to be found at the top of the Quick Find table.

The key factors in determining a good defensive value stock are growth, value and income. Please read the special report on Defensive Value Investing for more information (available at ukvalueinvestor.com).

Good companies

The system measures the 'goodness' of a company primarily by its long term earnings growth rate. A company that has declining earnings will score badly, while a company with fast growing earnings will score well. The first step in building the defensive value investing score is to rank all UK listed companies by their 10 year earnings growth rate. The fastest growing company scores a 1, the second best a 2 and so on.

Attractive prices

The attractiveness of a share's price is measured in two ways: Long term earnings power yield and dividend yield.

The long term earnings power is the proven earnings ability of the company, as measured by the average earnings of the last 10 years. The yield is simply the earnings power divided by the current share price. All the shares in the UK universe are sorted by earnings power yield from high to low, with a 1 being given to the company with the highest earnings power yield, a 2 to the second highest and so on.

The dividend yield is simply the forward dividend yield which is the dividend expected next year divided by the current share price. Again, the whole UK universe is sorted by dividend yield from high to low and given a score of 1, 2 etc.

The best combination of growth, value and income

The three scores above are simply added together to create the defensive value investing score (or DVI score). Shares with the best combination of growth, earnings power yield and dividend yield will have the best score.

To create the Quick Find tables, the largest companies from this list (those in the FTSE 350) are sorted by the DVI score and colour coded to make it easy to find growing companies with high earnings power and dividend yields.

Further analysis is still required and you should seek a professional financial advisor if you think you need one. Please see the disclaimer on the last page.

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INVESTMENT RISK: The value of shares can fall as well as rise. Dividend payments can fall as well as rise. Any information relating to past performance of an investment or investment service is not necessarily a guide to future performance. There is an additional risk of making a loss when you buy shares in certain smaller companies. There is a big difference between the buying price and the selling price of some shares and if you have to sell quickly you may get back much less than you paid. Share prices may go down as well as up and you may not get back the original amount invested. It may be difficult to sell or realize an investment. You should not buy shares with money you cannot afford to lose.

DISCLOSURE: The author will typically own, as long term investments, shares in each of the companies that are holdings of the model portfolio.

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