The IRS Report
The Newsletter of Successful Personal Investing

Issue 320 | 4th June 2011

An idiot crisis

There are many reasons to expect turbulence over the next few months, though the economic data will provide more ammunition for bulls than bears. Despite the better data, there is no likelihood of interest rates rising in the US or UK to an extent likely to threaten the markets.

The most likely cause of trouble is the eurozone. This script could have been written by an idiot and is certainly being performed by idiots. The central bank for the eurozone, the ECB, is now openly at war with eurozone politicians over the handling of the Greek crisis. The ECB is insisting on 'no default' while the politicians want to use a minor default, aka rescheduling or reprofiling, to buy more time for Greece so that full-scale default is kicked down the road to 2013, when haircuts for all lenders become permissible under the terms of the new European Stability Mechanism.

The ECB's problem is that it is on the hook on its own balance sheet for losses on Greek government bonds and for losses on bonds it accepted as collateral for loans to Greek banks. Crystallising these losses would certainly mean it needed more capital from eurozone governments to shore up its own balance sheet, yet the last thing it wants is to have to negotiate this, especially since the Germans would want to impose yet more restrictions on its operations.

Editor's view

Effectively, the ECB is not only acting as the eurozone's central bank but is taking on the responsibilities of a non-existent eurozone Treasury, because eurozone governments do not want to acknowledge these responsibilities or pay for them.

Ignorance about how the markets work and what is at stake, a dysfunctional decision-making process and perverse political pressures are a recipe for wobbles or something worse.

Chris

Chris Gilchrist

Peter Shearlock

Compass to convert cash flow into dividend growth

There is an old saying that "cash never lies". Free cash flow (FCF) remains one of the best gauges of the true health of any business. Stated profit can be massaged in a variety of ways, despite the best efforts of the accountancy standard-setters over several decades. But the amount of cash a business generates out of operating profit after funding the capital expenditure needed to keep it in business is hard to fudge.

Where FCF is running at levels sufficient to pay down debt in a year or two were the directors not to make any acquisitions or buy back shares, there is a good case for putting the shares on one's watch list. Right now, there is no better example of that than contract caterer and support services business **Compass Group**. The business is generating cash at an annualised rate of over £700m, which compares with borrowings of £671m at the last count.

Compass is the world's largest food services business with revenues of around £16bn. It is positively humming at the moment, as recent half-year figures showed. What is particularly exciting is the rate at which the dividend is being lifted — and the possibility of a one-off special payment to shareholders.

Last year, Compass lifted its dividend by a third, taking it to a new base level of 17.5p a share. This was described as "a reward to shareholders". Last month, it followed this by raising the interim payment by a further 30%. Given the expected ratio between the interim and final dividend payments, that suggests a 20p total for the year. That still only puts the shares on a yield of 3.4%, but, as my colleague Douglas Moffitt stresses here regularly, a steadily rising dividend is one of the keys to investment success.

Compass Group	
Recent price:	590p
52-week high/low:	596p/500p
Market cap:	£11.17bn
ICB sector:	Travel & Leisure
EPIC CODE:	CCPG

Special dividend is on the cards

Cousins has also hinted that Compass may make a one-off move to gear up the balance sheet. In each of the last two profit statements he has said the board is keeping the balance sheet structure under review. Effectively, Compass is generating more cash than it needs. A special pay-out to shareholders would be one way of dealing with this issue — and would doubtless go down well in the market.

Compass has been transformed since Cousins came in almost exactly five years ago. The former chief executive of plasterboard producer BPB Industries prior to its takeover by the French company, St Gobain,

Portfolio — Peter Shearlock's selections

Company	Selection Date	Price then P	Price now P	Gain/ loss %	Current view	EPIC code
Bovis Homes	06/02/10	404	445	+10	Positive	BVS
C&W Comms	05/04/08	53**	43	-19	Neutral	CWC
Cable & Wireless	05/04/08	87**	50	-43	See page 3	CW.
GlaxoSmithKline	02/02/11	1140	1311	+15	Positive	GSK
Invensys	02/04/11	354	306	-14	See below	ISYS
Land Securities	02/02/08	1567	838	-47	Positive	LAND
Marshalls	07/06/08	200	116	-42	Positive	MSLH
Melrose	05/06/10	218	340	+56	Positive	MRO
New Britain Palm Oil	04/12/10	757	909	+20	Positive	NBPO
Ocean Wilsons	07/08/10	922	1377	+49	Positive	OCN
Paragon	06/11/10	168	202	+20	Positive	PAG
Provident Financial	01/08/09	803	971	+21	Positive	PFG
Royal Dutch Shell "B"	04/04/09	1498	2187	+46	Neutral	RDSB
Schroders	05/12/09	1184	1644	+39	Positive	SDR
Smith & Nephew	07/02/09	494	679	+37	Positive	SN.
Vodafone	07/02/09	138	164	+19	Neutral	VOD
Weir	06/06/09	514	1993	+288	Negative	WEIR

* Adjusted for rights issues. ** Adjusted for demerger. This table lists Peter Shearlock's value selections since the start of 2008, with his current view on each stock.

Cousins worships at the altar of efficiency. Compass had been an underachiever in the five years before he arrived, winning plenty of new business but failing to convert it into profit. Cousins embarked on a host of disposals and tidied up the balance sheet. Then he introduced his MAP (management and performance) system. A key element of that is to take cost out of the business and drive up margins.

He has been very successful. Since 2006, margins have been pushed up from 4.4% to 7.2%. Earnings per share, which had been static for so long, have nearly doubled. The business now does a lot more than catering. "Soft support" services — housekeeping management, vending services, even the management of a museum — are an increasing element of the total.

There is no sign of the momentum slowing. The recent half-year figures to end-March showed operating profit up nearly 12% — this despite the negative impact of the Japanese tsunami. The pipeline of new business is said to be strong.

Progress in the second half may be more muted as Compass enjoyed a particularly strong second half last year and the aftermath of the Japanese disaster is expected to cost a further £20m. Nonetheless, broker Evolution Securities is still forecasting a rise in profit before tax from £922m to £1.01bn, with £1.1bn to follow in 2012. Earnings per share should rise from 35.5p to 38.5p, with 41.0p in prospect for 2012.

Compass has earmarked around £300m for acquisitions this year, and much of the spending will be aimed at expanding the presence in emerging markets. At present, North America and Europe dominate revenues with 44% and 24% of the total respectively. Cousins reckons the emerging markets businesses have the potential to generate double-digit growth rates.

Big challenges and even bigger opportunities

There are two big challenges for Compass. One comes from mounting food price inflation — though the firm has shown itself adept at re-working menus and using techniques such as regional buying. The other is government cut-backs, which might be expected to squeeze a supplier such as Compass. In practice, those same cuts are prompting more organisations to outsource their catering in order to find cost savings.

The worldwide food service market is put at £200bn. Just under half of that is currently outsourced — so there is still plenty of room for growth. Compass is well run, producing high returns on capital employed and impressive cash generation. Its shares are not as highly rated as those of its biggest global competitor, the French company Sodexo. With a commitment to dividend growth and an under-geared balance sheet, Compass has much to commend it to value-conscious investors.

Peter Shearlock is an experienced investor and stockmarket commentator.

Investment update — Invensys (EPIC: ISYS)

Selected:	02/04/11	**Price then:**	354p	**Current price:**	294p
Prev. comment:	02/04/11	**Rec. by:**	PS	**ICB group/sector:**	Tech - Software & Services

Despite profits ahead of market expectations in the year to end-March, Invensys disappointed the market by revealing a one-third fall in orders in its rail division. Although that was nearly offset by a strong rise in orders in the operations management division, which makes controls for power stations and refineries, the shares took a tumble. On earnings per share of 22.4p — up 21% on the year — they now look oversold. There is also net cash in the balance sheet of £348m, equivalent to about 43p a share. Bid rumours recur with some regularity so this could be an opportune moment to top up.

Action: Positive

John Snowden

A return to gold with an Egyptian bargain

Political, market and even meteorological developments have been unusual of late. Wall Street and tech have had great runs, but in the wake of the recent commodity sell-off investors seem more nervous and inclined to put a bit more cash in the bank. Nevertheless, inflation is on the rise in all emerging markets and some developed ones, while the ongoing and increasingly bitter battle between the euro-politicians and the European Central Bank over how to handle the inevitable Greek default has put the euro under pressure as some traders blog about the possible break-up of the euro.

We certainly are in unusual times which got me thinking about gold, often seen as a form of insurance against different types of disaster. My colleague Deborah Owen has signalled the ongoing uptrend in gold (Issue 316) which has benefited from the weakness of the US dollar.

I have never been a huge fan of gold but admit that the metal has certainly earned its keep over the last few years. I go along with the idea that most private portfolios should at least maintain a small holding. My small company portfolio's holding in **Centamin Egypt** was stopped out in February at 128p at a small gain as investors cut out of Egypt.

The shares had peaked at 196p but lost more than a third of their value amid the political unrest in North Africa and the demise of the Mubarak regime. But the mining operations are somewhat removed from the big city politics, so the company has only suffered from short term interruptions and has been largely unaffected by the political events in Egypt.

Increasing production

The big question for investors now is will private investors' rights be protected. I believe that the answer is more likely yes than no as any new regime, whatever its creed, will want to attract capital and investment into the country.

If they expropriate or damage a business which is fast becoming one of the country's greatest assets, then they will find it much harder to attract new capital. Historically gold production sources have often been located in politically unstable areas. Turning to the past, look at South Africa, Ghana and more recently Sierra Leone.

Centamin Egypt has kept its head down and has recently announced the commencement of ore commissioning activities for its Stage 3 secondary crushing circuit at the Sukari Gold Mine. The ore feed started on 1st May almost two months ahead of schedule. It is anticipated that once commissioning work is completed, the new installation will be capable of delivering up to 5 Mtpa in the third quarter, up from the design capacity of 4 Mtpa.

Centamin Egypt	
Recent price:	127p
52-week high/low:	197p/116p
Market cap:	£1.39bn
ICB sector:	Mining
EPIC CODE:	CEY

The latest quarterly figures from the Sukari mine showed an impressive record production of 45,204 ounces of gold at a cash operating cost of US$525 per ounce against an average sales price of US$1,405. Production expectations for 2011 remain on target at between 250,000 to 290,000 ounces. Due to the events that have already taken place in Egypt, the board feel it would be prudent to pencil in the lower figure at this stage of the year. Also at the end of the period material movement from the open pit and underground operations was reduced due to delays in the delivery of blasting accessories.

On the financials, the first quarter figures released in early May produced a record quarterly operating profit of US$56.1m, boosting cash in the bank to US$185.6m from US$166m and leaving the company debt free and unhedged. There were several non-executive changes with one retirement and three appointments. Two more non-

Investment update — **Cable & Wireless Worldwide** (EPIC: CW.)

Selected:	05/04/08	**Price then:**	87p	**Current price:**	52p
Prev. comment:	07/08/10	**Rec. by:**	PS	**ICB group/sector:**	Telecommunications

Full-year figures from Cable & Wireless Worldwide were marginally better than the company had indicated as recently as March. But what got the shares moving higher was the news on the dividend. Not only was the final dividend maintained at 3p per share, to make a total for the year of 4.5p, but the company said it intends to continue to hold dividends at this level until they are fully covered by free cash flow. It will then raise dividends in line with the amount of free cash generated. Given the doubts over the sustainability of the dividend, this is excellent news for shareholders. Free cash flow of £61m last year was still well short of the £118m needed to finance the dividend. But C&WW expects cash flow to rise £50m or so in the current year. As it is, the shares yield 8.7%.

Action: Positive

Portfolio — John Snowden's selections

Company	Date Reported	Price then p	Price now p	Gain/ loss %	Stop-loss/ Gain-lock p	Comment now	EPIC Code
Alliance Pharma	06/03/10	31.75	30	-6	27	Neutral	APH
Berendsen	07/08/10	392	489	25	322	Neutral	BRSN
Cape	04/04/09	92	523	468	465	Neutral	CIU
Cineworld	07/05/11	65	208	220	166	Positive	CINE
Digital Barriers	01/05/10	135	194	44	128	Positive	DGB
Encore Oil	04/09/10	78	88	13		Stopped see opposite	
EnQuest	01/05/10	98	132	35	96	See page 8	ENQ
Faroe Petroleum	04/10/08	114	162	42	137	Neutral	FPM
Fenner	02/10/10	231	387	68	233	Neutral	FENR
Fidessa (1/2 unit	07/03/09	775	1942	151	1240	Neutral	FDSA
Filtronic	04/12/10	35.5	27.5	-23		Stopped see below	
Fyffes	05/02/11	32.5	37	14	23	Positive	FFY
Greggs	03/10/09	406	526	30	406	Neutral	GRG
H&T Group	04/10/08	175	345	97	249	Neutral	HAT
Hilton Food Grp	02/05/09	182	285	57	212	Neutral	HFG
IMI	09/01/10	542	1040	92	582	Neutral	IMI
Petra Diamonds	03/04/10	70	178	154	94	Neutral	PDL
Plantic Tech	06/10/08	18	7.75	-57	4	Neutral	PLNT
Tesco P/Fi 5.2%	05/03/11	100	105.9	6	89	Positive	TS52
Vodafone	05/09/09	132	164	24	132	Neutral	VOD
Walker Greenbank	08/01/11	51	50	-2	37	Positive	WGB

executives will be departing during this current quarter.

Centamin Egypt continues its development into a world class gold mine and as a longer-term investment, leaving aside political considerations, the company must remain attractive. There seems to be a solid floor to the share price around 105p and I would say that between 105p and 125p, the price is forming a buying range.

It is interesting to note that the chief executive, Harry Michael recently purchased 50,000 ordinary shares for CAD$1.979936 per share (126.6p). Centamin Egypt has a listing on the Toronto exchange, as do many exploration and mining companies. No less than five directors took on board more than 3m shares in the placing in March at 128.87p.

Broker sentiment is broadly positive: out of five brokers that follow the company, three say buy, one weak buy and one hold. The company will be reinstated into the portfolio at the recent price.

Rival's bid is bad for Filtronic

The shares featured last December at 35.5p had a flying start, rising to 60p some six weeks later. Unfortunately bad news was around the corner as a rival company, Ceregon Networks Ltd, announced it had acquired Nera Networks AS from Eltek ASA. Nera had been a key customer for **Filtronic**'s point-to-point (PTP) business for several years and Filtronic feared that the deal could have an adverse effect in the form of a significant reduction in PTP sales.

With hindsight it may have been safer to cut the shares and run as the share price crashed back to 38p on the news. However I noted at the time that the PTP sector was changing its product mix rapidly over the next 18 months. The PTP business transition strategy was looking viable, with first production orders received from Selex Galileo for module supply into their electronic radar system. The new lines will result in initial revenues turning into full production in 2012.

The Isotek acquisition, completed last December, has several attractions and is well positioned to participate in several key programmes, especially in the US 4G market. The company has been selected by Alcatel-Lucent as a supplier for both its AT&T and Sprint programmes. Most start-ups experience unforeseen problems and Isotek is experiencing some customer programme delays during the early rollout phase. This will reduce sales for this current year and short term component shortages will affect margins.

For the half year to end-November, group revenues dropped to £7.3m from £9.6m on continuing operations resulting in a pre-tax loss of £1.2m compared with a profit of £0.1m. Cash in the bank dropped to £7.3m compared with £16.3m for the comparative period.

At the interim management review last month, the board stated that sales are projected to grow from £16m in the current year to £25m in 2012. The board, having sounded out customers, forecast a faster than expected phase-out of certain mature module products which would again have a negative effect on trading for the remainder of this financial year into the next.

Due to these varied uncertainties, I am not reinstating the company into the portfolio but as there remain many long term attractions, I will continue to follow events with a view to reinstatement at a later date. Coverage discontinued.

My favourite oil company turns sour

The £2 billion government tax raid on the UK North Sea in the March Budget came as a complete surprise to the oil and gas industry. The plan is to raise the supplementary charge on oil and gas production from 20% to 32%. The net effect will be to decrease investment, increase imports and UK jobs to other non

UK sectors of the North Sea. Mature oil and gas fields which already pay petroleum revenue as well as corporation tax, will now suffer a marginal tax rate of 81%.

A broking group commented that the implementation would have little effect on the majors who have large operations in the area as they were small compared to their overall asset portfolios. Specific mention was made regarding smaller independents, namely EnQuest, Valiant and Nautical Petroleum.

Encore Oil, my favourite stock for 2010, has also been hit. The stop on the IRS Report portfolio at 88p was activated as recently as the 17th May to book a 13% profit.

My immediate reaction was to reinstate Encore back into the portfolio but on second thoughts I think it best to wait until we see upward momentum in the share price, since the March budget has forced oil exploration companies and investors to have a general rethink.

Encore now has a portfolio of oil successes under its belt and for the past couple of months has been mulling over how to maximise value without dilution for existing shareholders. In the meantime, exploration to prove up existing finds continued apace. With several wells drilled on Cladhan, these confirm a sizeable resource of over 100m barrels.

While this drilling activity was going on the board were formulating a plan to maximise shareholder value for investors. A decision was made to form a subsidiary company to float on AIM called XEO Exploration plc, to which Encore was to assign its exploration assets.

Encore had decided to concentrate on its two main assets, Catcher and Cladhan, which should soon move from appraisal to the development stage. The aim was for existing shareholders to partake in an institutional placing for XEO at the same price as the institutions. Encore would also retain a holding in XEO giving existing Encore shareholders an exposure to any future successes. Unfortunately on 23rd May Encore announced that it had decided to cancel the flotation in the light of adverse market conditions and the uncertain climate created by the government's recent tax changes.

In the light of these conditions coverage on Encore will be discontinued for the moment. Stopped out at 88p for a 13% gain.

John Snowden is an experienced stockmarket commentator and investor.

Chris Gilchrist

New issues in pension planning and management

The changes introduced to UK pensions over the past year have significant implications both for people contributing to pension plans and for those withdrawing money from them. For most people, the changes are beneficial.

The major changes are the restriction of the annual allowance, the reduction in the lifetime allowance, the abolition of forced annuitisation, the alteration of rules on what is now termed 'capped drawdown', the introduction of flexible drawdown, and the change in the inheritance tax treatment of pension funds.

Two sets of changes coincided because the coalition government decided to pursue the previous government's aim of restricting tax relief on pension contributions for high earners, at the same time as introducing its own promised reform of the forced annuitisation that formerly applied at age 75. The latter in turn prompted a revision of the inheritance tax rules. Almost all the new rules are effective from 6th April 2011. This article covers contributions and IHT — the new drawdown system will be covered next month.

Restrictions on contributions

The old system gave individuals a lifetime allowance of £1.8m and the ability to contribute up to £255,000 in any one tax year into pension funds. Tax relief on such large contributions meant a big slug of higher rate taxpayers' liabilities was being diverted from the Treasury coffers. Hence the lifetime allowance is cut to £1.5m (from April 2012) and the annual allowance cut to £50,000 (from 2011).

The annual allowance comes with a three-year carry-forward. This means that for each of the previous three years you can carry forward an amount of up to £50,000 in contributions (less what you actually paid) and add this to your contributions in the current tax year. In all cases, though, the amount of contributions on which you can claim tax relief is limited to your qualifying earnings in the current year. The table gives an example of how this works.

For very high earners, this will mean lower contributions, but for others it may enable larger

Table 1 How the annual allowance works

Tax year	Annual Allowance	Actual Contribution	Remaining Allowance
2008-09	£50,000	(£35,000)	£15,000
2009-10	£50,000	(£60,000)	(£10,000)
2010-11	£50,000	(£20,000)	£30,000
2011-12	£50,000	NIL	£50,000
Maximum allowable contributions in 2011-12		£85,000	

This allowance will only be available if eligible earnings in 2011-12 are £85,000 or more.

contributions. For people with very erratic earnings it is likely to be advantageous.

Excess contributions above the annual allowance attract a tax liability equal to the individual's marginal tax rate, thus eliminating any benefit from making the contribution. This is straightforward in the case of defined contribution pension schemes: if you pay tax at 40% and make a contribution of £60,000, then £10,000 is excess and incurs a tax liability of £4,000, which is equal to the tax relief.

In the case of defined benefit/final salary schemes, it is more complicated. Here, it is not the actual contributions of employer or employee that are assessed against the annual allowance: it is the annual increment in the value of the pension entitlement. An example was given in response to a subscriber's enquiry on page 8 of Issue 319. Since the actual increment in a final salary scheme is valued at a multiple of 16, anyone with an increment of over £3,125 is likely to face a tax bill. That would apply to anyone with a salary of £180,000 or more in a one-sixtieth scheme, but it could also hit someone with earnings of as little as £40,000 who got a promotion and a rise in salary to £50,000.

People facing such tax bills need to weigh the value of the rise in their pension entitlement against the tax bill. The lifetime valuation of the increment will usually be greater than the tax — the increment really is worth 16 times (often more), and you only pay tax at 40% or 50%. So younger people will probably grin and bear it. But if your accumulated pension entitlement is already large enough to fund a comfortable retirement, or your health is poor enough to make the lifetime valuation questionable, you might choose to opt out of the final salary scheme, freezing your entitlement as a percentage of earnings, and make personal contributions (possibly including contributions you persuade your employer to make) to a SIPP. Then your contributions would remain below the £50,000 limit, so you would get the benefit of tax relief and accumulate a fund you can manage as you wish.

More inheritance tax options

Under the new rules, all death benefits after the age of 75 are subject to a 55% tax rate — before that they are tax-free provided no withdrawals have been made — but the payments will not be subject to inheritance tax except in special cases where people use the allocation of benefits to reduce their estates, or make large contributions knowing they are in such poor health that they are likely to die soon.

Those with larger funds will probably set up a pension bypass trust so that death benefits can skip a generation at the discretion of the trustees.

Broadly speaking, a 55% exit charge equates to the value of 40% initial tax relief, and on this basis you could consider a pension scheme an inheritance tax avoidance mechanism. Certainly, given initial tax relief at 40% or 50%, you will end up with more in a pension fund than in other investments assuming similar growth rates. But if your aim is to avoid IHT, there are better ways, especially business property (100% exempt after two years). Moreover, if you withdraw income from your pension fund under capped or flexible drawdown during your life (subject to income tax, perhaps at a rate of only 20%), and give it away more than seven years before your death, you escape IHT completely. Alternatively, you could draw the income and use it to pay the premiums on a whole of life policy under trust, again escaping IHT as the premiums will usually qualify as payments out of normal income.

Finally, as an alternative to accumulating capital in pension funds, using a qualifying regular savings plan (a unit-linked endowment policy) written under a suitable trust can give greater flexibility over use of the capital plus an escape from IHT.

Chris Gilchrist is editor of The IRS Report.

Investment update — **Independent Media Distribution** (EPIC: IMD)

Selected:	01/11/08	**Price then:**	fs29p	**Last price:**	91p
Prev. comment:	05/03/11	**Rec. by:**	JS	**ICB group/sector:**	Media

The cash bid at 91p was completed this month and the AIM quotation was cancelled on 24 May. That is a 213% uplift from the price when the stock was first featured.

Chartists View | *Deborah Owen*

As stockmarkets churn, a UK stock with breakout potential

The market has lost a little momentum over the past month. On the chart of both the FTSE100 and the S&P500 there is a pattern of falling highs and the 50-day moving average has been broken. However, the 200-day moving average, which is a guide to the long-term trend, has still not been tested and one of the central assumptions of technical analysis is that a trend remains intact until a reversal has been signalled.

We will only get a reversal if the 200-day line is breached — on the FTSE100 it is currently at 5,800 while on the S&P500 it is at 1,240.

The chart of the FTSE250 index has held up rather better recently. Trading over the past month has been more of a sideways consolidation and, at the time of writing, support is being found at the highs of the first quarter of the year — around 11,800. On the topside, the index is encountering heavy overhead resistance at 12,000 and a convincing push above this level would indicate strong buying momentum.

A number of charts within the index show a similar pattern in that the price keeps hitting a price ceiling but, if the price were to manage to break through this level, the outlook would become bullish.

Adding value in construction

One such company is **Carillion**. This used to be a building company, having acquired Mowlem in 2006 and McAlpine two years later.

The management then embarked on a strategy of transforming it into a support services business, providing project finance, design, maintenance and asset management as well as mainstream construction to their customers. Carillion has a strong joint venture operation in the Middle East, which means that it is in a good position to weather any weakness in the UK economy.

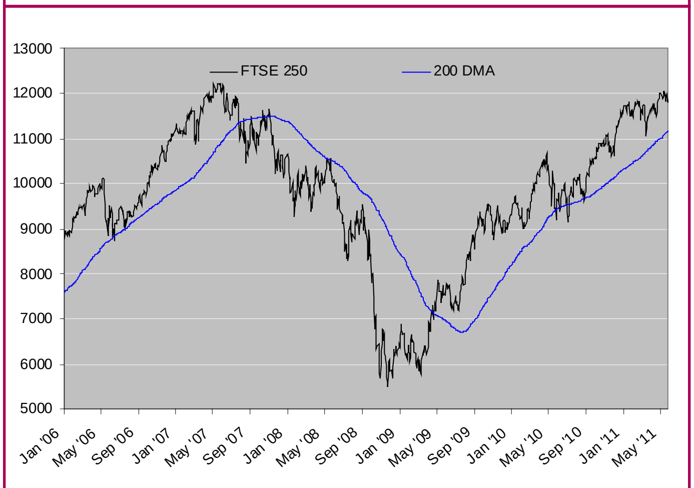
The share price hit a low in October 2008, well ahead of the rest of the market, and has since been on a strong uptrend. Once the market as a whole bottomed, Carillion's share price underperformed the rest of the market but in early 2010 the rally gathered momentum and it has recently been outperforming the All-Share index.

After forming a double bottom in March of this year, the price rallied up to 400p where it has run into heavy overhead resistance. Two attempts to push through this barrier in February were unsuccessful and it also marked the high tide point in both 2008 and 2006. A break above this level would, therefore, be significant and is likely to trigger the start of a new upward leg.

On the downside, a move below the lows of March at 355p, which are reinforced by the 200-day moving average, would rule off the uptrend and would therefore be a good point to place a stop-loss.

Deborah Owen is the Managing Director of Investment Research of Cambridge (www.irc100.com).

Close to a new high



Strong resistance at 400p

Q and A

You asked us...

Can I cash a pension?

Q *Is it still possible to exploit a pension loophole I read about a few years ago? I read at the time that if a private pension is worth less than a certain amount (it was £20,000), when I reached 50 I could take the whole sum without buying an annuity. My wife and I have final salary pensions so do not have private pensions. If this is still applicable, now that we are approaching 50, we could buy a pension a couple of months before our birthdays and immediately receive a 40% bonus. I.e. contribute £12,000 to a private pension and take £20,000 as a 50th birthday present. Is this still possible?*

P.B., Dartford

A The 'trivial commutation' rule does still apply, but it will not produce the 'free lunch' you hope for. Up to £18,000 may be taken as a lump sum. But this only applies if ALL your pension rights (including occupational pensions) are worth less than £18,000, and for these purposes an annual occupational 'final salary' pension will be multiplied by 16. Moreover, only 25% of the lump sum is tax-free and the rest is subject to income tax. Finally, the concession only applies from the age of 60.

Q I am likely to incur a substantial capital gain on the sale of a property this year. How can I avoid or reduce the tax?

S T, Lincoln

A Capital gains on business assets can be deferred by investing a sum equal to the capital gain in another qualifying business asset. The tax only then becomes payable when the second asset is sold; and it can again be deferred at that point. If the property does not qualify (most will not), then sell any other investments you hold showing a loss over acquisition cost so that the losses offset the gain. Consider splitting the property ownership with your spouse before the sale — no tax arises on such a re-registration — in order to use their personal gains allowance and potentially a lower tax rate on their portion of the gain. Since the gain will be added to your income to determine the rate of CGT payable, reduce your taxable income by making contributions to pension schemes. Finally, consult an independent financial adviser about tax mitigation schemes; for example, if you make an investment that uses your capital allowance (up to £100,000), this is a valid deduction from taxable income. The effect of lowering your taxable income should be to reduce the CGT rate from the higher rate of 28% to 18%.

Chris Gilchrist

Investment update

EnQuest (EPIC: ENQ)

Selected:	01/06/10	**Price then:**	98p	**Current price:**	132p
Prev. comment:	04/11/10	**Rec. by:**	JS	**ICB group/sector:**	Oil Equipment

EnQuest shares have fallen back with the sector and the company has stated it was disappointed with the supplementary charges on North Sea oil and gas. I believe the company has a strong institutional backing and there will be steady buying at lower prices. A management statement confirmed its confidence in delivering growth objectives and is on track to meet the annual production target of 26,500 barrels per day. Production for the first four months averages 25,402 BOE/day, up 55% on the equivalent 2010 period. They also agreed a farm in to the Crawford field where the position will increase to 51% as it starts its new role as operator. I maintain a neutral rating.

Action: Neutral.

Contacts

We welcome your questions...
If you have an investment query you would like to see answered in the Q&A please contact the editor. We regret we are unable to answer you other than in print nor give advice over the phone.

Editorial

Write: Editor The IRS Report
Abbots Corner, The Avenue,
Bourne End. SL8 5RD

Tel: 0800 756 5437

Fax: 0844 736 5814

e-mail: editor@TheIRSReport.com

Subscriptions

Phone: Sarah Newsome on 0800 756 5437

Fax: 0844 736 5814

e-mail: subscriptions@TheIRSReport.com