



Top 10 shares to beat the bear market



Investors have been sailing in choppy waters this year as the credit crunch, inflation and fears of recession hit the stock market. We've picked 10 shares that could help you ride out the storm – and make a healthy profit

The global credit crunch has hit money markets hard. After the boom times of the early years of this decade, many analysts say we're now heading toward that dreaded word – recession.

The FTSE100 index of leading shares has taken a battering, dropping from 6,479 at the beginning of this year to a low of 5,150 in mid-July.

Of the major sectors within the stock market, banking has been hit particularly hard, thanks to many banks' exposure to the mortgage market and the sub-prime disaster that has unfolded in the US.

Banks bombing

Royal Bank of Scotland is perhaps the most high-profile victim in this sector, with its share price more than halving in the past year, from 490p this time last year to a low of 197p in mid-July.

Halifax Bank of Scotland's disastrous rights issue, when it tried to raise cash, put the problems in the current climate into sharp focus. Only 8% of its shareholders took up the £4bn rights issue, leaving its underwriters to pick up the rump.

Reports say that as a result of profits halving, the bank is looking to sell off assets including Hill Hire, one of the UK's biggest vehicle hire companies. As a result, its ordinary shares have nosedived from 744p at the beginning of the year to a low of 254p just before the rights issue in July.

Barclays and HSBC also reported drops in first-half profits.

A year ago, banks accounted for 20% of the FTSE100 index of leading shares. Today they make up 16%.

Jonathan Davis, managing director of financial planners Armstrong Davis, is very cautious when it comes to financial companies. "They're already down around 65% and there's further to go," he says.

So if you can't rely on finance to steer you through these tough times, where can you look? We've picked 10 shares that look set to ride out the storm.

Simon Ward, 22 August 2008

Top 10 shares to beat the bear market

While sectors such as telecommunications and retail are struggling generally, some companies continue to prosper. Here are five companies whose stars keep shining.

1. Vodafone

Price now: 135.80p

52-week high: 196p

52-week low: 129p

Why buy? Despite profits likely to be on the lower side of expectations, Vodafone has diversified into emerging markets like India and products such as the iPhone.

"Vodafone is pushing out good dividends and will be seen by the market as solid when practically everything else is losing money hand over fist," says Jonathan Davis, managing director at financial planners Armstrong Davis.

2. Tesco

Price now: 370.50p
52-week high: 492p
52-week low: 342p

Why buy? While many bigger supermarkets are losing market share to discounters such as Aldi and Lidl, Tesco is best placed to keep ahead of the game.

Although the cost of food continues to rise, thanks to its supply chain and volumes Tesco should be able to absorb the costs and not pass them on to us, and hang on to more customers as a result.

3. Capita

Price now: 707p
52-week high: 770p
52-week low: 624p

Why buy? While its performance in the first half of the year may not have set the world on fire, the outsourcing group has slowly raised its game. And with a growing order book, the long-term signs are very promising indeed.

4. ASOS

Price now: 344p
52-week high: 359p
52-week low: 112.5p

Why buy? Despite the retail sector being one of the biggest victims of the credit crunch, the internet clothing retailer ASOS (it stands for As Seen On Screen) has bucked the trend, so much so that it's set to overtake Next as Britain's biggest online clothes shop.

And with online shopping only set to increase in popularity, ASOS's profits should head upwards as well.

5. BG Group

Price now: 1,142p
52-week high: 1,394p
52-week low: 740p

Why buy? The oil and gas exploration company has proved itself adept at finding large reserves of these essential energy sources.

The company almost doubled its earnings in the first half of the year and is exploring fresh fields in Brazil as well as pursuing a hostile takeover of Australian firm Origin, which would give it access to the potentially lucrative Pacific.

Next: Looking to diversify? We look at five more companies ready to rise in value.

From mining and oil exploration to soap manufacturing, here are five more companies keeping the profits coming

6. BHP Billiton

Price now: 1,622p
52-week high: 2,196p
52-week low: 1,235p

Why buy? It's been an eventful year for the mining company. Currently engaged in a hostile takeover bid for rival Rio Tinto, which it says "makes more sense" than ever, there are also rumours of Chinese investment in the company.

Perhaps most importantly, it posted a record 12% net profit thanks mainly to demand from China.

7. Royal Dutch Shell

Price now: 1,793p
52-week high: 2,212p
52-week low: 1,598p

Why buy? The price of oil has dominated headlines for the best part of a year, leading to surging prices at petrol pumps.

Aruna Karunathilake, the manager of Fidelity's UK Aggressive Fund, has Shell down as one company that is "at the least insulated against rising prices and at best presents an opportunity for superior growth prospects", partly due to rising demand from developing countries.

8. PZ Cussons

Price now: 171p
52-week high: 223p
52-week low: 156p

Why buy? You'll probably know them as the manufacturers of Imperial Leather soap. And soap is selling rather well in oil-rich developing countries such as Nigeria.

This is what's known as an "indirect play" and it can make your money come up smelling of roses (or whichever scent you prefer).

9. National Grid

Price now: 714p

52-week high: 863p

52-week low: 641p

Why buy? Like Shell, National Grid is in the position of being able to pass on the higher cost of energy to its customers. Why? Because we all need electricity.

As Anna Karunathilake explains: "Growth of their revenues is tied to inflation, typically RPI (retail prices index) which is higher than CPI (consumer price index)". So they should always be ahead of the game.

10. Tullow Oil

Price now: 741.50p

52-week high: 985p

52-week low: 462p

Why buy? This Irish-owned oil exploration firm has interests in emerging areas such as Uganda and Ghana, which puts it in a strong position to strike black gold.

And if oil prices continue to rise, it should reap double dividends.

Note: Prices are correct at close on 20 August 2008.

Risk warning: The price of shares and investments can go down as well as up, and investors may not get back the amount they invested. Past performance is not necessarily a guide to future performance.