SHARE SLEUTH

Make time to take stock

Facts can cut through sentiment and hyperbole and help investors pick the best companies to invest in, says **Richard Beddard**

Northamber's computer distribution business looks likely to struggle in 2011

Successful fund manager Peter Lynch wrote in his bestseller *One Up On Wall Street*, 'When looking at the same sky, people in mature industries see clouds where people in immature industries see pie'. Typical of the pie-seers when he wrote the book in 1989 were 'technology people', who unlike textile manufacturers hadn't traded through recessions, wars, booms and busts. Software manufactures, he said, never lacked confidence.

Twenty years and a technology crash later, some executives see less pie. David Phillips, chairman of **Northamber**, which distributes commercial computer hardware and software, sounds a lot like a textile manufacturer. Admitting to 'cautious optimism' in November, he then listed the hazards ahead: a fragile economy, government cuts and rising VAT rates.

These are problems investors fret about, but their impact is largely unknown. I prefer to investigate what we can know; whether the company has the financial resources to survive such troubles, and whether it can withstand competition. The more uncertain I am about its strengths, the cheaper the shares must be to compensate for the risk of owning them.

Lynch's advice for investors was to ignore the hyperbole. Pare down Phillips' words and we get: lower gross margins, increased profitability, lower costs, higher profit, higher net assets, no debt and increased cash. Since that précis contains only one negative, lower gross margins, I see reasons to be cheerful.

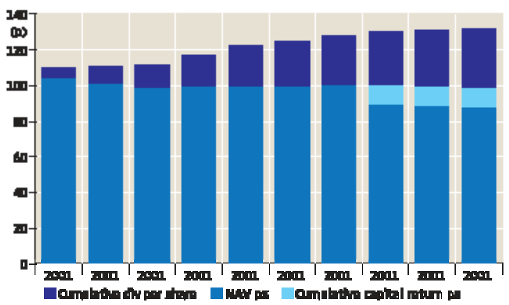
But this analysis lacks perspective. As I mentioned last month, we can gauge a company's success over many years by adding its cumulative dividend per share to its current net asset value (NAV) per share, which in a mature company should be mostly profit retained and invested. Since Northamber belongs to its shareholders, changes in the total of the two show how successful it has been at building their wealth. A few years ago, Northamber returned 10p a share to investors in a capital restructuring, so we must add that in too.

Northamber's record is poor, as the table shows. It has only increased shareholders' wealth by an average 2 per cent a year since 2001. More recently the bulk of its profit has come from bank deposits.

Investors don't expect Northamber to make any money. The price of the shares puts the whole company at less than 70 per cent of the value of its current assets. When I added Northamber to the Thrifty 30 portfolio at 52p, I thought it had to be worth more than that, but on reflection, the market probably won't agree unless Phillips is right, and it starts making money again.

The fact that it would rather pay dividends and return capital to investors suggests two things, the first is positive, and the second negative. The positive is that the board is rewarding shareholders, instead of wasting money on unprofitable investments. The negative is it can't find profitable investments to make.

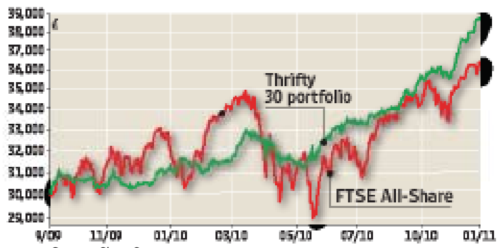
NORTHAMBER: NOT A NICE LITTLE EARNER



Information technology prices have been falling for over a decade, computers are more reliable and customers have more options: they can buy direct from manufacturers or online. The economy could be in the doldrums for years too, so Northamber faces quite a headwind. That's why I'm listening so carefully to Phillips, who in recent years has been unable to muster optimism, even cautiously.

Richard Beddard is companies and markets editor of our sister website Interactive Investor. You can follow changes to the Thrifty 30 portfolio and commentary at http://blog.iii.co.uk

THRIFTY 30 CLIMBS AHEAD OF ALL-SHARE



Source: ShareScope

HOW THE CONSTITUENTS STACK UP

Name	Shares	Price (£)	Cost (£)	Value (£)	Return %
Alumasc	938	1.30	999	1,215	22
Armour	6,677	0.07	1,000	484	**-52**
AutoLogic	3,517	0.23	1,000	809	**-19**
Castings	515	2.66	999	1,367	37
Clarke (T)	706	1.24	1,000	872	**-13**
Dart	1,824	0.96	1,000	1,742	74
Dewhurst	413	3.48	998	1,435	44
French Connection	2,310	0.85	1,000	1,964	96
Games Workshop	348	4.23	998	1,470	47
Haynes Publishing	539	2.31	999	1,245	25
Holders Technology	1,437	0.96	999	1,380	38
International Greetings	1,696	0.65	1,097	1,102	1
Johnson Service	5,035	0.31	1,000	1,536	54
Mallett	1,591	0.68	1,000	1,074	7
Northamber	2,276	0.57	1,200	1,286	7
Northgate	511	2.85	1,099	1,456	33
Printing.com	2,940	0.37	1,000	1,088	9
Quadnetics	643	1.76	999	1,132	13
Ricardo	386	2.98	999	1,150	15
RM	611	1.73	999	1,054	6
Solid State	1,950	1.00	1,000	1,950	95
Thorpe (FW)	166	7.30	1,193	1,212	2
Titon	2,493	0.59	1,000	1,458	46
Trifast	3,112	0.52	1,130	1,603	42
Waterman	2,431	0.55	1,000	1,337	34
Total current holdings			25,704	32,420	26
Cash				6,233	
Total portfolio			**30,000**	**38,653**	**29**

Notes: £10 broker fee charged for all transactions, and 0.5% stamp duty for purchases. Cash earns no interest. Dividends and sale proceeds are credited to the cash balance. £30,000 invested on 9 September 2009 was worth £38,653 on 4 January 2011. £30,000 invested in a FTSE All-Share ETF was worth £37,607 (dividends reinvested). **Objective:** To beat a FTSE All-Share ETF handsomely over any five-year period. **Source:** Sharescope, 4 January 2011