



The Top Stock Picks for 2016

**Who should you consider
for the year ahead?**

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The top 10 stock picks for 2016

2016 – A year of opportunity

With 2015 a notably volatile year and many a stock now trading at heavily **discounted** levels, we're approaching what could be a turning point. As an investor, you'll know just how much has been happening this year, and how much **uncertainty** has stalked the markets with the resultant volatility proving difficult for many to navigate. At the same time though, it's provided the **ideal trading conditions** for those who have been eyeing market moving events for their short-term effects – these having been particularly prevalent in 2015. Short, sharp market moves.

The news has been the news – there's little point in over analyzing it here, because you as an investor want to know what to look for in the coming 12-months. Let's merely summarise, then, the **prime drivers** that have moved markets in 2015:

- **Greece**
- **US interest rates**
- **Chinese economic slowdown (or is it?)**
- **Commodities**
- **Unrest in the Middle-East**

Looking forward to 2016, the question becomes: **which of the above is set to continue influencing the markets?** Greece is still not settled, but is easily eclipsed by the Eurozone vs. US monetary policy issue. A December move on interest rates by the Federal Reserve seems likely. Markets have all but priced it in. With higher interest rates, **financials** stand to benefit.

The Chinese stock market is frequently mistaken for the Chinese economy. Importantly, they're not the same thing! **Growth** there is probably somewhere between 4% and 6% - we can't be sure since we can't be sure that the Chinese numbers aren't cooked. It may even be 7%. Since China (meaning essentially the commodities market) is still looking rocky, we'll speculatively consider some emerging-market-sensitive **mining stocks** that have some of the best recovery potential in the markets. Commodities are interesting – **the market is readjusting**. There will be a time to get back into commodities, the question is merely: when?

Tensions in the Middle East look set to grow. The wind is already in the sails of **defence** stocks and with that region producing the majority of the world's **crude oil**, we've got a challenge to the reverse gear that is global oversupply. **Liquefied natural gas (LNG)** also looks set to play a greater role in UK **energy** production.

Volatility can be traded successfully and CFDs give you the investor all the benefits of traditional shares, including the receipt of dividends when holding long positions in equities and indices, while enabling you to speculate in the short term using some of the capital that would otherwise be tied up in shares. To read more on this, see our honest [educational piece on CFDs](#).

In any case, the important thing right now is that not only do we have a couple of potentially exciting drivers moving forward, we've also got some very reasonably priced stocks. That's what makes 2016 a real **year of opportunity**.

Read on for a non-exhaustive selection of stocks to watch in 2016!

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Trailblazers

In this section we'll have a look at some stocks whose charts suggest a strong trend and good growth potential leading into what should be a positive year. Is there good reason to believe these trends will continue, or could there be scope for a reversal of fortunes? Whatever the outlook, tradable opportunities will present themselves.

BT Group (BT.)

Telecommunications



Where next for BT shares?

- BT seen on track for a takeover of EE, which would vastly increase customer base and bolster more grass roots efforts in superfast broadband.
- Short term volatility is likely due to heavy investment and M&A (in the role of predator...).
- Shares are near the average 12-month broker target price.

Will shares in **BT Group (BT.)** rally towards historic highs of 1400p or fall towards lows of 90p?

Broker Consensus: 48% Buy, 35% Hold, 17% Sell

Average 12-month broker target price: 505p

NB: All pricing and consensus data from Bloomberg on 1 Dec; Consensus breakdown available on request

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Direct Line Insurance Group (DLG)

Insurance



Where next for DLG shares?

- Direct Line Group and other insurers are essentially plays on US interest rates.
- With the non-life insurance sector heavily invested in short dated fixed income (as opposed to the longer dated bonds preferred by life insurance companies), an imminent US rate hike and subsequent tightening could bolster balance sheets. Even if December fails to materialize, we're not far off.
- Shares in a steepening uptrend since 2013 and now trading above the average 12-month target price.

Will shares in **Direct Line Insurance Group (DLG)** maintain their uptrend or fall back towards lows of 190p?

Broker Consensus: 50% Buy, 40% Hold, 10% Sell

Average 12-month broker target price: 383p

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Antofagasta (ANTO)

Basic Materials



Where next for ANTO shares?

- Copper is showing some resilience in the face of US Dollar headwinds and a perceived Chinese slowdown.
- Time is running out for miners to act in support of commodity prices.
- Strong downtrend since 2011 may have finally met support around 6-year lows of 470p.

Will shares in **Anofagasta (ANTO)** **head back towards highs of 1600p** or **continue towards lows of 285p**?

Broker Consensus: 17% Buy, 54% Hold, 19% Sell

Average 12-month broker target price: 573p

NB: All pricing and consensus data from Bloomberg on 1 Dec; Consensus breakdown available on request

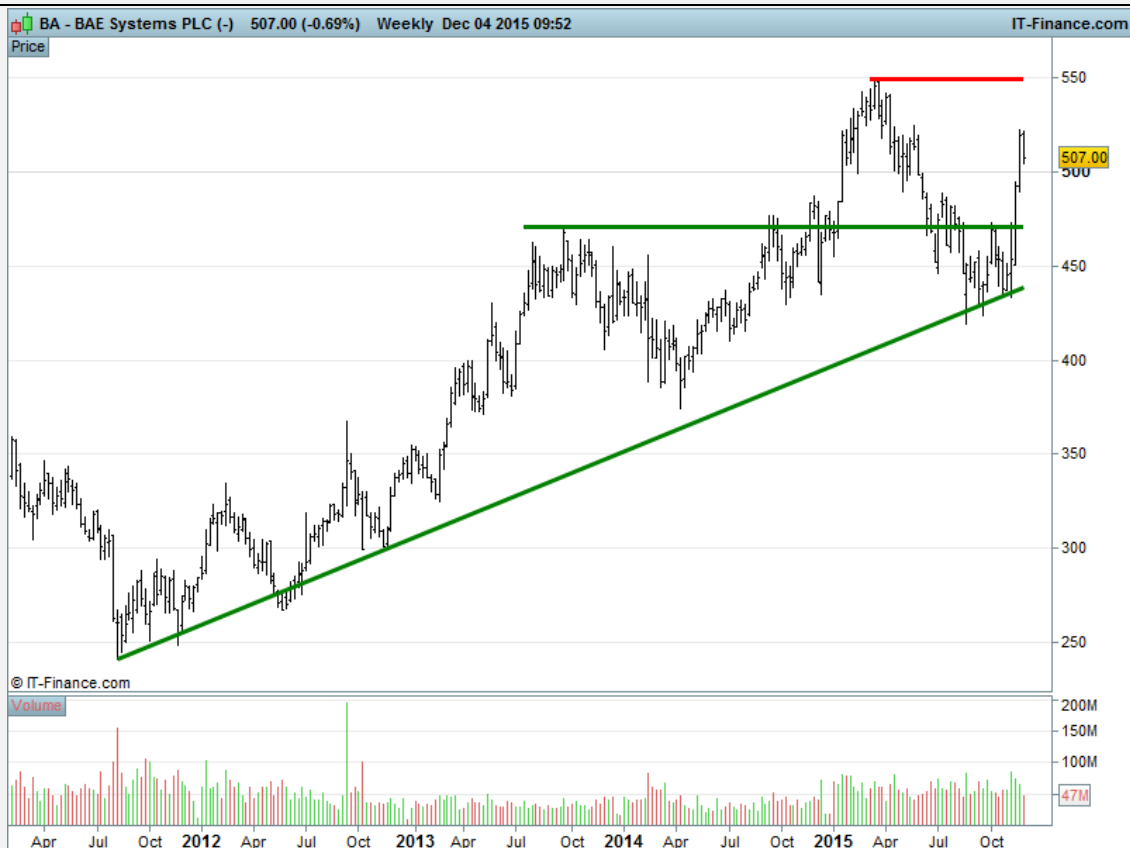
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BAE Systems (BA.)

Aerospace & Defence



Where next for BA shares?

- Shares have enjoyed a 4 year uptrend, with a recent break below 3.5yr rising support reversed by increased attention on the Middle-East.
- We could be seeing a loss of momentum into year-end, with the potential for BA shares to trade sideways into 2016.

Will shares in **BAE Systems (BA.)** **break above highs of 550p** or **pull back towards 450p?**

Broker Consensus: 17% Buy, 54% Hold, 19% Sell

Average 12-month broker target price: 573p

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A few steps forward, a few steps back

These stocks are trending, but they're also ranging. That means opportunities for both long- and short-term strategies. Especially volatile around results announcements, regulatory scrutiny and global growth issues have also played their part in moving the following shares.

Randgold Resources (RRS)

Miners & Basic Materials



Where next for RRS shares?

- A play on the gold price and, ergo, US monetary policy. Will a Fed rate hike reassure markets and take some attention away from the USD?
- RRS shares are straying close to the supportive rising trend line dating back to 2008. A potential 2.5yr sideways range still presents 1000p upside if gold (currently around 5yr lows) recovers some shine.

Will shares in **Randgold Resources (RRS)** rally towards highs of **7750p** or pull back towards **1500p**?

Broker Consensus: 50% Buy, 42% Hold, 8% Sell

Average 12-month broker target price: 4549p

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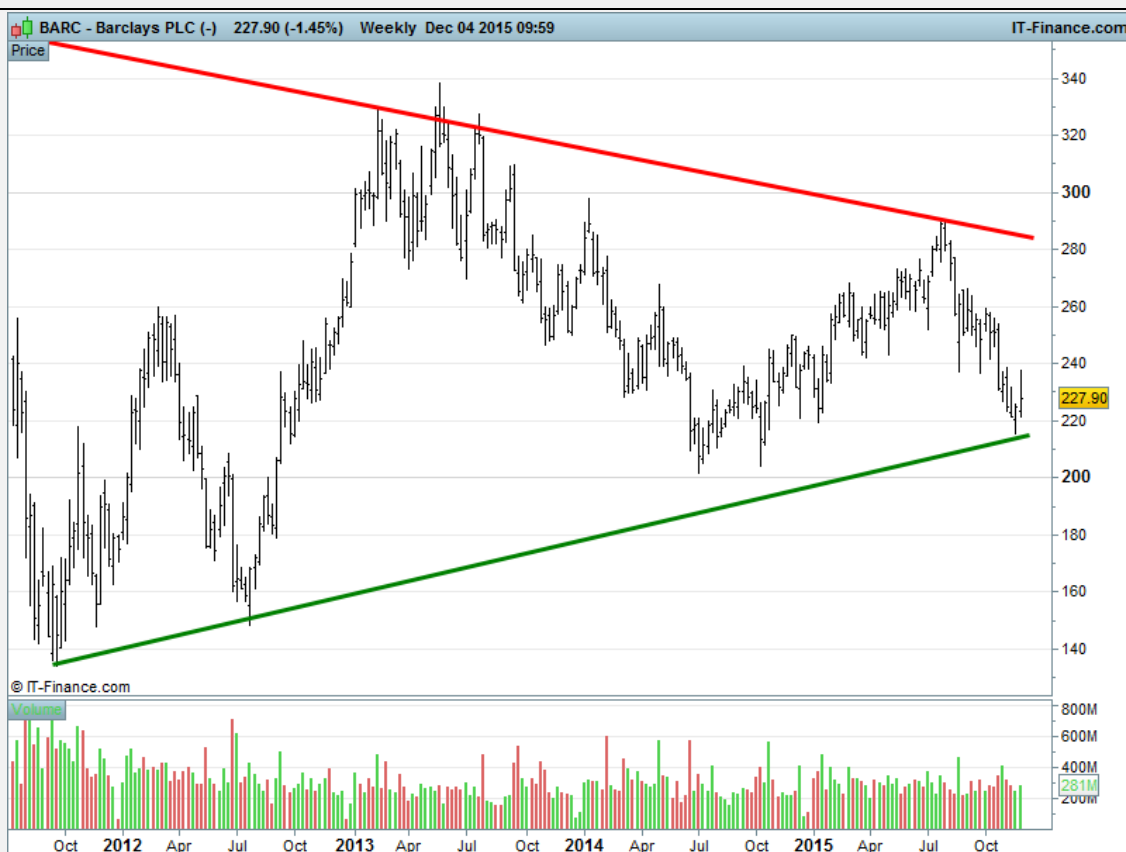
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Barclays (BARC)

Banks



Where next for BARC shares?

- UK banks all passed the BoE stress tests in late 2015, which in theory means they are well placed to survive another financial crisis. This should aid consumer confidence.
- While all UK banks should arguably be back on investors' watch lists, the UK taxpayer does not own a stake in Barclays, leaving it relatively free of government meddling.
- UK Banks remain favourites among short-term traders.

Will shares in **Barclays (BARC)** rally towards highs of 340p or pull back towards 130p?

Broker Consensus: 72% Buy, 21% Hold, 7% Sell

Average 12-month broker target price: 292p

NB: All pricing and consensus data from Bloomberg on 1 Dec; Consensus breakdown available on request

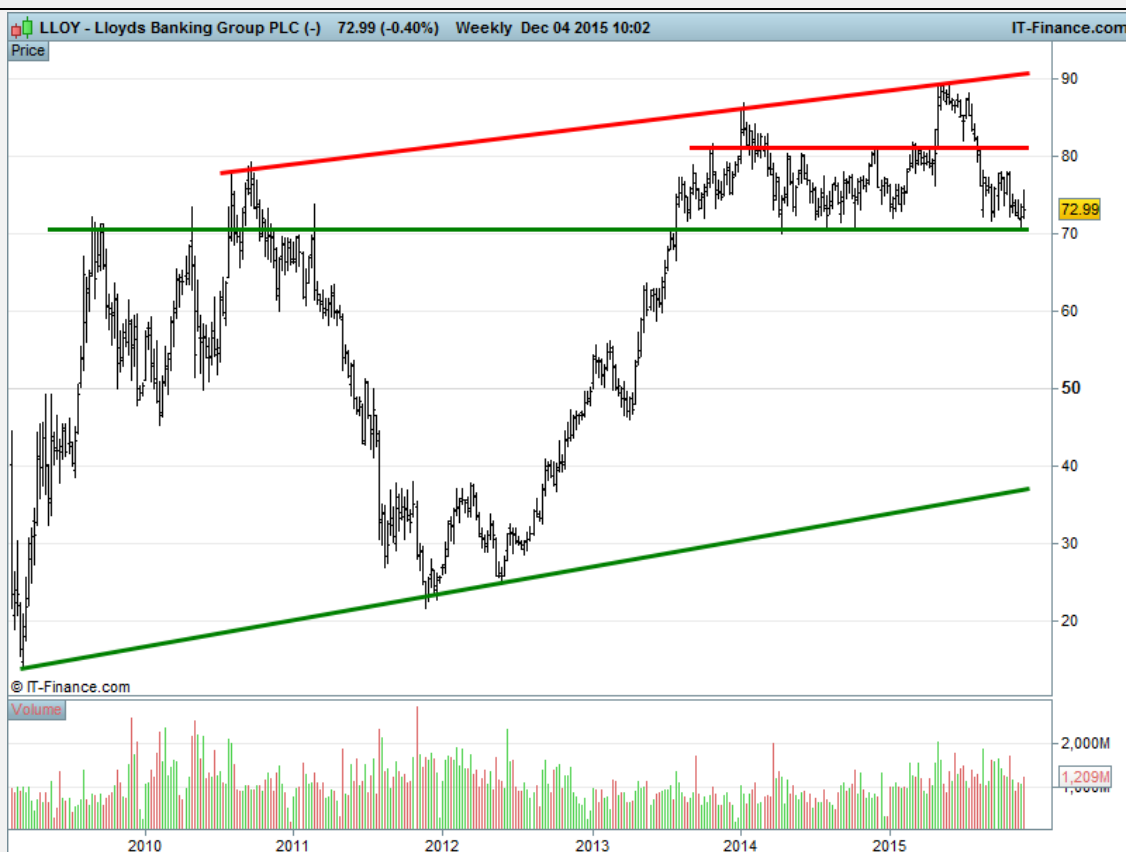
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Lloyds Banking Group (LLOY)

Banks



Where next for LLOY shares?

- With a potential US rate hike, financials stand to benefit. But given the luxury of choice, will investors abandon the 'bargain' bank LLOY due to regulatory issues that might stifle growth? Might BARC or HSBC offer better potential opportunities?
- Average 12-month target price remains some 20% above current levels while shares have had support just north of 70p for around 2-years.

Will shares in **Lloyds Banking Group (LLOY)** rally towards highs of 88p or pull back towards 35p?

Broker Consensus: 67% Buy, 20% Hold, 13% Sell

Average 12-month broker target price: 87p

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Rangers

The following stocks are trading in sideways ranges – successions of up- and down-trends, the time components of which vary. Some have been range bound for years with each move lasting a year or more while others have been more recently confined within tight channels. Again, these present both medium and long term opportunities. Will they remain within their current ranges, or are they due a breakout in 2016?

Centrica (CNA)

Utilities / Oil & Gas Producers



Where next for CNA shares?

- Shares are trading at the floor of an 8-year range. Commodities have been hit hard in that time and Centrica, being a producer of gas as well as an energy supplier, is party to that also.
- Fossil fuels still due to play a large part in energy production going forward with a reduction in the use of coal being compensated for with liquefied natural gas (LNG).
- Could 2016 see the start of a 2-year rally back towards the channel ceiling, or will LNG fail to save the day for Centrica?

Will shares in **Centrica (CNA)** rally towards highs of 400p or fall beneath 200p?

Broker Consensus: 67% Buy, 20% Hold, 13% Sell

Average 12-month broker target price: 87p

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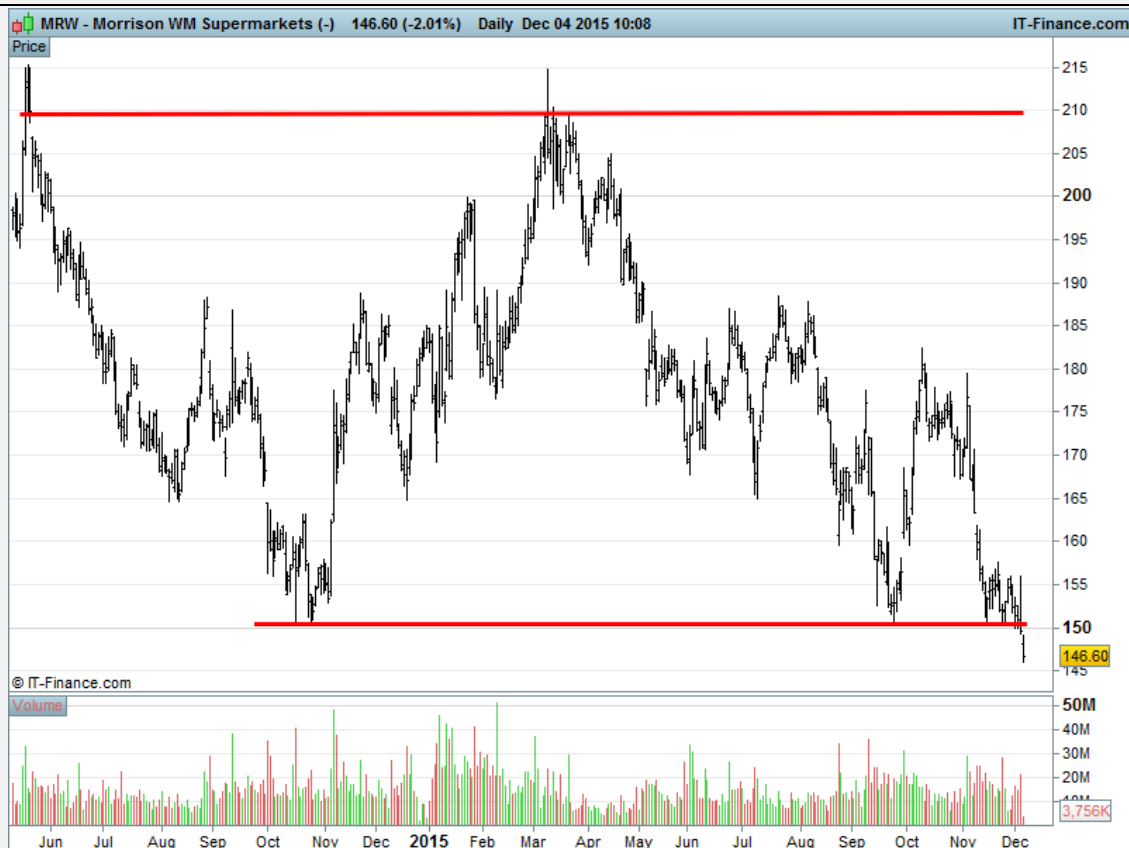
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WM Morrison

Grocers



Where next for MRW shares?

- Shares made a break below the floor of an 18-month sideways range to trade near 12-year lows as the UK's FTSE100 supermarkets fight a price war with discounters.
- With support breached, will shares in MRW now continue south, or are they now oversold and presenting a buy opportunity?

Will shares in **WM Morrison (MRW)** rally towards highs of 215p or continue to fall towards 12-year lows?

Broker Consensus: 18% Buy, 41% Hold, 41% Sell

Average 12-month broker target price: 172p

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Comeback King?

Rolls Royce Holdings (RR.)

Aerospace & Defence



Where next for RR shares?

- Shares sold off hard after late 2015 profits warning.
- UK defence spending may increase, making the recent dip a potential buying opportunity.
- Range could extend further south on a nonetheless poor outlook, with potential for a further 60% downside, while a recovery to late 2014 highs implies over 100% upside.

Will shares in **Rolls Royce Holdings (RR)** rally back towards highs of 1300p or fall towards 250p?

Broker Consensus: 15% Buy, 52% Hold, 33% Sell

Average 12-month broker target price: 585p

NB: All pricing and consensus data from Bloomberg on 1 Dec; Consensus breakdown available on request

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