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## Just one tiddler can prove very satisfying



**David Schwartz**  
 Trader's Diary

**P**revailing wisdom suggests that small company shares are more volatile than shares in the FTSE 100. Minnows might rise by more during bull markets but they are believed to deliver steeper declines in bear markets. But if the last four years are any guide, it is time to revisit this old saw.

The FTSE 100 fell 52 per cent in our last bear market. Other UK indices displayed a similar trend. The 250 index, which is comprised of companies that are one notch below in terms of market capitalisation, slipped 53 per cent. Very small companies within the FTSE Fledgling index also fell 53 per cent.

So much for the relative safety of large company shares during a downturn.

For all UK shares, 2009 was a recovery year. But the FTSE 100 index rose by just 22 per cent. By contrast, the 250 index gained 46 per cent and Fledgling shares rose an eye-watering 74 per cent.

For large company investors, 2010 was again disappointing. The FTSE 100 rose just 9 per cent, less than half of the gain turned in by the 250 and Fledgling indices. Our giant multinationals have now disappointed investors for four years.

The problem is that the FTSE 100 is dominated by a few big sectors such as

banking and natural resources. One or more have been constantly battered in recent years.

We all know that any single share has the potential to rally sharply and cause a broad generalisation to look foolish. But recent history suggests there is little to be gained by playing within the large company arena for those who prefer to spread their risk across a broad cross-section of shares.

Such problems do not concern me because I concentrate on small company shares. My favourite target at present is a beaten-down tiddler that is ripe for a rebound. If the rest of the stock market has not yet spotted its turnaround potential, all the better.

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Asterand is a small supplier of human tissue to companies engaged in drug discovery research. Its recent acquisition of BioSeek enabled it to expand into drug compound testing, a high-growth opportunity.

The company produced a small loss in 2009 and will probably do so again when its results for 2010 are announced in March. It helps to explain why the shares stagnated in the 10-20p range last year. But an interesting story emerged after I analysed the company's financials on a half-year by half-year basis.

Asterand delivered a hefty loss in the second half of 2009 after revenues from a major one-off

contract tapered off. This was coupled with an industry-wide slowdown in drug company research and development spending.

However, the second half of 2009 proved to be the company's low point. Pre-tax losses were shaved to \$1.6m (the company reports in US dollars) in the first half of 2010.

Results for the second half of 2010 are not yet released. My guess is that the profit trend continued to improve. A cost-cutting programme reduced expenses by about \$1m in the final four months of the year.

Newly-acquired BioSeek will probably contribute more than \$2m in revenues. As a result, I expect a small profit in the second half of 2010, even though the full year will show red ink.

Looking ahead, I expect significant profit increases in 2011. The cost-cutting programme is projected to eliminate \$3m from 2011 expenses. BioSeek will probably deliver further revenue gains.

Another important plus is Asterand's new 17-month, \$5.4m contract with the US National Cancer Institute (NCI). Revenues will begin to flow in 2011. No guarantees, but the NCI also has the option to extend its contract for five years with a maximum value of \$24.3m.

The frosting on the cake is Asterand's tissue supply business. Revenues in 2009-10 were hurt by research and development cutbacks. But industry insiders are growing increasingly positive that Big Pharma will begin spending again in 2011.

I cannot calculate a precise profit target for 2011 nor can I predict the content of Asterand's forward-looking statement when it next communicates with investors. But if my assumptions are correct, I expect optimistic reports on both counts.

*Stock market historian David Schwartz is an active short-term trader writing about his own trades. Send any comments or suggestions to tradersdiary@ft.com*

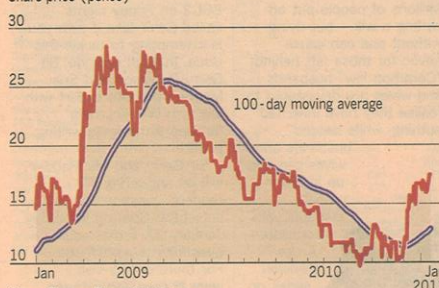
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### Asterand

Share price (pence)



Source: Thomson Reuters Datastream