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Risks with rewards

SPECULATIVE SHARES CAN ADD SPICE TO YOUR PORTFOLIO AS CHIEF BUSINESS WRITER **JOHN BEVERIDGE** REVEALS IN HIS TOP 10

THERE is a lot of truth to the adage that the share market is a great place to make money slowly and lose it quickly.

In other words, a slow, systematic and sustained approach is much better than a "double or nothing" casino approach to buying stocks.

But outside that core approach of buying a diversified blue-chip portfolio and gradually pruning and adding to it over the years, there is still room for small, speculative stocks that can grow quickly and add some significant spice.

To qualify as one of my top 10 speculative buys this year, each company must have the potential for fast but higher-risk growth.

TPG TELECOM

Growth pedigrees don't come much better than TPG, even though it is at the larger end for this list. The purchase of AAPT gives TPG a total of 11,000km of fibre optic links between Sydney, Melbourne, Brisbane and many business hubs. Combined with a good range of mobile, phone, business and data offerings, this acquisition means TPG can maintain the growth that has seen its share price double in the past year and multiply nine times in the past four years.

SUPER RETAIL GROUP

A carry-over champion, Super Retail Group suffered a rare black eye near the end of the year but is still managing double-digit growth in an environment in which many retailers are struggling. With the share price in a dip and its main chains BCF, Ray's Outdoors, Rebel Sport and Supercheap Auto primed to outperform, Super Retail should do well in an improving retail environment.

RUM JUNGLE

Few stocks offer as much leverage to future food production as Rum Jungle as it drills to reach a billion tonnes of phosphate under the red dirt north of Alice Springs after taking over Central Australian Phosphate. There are risks but with a side study on a promising potash project and a cornerstone shareholder in Washington H Soul Pattinson, this is one company that really could help to feed the world.

BILLABONG

Can a souffle rise twice? Well, Billabong might just show it can after bouncing between consistently lower takeover offers and finally hitting on a restructure that worked. With noted turnaround specialist Neil Fiske at the helm and a more concentrated brand portfolio, there is at least some chance of sweet returns.

COGITATE

Cognitive testing is not exactly mainstream but with the long and short-term dangers of concussion in sport becoming better known, Cogstate's playing card based tests are being used for players in elite sports such as the AFL. With demand for the tests in clinical trials and a strong first-mover advantage and intellectual property protection, this is a tightly held small company with heavy hitting shareholders that could hold a winning hand.

SILVER CHEF

This mainly hospitality rental company has a solid history of growth from its signature brand, although its GoGetta equipment finance arm is coming out of a slow patch. A recent profit warning has led to a dip in the stock but I think much of this is due to investments for future growth such as Canadian expansion and a new Melbourne processing facility.

INGENIA COMMUNITIES

Baby boomers aren't getting any younger and for many the retirement and rental communities that have been snapped up by Ingenia will fit the bill. With a focus on high internal rates of return, room for expansion and the right demographic locations, Ingenia's disciplined growth in buying new accommodation and prime locations should help to pay your rent.

MERMAID MARINE

After a disappointing year, Mermaid Marine is another carry-over champion that earns its place on merit. Onshore mining investment may have peaked but offshore oil and gas has many years to run with a suite of massive new projects being built.

INVION

It has three respiratory/auto-immune drugs already at the phase II trial stage before the US Food and Drug Administration. Recent problems with a smoking cessation trial have dented the share price and provide a good chance to grab a growing company with a proven management team.

EMERCHANTS

Has carved out a successful niche by providing customised reloadable financial cards. A wide variety of institutions want cards that come with attached rules such as no cash withdrawals, petrol purchase on weekdays only or almost any conditions you can imagine. One to swipe into the portfolio.

BY THE NUMBERS

There is a lesson to learn from every situation and the one from last year's top 10 speculative stocks is to limit your losses but let your profits run. There is no getting away from the fact that as a whole this volatile portfolio had a dreadful year — down 7.04 per cent overall even though Nanosonics and Amcom performed admirably.

With the benefit of hindsight I had too many small miners and explorers that were heavily sold down en masse.

Putting a 10 per cent stop loss on all of these stocks would have transformed the return to a much more reasonable but still far from acceptable 8.19 per cent.

Returns from last year's portfolio

Nanosonics	↑ 75.3%
Amcom Telecommunications	↑ 42.2%
Super Retail Group	↑ 29.4%
Mermaid Marine	↓ -5.8%
Ama Group	↓ -9.3%
Pura Vida Energy	↓ -25.6%
Matsa Resource	↓ -27%
Starpharma	↓ -36.4%
Hot Chili	↓ -42%
Navarre Minerals	↓ -71%
Portfolio return	↓ -7.04%