The Rock
INVESTMENT PLANNING LIMITED

Investment Market Update No. 16

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Editorial

All the staff at The Rock Investment Planning wish you and your family a merry Christmas and a happy, safe and prosperous New Year. There will be no market update published in December, but we will be back in January 2005.

In this issue we cover:

1. A reminder about the Christmas period;
2. Investment reports;
3. Market tidbits; and
4. Investment briefs.

David French
Head of Financial Planning & Business Solutions

Christmas

As mentioned in our previous market update, the office will be closed from Monday 27 December 2004 to re-open on Tuesday 4 January 2005. During this period our Portfolio Administration System will not be updated.

Your investment reports

The Rock Investment Planning (TRIP) produces two distinct sets of reports for your use - quarterly reports, and tax reports.

Quarterly reports are normally mailed within 10 working days of the end of each quarter. Tax reports are mailed out when all of the information relevant to the tax treatment of your portfolio has been received. The two sets of reports are quite different. The purpose of the quarterly reports is to provide clients with a pure picture of how each portfolio is performing, while the purpose of the tax reports is to provide base information for use by accountants in preparing tax returns.

In reading the quarterly reports, there are four particular matters that need to be kept in mind:

- Asset purchase prices do not include brokerage payable to a stockbroker. We want to show you the value we are adding through our investment selection, and we do not want to distort that by including brokerage. Instead, brokerage is included as an up-front fee, the same as quoted in the financial plans that we prepare;
- The distribution of franking credits effectively amounts to companies distributing their dividends in a pre-tax basis. Since capital gains and non-franked income are reported on a pre-tax basis, this treatment must apply to dividends too and so franking credits are included in the return calculations. While the reported value of these credits increases from year to year, some of the franking credits may have already been used to reduce tax payable;
- The third issue is the calculation of the growth in cash balances. While it is easy to show what dividends have been received, it is more difficult to show the growth in the cash balance of the portfolio. This is because merely changing assets around alters the cash balance. That is, if we sold an asset your cash balance would rise, but as you would just be switching one asset (shares for example) for another (cash), the increase in cash would not be wholly related to performance. As a consequence we work backwards from your current portfolio and cash balance, so that we can estimate what your cash balance would have been if your portfolio comprised the same assets as it does now. To do that we take your current cash balance and subtract all the dividend, interest and trust income, and add back fees and charges accruing over the period;
- The last item is the calculation of the portfolio return. The reported return is the total return since the first day that cash was deposited into the portfolio. This means that the return is generally understated, because often times money comes in dribs and drabs, and it takes some months until the portfolio is fully set up. Further, returns will be higher than reported if properties and term deposits are included in the portfolio, or if you deposited money into the account during the year (because the return is calculated on the total deposited, notwithstanding that it

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may have been deposited only recently). We are about to do some more work on calculating portfolio returns, however, as the large managed funds have found out (some are subject to an ASIC review on this matter), this is a complex issue that takes time.

The purpose of tax reports is to provide base data, for use by clients or accountants, from which to construct financial statements and tax returns. Since the person preparing the return has to make arbitrary choices (treatment of fees, first-in, first out, asset registers, trading stock, etc, etc), it is impossible to devise a set of reports that will do everything for everyone.

What the tax reports and our offer to provide whatever information you require achieve, is to significantly reduce the effort involved in undertaking end of year tax work.

Market news

The Australian stock market continues to trade at record levels. The benchmark S&P/ASX 200 is closing in on 4,000 points, with some commentators expecting this to be achieved well before Christmas. Recent falls in oil prices have helped push domestic and international markets higher. Renewed consumer confidence and healthy company profits have also helped.

Investment briefs

Telstra (**TLS**): Following market speculation TLS announced on 25 November that CEO Ziggy Switkowski would not be leaving the company. On December 1 TLS announced the CEO would indeed be leaving the company in June 2005 (unless a replacement can be found sooner). This brings some board room dissent to an end. The new CEO will be faced with managing the expected sale of the Federal Government's remaining shares in the company (*source: Macquarie Equities, The AFR*)

Connecteast Group (**CEUCA**): The toll road operator listed at a 24 per cent premium to its issue price. Further evidence of good trading conditions.

General Property Trust (**GPT**): GPT unit-holders rejected the proposed merger with Lend Lease. Stockland (SGP) has recently announced a $7.5 billion scrip bid for GPT (*source: Macquarie Equities*).

Australian Wheat Board (**AWB**): AWB announced it has more than doubled its annual profit to $96 million. The result has been attributable to a record wheat harvest and the full-year contribution from Landmark, which was acquired off Wesfarmers (*source: Macquarie Equities*).

National Australia Bank (**NAB**): ASIC expects to release its report into the $360 million currency scandal by Christmas. It may not be a very happy Christmas for some senior NAB executives.

Big Kev (**BKV**): Two days after Big Kev (Kevin McQuay) resigned, shares in the company gained 744 per cent (up from 4.5 cents to 38 cents). Sanity has been somewhat restored to the market with the shares now trading at 20 cents (this is still a 344 per cent increase).

Commonwealth Bank (**CBA**): CBA have announced its Which New Bank restructure is on target. The high dividend yield remains attractive. Improving share markets will assist by increasing the profitability of the wealth management division.

Patrick Corporation (**PRK**): PRK announced a 42 per cent increase in net profit. Further increases in consumer (discretionary) spending are likely to benefit many of the company's operations, especially its airline and freight divisions.

Harvey Norman (**HVN**): HVN is expecting a bumper Christmas trading period. Most retailers should benefit from the current buoyant economic conditions and generate good sales over the next 4 weeks.

The views expressed herein may not reflect the views of The Rock. You are advised to seek advice regarding your particular situation before acting on anything contained herein.