

## Investment Market Update No. 22

30 June 2005

### Editorial

The end of the financial year is now upon us and it has been a mixed bag for investors. Some companies have had a great twelve months, some have had an indifferent time, while others have just failed to deliver (anything but bad news).

In this issue we cover:

1. Superannuation choice;
2. Investment markets; and
3. Investment briefs.

#### Bryan Moss

Senior Investment Advisor

#### David French

Head of Financial Planning & Business Solutions

### Superannuation Choice

Superannuation choice commenced on 1 July 2005. Employers must provide their employees with a Standard Choice form before 29 July 2005, or within 28 days of an employee commencing employment.

Important considerations when thinking about changing superannuation funds:

- Fees – ongoing, exit, transaction, and up-front
- Insurance cover
- Performance and investments

Eligible employees can make a choice whenever they wish, but an employer is only obliged to accept one choice nomination per year.

It is expected that a number of workers with sizeable superannuation balances will take the opportunity to establish self managed superannuation funds. This is likely to result in funds flowing out of managed funds and into direct equities. Ten years ago self managed superannuation funds were the least used superannuation vehicle. Today they are the second largest.

### Investment markets

The Australian share market (as measured by the S&P/ASX 200 index) has had a pretty good twelve months returning 21.1 per cent for the financial year. Calendar year to date, however, has been more subdued with a return of around 4 per cent.

Of all the stocks in the S&P/ASX 200 index, 31 ended the financial year in negative territory, 10 were not listed for the full financial year, leaving 159 ending the year with capital gains. Of these 159 the smallest gain

was 0.3 per cent (Boral) and the largest was 770.3 per cent (Paladin). The losers ranged from -0.2 per cent (AWB) to -55.4 per cent (Pacifica).

Over five years 24 stocks in the top 200 have delivered negative returns for investors (with the range -2.1 per cent for Australand to -79.1 per cent for MYOB); 45 have not been in the index for five years; and of the 131 stocks that delivered positive returns over five years, the range was 1.1 per cent (Futuris) to 3,393.9 per cent (Fortescue Metals (*source: AFR 4/7/05*)).

The American market, as represented by the S&P 500, returned 4.55 per cent for twelve months, the Hang Seng (Hong Kong) returned 15.58 per cent, and the FTSE 100 (England) returned 14.54 per cent (*source IRESS*).

Key themes affecting returns this financial year will likely be oil and coal prices (affecting resource (+), transport (-) and retail (-) stocks), interest rates (affecting banking and retail stocks depending on the direction of the rate change). The longer oil prices stay high the less likely the RBA is to increase interest rates.

As we recently saw with the London bombings Terrorism continues to be a threat. In terms of markets the impact was negligible. Immediately following the blasts the London stock market fell, however, there were numerous opportunists around who took advantage of panic selling to buy in cheaply, and the market closed up. Following the bombings the London exchange experienced its heaviest day of trading since March 2003, with 4.75 billion shares traded.

Australian Financial Services Licence No. 237435

## Investment briefs

**Commonwealth Bank (CBA):** CBA has announced that CEO David Murray will be retiring as CEO (after 39 years, 13 of which as CEO) in September. Former head of ASB (a NZ based CBA subsidiary) and current CEO of Air NZ, Ralph Norris, has been appointed as his replacement. Expect a fair degree of media talk about the size of David Murray's retirement benefits (expected to be in excess of \$20 million).

There is more to this story than just the size of David Murray's severance package. During his time as CEO Murray transformed CBA from a partly privatised bank with a market capitalisation of \$6 billion in 1992 to a \$49 billion integrated financial services company in 2005. Over this time the bank has delivered total shareholder returns at a compound annual growth rate of over 24 per cent (source: [www.commbank.com.au](http://www.commbank.com.au)).

In other news, CBA has sold its Insurance and Financial Planning business in Hong Kong for \$600 million. The company is looking to focus on opportunities in mainland China instead.

**Tattersalls (TTS):** Listed on the ASX on 7 July 2005. Retail investors (predominantly from Victoria) secured their allocation at \$2.90. The institutional price was set at \$3.10. Over 40 million shares were traded in the first 4 minutes, with over 100 million traded by the end of the end of the first day. TTS traded as high as \$3.62, but has since settled down to trade between \$3.30 and \$3.40 per share.

**Just Group (JST):** Former boss of Coles Myer, Solomon Lew, has become the largest shareholder in JST after his purchase of \$41.8 million of stock. This purchase has raised the prospect of a takeover.

**Woolworths (WOW):** WOW is still pressuring the federal government to allow them to have in-store Pharmacies. The government and Pharmacy Guild of Australia are attempting to negotiate a new five year Pharmacy agreement, with the WOW issue being a point of contention.

**BHP Billiton (BHP):** The ATO has issued BHP with amended assessments claiming it owes \$936 million in back taxes, interest and penalties due to "questionable" write-downs. Obviously BHP intends to fight this. After twelve months of high commodity prices the

result for BHP for the financial year should be pleasing.

**Flight Centre (FLT):** FLT has again disappointed investors after warning that its full-year profit will be below last year's. Flight Centre said full-year pre-tax profit should be between \$106 million and \$109 million, down 10 to 12 percent on its target of \$121 million. The London bombings are expected to have only a minimal impact on sales. The latest bombings do, however, show there are a lot of external influences that can impact tourism stocks.

**Sydney Futures Exchange (SFE):** Year to date trading volumes are up 16 per cent on this time last year. The company continues to perform well, and we see little reason to expect this to change. Although well managed, this is still a volatile stock, with its fortunes dependant on trading volumes.

**Telstra (TLS):** TLS has appointed its new CEO, Sol Trujillo, who will be taking over from current CEO Dr Ziggy Switkowski on 1 July 2005. Trujillo has over 30 years experience in the Telecommunications and technology area. There is speculation that to reduce costs there will be some redundancies, although this has been neither confirmed nor denied at this stage. The market, and TLS employees, are awaiting details.

**Wesfarmers (WES):** Current head of WES Michael Chaney hands control of the company to Richard Goyder in the middle of July. Chaney was head of WES for around twelve years, and had enormous respect in the investing community. Goyder's first year in the job is expected to be relatively easy, given Chaney's prediction for a better than expected full-year profit. Chaney has accepted a job on the NAB board, and having someone with his ability and ethics is expected to be a good thing for the NAB.

**Australia Gas Light (AGL):** AGL has agreed to take a 10 per cent stake in the \$3.5 billion PNG to Australia gas pipeline, that has been trying to get off the ground for the past eight years. AGL stock is up 25.7 per cent since this time last year. Despite this the company has said that it may still be in the hunt for other acquisitions if the price is right. It will take sometime before gas from PNG begins to supply the domestic market.

*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.*

Australian Financial Services Licence No. 237435

22 Archer Street, Rockhampton Qld 4700 Telephone: (07) 4931 5581  
PO Box 562, Rockhampton Qld 4700 Facsimile: (07) 4922 9069  
ABN 26 095 998 771 Internet: [www.therock.com.au](http://www.therock.com.au) Email: [investments@therock.com.au](mailto:investments@therock.com.au)