The Rock
INVESTMENT PLANNING LIMITED

Investment Market Update No. 12

31 July 2004

Editorial

It is hard to believe that we have been publishing our market update for one year now. We trust you will continue to find it informative and relevant.

In this issue we cover:

1. Child sponsorship;
2. Investment briefs; and
3. Reporting season

David French
Head of Financial Planning & Business Solutions

World Vision

The office has undertaken to sponsor a child through World Vision. We are awaiting our sponsorship package and once this has been received the details of the child we are sponsoring will be displayed in the foyer of our office.

Investment briefs

National Australia Bank (**NAB**): NAB announced a profit downgrade on July 14 and since then approximately $4.5 billion or 10 per cent has been wiped off the value of the company. Analysts are expecting it will take at least until the end of 2005 before NAB recovers. There is talk that NAB may have to decrease its franking level from 100 per cent to 90 per cent. It is likely that individual investors will come back to the stock, giving it some price support, well before institutional investors increase their exposure.

James Hardie (**JHX**): While the media are focussing on the shortfall in the amount JHX have set aside to meet their asbestos liabilities, Macquarie are expecting JHX to announce a strong 1Q profit result on 10 August. Following this it is expected investors will start to push the focus back towards operational issues and away from the asbestos problems.

Google: An update on the listing intentions of internet search engine Google. The company has valued itself at $US36 billion ($50 billion), but there are concerns that the company is overpriced with shares likely to trade at more than $US100 (*source: AFR 28/7/04*). This will be an interesting one to watch, if only to see whether the appetite for technology stocks in the US has come full circle.

Australian Stock Exchange (**ASX**): ASX have announced their quarterly profit nearly doubled. This has been attributed to a spike in new listings and buoyant trading volumes. The company gave an upbeat outlook for the remainder of the year (*source: Macquarie Equities 29/7/04*).

Commonwealth Bank (**CBA**): CEO David Murray has stated that mortgage growth is slowing and house prices stabilising (*source: AFR 29/7/04*). On current prices CBA shares need to rise from $31.19 to $31.72 for the bank to usurp NAB's title of Australia's largest bank.

Harvey Norman (**HVN**): With the Olympic Games around the corner, sales of electronic goods (especially big screen TV's) are expected to rise. The current low inflation and low interest rate environment, coupled with the increase in the baby bonus, should result in HVN recording a good second half.

Alumina (**AWC**): AWC has reported first half net profit after tax of $168 million, 41 per cent higher than the previous half (excluding the sale of Speciality Chemical, the result is 29 per cent higher than the previous half). A fully franked dividend of $0.10 per share has also been declared, which is consistent with the two previous dividends. This is an excellent result given the high Australian dollar throughout this period.

AMP (**AMP**): No news seems to be good news for AMP's shareholders. The stock has recovered from a low of $4.31 on February 4 to trade recently at $6.20, an increase of 43.85 per cent over the period. The full financial year results will be eagerly awaited by many.

Reporting season

This time last year we produced a table from Macquarie Equities showing, amongst other things, the twelve month share price target for 25 stocks. It's time to see how close Macquarie came to picking the winners and losers.

Company	Forcast price (MRE)	Actual price	Difference (%)
Perpetual Trustees	37.40	46.15	23.40
Paperlinx	5.40	4.76	(11.85)
Leighton Holdings	10.75	9.45	(12.09)
Amcor	10.00	6.68	(33.20)
Aust. Gas Light	11.58	12.42	7.25
Qantas	4.00	3.45	(13.75)
Woolworths	13.56	11.59	(14.53)
Fosters Group	4.90	4.66	(4.90)
Publish. & Broad.	10.60	13.35	25.94
National Foods	4.09	4.53	10.76
John Fairfax	3.60	3.74	3.89
Coles Myer	8.77	8.98	2.39
Crane Group	12.10	9.48	(21.65)
Onesteel	2.20	2.64	20.00
Origin Energy	4.50	6.07	34.89
Ridley Corporation	1.70	1.37	(19.41)
Adelaide Bank	9.37	8.44	(9.93)
Transfield Services	3.50	5.04	44.00
Southern Corss Brd.	9.00	11.71	30.11
Nufarm	4.75	6.00	26.32
Bank of QLD	8.94	9.60	7.38
Rio Tinto	37.00	36.08	(2.49)
Santos	5.50	7.08	28.73
Woodside Petrol.	15.00	17.61	17.40
BHP Billiton	10.50	12.59	19.90

The table shows how difficult it is to predict company fortunes. This is why analysts regularly update their forecasts to take into consideration any good or bad news a company announces and the current economic environment.

If you recall the share market environment this time twelve months ago, the media (and every get-rich-quick property spruiker in the country) were still telling us that investing in shares is for fools. When Macquarie made their 12 month forecast they would have taken the depressed state of the share market into consideration, which helps explain some of the large positive differences between forecast and actual prices.

Following are some comments regarding a few stocks.

The global recovery in share prices has had a large impact on the fortunes of Perpetual Trustees and it clearly exceeded expectations.

Of those shares that are down, the currency has had a negative effect on Rio Tinto, Amcor, Qantas and Paperlinx, whilst recent problems with the redevelopment of the Hilton Hotel and Spencer Street Train station in Melbourne have had an adverse impact on Leighton's.

Also of note is the differing fortunes of Australia's two largest retailers, Coles Myer (CML) and Woolworths (WOW). This time last year CML was losing ground to WOW and the main reason for this was that CML had not effectively combated the WOW discount petrol offers, which they now have. The market sees CML as a good turnaround story, and can currently do no wrong.

Publishing and Broadcasting have had a bumper year, on the back of consistent ratings victories by Channel 9 which have allowed the company to increase its advertising rates.