

## **Investment Market Update No. 14**

**30 September 2004**

### **Editorial**

With only a few days until the federal election, the most interesting TV show of the year is nearly upon us – the live telecast of the electoral results. This is reality TV at its best.

In this issue we cover:

1. Market highs;
2. New services

3. Investment briefs

**David French**

Head of Financial Planning & Business Solutions

### **The market continues to run**

The S&P ASX 200 (the index representing the top 200 stocks in Australia) continues to set record highs. Resource stocks likely to benefit from high oil prices have been behind the latest rises. NAB has also contributed to the new highs with NAB shares rising in value by around \$0.80 per share over the last 5 weeks.

While some commentators suggest that the strong market is indicating a coalition victory (due to their perceived better economic management credentials), it is more likely due to a renewed belief that for the time being, interest rates are on hold. This suggests a fairly benign economic environment and adds to confidence that companies will continue to report strong results throughout 2004/05. There is also increased evidence that day traders are coming back to the market, but they still have a long way to go before they have the influence they apparently had in early 2000.

It is important to realise that each investment class has its own cycle. We believe that conditions are favourable for shares, while conditions for property are on the wane. The idea that each asset class responds differently at different times of the economic cycle, is sometimes described as an "Investment Clock".

In 1999 and early 2000, shares were all the rage. Newspaper ads for 'unlocking trading secrets and demystifying the market' were in abundance, and everyone had their stories about how much they were making by trading. Then came the inevitable bust, which lead the speculators to decry shares as an investment, and turn their attention to property.

Along with this came the Henry Kaye's of the world telling everyone how they could make their fortune from buying real estate. The only catch was that to 'unlock the secrets of the property market' investors would have to pay upwards of \$5,000 (about the same

they paid a year or two earlier to discover share trading "secrets"). Low interest rates helped perpetuate the myth that real estate is a low risk investment.

Over the past 6 to 8 months, shares have again become popular as the likelihood of higher interest rates and soaring property prices have made investors realise that as with shares, property markets can fall too.

Our investment philosophy is to always focus on sustainable yield. In rising markets, cash income can be reinvested, whereas in falling markets it provides an excellent buffer. We also build portfolios which will catch some of the upside in buoyant markets, while providing defensive characteristics in weak markets. Most clients therefore have a range of investments, with characteristics that will help achieve these goals.

### **New services**

We have started to mail out clients tax reports, and all standard individual tax reports have now been posted. We are currently finalising superannuation and trust returns. Margin loan accounts will be mailed before the end of October.

This year we are expanding our services to prepare financial statements for the self-managed superannuation funds that we advise on. We have made arrangements with a number of accountants to use these statements as the basis of their tax returns. This will enable us to offer the completion of tax returns, audit and associated documentation for payment of a flat fee. This new service will mean that many self-managed superannuation fund clients will enjoy a substantial reduction in accounting fees.

We will be contacting clients whom we believe will benefit from our new service in the near future.

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## Investment briefs

**Telstra (TLS):** As announced at its recent AGM, the company is looking to buy-back \$750 million of shares at a range between \$4.05 and \$4.65. We do not feel the offer range is high enough to warrant selling into the buy-back. In terms of election policy, the ALP has announced they will force TLS to sell its share in Foxtel if it comes to power. The proceeds of which are earmarked for expansion of broadband into neglected areas (*source: UBS*).

**Australian Leisure and Hospitality (ALH):** Bruandwo (WOW and the Bruce Mathieson Group) have come back to ALH with an offer of \$3.15 per share (previous offer was \$2.75) which the directors of ALH have recommended shareholders accept. The new offer is \$0.90 per share higher than the weighted average price of ALH shares in the month prior to Bruandwo's initial offer (*source: Bruandwo*). Rival bidder, US private equity firm Newbridge Capital, will receive an \$11 million break fee if ALH does not proceed with its offer.

**Tattersall's:** The planned public listing of this business is being put back due to drawn-out negotiations with the Australian Tax Office (*source: Macquarie Equities*). One of the issues at stake is that the current owners do not want to pay capital gains tax when the company lists.

**Rinker Group (RIN):** RIN generate 40 per cent of its revenues in Florida. Following the recent cyclones that ravaged much of Florida RIN sustained only minor damage. RIN have restated they remain on target to achieve 20 per cent profit growth this year (*source: UBS*).

**James Hardie (JHX):** Earlier predictions from Macquarie that JHX have put their asbestos problems behind them have not happened. Both the CEO and CFO have stepped aside and JHX continues to cop it from all sides – politicians, the media, the trade unions and those with most at stake, the victims and their families.

**Multiplex (MXGCA):** MXGCA have submitted an offer to takeover the Ronin Property Trust (RPH). If successful the combined entity will become Australia's fourth largest listed property trust (*source: UBS*).

**Cochlear (COH):** Good news for investors in COH with Advanced Bionics, a major competitor, having to recall 440 devices (this is the second major product issue for Advanced Bionics over the past two years).

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This will give COH the opportunity to capture market share, but we expect that once Advanced Bionics begins production again it will be aggressive on pricing (*source: UBS*).

**Coles Myer (CML):** CML announced a record profit for the year of \$576.5 million, a 26.5 per cent improvement on the previous year. Management expects to exceed growth forecasts for the next two years, and also expects that future profits will not be as volatile as they have been in the past (*source: Macquarie Equities*).

**Lion Nathan (LNN):** After saying last year they were committed to maintaining a presence in China, LNN have recently announced they intend exiting the business.

**National Australia Bank (NAB):** NAB has launched a series of ads essentially apologising to customers for taking their eye off the ball following the currency scandal and board room fights. NAB are promising things will get better. Expect NAB to be aggressive in its pricing in order to maintain existing customers and lure others from its competitors.

**Boral (BLD):** BLD has abandoned its planned takeover of Adelaide Brighton (ABC) after failing to satisfy the requirements imposed by Australia's corporate regulator, the ACCC (*source: Macquarie Equities*). Nine months of work down the drain.

**Babcock and Brown (BNB):** This investment bank listed on the exchange at \$5 per share and closed the day at \$7.98 per share, a 59.6 per cent gain for the day. BNB is a smaller version of Macquarie Bank, and hence a riskier play. The main expertise of the company is in Infrastructure assets. Brokers suggest that valuations may be stretched at \$8 per share, and suggest the shares will settle at around \$7 in the short term (*source: IRESS*). This was the most successful float of its type in the last four years (*source: Macquarie Equities*).

**Gunns (GNS):** Following the announcement of the ALP's policy on the preservation of Tasmania's old growth forests, GNS shares fell \$0.20 (around 1.4 per cent). There is also speculation that if the ALP wins the election GNS will not proceed with the construction of its planned \$1.5 billion pulp mill. It will be interesting to see whether there is a voter backlash against the ALP in Tasmania, and what the impact on GNS share price will be if the ALP wins.

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