Investment Market Update No. 4
31 October 2003

Editorial

Ten months of the year have now passed, and Christmas is just around the corner.

In this issue we cover:
1. The Australian sharemarket;
2. China – the fascination returns; and
3. Estate Planning.

David French
Head of Financial Planning & Business Solutions

Australian shares

It seems that whenever I have a spare couple of seconds and make the mistake of tuning into commercial TV I'm confronted with Renovation Rescue, Room for Improvement, Better Homes and Garden, Location Location or one of the other home renovation programs. With global share markets rebounding over the course of the last few months it should only be a matter of time before Paul Clitheroe returns with Money.

Market performance

The All Ordinaries has risen 24.4 per cent from the low it reached on March 13 this year. Recently resource stocks have led the charge, as higher commodity prices have added to forecast revenues. The high Australian dollar has not dampened investor demand for these stocks.

Initial Public Offerings

Companies that were hesitant to list on the stock exchange during the difficult trading conditions experienced over the last three years are now lining up to list on the ASX. There is a smorgasbord of companies from a number of industries that have either listed, or are about to list.

26 floats (or IPOs) are scheduled to take place between now and the end of the year. Admittedly some of these are not what we consider investment grade, but it serves to illustrate that after a tough couple of years companies are feeling more optimistic about raising capital.

Some of the more well-known floats on offer are Australian Leisure and Hospitality Group, Brickworks and Toll Holdings Reset Preference Shares, JB Hi-Fi, Virgin Blue, Repco and Multiplex.

In the US, reports are surfacing that internet search engine Google is planning to list shortly. Company valuations range from $US15 billion to $US25 billion, making this one of the largest floats in the US for a number of years. Unlike most floats which are arranged through one or more investment banks, Google is planning to hold an internet auction for their shares (*source: smh.com.au 28/10/03).*

It's a safe bet that the large investment houses in the US will all be lining up in an attempt to dissuade Google from going it alone. With investment banks charging about 3 per cent for taking a company public, a potential $7.5 million in fees is up for grabs.

Trading volumes

There has been a noticeable increase in trading volume in the second part of the year that is reflective of an increase in market confidence. Other factors, such as quarterly superannuation contributions, mean that fund managers have to find suitable investments for their clients on a more regular basis and this has had an impact too. Increased trading volumes should work to increase liquidity in the market and improve demand for quality stocks.

Day traders and know-it-alls

The unfortunate thing about an improving sharemarket is the number of self-appointed experts giving opinions. On one website an 'investor' was talking about a stock and made the claim that they expect the share price to increase from $4.75 to between $30 and $100. No justification was given, but they were 'confident' that it would happen. The problem with chat rooms is that you don't know who has made the post and why. It could easily be someone who invested in the last two years and is trying to talk the stock up to reduce their losses. Relying on the 'expert opinion' of someone you don't know purely because they said they've made a lot of money is not a good idea.

The China Effect

Judging by recent articles in the AFR, one could be forgiven for thinking that we've taken a step backwards in time to the early 1990s when Bob Hawke and Paul Keating ruled the country. In the Hawke-Keating days it was generally held that if a proposal was put to Cabinet and it mentioned trade opportunities with China, it became policy.

The current government is negotiating a free-trade agreement with China (and a few other countries including Thailand and the USA). Whilst free trade agreements are a great idea due to the high cost of protectionist policies, negotiating one does not mean that economic benefits will automatically flow to the Australian economy. Business will still need to work hard to cultivate relationships and to provide the Chinese with a product they want.

For example, Lion Nathan entered the Chinese market in 1996 and after seven years of business, they have recorded seven straight years of losses. Recently they have announced their intention to expand further into the Chinese market.

No-one doubts the enormous opportunities available in China, and many multi-nationals are scrambling to get access to the worlds largest consumer market (this is expected to intensify in the lead up to the 2008 Olympic games). The biggest hurdle however is that China is like no other market in the world. A communist country with some interesting domestic policies, the government has taken a quasi-democratic stance to foreign investment and trade.

During his recent Australian visit President Hu Jintao would have met more than just politicians. A range of corporate heavyweights, especially from the mining and energy sectors, would have taken the opportunity to rub shoulders with the President. Following Australia's success last year in winning the $25 billion contract to supply LPG to China it's little wonder why the fascination has returned (the Gorgon deal announced during the President's visit is expected to be worth even more than this).

Estate Planning

It is a common misconception that adequate estate planning merely involves establishing a will. Other things, like binding death benefit nominations for superannuation, Powers of Attorney, trusts for minor beneficiaries, adequate insurance protection and choosing a reliable trustee, are equally important parts of estate planning. Completing a legal will kit, while cheap, may not be in the best interests of your beneficiaries. We can put you in touch with some good Solicitors if you need help.

Testamentary Trusts

A Testamentary Trust is a trust that is established on someone's death. Testamentary Trusts give you control over what happens to your property after death. Estate planning is a tricky area because once you die, without appropriate mechanisms in place to protect your assets and beneficiaries, you could have no say over what happens to your property.

Rather than have assets pass to a surviving spouse, and then potentially to a future spouse, you can appoint trustees to administer your estate with the effect being your property is given to them on trust. The trustees can then pay any income generated to either the surviving spouse or children. With minor children (those under 18), assets can be placed in trust and pass to the children when they attain the age of majority (or another suitable age). A further advantage is that assets held in trust are usually protected from bankruptcy and divorce provisions.

Consulting a Solicitor who is an expert in estate planning may cost you a little extra today, but may save your estate and beneficiaries thousands of dollars in the long run.

As every person's situation is different, we recommend you do not rely on this estate planning information, as it is neither definitive nor may it be appropriate to your circumstances.