

Investment Market Update No. 20

30 April 2005

Editorial

Recent data from the Reserve Bank shows it is not just the local stock market that has come off the boil a bit of late. House prices in Sydney have also been trending down over the last few months. Regardless of the market, the best way to minimise risk is to invest in quality assets and be appropriately diversified.

In this issue we cover:

1. How to read our reports; and
2. Investment briefs.

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How to read our reports

The quarterly investment reports are designed to show the after-fee performance of your investments. We have developed our reports in this way to provide an accurate comparison with the returns quoted by managed funds. If you invest into a managed fund and pay a four per cent entry fee the performance quoted by the fund is based on the fund's unit prices, which are determined independently of the entry fee paid. Having our reports based on after-fee performance allows for comparisons to be easily undertaken. End of year tax reports present the data in a different way, for accounting purposes.

All of the information concerning income received over the period and expenses (including transaction fees) can be found within the reports we provide.

Portfolio valuation report

This report groups assets with broadly similar characteristics. When we write a plan, we quote fees and charges separate to your actual investment. The cost column therefore shows the actual amount of money that you originally invested in each security. The market value is the value of the security as at the date of the report. Franking credits and withholding tax are included as assets because they can be redeemed for cash, or used to offset a future tax liability.

Cash (CMT)

The Cash (CMT) amount is the balance of your Cash Management account as at the date of the report. Starting Cash is a little more complex. It shows the amount of money that would have been invested in cash, if the portfolio had the same assets as now. The table below shows this comparison.

Stock	Original portfolio (\$)	Current portfolio - starting cash (\$)	Current portfolio (\$)
Commonwealth Bank	20,000	20,000	32,000
ConnectEast Group	-	40,000	38,000
Woolworths Limited	30,000	30,000	31,000
Foster's Group	10,000	-	-
Cash	50,000	20,000	22,000
Total	110,000	110,000	123,000

The table shows an original portfolio with three investments and cash of \$50,000, for a total value of \$110,000. Subsequently one asset was sold and another purchased. If this new portfolio had existed at the start, then the \$110,000 would have been invested in three assets and cash of \$20,000 (middle column). The third column shows the actual current value is \$123,000, making a total increase in value since inception of \$13,000.

In the example the return comprises an \$11,000 increase in asset value, and a \$2,000 increase in cash. If we were to compare the original portfolio with the current portfolio directly, then it would show a \$41,000 increase in asset value and a \$28,000 decrease in cash. Because much of the increase in asset value resulted from additional purchases, the comparison is meaningless.

The starting cash figure is included so we can show you how much the overall portfolio has increased, notwithstanding that alterations might have been made to the portfolio. It is adjusted for any additional investments you make. The starting cash value will be negative if we have invested more than you originally gave us. This can happen if we purchased additional securities with dividends generated by the portfolio, or if we have lent you money to settle a trade on a short-term basis and it has not yet been repaid.

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Comparing the total of the “cost” column with the total of the “market value” column shows the extent to which the value of your portfolio has increased or decreased.

Dividend/distribution report

This report categorises dividends and distributions received from investments according to taxation categories.

Cash transactions report

The cash transactions report combines transactions undertaken through your Cash Management account. To help you at tax time, all transactions are annotated in detail. The “Description” column shows the broad category of transaction, while the “Source” column provides a clear indication of cash movements.

Account adjustment credit/debit

These are transactions that sometimes appear in the cash transactions report. It is an entry that is used to correct errors (where for instance \$19,032.21 has been accidentally recorded as \$1,903.21), and to record funds received from Leveraged Equities (for those with margin loans). This might also be used to facilitate the merging of accounts, to eliminate the effect of duplicate transactions. These transactions do not affect returns or starting cash balances.

Realised gains/losses report

The realised gains/losses report shows the gross gain on any investments that were sold during the period.

Unrealised gains/losses report

The realised gains/losses report shows the gross gain that would be made if investments held in the portfolio were sold.

Investment transactions report

The investment transactions report provides a list of movements of all investments excluding cash, and the prices and ancillary expenses associated with the transaction.

Income and expenses report

This report summarises all income, including capital gains, and expenses for the period. The “period” column calculates the data for a specified period. The “financial year” column calculates the data for the financial year to date.

Investment briefs

After a solid reporting season a number of companies have recently come to the market with profit downgrades. Usually when companies announce a downgrade the value of the shares fall. This time is no exception. Companies that have recently reduced profit expectations include:

Paperlinx (PPX): Following the profit downgrade PPX shares fell by 40.3 per cent, from \$3.82 to \$2.28. They are now trading at \$2.70.

JB Hi-Fi (JBH): JBH announced that earnings are expected to be at the lower end of analysts forecasts. Shares in the company fell by 45 cents or 13.8 per cent.

Wattyl (WAT): WAT shares fell by 28 cents or 12.2 per cent following their downgrade.

Coca-Cola Amatil (CCL): CCL shares declined by 10.18 per cent following its updated earnings forecast.

Repcos (RCL): RCL announced it is experiencing tougher than expected trading conditions. RCL expects its profit to be at the lower end of analysts forecasts. Following the announcement RCL shares fell by 4 per cent, from \$2.74 to \$2.63.

On the other hand, ANZ Bank and St George Bank recently announced better than expected results and shareholders were suitably rewarded.

St George Bank (SGB): SGB announced a record first half result. Shares in the company rose 75 cents or 3 per cent following the announcement.

ANZ Bank (ANZ): ANZ shares rose by 61 cents, or 2.9 per cent following the release of its interim report.

Mackay Permanent Building Society (MPB): MPB has recently made a play for the Capricornia Credit Union (CCU), a local Rockhampton Credit Union. Whilst details of their initial offer has not been made public, MPB have secured the right (subject to an appeal by CCU) to access the Credit Union’s membership base. Locally this will be watched with interest.

Mayne Group (MAY): MAY have announced a strategic review of its business units with the aim of de-merging its international business from its Australian operations. This was well received by the market with MAY shares up 64 cents or 18.13 per cent.

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.

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