



MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

March 2003



Ph: 9612 1401

Ph: 9612 1400

ASX Trading Days over Easter

The Stock Exchange will be closed on the following days:

- Thursday 17th – closes at 2pm
- Good Friday
- Easter Monday
- Anzac Day

One of us will be contactable throughout the entire Easter period. Have a safe and happy break.

New Float – Listed Debenture

ABN AMRO Morgans are underwriting a listed debenture issue for Timbercorp Ltd. Timbercorp are listed agribusiness. Key features of the issue are:

- 9% p.a.
- Interest paid quarterly
- Matures October 2007
- Secured by first mortgage over land, water rights and horticultural assets
- Listed on the ASX
- Minimum subscription of \$5,000

The suitability of this investment is for fixed interest type exposure in a balanced portfolio. This is not for growth focused or geared portfolio's.

Australian Quantitative Strategy

The Australian market is at a seven year cheap extreme on a forward PE of 12.6x. Most sectors are at a ten year extreme cheap compared to bonds. Earnings downgrades are the worst in financials across Asia and upgrades the best in materials.

Some of the Key stock picks - March

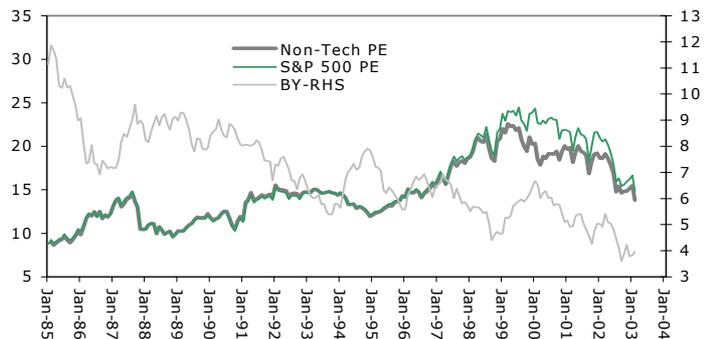
- **Australian Gas Light** - Solid ROE of 13% and slight earnings upgrades
- **Fosters Group** - De-rated to a multiple below 14x, low risk with earnings intact
- **St George Bank** - De-rated, solid ROE, low risks with earnings intact
- **West Australian News** - High ROE, with earnings upgrades
- **Westfield Holdings** - De-rated, high ROE, low risk upgrades

Courtesy of ABN AMRO strategist Douglas Orr

A bounce, or worse than 1929?

At below 14.8X operating earnings the S&P 500 is cheap compared to 1990's valuations, bonds and close to PE lows of the 1929 crash.

On below 14 ex-tech S&P 500 is priced on 0 franchise value forever



Source: ABN AMRO

On the above graph, 0 franchise value means the market in the US is factoring in zero price for future economic growth or expansion. It implies company earnings are equal to their cost of capital and expected to stay that way forever. This does not mean that stocks cannot get cheaper, but if they do it means the market would be assuming companies will be wealth destroyers rather than creators.

A key market question remains, can market sentiment get a permanent fillip if there is a short war in the Middle East, like it did during the Gulf and Afghanistan? On a forward PE on 14.8X (below 14X ex-tech) the S&P 500 valuations are undemanding in absolute terms and cheap compared to bonds on 25X. The forward PE is the same level it was from 1991-93, when bond yields were 300bps higher than today. With a cost capital BAA bond yield of 7%, a tangible value (1/k) of 14.3X means 90% of the market is ascribing below zero value of the market earning above their cost of capital at these levels. Equities vs bonds have looked cheap (20% cheap) since mid 2002. While the model appears to have broken down, there's been seven months of famine, the reverse of the nine months of feast in 1999/00. It's got a couple of months to come good.

There's risk that earnings will disappoint, 90% of the time forecasts are too optimistic. Sentiment can and does rally sharply in the face of an average level of downgrades, 1991 showed this. 70% of the market returns of the whole of that year happened in the six weeks post the Gulf War starting. While the historic reported PE for the S&P 500 is over 26X, this doesn't reflect operating earnings, its chock full of abnormal and extraordinary asset and goodwill write downs, the aftermath of the tech boom. IBES earnings number are operating numbers, what firms actually earn and pay tax on.

The current bear market (30 months) is three months shy of the length Crash of 1929. It's not yet as severe in magnitude, reported earnings and prices have halved, in '29 prices fell over 85% as earnings fell by 70%. Our forward PE measure shows the bubble was 20% worse in '29, though bottomed on a forward PE of 11.2.



MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

March 2003



Ph: 9612 1401

Ph: 9612 1400

Tax Time – Start Now!

Now is the time to start thinking about end of year tax planning issues. If you are running a business then you should consider meeting with your accountant in April to discuss end of year issues and ensure you are effectively structuring your business to minimise tax. If you would like to speak to us in this regard, perhaps with your accountant, we would be more than happy to help you with your end of financial year planning – particularly when it involves superannuation issues.

If you are an employee then there may not be too much planning you can do. However, you may be able to do little things before the end of the financial year to increase your tax deductions. These may include paying interest upfront on an investment loan, bringing forward purchases of tax deductible items related to your work or altering your remuneration structure to salary sacrifice additional amounts to superannuation.

Another issue to consider may be capital gains tax planning. If you have sold an investment eg. property over the past year at a profit then there may be ways to reduce your tax payable.

Live Longer – Floss Your Teeth

Recent studies make a direct connection between longevity and teeth flossing. Nobody knows exactly why. Perhaps it's because people who floss tend to be more health conscious than people who don't? Thought for the day: Floss and be your body's boss. Perhaps a dentist first wrote this?

HAPPY EASTER



Motivational Quotes

"Obstacles are those frightful things you can see when you take your eyes off your goal." -- Henry Ford

"You will never find time for anything. You must make it." -- Charles Buxton

Health Tips For The Quarter

Six Tips on How to Stick with your New Year's Resolutions

1. Focus on positive self-talk. Congratulate yourself every time you take a step towards your resolution goal. Be your own best cheerleader.
2. Avoid berating yourself if you should fall back or break a resolution. Just brush yourself off and start over again.
3. Stick to your resolution by considering it a promise to yourself, not a test of your willpower.
4. Avoid situations that put you in temptation's path, meaning if you're on a diet, don't go to the ice cream parlour.
5. Keep a sticky note in a prominent place so that you see it every day, reminding yourself of your resolutions. (i.e., on your bathroom mirror, next to your bed, on the visor of your car, on the refrigerator)
6. Be realistic. Make sure your plan is a realistic one that can fit into your lifestyle. Will you really have the energy to go out for that evening exercise class? Make changes as easy and convenient as possible.

Water Works for Weight Loss

Nothing quells the appetite like water, lots and lots of water. Start out with two quart bottles in the morning and carry one with you to work or wherever you go. If you like, divvy up the 2 litres of water into eight (8-250 ml) bottles or four (500 ml) bottles to carry around with you all day. Freeze half of them the night before and they will last all day, even in a hot car. Keep some unfrozen so they will be ready to drink immediately.

Yes, you will have to make more frequent bathroom trips, but it is worth it. Drink your 2 litres of water before dinner, if possible, so you're not up half the night going to the bathroom.

Water not only fills you up and lessens your appetite, it prevents those "hungry horrors" we all encounter when our blood sugar drops and we reach for cookies, candy, ice cream, fries or other high-calorie treats. Water also flushes out the system, rids the body of toxins and rosies up the complexion. Now, start splashing.

Injured? – An Old But True Technique - R.I.C.E

If you suffer from a sports related injury, use R.I.C.E. The term stands for Rest, Ice, Compression, and Elevation.

Rest - Take a break from exercise or any type of movement that may stress the injured area. A minor injury should be rested for one or two days, while more severe injuries may need longer.

Ice - Ice the affected area. Icing reduces pain, limits swelling and bleeding, and encourages rapid healing. Wrap ice in a towel to avoid direct contact with the skin.

Compress - Compress the injury with a stretch bandage. Make sure not to wrap it too tight, just enough to support the injured area comfortably.

Elevate - Elevate the limb. If possible, try to keep the injured part above the level of the heart. At the very least, try to keep it higher than the hips. This helps limit swelling and also prevents movement of the area that is injured.