Martin Bros Monitor

www.martinbros.com.au

June Quarter 2008 Edition

Paul & Jarrod Martin are Authorised Representatives (259367 & 259249) of ABN AMRO Morgans Ltd.

Look Who's Coming Back!

As most of you will know, Rochelle left last July to give birth to Joshua in September 2007.

It is with great pleasure we can announce that Rochelle plans to return part time to work in September this year.

Rochelle will pick up from where she left off and one of her primary roles will be co-ordinating the administration for our clients' Self Managed Super Funds (SMSF).

Stock Review - RiverCity Motorway

RiverCity Motorway (RCY) is a new toll road linking the North and South of Brisbane via a tunnel underneath the Brisbane river which flows through town. This is due to be completed by the end of 2009, some nine months ahead of schedule.

Like ConnctEast that we featured here in the March edition of MBM, RCY was floated with a paid up value of $1 per security. RCY is currently trading at $0.43. Its share price has struggled since listing, predominantly due to one broker's report of doubting traffic forecasts in RCY's prospectus.

RCY is paying a fully tax deferred distribution of 6 cents per security, set until 2010. This equates to a 14% yield until the toll road opens, at which time we would expect an increase in their distribution, providing management will be confident the traffic forecasts will be met.

If anyone has been to Brisbane in the last few years you will be in no doubt about the need for this road to help the flow of traffic across the river.

RCY floated on an IRR of 12.1% per annum over the life of the project. Typically the share price of toll roads increases during the construction phase as the project risk (of construction) reduces and the focus shifts towards future traffic levels.

RCY have no debt refinancing due until 2014. This can only be a good thing in the current environment. Their debt is 100% hedged against interest rate rises until 2010 and 70% hedged until 2014.

We expect the share price has been adversely affected in the past few weeks by tax loss selling and would not be surprised to see it return to the mid fifty to sixty cent range by the end of July. Any further recovery will probably be a little further away. It also goes ex distribution 3 cents at the end of June. ABN AMRO Morgans has a $1.01 twelve month target price.

Normal Markets - Part 2?

Since the last Martin Bros Monitor was published in March, the markets (ASX 200) rebounded to circa 5900 points, before falling back to pretty much where they were last time we wrote (5400 points).

Side note - when we talk about 'points', this refers to the movement of the ASX 200 index. This index, as the name suggests, is made up of the top 200 companies by market capitalisation (size). This index represents approximately 90% of the total listed market capitalisation. With approximately 1,500 listed companies, this means that the remaining 1,300 companies make up less than 10% of the total market capitalisation.

The ASX 200 index moves up and down as the collective value of all two hundred companies moves up and down. The larger the company, the larger the impact it will have on the movement of the index. As an indication, the top twenty-five companies represent over 70% of the ASX 200. Therefore, the movement in the share prices of these companies will largely drive the movement on the index.

"Inflation is already in the system and it is here to stay for a while"

Back to the current state of the markets. With a quick bounce back from the March lows of some 18%, many people were expecting this correction to be the same as any of the past few years—short. The only difference this time though is that there are real economic fundamental concerns underlying the volatility of the market. The initial correction was caused by the meltdown of world credit markets, often referred to in the media as the credit crisis.

The second wave of selling that has now sent the markets down again has been caused by concern about the slowing global growth outlook and now, the extent to which our economy will slow down (thanks to successive interest rate rises for years and the skyrocketing cost of food and petrol prices). These price rises are creating a new concern for central bankers, both domestically and internationally, that we have not seen for over fifteen years; inflation. Some people are still discounting the extent of inflation in world economies. Make no mistake, it is rampant.

The US like to talk about 'core' inflation these days because it excludes food and energy prices. Why? Do you know anyone who can exclude the price increases of food or energy from their household budgets? Hardly. It's the backbone of household expenditure. Inflation is already in the system and it is here to stay for a while. China, after years of exporting deflation through the supply of goods to the Western world at cheap prices, is now exporting inflation. For two reasons. One, the increased cost of raw materials (resources) and two, wages pressure thanks to the increasingly educated Chinese workers.

So what effect will inflation have on the markets? To a large extent, the effect inflation has on the economy in general will ultimately dictate the effect inflation has on the markets, because, economic fundamentals drive the market in the long term.

Rising inflation will cause consumers to rethink purchase decisions and eventually reign in their spending, thereby creating less demand for goods and services. Lower demand will ultimately translate into less cost pressures and lower inflation; hopefully. This may be a simplistic overview but with years of economic expansion and tri-decade unemployment lows, consumer confidence was very high. Not any more though. Generation Y might be in for a surprise—an economy that always grows and a jobs market where employees have all of the power might just be on the way out.

One thing is certain though, equity markets will overreact, then over compensate by bouncing in anticipation of a resumption of sustainable economic growth. What we want to get across in this article is that this correction will take time. Not ten years or five years, but certainly longer than the five months that it has lasted so far. As we can never pick the exact time of a recovery, the only risk to long term investors is that they are short (underweight) equities when the recovery does occur.

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Last Chance To Qualify For Super Co-Contribution

What is the Government Co-Contribution?

The Government Co-contribution for low income employees, which applies from 2003/04, is provided by the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* and associated regulations.

The co-contribution effectively replaces the tax rebate to which a low income employee may have been entitled before 2003/04.

How the scheme works

The government may contribute towards the superannuation savings of eligible low income earners where they make eligible personal contributions.

If a person's assessable income (plus reportable fringe benefits) is below $28,980 (2007/08FY), they may be eligible to receive a co-contribution amount of up to $1,500 from the Government if they make a personal, non-concessional contribution of at least $1,000 into superannuation. (The maximum co-contribution payment is $1,500).

If a person's assessable income (plus reportable fringe benefits) is between $28,980 up to a maximum of $58,980, they may be eligible to receive a part co-contribution amount if they make a personal, non-concessional contribution of at least $1,000 into superannuation. A pro-rata formula is used which reduces the co-contribution payment at the rate of five cents for each additional dollar of income over $28,980.

Eligible personal superannuation contributions of qualifying low income earners are matched at the rate of up to 150%.

Eligibility for the payment

The criteria for eligibility is:

- 10% or more of the person's total income for the year is attributable to either or both of employment-related activities and the carrying on of a business. This requirement means that a person who derives only passive income such as dividends, rent or interest would not be entitled to a co-contribution.
- a tax deduction cannot be claimed on the personal contributions.
- the personal, after tax contribution must be made to a complying superannuation fund in the same year.
- the person must be under age 71.
- a person's assessable income for the financial year in which the personal contribution is made must meet the required income thresholds for either a full co-contribution payment, or a pro-rata co-contribution payment.
- the Australian Tax Office will automatically determine who is eligible to receive the co-contribution and payments will be made to your superannuation fund.

Some Bill Gates (Microsoft) Quotes

“Success is a lousy teacher. It seduces smart people into thinking they can’t lose.”

"At Microsoft there are lots of brilliant ideas but the image is that they all come from the top– I’m afraid that’s not quite right.”

“If General Motors had kept up with technology like the computer industry has we would all be driving $25 cars that get 1000 miles per gallon.”

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