Martin Bros Monitor

www.martinbros.com.au

June Quarter 2009 Edition

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

Kilts & Bagpipes

In September our name will change from ABN AMRO Morgans to RBS Morgans. From this time all correspondence will be branded with the new name. You will receive more information on this closer to September.

As you will know, this is simply a name change to reflect RBS in our name, who took over ABN AMRO (not Morgans) in late 2007.

Otherwise, business as usual, just a new name.

Stock Review - Telstra

Telstra (TLS) needs no introduction but the reason why we have warmed to it so much recently might.

It's fair to say Telstra has had a checkered past, more so in relation to its share price rather than as a business.

The one undeniable fact about Telstra is its ability to generate huge amounts of cash and pay much of this out as fully franked dividends. Since 2006 Telstra has been paying 14 cents fully franked every six months.

This equates to 28 cents per annum fully franked. On a share price of $3.20 this equates to 8.75% fully franked (12.50% gross). Our analyst is of the opinion this yield is safe and in fact is forecasting an increase for the 2010 financial year.

When a company has a high yield it is often due to the underlying share price falling. This alone is not a reason to purchase a stock as the dividends may be under pressure of being cut (as we have seen many times recently) or the underlying business is performing poorly with no signs or proof this may turn around anytime soon.

As highlighted above, we believe TLS's dividend is safe. On the capital (share price) side, we believe much of the bad news (and even potentially bad news) is already factored into the share price.

Telstra was sold down some months ago after being kicked out of the NBN tender process. It is now clearly evident that Telstra must have some role in the NBN process, if it does in fact proceed, for it to be successful. Telstra's share price has also been under pressure on rumours the government would legislate that its wholesale and retail divisions would have to be segregated.

It seems all of the bad news and no good news is currently factored into the share price. On a gross yield of over 12% it looks to us to be an attractive place to sit and wait for the rest to catch on.

What a difference a Quarter makes

At the time of writing the last Martin Bros Monitor (MBM) in March, the market was hovering below 3,200 points and looked set to test the 3,000 barrier. All economic indicators were bad and getting worse. We wrote that we believed the markets were now trading on the outlook for the general economy and that the point of maximum fear (of a system wide collapse) was behind (October 2008).

Although in March markets were at their lowest point in the current Bear market cycle and sentiment was atrocious, we were confident that with economic fundamentals again firmly in control of market directions, things would ultimately improve.

In our March edition we also wrote:
"On average, markets have bottomed one third of the way through economic recessions. By the time proof has emerged that the worst of the economic cycle is behind us, equity markets will be substantially higher than where they are today."

When writing this we certainly didn't expect that equity markets around the world would rebound some 25% from their lows within the next three months. However, this is exactly what we meant by "markets will be substantially higher than where they are today". Although markets are still a long way from their all time highs, the recent rally has again highlighted, to even the most seasoned market observer, just how quick and violent rallies can be, and why any long term investor should never be too (short) underweight equities. The risk of mistiming sitting on the sidelines is too great.

> ***"economic fundamentals again firmly in control of market directions"***

However, don't pull out the champagne just yet. Despite the markets staging one of the best recovery rallies off their lows in history, it will not be all smooth sailing from here. But markets never (rarely) are. It is true that the first signs of 'Green shoots' (which incidentally is the new buzz word you may have come across being used in the media every day now) have emerged. Green shoots refers to the economic indicators that have shown signs that the economy has stopped getting worse. These have been plentiful in the past month or two and include US unemployment numbers, consumer confidence numbers, Chinese production numbers etc.

Many of these indicators are by no measure 'good' numbers, they're just not 'worse' numbers. Obviously for things to start to improve they have to stop getting worse before they can start to recover. This is what the market is looking for to enable a sustainable recovery; when will economic activity (GDP) start to recover and average growth levels return? With the expectation that the worst of the economic slowdown is behind us, the market has started to rally.

Of course there will be further bad news and surely some indicators may again turn down. But with the extent of green shoots having sprouted over the past month or two, it seems unlikely that all of these would again synchronize to the negative and cause markets to retest their March lows.

There will be corrections along the way and these may cause some to doubt the market's ability to recover and move into a new Bull market. There is a risk though that these corrections are not severe (less than 10% each time) and the market continues to grind higher, albeit in the face of still bad economic news (for at least a year).

The level of capital raisings over the past few months (by balance sheet strapped companies) has been enormous. Unlike last year however (and even the first quarter of this year), these equity issues have not resulted in the share prices of the issuing companies being heavily sold down to fund the take up of the new (discounted) issues. This means that 'new' money has been entering the market to soak up these issues.

These capital raisings are also creating opportunities for retail investors to add to or replace existing holdings via discounted offers. Hence, you may notice an increase in activity over the coming period.

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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.

2008/09 is the last year (for 3 years anyway) to qualify for up to a $1,500 co-contribution (reducing to $1,000 from 2009/10).

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.

Changes to Concessional (employer, salary sacrifice, deductible) Contributions

In the recent Federal Budget, Treasurer Wayne Swan outlined changes to the concessional contributions limits to apply from the 2009/10 financial year. From this date, the total concessional contribution (including the 9% superannuation guarantee) limits will be halved. For persons aged 50 or over this will be $50,000, and for those less than 50, the limit will be $25,000.

At a time when the government is trying to encourage people to self fund their retirement to ease the long term burden on the Social Security system, they have halved the tax effective contribution limits to super. Contradictory?

From 1st July anyone contributing to super (in addition to the superannuation guarantee) will need to ensure they stay within the new limits.