

MONITOR



Oxymoron

“An oxymoron is a figure of speech that combines contradictory terms”

Falling share prices and growing dividend payments.

That's the current oxymoron enveloping the Australian sharemarket.

At present, there is a growing divide between share prices and the (increasing) profits of our major companies. This divide has resulted in unprecedented dividend yields relative to bond yields. We have written before about the growing bubble in bond markets. Australia has now joined the party and interest rate expectations have dramatically turned negative.

Australian government 5 year bond yields are currently at 3.33%. By comparison, the average gross yield of our big four banks (ANZ, CBA, NAB & WBC) is 10.4%. This means that if you bought a bank share, you could afford to lose 7.07% per annum in capital value over the next five years and you would end up in the same position as if you bought a government bond. That equates to a capital loss (or share price fall) of 35.35% to end up in a break even position. An outcome which is highly pessimistic and a long way from the likely outcome in our view.

Over the past six months (last dividend cycle), 60% of the ASX 50 (top 50 companies by size) have increased their dividends (including every one of the big four banks), 28% maintained the same

dividend and only 12% reduced their dividends (some only due to the appreciating \$A). When you take growing dividends into account, it makes the five year scenario we painted above between Australian government bond yields and bank dividends even more ridiculous.

Unfortunately many Australians, and particularly retirees, will be lured by the apparent safe haven of fixed interest. This safety is an illusion. With reducing interest rates on term deposits and growing dividends from our nation's leading companies, the divide between fixed interest and dividends as a way to generate income will reach a tipping point. Unless you are fortunate enough to have huge capital reserves, falling interest on fixed interest will simply not be enough.

There also remains the risk of losing money in fixed interest funds. Most Australian super funds are invested in fixed interest / bond funds. These funds are somewhat misleading as their returns are not fixed but subject to the fluctuations of bond prices. Unbeknown to most people, this means you can have a negative return in a fixed interest fund. This occurs when bond yields rise. Herein lies the bubble.

The average retail investor, either on their own or through being ill-advised, chase historical returns. This has

always proven to be a poor way to allocate investment capital. Chasing historical returns in many cases may result in short term benefit, but rarely (we have never seen it) does this approach reward investors. Simply following the herd based on past events is likely to mean you are one of the last few to the tea party.

As far as contrarian indicators go, the flow of retail funds is right up there. Other contrarian indicators are investor sentiment. Both of these point to a market bottom now.

We also struggle to find ANY positive articles to read about the state of the global situation or equities as an asset class. We remember two other occasions over the past ten years when this occurred - March 2003 and March 2009 - which coincided with market bottoms.

The market has a way of making even the most seasoned advisor look silly. So no doubt these comments will look silly for some time to come. A few days, few weeks or even a few months. However when company profits are at all time highs, the majority of dividends are increasing, yet, investor sentiment is terrible, share price volatility is at all time highs, fixed interest yields are pitiful and global news flow is ALL negative, a market bottom cannot be far away. Time will tell. This time is NOT different.

CHRISTMAS HAMPER COMPETITION

The much anticipated Christmas Hamper competition returns again for 2011.

For those not familiar with this competition, you must 'qualify' to enter the draw for the Christmas Hamper. You must answer each of the questions below and get them all correct to go into the draw and be eligible to win the prize.

Please email Cheyne at cheyne.peat@rbsmorgans.com or call him on (03) 9947 4137 with your answers. The competition closing date is Monday 19th December at 4:30pm AEST. The winner will be drawn that afternoon and notified by phone, with delivery of the gift basket on Tuesday or Wednesday of that week.

Valued at over \$250 – It's called 'Christmas Table'

Including an assortment of - biscuits, mini puddings, coffee, nuts and more.....



Questions

1. Who is taller - Princess Mary (of Denmark) or the Duchess of Cambridge (Kate Middleton)?
2. Where are the 2016 Olympics to be held?
3. Which of these real estate agencies did not originate in Australia - Ray White, LJ Hooker or Century 21?
4. What animal-linked word describes someone who always get blamed?
5. Who played James Bond in the movie "On Her Majesty's Secret Service" filmed in 1969?

ASX Trading Hours

The Australian Stock Exchange hours over the upcoming public holiday period are:

- Friday 23rd - Closes 2pm
- Boxing Day - Closed
- Tuesday 27th - Closed
- Friday 30th - Closes 2pm
- Monday 2nd - Closed

Interesting statistic

Rio Tinto is an industry leader in the automation of mining operations. They now employ the second highest number of robotic experts in the world, only surpassed by the US military.

Initially driven by occupational health and safety concerns, automation is now seen as a major contributor to the future of more cost effective mining practices. By 2015, Rio Tinto expect to have 150 autonomous trucks working in their Pilbara operations.