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MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

www.martinbros.com.au

Christmas Quarter 2005

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



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It's a Girl !

Paul and his wife Simone welcomed a new baby daughter into their family on Thursday 1st December. Pippa Rose is a beautiful little sister for Lachlan and Charlotte.



Stock Review Seven Networks TELYS3

Seven Networks TELYS3 (SEVPC) are a hybrid fixed interest security. These type of securities are often referred to as resettable preference shares. They often have a five year initial term and pay a set distribution, either floating or fixed rate, for the life of the security. This distribution can be franked or unfranked. At the end of the five year period, they will either be redeemed for ordinary shares in the company (sometimes at a discount), rolled over for another term or have their face value (issue price) paid back to the investor. Most of these type of securities are issued at \$100 per security (face value).

The reason they are referred to as hybrid fixed interest is that they have characteristics of both fixed interest investments and equity investments. During their initial term they act like a fixed interest investment, paying regular set distributions either quarterly or six monthly. The capital value often only moves around by a few percent, based upon when the distribution payments are due, irrespective of movements in the underlying share price of the issuer.

The Seven TELYS3 have a grossed up yield to maturity of 8.38% (floating) or 9.07% if you include the conversion discount of 2.5%. The first reset date is 31/05/2010.

Is the market running out of puff?

There has been a sign or two recently that could possibly be pointing towards a change in the general sentiment of the equities market.

After nearly three years of exceptionally strong performance, the Australian sharemarket is bound to experience a breather at some stage in the near future. That is, if history can be used as a guide. Obviously the exact timing of the slowdown or retreat of the sharemarket can never be predicted with precision. One thing we do know for certain is that markets, like the economy in general, move in cycles.

Company profits on average have increased substantially over the past three years and this level of growth would be very hard to replicate in coming years. The market always tries to predict in which direction the economy is going because the resulting effect is that company profits follow the fortune of the economy.

Economic growth is not forecast to experience any significant fall in the near term, but on the flip side, neither is it expected to show any noticeable jump from current levels. With the sharemarket at such an all time high, investors will begin to question whether the risk / reward trade off is sufficient to continue to warrant pushing stocks higher, particularly if company profits are not expected to experience any significant jump in earnings such as in 2003-05.

This is when sentiment steps in and takes over, with investors not wishing to be the only one left holding a fully invested portfolio of growth assets, 100% exposed to the volatility of the equities market. This is what is referred to as the 'herd' mentality, and can have a very strong impact on the equities market in a short space of time.

This was evidenced in the pull back of some 10% in the sharemarket in April/May earlier this year. This drop happened very quickly, as it often does, which was fuelled by investors worrying that they have missed their best chance to sell out at a profit before things retreated, and hence try to get out as quickly as possible.

Now back to the opening sentence, where we referred to a few signs recently that may point to the sharemarket sentiment changing. One sign is the recent flood of new issues (IPO), or floats, particularly the two big infrastructure floats that have come out of Asia. These floats are of gas and electricity assets in Australia, owned by foreign companies.

Both of these companies sought to raise in excess of \$1B each. These companies are very similar in nature. It would make sense for one of these companies to delay their IPO so that our market was not 'flooded' with stock at the one time. Both companies pricing for the floats came in at the lower end of their ranges, most likely due to the amount of stock available because there were two floats on at the same time. So why were they floated at exactly the same time (listing two days apart). A cynic might say because they were probably advised that the Australian sharemarket is reaching a peak and they better get it done in 2005 before the market has a pull back. Btw, one is trading approx. 6% below its issue price. The other lists tomorrow.



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CHRISTMAS HAMPER COMPETITION

By popular demand, the Christmas Hamper competition is on again for 2005.

As in previous years, you must 'qualify' to enter the draw for the Christmas Hamper. In order to qualify, you need to answer each of the questions below, and get them all right, to go into the draw.

Please either email Margot on mbiggs@abnamromorgans.com.au or call her on 9947 4137 with your answers. The competition closing date is Wednesday 21st December at 4:00pm. The winner will be drawn on Wednesday evening and the winner notified by delivery of the gift basket.

The gift basket:

Valued at over \$250 – It's called 'All the Bells and Whistles'

Including an assortment of biscuits, chocolate, sauces, wine, pudding, coffee, pesto, sundried tomatoes, nuts and more.....

Questions

1. Which is the nearest star?
2. What is heavier, Gold or silver?
3. Which classical composer became deaf near the end of his life?
4. Who wrote the song entitled 'Yesterday'?



Would you prefer **NOT** to get MBM?

Hardly, but perhaps you would rather receive an email link each quarter so that you can access the MBM online rather than receive a paper copy in the mail. If so, call or email Margot on 9947 4137 or mbiggs@abnamromorgans.com.au.

MBM Movement of your Team

Jarrold will be on leave from 23rd December until 9th January.
Margot will also be on leave from Christmas eve, returning on the 4th January.
Paul will available every working day through the Christmas / New Years period.

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