

Planning for a healthy, wealthy and wise retirement, ensuring your income and preserving your estate, from one generation to the next

## A word from Joy... Making the most in a downturn



**A robust stock selection process combined with the right knowledge and experience is needed to:**

- navigate through volatile times,
- make money in a down turn,
- be the best in good and bad times.

A blip in the four year long bull run will remind investors of the need to seek advice as choppy markets take a large bite out of their portfolios.

With mum and dad investors increasingly using margin lending to chase market

returns the recent corrections are a wake up call.

In a bull market people tend to think they can do it themselves, but an uncertain market highlights the need for specialist advice.

The downside to margin lending is readily available to those planning to leverage their share portfolio but the implications are still not widely understood.

If there is a sharp downturn, people who are leveraged up will get a margin call. Unfortunately there are too many who really don't know how to understand the bigger picture and how to deal with it. Confidence waivers driving people away from what can achieve amazing returns in the hands of the specialist who knows

what they are doing and has a robust process in place that includes strong risk management strategies.

It's traditionally been the sophisticated investor that played in this space now it is the mums and dads, and they do not have the knowledge and confidence to 'steer the ship' and keep it upright through the storm.

An example of a robust process that has weathered many storms over the 32 months to February 2007 is Segue's actively managed Australian Growth Portfolio which has achieved 34.12% after fees and not including dividends.

With specialists in stock selection and individually managed portfolios at the helm Segue's aim is to outperform all other fund managers over rolling 12 month periods.

To access Segue's actively managed share portfolio service call Joy or Simon on **9509 1599**.

## Segue's Australian Growth Portfolio...

### Audited figures for 12 and 32 months to February 2007.

Audited by Actuarial Solutions in line with Global Investment Performance Standards (GIPS).

12 months to February 2007 – **50.25%**

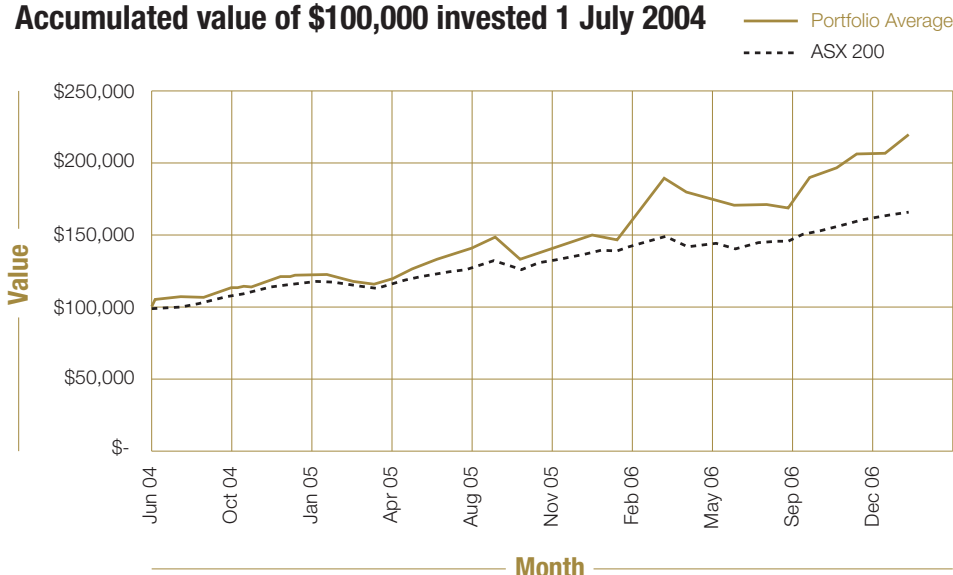
32 months to February 2007 – **34.12%**

These results are 'net' after fees and do not include the dividends

The graph opposite compares Segue Australian Growth with the ASX 200 (Segue's Benchmark) for the 32 months to February 2007.

Note: Past performance should not be used as a guide to future returns

### Accumulated value of \$100,000 invested 1 July 2004



# Made in China...

## **The recent plunge in equity markets, in the year of the pig, has given new meaning to the term "Made in China".**

Having been mesmerised by the manufacturing rise of China we have become magnetised by its financial market gyrations. The plunge in the Chinese equity market is widely seen as the catalyst for the contagion that recently engulfed the world's financial markets.

This is both symbolic and somewhat ironic. Symbolic as it formalises China's arrival on the financial scene and ironic that a Communist country can cause such mayhem in the "citadels" of global capitalism.

Enough of irony and symbolism. On closer inspection, however, the story is somewhat more complex.

China was not the only cause. In the days and weeks prior to "Black Tuesday" we had seen the Bank of Japan raise rates, we had seen more evidence of the "ugly" face of the U.S sub prime mortgage market and then just before Tuesday we had Greenspan saying, "by the end of the year, there is the possibility, but not the probability of the U.S moving into recession. There are specific housing and

general inventory problems that are being addressed quickly, but need to be monitored carefully. Current yield premiums are not sustainable, profit margins are peaking and the U.S growth cycle is in a mature phase". He then went on to say that "previous experience suggests that when profit margins flatten, we should see a recession, but that globalisation of the economy may mean that pattern may not repeat this time".

When we combine all of the above with the undeniable reality that the U.S economy is slowing, and that the Dow Jones Index had just seen the longest period for 100 years without a one day drop of at least 2 percent. The last time the Dow fell at least 2 percent was May 19 2003, hence we had 910 trading days without a 2 percent drop. Similarly we had seen volatility levels near historic lows.

As with every severe correction there is always a confluence of factors and this one is no different.

But what is different is that valuations are not excessive. This is not 1987 and certainly not 2000 which were both moments of valuation insanity. It is also not 1998, when Asian imbalances were horrible which set off a domino effect from Bangkok, to Moscow to LTCM. It is

perhaps a little bit more like May 11 to June 16 2006. Just as in 2006 we probably need to take some of the "froth" out of the markets and similarly remove some of the complacency that had clearly become quite prevalent.

We similarly need to adjust to the new reality that America can not and will not be the engine of growth that it has over the past few decades. The citizens of Mumbai, Shanghai, Tokyo and Saigon, etc shall now bear that burden. I personally believe that is a good thing since it shall bring much needed balance to what was a very unbalanced world.

These moments of historic transition are never painless and we need to expect a fairly volatile ride as the financial markets attempt to adjust to this new reality. All of this will not be resolved in the next few weeks. We have spoken consistently over the past few years about our views on U.S housing and similarly our views on Asia and Germany, etc and similarly we have highlighted the attractive "relative" valuation argument in favour of equities. None of these views have changed and neither has our belief that surely it is prudent to have an allocation to an investment approach which enables one to participate in the upside and helps minimise the downside. The last few days serve as a painful reminder that, heaven forbid, markets do sometimes go down.

**Jonathan Pain, HFA Research**  
1 March 2007  
HFA Asset Management Limited



# Private Equity...

## The continuing saga...

**Private equity investors are not getting things all their own way. There are signs of a backlash against the use of private equity to buy publicly listed companies.**

Recently, bids for Flight Centre, Rebel Sport and Qantas have all been stalled or threatened by recalcitrant shareholders refusing to embrace the merits of the buyers' propositions.

There are generally four reasons investors might hold up a private equity bid.

- The bid is at an unacceptably low price. The existing investor believes that the prospective income stream is worth more than the bidder is willing to pay.
- Investing becomes harder. Selling a company means that funds have to be redeployed into something else. Almost by definition, other investment options are going to be less attractive than the one already chosen, so the short term benefit from accepting a takeover offer has to compensate for the loss in investment returns from an alternative, less attractive, investment.

- There may be a chance to get a little bit more from the bidder. The investor might simply decide to opportunistically use any leverage available to extract a better price than currently on offer.
- Management could be doing its job better. A bidder wanting to pay more than the current share price must feel able to get additional value from the company than the current management. This could be value accruing to existing investors if more skilled executives could be put in charge or if existing managers are prepared to act.

A fifth reason has reared its head in the case of Qantas. Some investors feel they cannot make a decision because of gaps in the information available to them about the likely performance of the company.

Until a few weeks ago, Qantas executives would not confirm the outlook for the current year let alone look ahead at the following years.

Such a stance forces investors to put a disproportionate emphasis on the most recent share price history. Bidders like this. It suits them to build a case around any price premium compared to recent market prices in their pitch to investors.

In the case of Qantas, few people, if any, will have an adequate knowledge of the dynamics of the global airline industry and all that can affect outcomes from a terrorist threat to an outbreak of virulent influenza to a sharp drop in oil prices to a change in exchange rates.

Investors are more than usually reliant on the directors of a company for advice as a business becomes more complex.

In the recent case of Coles, another company of interest to private equity managers, directors appear to have conceded that neither they nor the existing management team has the skill to justify the current share price.

The Qantas directors are taking a different approach. They are saying that the current managers are capable of improving returns. However, by withholding forecasts, they were not letting on how much the returns could be improved. Before giving in to the pressure from some of their shareholders recently, they were not even offering a forecast range for them to consider.

In other words, the interests of directors and bidders are being put ahead of the investors who have financially backed the company and are now being confronted with an investment decision they are ill-equipped to make without the assistance of their boardroom representatives.

As that becomes more obvious, the private equity groups are likely to find the pickings getting slimmer as existing shareholders attempt to restore the balance.

# Baby boomers may be missing out...

A potential windfall exists with many old super policies buried away gathering dust.

Baby boomers could save thousands of dollars if they take advantage of their pre-1983 super and the related tax benefits.

The Federal Government's decision to crystallise pre- and post-1983 contributions made this opening possible for those aged 50-59, Partners' Superannuation Services director Martin Murden said.

Super funds will be required to calculate the pre-July 1983 component as a fixed amount based on the value of the component as at 30 June 2007, but going forward, the pre-July 1983

component will become non taxable.

According to Murden, by combining multiple accounts before 30 June, a larger proportion will be treated as tax exempt. Also by making additional contributions to the pre-July 1983 fund, they will be able to maximise on tax savings.

"Many people are totally unaware of this potential windfall, let alone the fact that they have personal super contributions dating back to the inception of super in the 1970s," Murden said.

Those most likely affected by this are workers who worked for large firms that encouraged employees to take out superannuation or people running their own businesses, Murden said.

"In fact, it was not uncommon for people starting businesses to commence a self employed or personal superannuation policy with a life office. From the feedback I'm getting is that many of these have been left dormant once businesses have grown or when people have started a self managed super fund."

There are two ways of maximising pre-1983 contributions:

Make additional contributions to a fund that has a pre-July 1983 eligible service date. To do this, you must still either have the same super fund or on every occasion that you have changed funds, have rolled over your contributions. This could have the effect of moving 20-40 per cent of the extra contribution into the pre-July 1983 component which will be tax exempt after July this year.

Or, amalgamate two or more funds where one has a pre-July 1983 start date. This will enable you to use your very first fund as the starting date of the newly amalgamated fund, enabling you to benefit from the nil taxation that will be applicable after June.

# Managing your health to enjoy your wealth...

## A look at the lighter side of your health...

In the beginning God covered the earth with broccoli, cauliflower and spinach, with green, yellow and red vegetables of all kinds so Man and Woman would live long and healthy lives.

Then using God's bountiful gifts, Satan created Dairy Ice Cream and Magnums.

And Satan said, "You want hot fudge with that?"

And Man said, "Yes!" And Woman said, "I'll have one too with chocolate chips."

And lo and behold they gained 10 pounds.

Then God created the healthy yoghurt that Woman might keep the figure that Man found so fair.

And Satan brought forth white flour from the wheat and sugar from the cane and combined them.

And Woman went from size 12 to size 14. So God said, "Try my fresh green salad."

And Satan presented Blue Cheese dressing and garlic croutons on the side.

And Man and Woman unfastened their belts following the repast.

God then said "I have sent you healthy vegetables and olive oil in which to cook them."

And Satan brought forth deep fried coconut king prawns, butter-dipped lobster chunks and chicken fried steak, so big it needed its own platter.

And Man's cholesterol went through the roof.

Then God brought forth the potato; naturally low in fat and brimming with potassium and good nutrition.

Then Satan peeled off the healthy skin and sliced the starchy centre into chips and deep-fried them in animal fats adding copious quantities of salt.

And Man put on more pounds.

God then brought forth running shoes so that his Children might lose those extra pounds.

And Satan came forth with a cable TV with remote control so Man would not have to toil changing the channels.

And Man and Woman laughed and cried before the flickering light and started wearing stretch jogging suits.

Then God gave lean beef so that Man might consume fewer calories and still satisfy his appetite.

And Satan created McDonalds and the \$1 double cheeseburger.

Then Satan said, "You want fries with that?" and Man replied, "Yes, and super size 'em!"

And Satan said, "It is good."

And Man and Woman went into cardiac arrest.

God sighed and created quadruple bypass surgery.

Satan chuckled and created Medicare.

## The Final Word on Nutrition

After an exhaustive review of the research literature:

1. Japanese eat very little fat and suffer fewer heart attacks than us.
2. Mexicans eat a lot of fat and suffer fewer heart attacks than us.
3. Chinese drink very little red wine and suffer fewer heart attacks than us.
4. Italians drink excessive amounts of red wine and suffer fewer heart attacks than us.
5. Germans drink beer and eat lots of sausages and fats and suffer fewer heart attacks than us.

## Conclusion

Eat and drink what you like. Speaking English is apparently what kills you.

