Switzer Super Report

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Be scared

It was Warren Buffett who famously said that he likes to be fearful when others are greedy and greedy when others are fearful. In my column today, I tell you why I think it's time to be scared.

Also in the *Switzer Super Report*, George Boubouras recommends two stocks for self-managed super funds, both of which have a track record of growth and dividends. We look take a look at what the charts are telling us about the short-term outlook for gold prices. Plus, we have our weekly broker wrap of stock recommendations, and we explain the things to think about when moving business property into your super fund. Have a great week!

Sincerely,

Peter Switzer

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It's time to be scared

by Peter Switzer

It has been a great quarter for shares with the Yanks' stock market up around 12% and the local S&P/ASX200 index up around 7%. These are annualised gains of 48% and 28% respectively, so we know there has to be some selling sometime this year and April and May often usher in such a period.

And with some softening of US economic data and more European debt concerns emerging, the question is: is it time to be scared?

Peppering my fears is another market cliché that 'markets go up by stairs, but come down in elevators'. We saw this last August through to September and we have been climbing the stock stairway since October.

Up the stairs

It was good to see the market influencers for our stock market – the Dow and the S&P 500 index – up 0.5% and 0.37% respectively for the last day of the quarter. Also the VIX, or fear index, in the USA is at a low 15.5 reading, which means Americans are a lot less worried about stocks than four months ago.

There has been a great run for a half-year, but doesn't that set us up for fall? And the logical answer has to be 'yes', but does it have to be steep? Couldn't we get a retracement without a 10% correction or a 20% crash?

In a nutshell, the calibre of the economic data, company earnings and the debt developments in Europe will determine the story. My feeling is we will see some sell-offs which could get close to a correction, but I will use these opportunities to buy on these dips.

I think the past six months of solid stock price rises is saying that the Armageddon scenario has become less likely and we can thank the European Central Bank for throwing a trillion euro at eurozone banks – lending it to them at 1% for three years!

Three tigers

It now becomes a waiting game and over the weekend three 'tigers' might have ridden to our rescue, but I do say 'might'.

First that great tiger – China – surprised economists with the official PMI, which tracks manufacturing in that country, coming in better than expected. The reading came in at 53.1 and this up from 51 in February (readings above 50 indicate expansion).

On the other hand, the HSBC reading for the same time was only 48.3 but the experts say this is more influenced by private manufacturers while the former has a greater official factory influence.

Whatever, this temporarily will take away fears of a hard landing for China and will underpin stock prices and help control the overdue sell-offs ahead.

More good news came from the once tigerish US shopper with consumer spending putting on the best gains in seven months and consumer sentiment hitting the highest reading for a year.

Finally, Tiger Woods won the Arnold Palmer Invitational Tournament – his first in years – and this, some optimists argue, is a good omen!

A strange correlation

The New York Times featured a John Raoux/Associated Press article, which talked about Tiger's bad patch, which was similar to the market's struggles, "but in March, after more than 900 often harrowing days, both Tiger and the market accomplished something memorable."

So Tiger is winning again and the S&P 500 is over 1,400 and up 107%-plus since the crash of 2008.

And while there has been an odd, positive correlation between Tiger and the S&P 500, the latter has had difficulties around the 1,400-level, just as our S&P/ASX200 has around 4,300, which currently we are above.

A Morgan Stanley analysis says beware of getting too optimistic from here as the challenges for the US economy and the stock market are still considerable, just like the challenges for Tiger to reproduce his winning ways before a tree and a fire hydrant got in the way of his SUV.

Of course, both market and the master golfer could defy their critics, but you should never get too carried away with one win.

And by the way, the Aussie market is on the improve, but it has to lift its game – a bit like our golfers.

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There is no substitute for these two quality stocks

by George Boubouras

Westfield Group (WDC) and **Westfield Retail Trust (WRT)** belong in many self-managed super funds (SMSFs) – between the two, they offer investors exposure to the global recovery while also offering a quality dividend stream compared with their peers.

A generation of returns

Westfield is very well known as the largest shopping centre operator and owner in Australia, and it has delivered both income and growth returns for investors for over a generation. The separately listed entities, WDC and WRT, offer investors exposure to their quality global operations and dividend-focused domestic entity.

WDC is a property trust, a global retail property owner and operator with exposure not only to the local market and New Zealand (via a joint venture with WRT), but also importantly to global US and UK markets. It is the quality US assets that effectively offer investors exposure to the ongoing cyclical rebound of the world's largest economy – the United States.

WDC has a significant footprint in the listed Real Estate Investment Trust (REIT) sector domestically and globally, with a market capitalisation of around A$20.6 billion. They operate and manage 119 shopping centres and have always managed a strong development pipeline in their various markets.

International exposure

Given WDC has a large exposure in the US market, it is no surprise that it is compared to US peers. **Simon Property Group (SPG US)**, which is twice the market cap of WDC, is the core US-listed REIT proxy, just as Westfield is the Australian market proxy and consequently, dominates the weighting in the local index.

Interestingly, year-to-date, the performance of WDC is marginally ahead of SPG US (note, Australian dollar levels are currently around the levels of three months ago), but WDC is underperforming its US peer over a one-year timeframe. Over past cycles, I have always looked for the performance of WDC to converge with global peers and their capital management has very much been best of breed.

Since the GFC, the wholesale funding market is different, but gearing is not really as much of an issue for Westfield as it may be for other REITs. I would continue to look for a continued recovery in the global markets that Westfield is operating in, particularly the US market that is still adjusting post the GFC nearly four years ago.

The US is also well advanced compared with other developed markets since the unforgiving events of 2008. Therefore WDC will provide exposure to the global markets that are recovering well, particularly the US, and offer a dividend yield of around 5.75% over the coming 12 months. While the dividend is not as high as other listed Australian REITs (A-REITs), it is the quality that counts.

Exposure to WRT is effectively exposure to Australian and New Zealand shopping centres, in a joint venture with Westfield Group. This is the lower beta part of its assets and therefore offers retail investors a higher dividend versus WDC.

Expected returns

Investors should anticipate a 7.3% yield over the coming 12 months, a clear pick-up versus the WDC exposure. To reinforce my point, Westfield is a quality manager of retail shopping assets. Their solid experience in management of their Australian assets

is delivering during a time when the retail sector locally is facing some challenges.

Some clear headwinds remain from the domestic Australian household sector as evidenced by subdued credit growth showing a cautious consumer. The soft consumer sentiment numbers over the past year are another clear indicator that illustrates the difficulty facing the Australian retail sector.

However, the valuations of the discretionary retail sector, from the large department stores through to the large listed retailers of **JB Hi Fi (JBH)** and **Harvey Norman (HVN)**, have already adjusted over the past year to reflect this. The sector is cheap, in some cases oversold, and is at an early stage of recovery. Of course, another rate cut domestically from the Reserve Bank of Australia (RBA) would help matters.

In the meantime, investors turn their attention towards capital management as a larger driver for the performance of the listed A-REITs sector. Westfield is effectively a best of breed manager of property assets which works with tenants to deliver very high occupancy levels both locally and globally.

The Company has a long-term track record and is experienced in successfully working through challenging cyclical global and domestic economic cycles. Management is well conditioned in delivering for shareholders over the longer term. This is the type of exposure investors need.

In summary

Westfield (via WDC and WRT) offers investors exceptional management with a long-run track record, exposure to high quality assets and a quality dividend yield through a cycle. One can search for higher yields in the sector but, as always when chasing a dividend, search for certainty of delivery.

The company has adjusted well versus its peers in a new global funding market post the GFC. It has further room to grow earnings, deliver income and importantly meet investor expectations. Both WDC and WRT tick all the right boxes for a SMSF.

George Boubouras is the Head of Investment Strategy & Consulting at UBS Wealth Management Australia Ltd.

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Chart of the week: can gold prices climb even higher?

by Lance Lai

The last time I spoke about gold was on *Switzer* on 21 July 2011 on which I said that the gold rush was on and to buy, buy, buy! My targets were hit and exceeded following that interview. So where to for gold from here?

First, a quick wrap of my calls over the past three weeks:

1. 12 March 2012: **Spark Infrastructure (SKI)** $1.365, buy. Now $1.495, up 9.5%.
2. 19 March 2012: **Envestra (ENV)** $0.80 (ex div 2.9c) = $0.771, buy. Now $0.775, up 0.5%.
3. 26 March 2012: **Shanghai Stock Exchange** 2,349, short. (If you followed my interview on Switzer on 22 March 2012 (http://www.switzer.com.au/video/lai-20120323): Shanghai Stock Exchange was 2,375, short.) Now 2,262, fall of 5% predicted. In that interview, the second BIG support marked "S" was in fact 2,262. I would close out this position. For now, after hitting support, it should float around these levels a little longer.

The above is a 'Super' start to my contributions to the Switzer Super Report.

Now onto gold and the chart of this week.

From watching my interview with Peter, readers will gain an understanding of my historic thoughts on gold, which has relevance to the way equity markets and other markets trade. This article extends on those thoughts. The chart below updates and builds on the above interview eight months ago.

Source: Accountancy Invest

What I like about the chart, now $1,672:

1. Recent support levels of $1,633 have held.
2. The upper trading range is now my target level of $1,766 (the yellow horizontal line marked 'T'). This is a 5.5% gain.
3. The 200-day moving average is still pointing up (yellow line).
4. The gold price has tracked sideways in a range now for seven months around my last 'Target level of $1,689' set in July 2011. I have not spoken much of it, nor have I entered a position in gold in this time. If the current supports have held like it appears, not only is there a chance we go to the upper range, which is my target, but I am hopeful of a breakout of this range in the medium term. This is not so much a technical call, but a gut feel that we might be near a bottom.
5. Gold has been reflective of (and at times pre-emptive of) positive moves in the equity markets. It has reflected the devaluation of the US dollar and hence stimulus provided to the US and global financial system.

What worries me?

1. The 200-day moving average (the yellow

line) has been broken and crossed from above two times already. It is flattening out.
2. We have had three ‘Death Crosses’.

Important note

Please note, my views are not for the long term. My method results in views expressed that relate to an outlook that lasts weeks or at most months. For example, my view on Shanghai’s Index has for now been met and completed since 22 March 2012, 11 days later. Currently regards Shanghai, I am in a cautionary observant position.

Your utilisation of this information needs to take into account the timeframe I set. The stocks recommended as ‘Steady as She Goes’ may be held for the longer-term, which for me, means months.

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The broker wrap: poor week for 'buy' ratings

by Rudi Filapek-Vandyck

Out of 14 changes to ratings from brokers in the FNArena database over the past week, only three were upgrades. Two of the three stocks upgraded were also downgraded by brokers elsewhere in the market. Total Buy recommendations now stand at 51.30%.

Changes to stockbroker ratings in the past week:

Code	Company	Old Rating	New Rating	Broker
AUT	AURORA OIL AND GAS	Sell	Neutral	JP Morgan
BOQ	BANK OF QUEENSLAND	Neutral	Buy	Deutsche Bank
TAH	TABCORP HOLDINGS	Neutral	Buy	Macquarie
AUT	AURORA OIL AND GAS	Buy	Neutral	UBS
AUT	AURORA OIL AND GAS	Buy	Neutral	Credit Suisse
BOQ	BANK OF QUEENSLAND	Neutral	Sell	Macquarie
FGE	FORGE GROUP LIMITED	Buy	Neutral	Citi
LEI	LEIGHTON HOLDINGS	Buy	Sell	Macquarie
MQG	MACQUARIE GROUP	Buy	Neutral	RBS Australia
NUF	NUFARM LIMITED	Buy	Neutral	Macquarie
NUF	NUFARM LIMITED	Buy	Neutral	BA-Merrill Lynch
ORL	OROTONGROUP	Buy	Neutral	Credit Suisse
SGP	STOCKLAND	Buy	Neutral	BA-Merrill Lynch

Source: FNArena

Upgrades

Among the upgrades was **Aurora Oil and Gas (AUT)**, where JP Morgan has moved to a Neutral rating. The upgrade reflects the broker factoring in lower risk assumptions for enhanced recoveries from the group's shale assets and an associated increase in valuation and price target.

On the other hand, UBS and Credit Suisse downgraded the stock to Neutral ratings from Buy previously. The change in both cases is a valuation call as Aurora's share price has risen more than 30% over the past two months.

News of a capital raising from **Bank of Queensland (BOQ)** has been followed by Deutsche Bank upgrading the stock to Buy. In Deutsche's view, new management has cleared the decks with respect to bad debts and moved to address balance sheet issues, so the stock offers value at current levels.

Again, this is not a universal view as Macquarie has reacted to news of the raising by downgrading the bank to Sell. Macquarie continues to see a challenge for the regional lender in earning its cost of equity going forward, so the current premium to peers implies limited value in the broker's view.

The final upgrade during the week was Macquarie moving to a Buy on **Tabcorp (TAH)**. The lift in rating is another valuation call, as recent share price weakness has the stock trading below the broker's valuation estimate.

Downgrades

Among the downgraded was **Nufarm (NUF)**, with both Macquarie and BA Merrill Lynch lowering ratings to Neutral. A mixed interim result was enough for Macquarie to pull back earnings estimates and its price target. BA-ML's downgrade was a valuation call as the broker sees limited upside in the stock at current levels.

Forge Group (FGE) has also suffered a downgrade to Neutral from Citi. Forge shares have risen almost 40% year-to-date, which limits the valuation appeal in the broker's view. This is despite a new contract causing Citi to lift its earnings estimates and price target.

Having previously rated **Leighton Holdings (LEI)** as Outperform, Macquarie has shifted to an Underperform rating post a further write-down on problem contracts as part of yet another profit warning from management.

As with Leighton, **Stockland (SGP)** has also lowered earnings guidance and the market has

reacted by adjusting earnings forecasts and price targets. For BA-ML this is enough to justify a downgrade to Neutral, especially given few obvious catalysts to drive the share price in the shorter-term.

While **Oroton (ORL)** delivered a good profit result, Credit Suisse has downgraded it to Neutral. The price target has been increased and good earnings growth should continue, but the broker simply sees less upside following recent share price gains.

Changes to earnings forecasts (EF) per share in the past week:

Code	Company	Previous EF	New EF	% Change	No. of brokers
SIP	Sigma Pharma	3.886	4.686	20.59%	7
IGO	Independence Group	4.080	4.340	6.37%	5
RRL	Regis Resources	16.375	16.800	2.60%	4
NVT	Navitas	20.457	20.614	0.77%	6
QBE	QBE Insurance	131.820	132.719	0.68%	8
SEK	Seek	36.125	36.325	0.55%	7
NCM	Newcrest Mining	174.000	174.750	0.43%	8
AAX	Ausenco	34.140	34.260	0.35%	5
BWP	Bunnings Warehouse	13.225	13.250	0.19%	4
MIO	Miclyn Express	22.586	22.621	0.15%	4
BOQ	Bank of Queensland	95.513	28.938	- 69.70%	8
DJS	David Jones	22.538	20.263	- 10.09%	8
KMD	Kathmandu	13.266	12.005	- 9.51%	5
ROC	ROC Oil	4.979	4.577	- 8.07%	5
QAN	Qantas	14.625	13.575	- 7.18%	8
BPT	Beach Petroleum	9.440	8.860	- 6.14%	5
ALS	Alesco	17.850	16.871	- 5.48%	6
AQG	Alacer Gold	75.548	72.146	- 4.50%	7
SGP	Stockland	31.886	30.771	- 3.50%	7
QRN	QR National	16.138	15.663	- 2.94%	8

Source: FNArena

Note: FNArena monitors eight leading stockbrokers on a daily basis. The eight experts are: BA-Merrill Lynch, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie, RBS and UBS.

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Moving property into super: things to think about

by Tony Negline

Last week, I ran over the first six steps you need to take when transferring commercial property into your self-managed super fund. If you missed it, you can read How to move a business property into your SMSF on our website.

This week we're going to look at the things you need to think about when making the transaction, such as in-specie contribution issues, stamp duty considerations, super gearing and the property's contract for sale.

First things first

But before we get to these specific topics, you'll need to get a top-notch independent valuation to access the small business capital gains tax (CGT) concessions.

In a nutshell, if you're going to use these CGT concessions, make sure your independent valuation can be justified. A key component of this is to ensure the valuer has used comparable property types and localities for your property. For example, it's not good enough to use industrial property values in a nearby suburb as a basis to value small office premises.

In-specie contributions

Now let's turn our attention to in-specie contributions. If you're going to make an in-specie contribution (that is, a contribution of an asset in its present or physical form, such as a property, as opposed to selling it and contributing the cash) make sure you factor in the various contribution caps. Remember, there are special small business CGT concession caps as well as concessional and non-concessional contribution caps for personal or employer contributions.

Once you've worked out how you want the fund to acquire the property (direct purchase, in-specie contribution or a mixture of both) you'll need to consider stamp duty concessions.

Stamp duty by state

At this present point in time, stamp duty concessions exist in Victoria, New South Wales, Queensland and Western Australia. The legislation that enacts these concessions varies between each State.

Even if this legislation were identical, it isn't prudent to assume that each State Revenue Office (SRO) interprets the provisions exactly the same. Also some SROs seem happier to provide guidance more so than other jurisdictions. For example, the WA SRO doesn't offer guidance and it will only assess documents formally lodged with it.

NSW property transactions demand that the property be irrevocably 'ring-fenced'; that is, a stamp duty exemption will only be available if the super fund's trustee declares that the property will only ever be used to fund the previous owner's retirement.

To effect this type of transfer, you may need to have your super fund's trust deed amended. In NSW, it's possible for the super fund to purchase the property from you and it's also possible to use super gearing.

A similar rule applies in Victoria; however, the property must transfer for nil consideration, which effectively means you have to make an in-specie contribution with the asset. That is, your super fund can't buy it from you and super gearing wouldn't be possible.

Queensland transfers appear to be more problematic because they can only be done if the property can equate to a 'trust interest'. It's presently unclear what this term means.

WA property transfers demand a similar process to that which applies in NSW, except the super fund can't use super gearing. However, it's rumoured that some solicitors have found a way around this restriction.

The purchase of the property invariably involves an existing lease of the premises. If the sale is made subject to that lease, then it's sold as a going concern and no GST will be payable.

Borrowing to buy property

You may be interested in using super gearing (that is, taking out a loan to buy an asset) in your fund to finalise the transfer of the property into your fund. If you're going to use a third party lender, then you need to make sure they understand the nature of the transaction.

If your super gearing loan is provided by a related party (that is, the SMSF is associated with the lender) then Division 7A of the Income Tax Assessment Act 1936 might apply. This Division will deem any unrelated benefits as a dividend, which will make them taxable. If this does apply, then the related party will need to change the interest rate to a benchmark interest rate nominated by the Australian Tax Office (ATO) and the fund will need to repay part of the principal. In these instances, the maximum loan term is 25 years.

Clean documentation

Finally, it's essential the property's sale documents are appropriately drafted. For example, the contract of sale, requisitions on title, transfer of appropriate insurances, and the notice of sale all need to be handled properly.

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Don't miss this!

Peter Switzer and Paul Rickard, in conjunction with the Australian Shareholders' Association, will be talking about self-managed super fund investment strategies at three lunchtime events in Sydney in the coming months, and *Switzer Super Report* subscribers can receive a special discount on ticket prices.

Friday 20 April, 12.30pm-2.00pm: Investment strategies and creating a portfolio of stocks for income.

Friday 18 May, 12.30pm-2.00pm: Investing in property and collectables.

Friday 22 June, 12.30pm-2.00pm: Strategies to turbocharge your super, and taking money out.

Prices
Early bird tickets: (buy before Friday 6 April): $20
Admission: $30 per person ($40 for non subscribers).

To register, call the ASA on 1300 368 448 and mention that you're a *Switzer Super Report* subscriber.

The week ahead

Australia
Monday 2 April: RP Data/Rismark home prices (March)
Monday 2 April: Building approvals (February)
Monday 2 April: Monthly inflation gauge (March)
Tuesday 3 April: Retail trade (February)
Tuesday 3 April: Reserve Bank Board meeting and rates decision

Overseas
Monday 2 April: US ISM manufacturing (March)
Wednesday 4 April: US ISM services index (March)
Friday 6 April: US Non-farm payrolls (March)

Ex-dividend
Tuesday 3 April: Grange Resources (GRR); 3 cents
Monday 16 April: Countplus (CUP); 3 cents