Switzer Super Report

Monday 19 October 2015

Black Swan

October is historically tough for stocks – both the crashes of 1920 and 1987 happened during this month, and the GFC geared up on November 1. So what about this year? Experts are talking about a black swan event, but can we trust them? I test out this theory in today's note.

Also in the *Switzer Super Report*, Paul Rickard is back from a 3-week trip to the US, and has some first hand observations about how the economy is tracking. While Australia isn't the first country you think of when it comes to tech stocks, there are a number of companies exposed to the big IT themes of cloud computing and the Internet of Things, which James Dunn reveals today.

In this week's *Buy, Sell, Hold – what the brokers say*, NIB and Fortescue were both upgraded. And the experts like three of the big four banks and OzForex in *Super Stock Selectors.*

Sincerely,

Peter Switzer

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Experts are talking a black swan event! Tell me it ain't so…

by Peter Switzer

If October is the month of bottoms, it's also the month of crashes. The years 1929 and 1987 ring a bell and even the GFC got serious on November 1, which was so close to October that it's not funny. So when 'black swan' talk intensifies, as it is right now, I can't help but want to test it out.

In case you aren't up with your swans, this is what Wikipedia says that a black swan in markets and economics is all about:

"The black swan theory or theory of black swan events is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight."

The black swan could be China's economic growth, the proliferation of quantitative easing around the world and the weaker-than-expected economic response or it could even be the impact of everything Middle East from ISIS, to Syria, to refugees and Russia getting involved militarily.

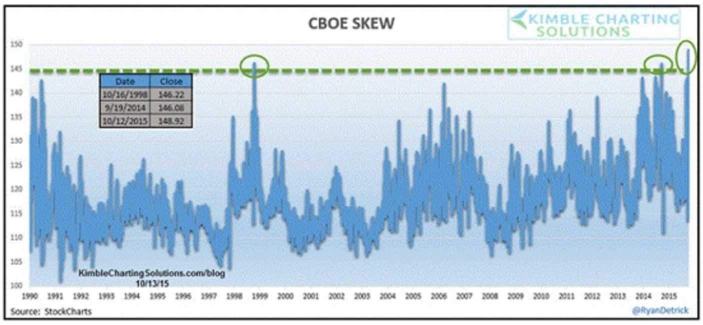
(I don't think the Fed's first small interest rate rise could derail the world, so I'm ruling this out of my black swan spotting exercise.)

For me, the economic response to QE and China look like the swans that could in all likelihood blacken up and shock a market or two.

The black swan test

Believe it or not but there is a black swan test called the CBOE Skew Index and it monitors options that are a long way out of the money for the S&P500. It's when traders are backing the long shot of a big, scary sell off and the latest reading shows a 30% spike since September!

Last week, the index was at 148.92, which is higher than in 2006 before the GFC! Of course, this doesn't mean that a GFC-style crash might happen but you can see why there is some negative excitement around a black swan event right now.



This level is even worse than when Long-Term Capital Management blew up in 1998 but what a lot of black swan experts leave out is that there have been lots of peaks where nothing happened. For example, look at the chart and see the 2014 breach of the green line when nothing happened. At best, the smarties in the markets, who price odd things like black swan events, have it at a 15% chance, which means the odds of a black swan no show is 85%. I prefer those odds but it doesn't mean I'm right.

CNBC quoted chartist Chris Kimble of Kimble Charting Solutions, who thinks extreme readings for the index in recent years have become so numerous that you have to question how good its predictability is nowadays. I agree with Chris but you wouldn't dismiss the index. No, you just treat it with caution. "I would say the fears have been overblown and by no means is this smart money," he wrote recently.

Moderate global expansion

And while there are those who are focused on the worst-case scenario for markets, I am more comfortable with the analysis from the team at Standard Life Investments with their quarterly Global Outlook research paper.

Jeremy Lawson, their chief economist sums it up neatly with:

"We continue to see a moderate global expansion into 2016, supporting modest corporate earnings growth outside the energy and materials sectors. Our view remains that a widespread or systemic emerging market financial crisis is unlikely, but the pressure on a number of large developing economies will not disappear quickly. Global GDP growth is expected to improve marginally but remain below trend," he pointed out.

So he thinks the QE programs keep providing growth and for the doomsday dramatists, who see China as the black swan deliverer, Lawson is cautiously positive.

"At the epicentre of the crisis, in China, a hard landing is not our central scenario as we expect extra fiscal stimulus, but the transition to a new growth model will remain bumpy and unfriendly for commodity producers. More deceleration in growth could lie ahead and the Chinese currency is likely to weaken moderately against the dollar.''

If Lawson was more negative on top of the Skew Index, I'd be more worried right now.

Muddle through

This is not the stuff of black swans but more like the "muddle through" thesis that I think explains most economic challenges and cycles.

Looking for even greater optimism or black swan crushers and I go to Bill Miller of LMM Investments in the US, who says moderate growth, low interest rates and low inflation has to be good for stocks. He actually has put this slow, grinding higher economic and stock market cycle into some intelligent perspective.

He's more worried about everyone piling into stocks so this skepticism phase is really a good thing. "My concern is the stock market starts going up 20 or 30% a year like it did in the late 1990s. And then after two or three years, you can't make money on anything. I'm much more worried about that than the fact that the stock market won't go up."

Scepticism phase

One of my briefs, and the one I do for all of my subscribers, is to watch the major economic drivers that could help or hurt stock prices and right now the balance of these is still towards us being cautiously positive.

I think Bill Miller had a brilliant take on what's going on now, and as he manages over $US3 billion, you'd kind of expect some smart stuff from him.

He told CNBC that it took time for the conditions that created the 2008 GFC financial crisis to build up, and "generationally, it typically takes a while for people to forget about things".

This is why I think we are in the scepticism phase and the optimistic and euphoric phases lie ahead. They might not last all that long but they will coincide with QE programs in Japan and Europe providing better than expected growth and maybe China surprising on the higher than expected side with growth and/or another big stimulus program.

Goodbye October

My chartist buddies still hold optimistic views on where stocks go and I love Citibank's call of 6,200 by the end of 2016 but as I have argued before, if it takes two years then we still make 18% in two years plus dividends and franking credits. I'd be happy with that but when this happens I'd have my binoculars out looking for the more likely appearance of a damn black swan!

That said I do look forward to waving October goodbye.

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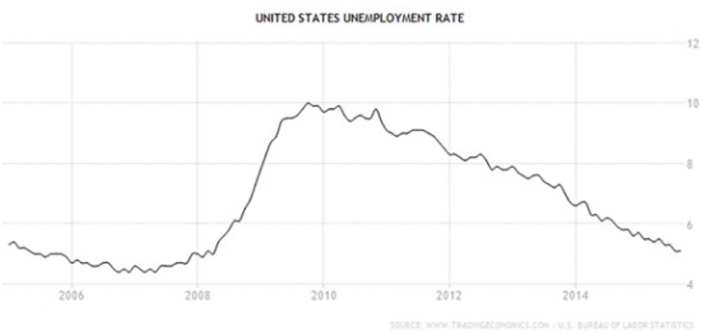
America – growth in the slow lane

by Paul Rickard

I have just returned from three weeks in the US and as dangerous as it is to draw on anecdote rather than hard data, sometimes you can see the big picture a lot more clearly from first hand observation. And as I only spent time in the northeast, drawing conclusions from one region and extrapolating that to what is probably the most diverse nation on the planet is fraught with danger. With these important disclaimers, here is my two bobs' worth.

Firstly, the unemployment rate of just 5.1% is real. I couldn't believe the number of "now hiring" boards I saw, or employers saying that they couldn't find staff. From Walmart (boasting that starting wages were $9.00 an hour – $1.75 above the regulated minimum), Dunkin Donuts, McDonald's to any of the hotels I stayed in. And not just service industries – these boards were outside a number of factories I passed.

US Unemployment Rate – 10 years to Sept 15



Source: Trading Economics

Normally, a falling unemployment rate would be accompanied by an increase in the participation rate – the number of people who are in employment or who are available to be employed. However, that hasn't happened – and the participation rate at 62.4% is now at record lows. Maybe this can be explained by the data that says that there is almost negligible wages growth, and again the observation that there still seems to be a lot of people sleeping rough or with their bowl out at traffic lights.

Petrol is so, so cheap

Can you remember the last time you filled up the tank and paid less than $20? Ok, so these are US dollars and in Australian dollars that is closer to $28.50, and I was driving a 5-door automatic Corolla and in the US, regular petrol is 87 octane. And my price shock is also amplified no doubt because in Australia, I drive one of the most fuel inefficient cars – a rotary engine Mazda RX8 that runs on 98 octane and with a full tank that costs around $75, only takes me 350km.

However, what a difference! $28.50 for 800km in the Corolla, vs $75.00 for 350km in the Mazda!

The point about this anecdote is that the fall in oil prices is having a real impact on the consumer and is a material price deflator. While the direct impact of oil price changes gets excluded from the official inflation data, it does have an indirect effect on the price of other goods and services. When you see this first hand, you start to appreciate why the Fed is having such trouble getting the rate of inflation up. Last Thursday, the US Bureau of Labor Statistics reported that the US consumer price index was unchanged over the last 12 months – 0% inflation. The core rate, which excludes food and energy, rose by 1.9% over the 12 months.

Everything else is expensive

Apart from petrol and possibly videos and books (the latter, a special case), everything else in the US feels pretty expensive to the Australian consumer. There are very few bargains to be had!

This usually means that either the Australian dollar is undervalued, or the US dollar is overvalued. While I am going to plug for the latter, it is also a bit of a wake-up call for those pundits who have been calling the Australian dollar down into the low sixties or even lower. My guess is that although there is downside risk, at around 70c, the Aussie is not too far away from a medium term bottom.

For the US, however, an overvalued currency looks likely to persist for the time being. While this puts downward pressure on prices, it is also acting to slow growth in the economy as manufacturers and service companies look to cheaper countries. Also, topline sales growth for America's multinationals is hard to achieve, as the contributions from their European and Asian subsidiaries is less in US dollars.

But where is the optimism?

While I am more the "glass half empty" type of person, one thing that has always struck me is that there are a lot of "glass half full" types in the US – Americans seem (and I am generalising) to be an incredibly optimistic group of people. What struck me on this visit was not pessimism, but the lack of any real euphoria. You would think with an unemployment rate of 5.1%, a stock market near 17,000, solid increases in house prices, record low interest rates, petrol so cheap and almost no inflation – some would be singing from the rooftops. Not so.

And as Peter keeps reminding us, that great investor Sir John Templeton said that "bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria".

What does this mean for us?

Taking these things together, I can't but help think that the American economy is "growth in the slow lane" — a bit like Australia, but off a stronger base. They have the drag of an overvalued currency; we have the drag of the resources slowdown.

For investors, US interest rates are going to stay low and for longer, and as a result, the US stock market can go up. Whereas before I would have argued that strong economic growth and robust company earnings might be the catalyst for a rally, my sense now is that low interest rates and the search for return will encourage investors to continue to allocate money into equities. A slow grind up for the market.

And in Australia, we will follow suit.

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Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

In the good books

BEACH ENERGY LIMITED (BPT) Upgrade to Buy from Neutral by Citi B/H/S: 4/2/1 Given the recent underperforming share price, Citi is upgrading to Buy/High Risk from Neutral/High Risk. The broker considers the growth portfolio uninspiring at current oil prices but the base valuation represents a 31% premium to the current share price.

CEO uncertainty, and asset sales and cost cutting offset by impairments and a conservative growth profile, means the broker finds the outlook mixed in the short term. Still, Citi believes there is potential for creating value. Citi retains a 77c target.

FORTESCUE METALS GROUP LTD (FMG) Upgrade to Buy from Neutral by UBS B/H/S: 3/3/2 September quarter shipments of 41.9m tonnes at a realised price of US$50/dmt with debt declining signals an improved operating performance and UBS upgrades to Buy from Neutral. Fortescue Metals continues to surprise on cost performance and UBS expects the company can continue to de-leverage. Hence the market is expected to ascribe more value to the equity. Target is raised to $2.85 from $2.30.

INSURANCE AUSTRALIA GROUP LIMITED (IAG) Upgrade to Outperform from Neutral by Credit Suisse B/H/S: 1/7/0 The company has decided not to pursue further investment in China and, as this was considered a major overhang on the stock, Credit Suisse takes the opportunity to upgrade to Outperform from Neutral.

The broker believes the company can now focus on its core business and capital management. Credit Suisse is confident in the ability to deliver on earnings expectations in FY16 and includes three years of special dividends in forecasts. Target is raised to $5.75 from $5.35.

NIB HOLDINGS LIMITED (NHF) Upgrade to Overweight from Neutral by JP Morgan B/H/S: 2/2/1 The company's acquisition of the OnePath New Zealand medical insurance book is a small added bonus in JP Morgan's view. The broker already likes the recent disclosures which signal cash earnings are materially higher than previously assumed.

The broker upgrades to Overweight from Neutral. Target rises to $3.70 from $3.40. JP Morgan considers the stock is attractive on a price/earnings relative basis and also offers growth.

TREASURY WINE ESTATES LIMITED (TWE) Upgrade to Neutral from Underperform by Credit Suisse and Upgrade to Neutral from Underperform by Macquarie and Upgrade to Neutral from Sell by UBS B/H/S: 0/7/0 Treasury Wine will acquire the wine assets, largely US/UK, of Diageo. Credit Suisse observes the acquisition is accretive, on paper at least, but the company must halt, or offset, the long-term volume erosion of these brands. The company believes it can obtain significant growth for its Californian brands in Asia and Latin America, now that it can access more fruit. Credit Suisse remains to be convinced.

The broker upgrades FY17 forecast by 25% after refreshing currency inputs but notes Treasury Wine has a new exchange rate risk, USD/GDP. A stronger US dollar could erase the very thin margins.

Credit Suisse upgrades to Neutral from Underperform and the target to $6.60 from $5.50.

Strong organic growth, high levels of earnings accretion and a currency tailwind see Macquarie upgrade to Neutral. Target rises to $7.40 from $5.78.

As the earnings outlook continues to improve, UBS upgrades to Neutral from Sell. Target is raised to $7.00 from $5.05.

WHITEHAVEN COAL LIMITED (WHC) Upgrade to Outperform from Neutral by Macquarie B/H/S: 6/2/0 September quarter production was broadly in line with Macquarie's forecasts. Coal pricing remains flat and this is the key catalyst going forward, in the broker's opinion.

While thermal coal prices are depressed, the market for the company's high-quality product appears secure and Macquarie expects supply reductions from marginal producers should provide some price support.

The Maules Creek project appears set to deliver a higher proportion of coking coal than previously envisaged. Macquarie upgrades to Outperform from Neutral and retains a $1.30 target.

Upgrades				
Order	Company	New Rating	Old Rating	Broker
1	Ale Property Group	Neutral	Sell	JP Morgan
2	Beach Energy	Buy	Neutral	Citi
3	Fortescue Metals Group	Buy	Neutral	UBS
4	Insurance Australia Group	Buy	Neutral	Credit Suisse
5	NIB Holdings	Buy	Neutral	JP Morgan
6	Oceanagold Corp	Neutral	Sell	UBS
7	Premier Investments	Buy	Neutral	Macquarie
8	Suncorp Group	Buy	Neutral	Macquarie
9	Treasury Wine Estates	Neutral	Sell	Macquarie
10	Treasury Wine Estates	Neutral	Sell	UBS
11	Treasury Wine Estates	Neutral	Sell	Credit Suisse
12	Whitehaven Coal	Buy	Neutral	Macquarie

In the not-so-good books

BRICKWORKS LIMITED (BKW) Downgrade to Underperform from Neutral by Macquarie B/H/S: 1/2/1 Macquarie is forecasting a big drop in housing commencements in 2016 as the pace of population growth slows while housing supply continues to grow well above trend. While Australian listed building stocks are in more robust shape now following restructures, and balance sheets are in good shape, the broker has nevertheless downgraded expectations.

Brickworks has seen a solid re-rating in past months but Macquarie expects this to erode as housing activity declines. Downgrade to Underperform. Target falls to $14.70 from $15.80.

EVOLUTION MINING LIMITED (EVN) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 3/3/0 The company has pre-released strong September quarter cash flows and set the tone for what Deutsche Bank suspects is a strong reporting season in terms of margins in the domestic gold sector. The full report should provide greater insight into the sustainability of performances, in the broker's opinion.

The broker downgrades to Hold from Buy on valuation and increases its target to $1.40 from $1.30.

GENERATION HEALTHCARE REIT (GHC) Downgrade to Hold from Add by Morgans B/H/S: 0/2/0 Morgans suspects FY16 guidance will be reiterated at the upcoming AGM, noting the portfolio continues to expand organically and should deliver enhanced earnings from FY17.

The stock continues to offer a niche investment in defensive health care assets. As the share price has performed well despite recent market volatility the broker moves to a Hold rating from Add. Target is $1.77.

IPROPERTY GROUP LIMITED (IPP) Downgrade to Hold from Add by Morgans B/H/S: 1/2/0 Morgans goes the extra mile to emphasise it remains positive about the growth prospects for iProperty. It's just that recent share price appreciation means the immediate outlook for the share price no longer warrants an Add rating, hence the downgrade to Hold

OZ MINERALS LIMITED (OZL) Downgrade to Neutral from Buy by UBS B/H/S: 5/2/1 UBS has slashed copper and nickel price forecasts for 2016, with nickel reduced by 31% and copper by 11%. The broker believes, in a falling price environment, a bottom-up approach is more likely to add value than a top-down one.

A lower Australian dollar has helped to mitigate most of the impact from lower copper prices. After a share price re-rating UBS downgrades OZ Minerals to Neutral from Buy. Target is lowered to $4.30 from $4.42.

Downgrades				
Order	Company	New Rating	Old Rating	Broker
1	Brickworks	Sell	Neutral	Macquarie
2	CSR	Sell	Buy	Macquarie
3	Evolution Mining	Neutral	Buy	Deutsche Bank
4	Generation Healthcare REIT	Neutral	Buy	Morgans
5	IPH	Neutral	Buy	Morgans
6	IProperty Group	Neutral	Buy	Morgans
7	OZ Minerals	Neutral	Buy	UBS
8	Programmed Maintenance Services	Neutral	Buy	JP Morgan
9	Trade Me Group	Neutral	Buy	Deutsche Bank

PROGRAMMED MAINTENANCE SERVICES LIMITED (PRG) Downgrade to Neutral from Overweight by JP Morgan B/H/S: 3/2/0
The Supreme Court of Victoria has approved the merger with Skilled Group (SKE). JP Morgan expects the transaction will be earnings accretive in the mid to high single digits in FY16 and FY17.

The broker remains cautious on the outlook because of the rising exposure to offshore marine services. JP Morgan incorporates the merger into estimates and increases FY16-18 forecasts by an average 8.7%. Target is raised to $3.30 from $2.96. Rating is downgraded to Neutral from Overweight.

TRADE ME GROUP LIMITED (TME) Downgrade to Hold from Buy by Deutsche Bank B/H/S: 2/3/1 A turnaround in property and general items may be encouraging but cyclical tailwinds are becoming headwinds in terms of jobs and motor vehicle classifieds, Deutsche Bank observes.

With a moderate medium-term growth outlook the broker now considers the stock is fairly valued and downgrades to Hold from Buy. Target is raised to NZ$3.64 from NZ$3.55.

Earnings Forecasts

Positive Change Covered by > 2 Brokers						
Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PAN	Panoramic Resources	-3.17	-0.83	280.19%	3
2	GRR	Grange Resources	2.50	2.17	15.37%	3
3	WHC	Whitehaven Coal	6.56	5.83	12.55%	8
4	EVN	Evolution Mining	16.62	15.53	7.07%	6
5	SLR	Silver Lake Resources	4.25	4.00	6.25%	3
6	MQG	Macquarie Group	592.06	570.71	3.74%	5
7	NCM	Newcrest Mining	67.75	65.75	3.04%	8
8	DLS	Drillsearch Energy	8.77	8.62	1.74%	6
9	TCL	Transurban Group	17.44	17.15	1.69%	7
10	OSH	Oil Search	31.49	31.03	1.47%	8

Negative Change Covered by > 2 Brokers						
Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	A2M	The a2 Milk Company	-0.10	3.00	-103.34%	3
2	AWE	AWE	-2.58	-3.73	-30.68%	7
3	BCI	BC Iron	-3.90	-5.40	-27.78%	3
4	WSA	Western Areas NL	16.19	21.19	-23.60%	7
5	ILU	Iluka Resources	23.96	29.46	-18.68%	7
6	STO	Santos	17.61	19.33	-8.92%	8
7	BHP	BHP Billiton	81.13	85.47	-5.09%	8
8	S32	South32	5.67	5.95	-4.64%	7
9	CSL	CSL	379.36	395.69	-4.13%	8
10	MTU	M2 Telecommunications Group	64.60	67.02	-3.61%	6

FNArena tabulates the views of eight major Australian and international stock brokers: BA-Merrill Lynch, CIMB, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie and UBS.

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How to access the best new ideas in technology

by James Dunn

The Information Technology (IT) sector is the home of some very large investment themes – prime among them being the move to cloud computing, big data and the "Internet of Things."

Cloud computing is the practice of using a network of remote servers hosted on the Internet – that is, in a virtual "cloud" – to store, manage, and process data, rather than a local server or a personal computer. Cloud computing allows companies to cut their hardware and software spending, and just use software-as-a-service (SaaS) from cloud-based providers.

Big data refers to the massive stores of data generated by companies from their operations, and the difficulty of organising it and "mining" it for insights. Big data is well beyond the capabilities of standard database software to handle, so specialised services to capture, sift and analyse it, using smart algorithms and high-speed technology, are coming to the market.

The Internet of Things is connected machines, monitoring each other, swapping and processing information in real time – and generating 'big data' for humans to analyse.

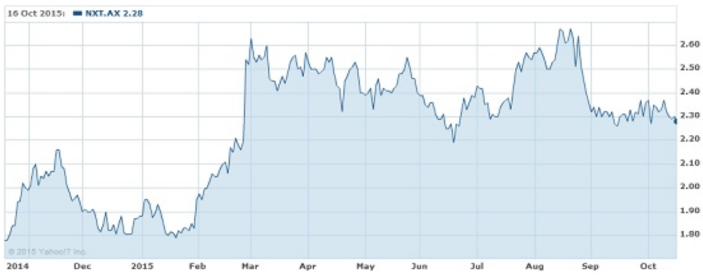
IT themes

Australia is not regarded as having many investment-scale IT businesses – certainly not on the scale of the global household names of IT – but the Australian Securities Exchange does have some companies that offer exposure to these growing themes.

Nick Harris, technology analyst at broking firm Morgans, says the easiest way for an Australian investor to play in the IT sector is to "ride on the coat-tails of the cloud-computing giants." While it is only early days in terms of cloud computing's market share versus that of traditional upfront procurement, he says, cloud spending is growing very fast – "it would be growing at 40% a year versus low single digits for the traditional procurement market," says Harris.

Harris says a good way to participate is through data centre operator **Next DC (NXT, share price $2.28, market capitalisation $442 million)**, which operates five purpose-built data centres – in Melbourne, Brisbane, Sydney, Perth and Canberra – that offer secure co-location services to corporate, government and IT services companies. NEXT DC hosts critical IT infrastructure – such as servers – for its customers, providing the data centre as a service. Whereas previously a company may have stored information on its own servers, the growing amount of data – combined with cheaper telecommunications – means it has become much more economical to store such data in the "cloud."

Next DC



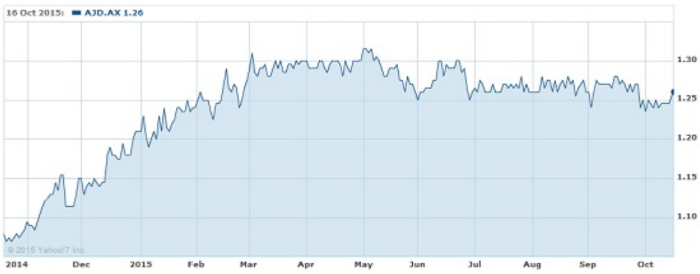
Cloud infrastructure in Australia grew 150% in the past three years compared to 106% globally, according to DatacenterDynamics. Over the next five years, it is estimated that data centre traffic will nearly triple, of which the cloud will account for nearly 75%.

Next DC has invested $250 million in its data centre network, but has not made a profit yet. It is expected to break through for maiden profit this year (FY16).

“The company made about $8 million in EBITDA (earnings before interest, tax, depreciation and amortisation) last year and it is guiding for $26 million–$28 million this year, so that’s a pretty strong growth story,” says Harris.

NEXT DC has sold its Sydney, Melbourne and Perth data centres into a real estate investment trust (REIT) called **APDC Group (AJD, $1.26, $145 million)**, and leases them from APDC on long-term leases. APDC Group is the only Australian listed REIT that owns data centre assets (NEXT DC does not own any of APDC Group’s equity.) According to FN Arena, analysts expect AJD to pay a 7.5% unfranked yield in FY16, and 7.8% in FY17. “If you want a capital growth story, you can invest in Next DC, and if you want an income story, you can invest in AJD,” says Harris.

APDC Group



The IT consultants

Other ways to tap into the growth of the cloud computing and big data themes are some of the IT consultants. Harris says “corporate Australia is starting to spend money again” on IT, after several down years. He says consultants such as **Data#3 Limited (DTL, $1.185, $182 million)** and **SMS Management & Technology (SMX, $4.88, $336 million)** have small but growing cloud businesses, as cloud gains in market share against traditional equipment procurement.

Data#3 lifted earnings per share (EPS) by 40.9% in FY15, and boosted its dividend by 40%. According to FN Arena, analysts’ consensus forecasts expect DTL to boost EPS by 13% in FY16, and raise its dividend by 15.9%. At $1.185, the expected FY16 dividend of 7.3 cents a share prices DTL on a fully franked yield of 6.2%. The analysts’ consensus target price of $1.11, however, implies that DTL is fully priced for the present.

Data#3

SMS Management & Technology reported 35.4% EPS growth in FY15 and a 36% rise in the dividend. This year, analysts are looking for 28% EPS growth and a further 15% improvement in the dividend. At $4.88, that places SMX on a 4% fully franked yield. However, analysts don’t see much room for appreciation from here: the consensus price target is $4.99.

SMS Management & Technology

Other stocks offering cloud exposure are **Rhipe Limited (RHP, $1.37, $182 million)**, which provides the software behind cloud computing; IT services provider **Empired Limited (EPD, 85 cents, $98 million)**; and hardware wholesaler **Dicker Data Limited (DDR, $1.78, $283 million)**, the dominant player in the enterprise networking market in Australia and New Zealand. If DDR – the only dividend-payer among this trio – pays the same dividend as in FY15 in FY16, it would pay a 6% fully franked yield.

Data analytics

Analyst Marc Kennis, from Foster Stockbroking, says data analytics is an increasingly important theme: the exponential growth in data worldwide presents both opportunities and challenges on how to organise, analyse, and monetise data. “We believe that **Invigor’s (IVO, 8 cents, $26 million)** data analytics products, which focus on retail, provide a compelling real-time solution for brands and retailers to enhance profitability, and for consumers to extract value and savings,” he says. Invigor is not currently profitable, but is expected to report a maiden profit this year (IVO uses the calendar year as its financial year.)

Invigor

Australia’s stand-out exposure to the Internet of Things is **NetComm Wireless (NTC, $1.69, $218 million)**, which makes devices used to connect things like smart meters, medical equipment, vending machines, security cameras, elevators and environmental monitoring systems. The company’s machine-to-machine (M2M) devices mean that machines can be monitored and controlled wherever they are working, from any location in the world, over wireless or broadband, with all operating information captured. The Internet of Things allows companies to improve efficiency, increase revenue and reduce operational costs.

NetCommWireless is profitable, but does not pay a dividend. According to Thomson Reuters, analysts that follow NTC expect it to triple EPS in the current financial year to 6 cents a share, and boost that further by 43% in FY17, to 8.6 cents a share.

NetComm Wireless

All charts sourced from Yahoo!7 Finance, 19 October 2015

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Super Stock Selectors – Big banks and OFX

by Staff Reporter

This week, Senetas Corporation Limited (SEN) – designer and manufacturer of encryption hardware – gets the thumbs up from the CEO of Lincoln Indicators, Elio D'Amato.

"The company reported a solid FY15 result, with Senetas Corporation's net profit before tax and significant items for the year at $5.673 million, up 109.9% on the $2.716 million reported during the previous corresponding period (PCP)," he says. "Management expect both profit growth and cash flow to be driven from strong industry fundamentals…"

Another company on the likes list is Australian retailer Harvey Norman (HVN) – Michael McCarthy's pick. He says the stock is attractive at levels anywhere below $4.

A recovering milk price also justifies Raymond Chan's pick – MG Unit Trust (MGC) – while Gary Stone says Australian online foreign exchange and payments company OzForex (OFX) is "in a text book uptrend and should challenge it's all time high of $3.50 after taking a breather at around $3.00". Julia Lee likes three of the big four banks and says there are signs pointing to higher share prices before the year's end.

"With the probability that the RBA will continue to cut rates, this should be a positive for the banks. While slowing growth in residential property, rising capital requirements and a turn in the bad debt cycle are all negatives, in the short to medium term, the selloff is overdone and the banks should bounce back," she says.

On the dislikes list, we've got Woolworths (WOW), which, after an 11% rally, provides an opportunity for McCarthy to sell out. "No credible strategy, further management renewal required and earnings growth below system mean there is no reason to hold WOW shares," he says.

Expert	What stock I like	What stock I don't like
Charlie Aitken, founder and fund manager of Aitken Investment Management	Macquarie Group (MQG)*	
Raymond Chan, managing partner, Morgans	MG Unit Trust (MGC)	Ten Network Holdings (TEN)
Elio D'Amato, CEO Lincoln Indicators	Senetas Corporation Limited (SEN)	Pacific Brands Limited (PBG)
Tony Featherstone, financial journalist	Costa Group Holdings (CGC), Argo Global Listed Infrastructure (ALI), MYOB Group (MYO)*	
Julia Lee, equities analyst Bell Direct	Australia and New Zealand Banking Group (ANZ), National Australia Bank (NAB), Westpac Banking Corporation (WBC).	Origin Energy (ORG)
Evan Lucas, IG Markets analyst	Treasury Wine Estates (TWE)	Telstra Corporation (TLS)
Michael McCarthy, Chief Market Strategist, CMC Markets	Harvey Norman (HVN)	Woolworths (WOW)
Gary Stone, founder of Share Wealth Systems	OzForex (OFX)	Insurance Australia Group (IAG)

**SSR on 15 October*

Our Super Stock Selectors is a survey of prominent analysts, brokers and fund managers. Each week we ask them to name a stock they like, and one they don't like. We purposely ask for 'likes' and 'dislikes' instead of recommendations, so it provides an idea of what the market is looking at, rather than firm buys or sells.

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