Switzer Super Report
Advice you can trust

Monday 18 January 2016

A double curve ball

It's not looking pretty for share markets around the world. The large fall in the Dow Jones over the weekend got us wondering if we are about to see a crash. In addition to concerns about China, we now have a double whammy out of the US that is impacting markets – the timing of another Fed rate hike and US economic growth. We will have to wait and see how the markets play out this week, but I'm hoping for a circuit breaker.

In today's *Switzer Super Report*, Paul Rickard gives us the latest updates to our growth portfolio. The portfolio has done well, given a very tough 2015. A couple of our regulars are now back too. Roger Montgomery takes a look at a very interesting value play from across the ditch – this stock is one for the watchlist.

Sincerely,

Peter Switzer

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What's wrong with stocks? When will it change?

by Peter Switzer

After the Dow slumped over 500 points on Saturday morning, our time, we all had to be wondering: is this the start of a crash?

However, if you aren't as negative as some, you could've been pondering: what's going to turn this negative sentiment around?

Obviously, the possible hard landing for the Chinese economy is playing on the minds of those selling stocks right now. Making it all worse is the related fall in the oil price and the other commodities' prices as well, which hits our resource-rich stock market in particular.

And we now have a double curve ball out of the US, which a few months ago was all about could the Fed raise rates too quickly and would this kill off the bull market? However, this is giving way to concerns that the US economy is slowing faster than expected under the weight of a rising greenback.

At the same time, Wall Street has produced the worst opening two weeks in history and facts like that don't help a stock market that's being slugged nearly daily because the list of good reasons to buy stocks are being swamped by better reasons to sell.

These, of course, are primarily short-term considerations, but I would argue that this market is being controlled by short-term views on stocks, which could provide great buying opportunities for long-term investors, provided this is not the start of a crash.

I will be clear on this, and I know it's risky, but I have to nail my colours to the mast, I think we're in a correction phase, not a crash event.

So, what needs to happen to see selling give way to buying?

Hopefully, China could provide some good news tomorrow with a slew of data around GDP, retail, investment, etc. but be clear on this, if the numbers disappoint, then this sell off could worsen. Bad news could bring a Beijing response. That used to work to turnaround market confidence but lately the Chinese Government has lost a lot of its credibility.

That said, I think the preoccupation with China is excessive, which was a point that AMP's Shane Oliver made on my Switzer program last Thursday. And this is what CommSec's Craig James argues: "We believe that worries about the Chinese economy are over-done. The economy is rebalancing and evolving and growth pains must be expected as the process continues."

Certainly some better economic data could easily change the market perceptions on China, so let's hope good economic news comes sooner rather than later. I do think there is a preoccupation with older economic indicators, such as manufacturing, when data on the services sector should become more important.

Let's go to oil and here the commentators/experts, who say the price goes lower, are matched by those who say the price is bottoming.

KLR Group's John Gerdes told CNBC that oil prices aren't far away from a significant spike. He's forecasting a $US47 a barrel figure this year, which would be a 50% plus improvement in price!

Part of the current price problem is that Iran will soon be adding to supply but this has been known for some time. "These supply adjustments take many, many quarters. They take years. We're one year into a three-year adjustment process," said Gerdes, who is head of research at the KLR investment bank, which focuses on natural resources.

"The U.S. industry is effectively uneconomic at sub-$60 [per barrel] and we're sitting at $30."

I liked this analysis and also this from Gerdes about how when US companies find they can't persist supplying oil at these low prices and they turn off their crude oil spigots, they aren't easily turned back on!

"When you redeploy capital, that lag effect is in place again going the other direction."

And I also liked hearing that Warren Buffett, the great investor who has advised us to "be greedy when everyone is fearful", has bought 5 million shares in an oil company called Phillips 66 and that's a $400 million bet on the oil price eventually spiking!

On America, the weak economic data can't be ignored but there might be an excessive preoccupation with manufacturing, which has to go off the boil when the greenback goes higher. It's the services sector that I think is more important and you can't ignore the job creation we've seen over 2015.

Those 292,000 Yanks, who got jobs in December, are going to be much better consumers than they were when they were on the dole! And some time this year, the income effects and lower cost effects of lower oil prices have to kick in. This could be a massive positive sleeper for the global economy and it perplexes me why we are so spooked about oil companies. Some will go broke but their businesses will be bought by others but just imagine if the oil price was $US150 a barrel, we'd be worried about cost-push inflation and, ultimately, a recession!

By the way, the US stock market is pricey and needs to come off or earnings have to go up to justify current share prices. The forward price-earnings ratio for the S&P 500 index is about 16.5, while the long-term average is 15.

When the economic stories improve, so will the earnings and commodity price outlooks and then we might see the over-suppliers of oil and other resources start a cutback process, which should have positive impacts on stock prices.

I know it is tempting to be influenced by big mouth experts, who tell us that it's all over for stocks but I'm going to punt that the Federal Reserve has also done its homework on the US as well as the global economy before it started.

Of course, they can be wrong too, but I'd rather back these guys and their judgment rather than the pessimists, who have been tipping this for years and have been wrong for years.

Our growth-oriented stock portfolio

by Paul Rickard

Last Thursday, we updated our income stock portfolio. Today, we look at our growth-oriented portfolio.

The objective of the growth-oriented portfolio is to outperform the S&P/ASX 200 market over the medium term, whilst closely tracking the index.

In calendar 2013, the growth-oriented portfolio returned 27.55% – an outperformance of 7.35% compared to the index. In calendar 2014, the portfolio returned 3.39% – an underperformance of 2.22%. And in calendar 2015, the portfolio returned 6.67% – an outperformance of 4.11%, taking the net outperformance to 2.85% pa for the past three years.

Critically, the purpose of the growth and income-oriented portfolios is to demonstrate an approach and methodology to portfolio construction that SMSFs could apply.

We have made some changes to the growth portfolio, which include sector and stock rebalancing, base-lining for the start of the year, the replacement of South32 (which came from the BHP demerger), Crown, Computershare and Woolworths, and the inclusion of Flight Centre and BT Investment Management.

The critical issue in 2016 is how to position in the beaten up resources sectors – energy and materials. We have chosen to stay underweight these sectors at the moment, recognising that there is no sign yet that commodity prices have bottomed. However, these sectors will rebound at some stage – and at some point in 2016, it may pay to go overweight these sectors.

In relation to this portfolio, we need to state some important caveats upfront. Firstly, recognizing the importance of tax effective income from dividends to the overall portfolio return, and a general aversion by many SMSFs to taking excessive risk, our sector biases are not strong. While there is an orientation to the sectors and stocks that we believe will grow over the medium term, our aim is to design a portfolio that will also track reasonably closely the overall market as measured by the S&P/ASX 200 Accumulation Index. It is a bias only towards growth.

Secondly, our universe of stocks to select from is confined to the top 150 stocks. More often than not, the stocks with the best medium term growth prospects will come from outside this group, in particular, the so called 'small' caps.

With these caveats decked, let's move on to the portfolio construction.

Sector Biases

Similar to our approach to the high income portfolio, we applied a 'top down' approach to the industry sectors and introduced biases that favour the sectors that we think have the best medium term growth prospects.

Overlaying this is a view that the predominant investment themes in 2016 will be:

- Continued low interest rates (yield sectors will continue to perform);
- The US Fed will be very cautious about further US interest rate rises;
- AUD at around 0.70 US cents, but with risk of breaking down;
- Commodity prices remaining weak;
- A positive lead (or at least not a negative lead) from the US markets; and
- Growth running below trend in Australia.

This leads to a portfolio with only small sector biases. We are marginally overweight the sectors that will benefit from increased consumer consumption or a lower AUD; marginally underweight or index-weight the yield sectors (financials, utilities, telecommunications and consumer staples); and underweight the commodity exposed sectors (materials and energy).

Despite healthcare being the third best performing sector last year with a return of 15.8% and over the last three years, the best performing sector with a return of 22.1% pa, we have elected to maintain an overweight position, as the demographic factors are so strong. Recognising that a number of the healthcare stocks are very pricey, we have selected stocks that should benefit from a lower Australian dollar.

On a sector basis, our portfolio compares to the market (S&P/ASX 200) as follows:

Sector	ASX 200 Weight	Portfolio Weight	Difference
Consumer Discretionary	4.7%	8.0%	3.3%
Consumer Staples	7.1%	6.0%	-1.1%
Energy	4.0%	4.0%	0.0%
Financials	41.3%	44.0%	2.7%
Health Care	6.9%	12.0%	5.1%
Industrials	7.8%	6.0%	-1.8%
IT	0.9%	0.0%	-0.9%
Materials	11.9%	8.0%	-3.9%
Property Trusts	7.5%	4.0%	-3.5%
Telecommunications	5.5%	5.0%	-0.5%
Utilities	2.3%	3.0%	0.7%

Stocks

Working on the basis that we need at least 10 stocks for diversification and that once you get over 25, it becomes pretty hard to monitor, we have selected 21 stocks. This is more than the income portfolio, reflecting in part the increased risk in stock selection.

Critically, we have biased the stock selection to companies that should benefit from a falling Australian dollar – either because they earn a major share of their revenue offshore, and/or report their earnings in US dollars.

In the 'consumer discretionary' sector, we have replaced Crown (CWN) with Flight Centre (FLT). With the former, an exogenous risk has been introduced with speculation about re-privatisation impacting the share price.

Flight Centre has been a strong performer over a number of years, and is forecasting underlying operating profit to grow by between 4% and 8% this year.

In financials, we have stuck with two strong performers from 2015 in Macquarie (MGQ) and Challenger (CGF), and added the fund management company BT Investment Management (BTT). This business has been expanding strongly offshore, and is priced at a more attractive multiple to its competitors such as Magellan (MFG) and Platinum (PTM).

With the major banks, the positions are largely index weighted, although there is a small bias towards the Sydney based banks.

In health care, while the stocks are getting very pricey, we have retained CSL (CSL), Ramsay (RHC) and Resmed (RMD).

In materials, we continue to prefer the diversified exposure that BHP Billiton (BHP) provides, and have retained Boral (BLD) for exposure to the construction industry. In industrials, a very diverse sector where stock selection is much more important than sector weight, we have retained logistics company Brambles (BXB) and online employment and education group Seek (SEK).

Portfolio

Our growth-oriented portfolio per $100,000 invested (using prices as at the close of business on 31 December 2015) is as follows:

Sector	Stock	Price 31-Dec	Value	PE (F)	Div (F)	Franking
Consumer Discretionary	Flight Centre	$39.89	$4,000	14.7	4.10%	100%
	JB Hi-Fi	$19.30	$4,000	13.7	4.82%	100%
Consumer Staples	Wesfarmers	$41.61	$6,000	18.4	4.95%	100%
Energy	Woodside	$28.72	$4,000	17.6	4.71%	100%
Financials	ANZ	$27.93	$5,000	11	6.55%	100%
	BT Invest Mgt	$12.86	$3,000	22.8	3.61%	40%
	CBA	$85.53	$10,000	15.4	4.98%	100%
	Challenger	$8.72	$4,000	14.9	3.37%	100%
	Macquarie	$82.77	$5,000	13.8	4.51%	40%
	NAB	$30.20	$7,000	11.5	6.59%	100%
	Westpac	$33.56	$10,000	13.3	5.69%	100%
Health Care	CSL	$105.31	$5,000	25.1	1.65%	0%
	Ramsay	$67.94	$4,000	30.1	1.76%	100%
	Resmed	$7.44	$3,000	19.3	2.38%	0%
Industrials	Brambles	$11.57	$3,000	19.5	3.04%	30%
	Seek	$15.38	$3,000	27.6	2.23%	100%
Materials	BHP	$17.86	$5,000	35.6	7.71%	100%
	Boral	$5.91	$3,000	17.9	3.47%	100%
A-REIT	Westfield	$9.51	$4,000	25	2.87%	0%
Telecommunications	Telstra	$5.61	$5,000	16	5.65%	100%
Utilities	AGL Energy	$18.08	$3,000	17.3	3.79%	100%
			$100,000	**18.2**	**4.55%**	**81.10%**

Forecast Returns

Using consensus broker forecasts from FN Arena, the portfolio has the following characteristics:

Forecast Price Earnings multiple for 2016: **18.22**
Forecast Dividend Yield for 2016: **4.55%**
Franking: **81.1%**

As a growth-oriented portfolio, our investment timeframe is in the three to five year range, and while short-term investment performance (including dividends) is important, our aim is to deliver slightly above market performance over that timeframe. We will keep a close eye on the growth-oriented portfolio, and report back in coming editions of the *Switzer Super Report.*

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1 stock for the value song sheet

by Roger Montgomery

In November 2011, Telecom New Zealand became the first incumbent telco in the world to voluntarily split, creating Chorus Limited (CNU) – the owner of New Zealand's existing copper telecommunications network, and Spark Limited (SPK) – the mobile network, and retail business operator.

The New Zealand government's desire for an ultrafast broadband (UFB) network and its wish to see the builder of that network separate to the business of retailing, provided the environment for the separation and allowed Chorus to participate in the fibre network build.

The objective of the UFB Scheme is to connect 75% of the NZ population by 2020. CNU was selected to build the majority of the network and between the date of structural separation and end 1H15, CNU had invested over $1.7b on fibre capability as part of the UFB rollout.

Prior to structural separation, the UBA (Unbundled Bitstream Access (UBA)), which comprises of access to the network ("Layer 1") as well as the electronics needed to connect ("Layer 2"), price was $45.98/month.

Following separation, and having regard to the desire to migrate to fibre and a perceived need to update industry regulation, the NZ Government initiated a process of regulatory review that included an interim review of copper pricing – to be undertaken by the NZ Commerce Commission (CC) – that would set copper prices for the period up to 2020.

In respect of the interim copper pricing review, a staged process was adopted. The first stage, known as Initial Pricing Principle (IPP) was to determine a wholesale copper access price by reference to benchmarks in comparable countries – a relatively quick and easy process.

In the event that industry participants were unhappy with the IPP price, they could request CC to undertake a more rigorous Total Service Long Run Incremental Cost (TSLRIC) approach under a process known as Final Pricing Principle (FPP).

On 5 November 2013, the CC released its (IPP) benchmarking decision in respect of regulated wholesale pricing for CNU's local access network. The price, to apply from December 2014, for CNU's UBA service was $34.44 per month – a 23.4% reduction.

The resultant price reduction came as a shock to participants, would leave a $1 billion hole in CNU's finances and limit its ability to deliver on its UFB rollout obligations. The company suspended its dividend and CNU's share price collapsed from greater than $2.50 in early November 2013 to less than $1.50 by the end of December 2014 and Moody's downgraded CNU's senior debt, and S&P placed it on review for possible downgrade.

What happened next was that the NZ Prime Minister announced that the outcome of the IPP did not reflect Parliament's intent and legislation would be put forward to overwrite the IPP price such that copper pricing was more consistent with fibre pricing. These sentiments are important for the investment case for Chorus.

Unfortunately, to pass the legislation to overwrite the IPP price, the government needed support from minority parties, which it did not receive.

Then CNU and several other industry participants requested the CC to implement the FPP process, under which pricing would be determined using a more rigorous TSLRIC analysis.

With the legislation unable to be passed, CC in

February 2013 initiated the FPP/TSLRIC process which effectively requires the CC (via consultants) to determine the replacement value of the copper network and, using an assumed WACC, determine the price that an owner would need to charge to earn a return on the capital invested.

In December 2014, CC announced a draft pricing decision of $38.39 under FPP, based on a network replacement cost of $7.4B and a WACC of 6.47%; and a delay to completion of the FPP pricing determination, such that a final decision would be reached in September 2015.

As part of the regulatory process, CNU had (via consultants) made extensive submissions to the CC, including that the weighted average cost of capital (WACC) adopted was unduly conservative and that errors were made in the CC’s calculation of the network’s replacement cost.

Our thesis was that a more supportive regulatory framework would have to emerge for Chorus and as a result, the gap between the market value of Chorus and the replacement cost of the network (a source of margin of safety) would narrow, if not close.

In December this year, the thesis took a step forward, as did the share price, when the New Zealand Commerce Commission announced an improvement to regulated prices for wholesale access to Chorus’ copper network.

In summary, the final pricing decision was a significant (and somewhat unexpected) improvement over the interim decision, resulting in meaningful upgrades to consensus earnings forecasts. CNU issued updated FY16 EBITDA guidance of NZ$580 – $600m, which compared with the then current consensus of NZ$569.5m.

The improved financial position also provided flexibility in respect of discretionary capital expenditure (which when profitable adds meaningfully to intrinsic value) and it potentially provides for the reinstatement of dividends. An update on these matters is expected at the half year results in February.

The core of our thesis for CNU is that the regulatory framework needs to encourage investment by network owners, and previous price decisions have fallen short of this.

Further, if the post-2020 review is able to deliver sensible price levels with a high level of predictability, there remains scope for a significant increase in the value of CNU via a reduction in discount rates. And while the share price has now closed on our initial estimate of intrinsic value, we believe there exists ample opportunity for the value of CNU to continue rising.

Chorus (CNU)

Source: *Yahoo!7 Finance, 18 January 2016*

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Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

The local share market has experienced a horror start in 2016, but most stockbroking analysts are not yet 100% in full action mode with several stockbrokers ramping up rather slowly throughout the second week of the calendar.

This might change in the week ahead which may provide a better picture as to whether those analysts are ready to start issuing rating upgrades in the face of relentless selling pressure since the start of the year.

It's interesting to note, that the contrarian observation from the earnings forecasts tables is that resources stocks heavily populate the positive side of that ledger, believe it or not.

In the good books

AGL Energy (AGL) Upgrade to Buy from Neutral by UBS B/H/S: 3/3/0

UBS analysts have updated their estimates following new contract insights. They argue that within the current negative sentiment that is dominating global equity markets, AGL should be considered a safe haven.

The analysts do acknowledge there remain negative developments on the horizon, including the prospect for significant new renewable supply and a global focus on carbon reduction.

Alumina Limited (AWC) Upgrade to Buy from Neutral by Citi B/H/S: 4/1/2

Citi's upgrade is premised on the assumption that ongoing production curtailments will pull the alumina market in balance, which should push up the price and make life a lot easier for Alumina.

Upgrades

Order	Company	New Rating	Old Rating	Broker
1	AGL Energy	Buy	Neutral	UBS
2	Alumina	Buy	Neutral	Citi
3	BHP Billiton	Buy	Neutral	Citi
4	BHP Billiton	Buy	Neutral	Morgan Stanley
5	JB Hi-Fi	Buy	Neutral	Credit Suisse
6	Northern Star Resources	Neutral	Sell	Citi
7	Stockland	Buy	Sell	Morgan Stanley
8	Westfield Corp	Buy	Sell	Morgan Stanley

BHP Billiton Limited (BHP) Upgrade to Buy from Neutral by Citi and Upgrade to Overweight from Equal-weight by Morgan Stanley B/H/S: 6/1/1

Commodity analysts at Citi have lowered their price forecast for iron ore to US$35/tonne from US$40/t for the years (multiple) ahead. In combination with lower price estimates for crude oil, earnings forecasts for BHP Billiton have taken yet another hit.

Regardless, the stockbroker has upgraded the rating to Buy while lowering the price target to $18 from $19.

Amidst widespread debate whether BHP Billiton remains a core holding in investment portfolios, report analysts at Morgan Stanley, a decision has been made to upgrade the rating to Overweight from Equal-Weight.

On the analysts' calculations, even assuming a 40% dividend cut the dividend yield on offer should be 6.6%. In addition, they believe the shares already price in US$8-9 billion in lost value related to the Samarco disaster. Further, they predict investments will be reduced to fit available cash and support the balance sheet.

JB HI-FI Limited (JBH) Upgrade to Outperform from Neutral by Credit Suisse B/H/S: 2/6/0

The broker is of the view that under a best-case scenario, Dick Smith (DSH) will arise from receivership in much smaller format/shape and JB Hi-Fi will be the main beneficiary if this assumption proves correct.

Northern Star Resources Ltd (NST) Upgrade to Neutral from Sell by Citi B/H/S: 1/2/0

December quarter production pretty much met expectations, but cost control proved better. Citi analysts note the share price has weakened in recent weeks and this provides the trigger to upgrade the stock.

Stockland (SGP) Upgrade to Overweight from Underweight by Morgan Stanley B/H/S: 5/0/1

A-REITs have outperformed the ASX200 by 10% in 2015 and by 42% in the past 5 years, report analysts at Morgan Stanley. They remain of the view this outperformance is likely to last for longer.

At the same time, divergences are opening up inside the sector (see Mirvac Group below).

In the not-so-good books

Harvey Norman (HVN) Downgrade to Neutral from Outperform by Credit Suisse B/H/S: 3/1/3

Credit Suisse has downgraded to Neutral from Outperform on a combination of anticipated benefits from the Dick Smith (DSH) demise and a negative impact on the sales of household goods from an expected slowing in the domestic housing market from fiscal 2017 onwards.

Mirvac Group (MGR) Downgrade to Underweight from Overweight by Morgan Stanley B/H/S: 4/1/1

Further in-depth analysis has taught Morgan Stanley analysts the stock is now “fully valued”. The analysts do believe there are opportunities to “unlock value”, including cost reductions and splitting the business, but they also remain of the view these appear a low probability for now.

Downgrades

Order	Company	New Rating	Old Rating	Broker
1	Doray Minerals	Neutral	Buy	Macquarie
2	Harvey Norman Holdings	Neutral	Buy	Credit Suisse
3	Mirvac Group	Sell	Buy	Morgan Stanley
4	Saracen Mineral Holdings	Neutral	Buy	Macquarie
5	Scentre Group	Sell	Neutral	JP Morgan
6	South32	Neutral	Buy	JP Morgan
7	Whitehaven Coal	Neutral	Neutral	JP Morgan

South32 Limited (S32) Downgrade to Neutral from Overweight by JP Morgan B/H/S: 2/5/0

Yet another round of material cuts to coal, alumina and manganese price forecasts has triggered a downgrade to Neutral from Overweight. The new forecasts imply South32 won’t be profitable in the years ahead.

Saracen Mineral Holdings Limited (SAR) Downgrade to Neutral from Outperform by Macquarie B/H/S: 1/1/0

Saracen’s December quarter performance beat Macquarie analysts’ expectations by no less than 10%. The analysts suspect it might have been due to better-than-expected grade at Red October.

In addition, the analysts point out the Thunderbox gold operations is ahead of schedule and under budget with first gold expected in the June quarter. The Karari gold mine is now in commercial production and Deep South is progressing as planned.

Following the “impressive” performance, Macquarie has lifted expectations for the gold producer.

Whitehaven Coal Limited (WHC) Downgrade to Neutral from Overweight by JP Morgan B/H/S: 5/2/1

JPMorgan commodity analysts have gone through yet another round of material cuts to forecasts, reducing coal price assumptions by 15–25%. The commodities team’s base case is now for thermal and semi-soft prices remaining flat until 2018.

As one would expect, the revised forecasts have a significant impact on modeling for Whitehaven Coal and therefore the broker has downgraded the stock.

Earnings Forecasts

Positive Change Covered by > 2 Brokers						
Order	**Symbol**	**Company**	**New EF**	**Previous EF**	**Change**	**Recs**
1	ORE	Orocobre	-14.50	-11.75	23.40%	3
2	RRL	Regis Resources	17.03	16.27	4.66%	8
3	BSL	Bluescope Steel	31.53	30.67	2.80%	7
4	RIO	Rio Tinto	337.93	331.07	2.07%	8
5	RMD	Resmed Inc	35.81	35.50	0.86%	8
6	CSL	CSL	389.17	385.87	0.86%	8
7	QBE	QBE Insurance Group	86.26	85.53	0.85%	8
8	OGC	Oeanagold Corp	22.72	22.53	0.85%	5
9	HZN	Horizon Oil	0.76	0.75	0.80%	3
10	BXB	Brambles	54.58	54.17	0.76%	8
Negative Change Covered by > 2 Brokers						
Order	**Symbol**	**Company**	**New EF**	**Previous EF**	**Change**	**Recs**
1	NXT	NextDC	-0.15	0.18	-185.71%	4
2	STO	Santos	-2.22	13.41	-116.55%	8
3	S32	South32	1.69	2.43	-30.66%	7
4	WHC	Whitehaven Coal	4.34	5.70	-23.81%	8
5	BHP	BHP Billiton	45.12	54.03	-16.49%	8
6	AWC	Alumina	8.11	9.29	-12.71%	7
7	RWH	Royal Wolf Holdings	12.38	13.63	-9.17%	4
8	ISD	iSentia Group	15.57	16.85	-7.61%	3
9	FMG	Fortescue Metals Group	22.07	23.42	-5.78%	8
10	ORG	Origin Energy	31.30	32.46	-3.56%	7

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Super Stock Selectors – Shine and Billabong

by Christine St Anne

Bell Direct's Julia Lee sees a value play in listed law firm Shine (SHJ). Lee says the stock has been sold down due to concerns about the other listed law firm – the embattled Slater and Gordon (SGH).

"Shine has no UK exposure and therefore no UK regulatory risks. The company has a strong balance sheet and low levels of debt. It's time for Shine Lawyers to shine," Lee says.

Lee, however, does not like the funds management sector and in particular does not like Macquarie Financial Group (MFG) because of the shaky markets.

"It's going to be a difficult time for traditional money managers to increase funds under management, maintain performance and collect performance fees, Lee says.

This week, Elio D'Amato from Lincoln Indicators does not like the iconic surfing brand, Billabong International (BBG).

"Operations continue to struggle with the company recently seeing long-term US head Ed Leasure leave the business," D'Amato says.

A stock that D'Amato does like is Blackmores (BKL) and believes that the company is not only positively linked to the Chinese market but its joint venture with Bega Cheese (BGA) and entry into the Indonesian market are all positives for Blackmores.

Chartist Gary Stone likes Trade Me Group (TME).

The company has "traded above a key support and resistance zone of $3.65 to $3.75 over the last month even during tough market conditions".

However, he does not like Origin Energy, noting that its "weak share price has fallen below a support zone over the past month".

Expert	Stock I like	Stock I don't like
Elio D'Amato, CEO Lincoln Indicators	Blackmores Limited (BKL)	Billabong International Limited (BBG)
Michael Heffernan, Senior Private Wealth Advisor, Phillip Capital	Transurban (TCL)	Primary Health Care (PRY)
Julia Lee, equities analyst Bell Direct	Shine Corporate (SHJ)	Money managers like Magellan Financial Group (MFG)
Gary Stone, founder of Share Wealth Systems	Trade Me Group (TME)	Origin Energy (ORG)

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