Switzer Super Report
Advice you can trust

Thursday 7 April 2016

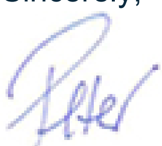
The new normal

Those short-sellers can play havoc in markets, driving up volatility. Today Charlie Aitken explores whether this is the 'new normal' and uncovers a market that is being shorted.

Also in the *Switzer Super Report*, Tony Featherstone treads where other investors may fear to go – the beaten down resources sector – and finds value that's not just for the contrarians. And Tony Negline looks at the misunderstood area of super and death benefits

In *My SMSF*, Cathryn van der Walt gives us her peak into a rather unconventional investment portfolio.

Sincerely,



Peter Switzer

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The real “big short”

by Charlie Aitken

Trust me, you’re not the only one feeling seasick watching the daily gyrations of your Australian equity portfolio. The question becomes: is this volatility simply the “new normal”? I think the answer is yes but I would again remind you that in volatility there is investment opportunity.

Most investors react to volatility the wrong way: they head for the sidelines. My approach is to be prepared mentally and in the portfolio for volatility, then try to take advantage of it when volatility spikes.

As a professional fund manager, I do have tools available to deploy that most of you do not. These tools, if used properly, can lower the overall volatility of our returns and specifically lesson losses when markets fall.

The ability to short index futures to protect (somewhat) our investments in specific companies, globally and locally, has been the key driver in the AIM Global High Conviction Fund outperforming the MSCI World Index by +5.4% and ASX200 by +10.6% since the 1st of August 2015.

As you know from these notes, there are many growth stocks I like and am invested in. We have broadly remained invested in those stocks throughout the volatility of the last year, while concurrently trading index futures over the overall portfolio when we wanted to put on market protection then take it off.

It truly is “a market of stocks, not a stock market”. By that I mean there are always companies growing their earnings and dividends even in “bear” equity markets, or whatever this proves to be. That means we try to identify and invest in companies growing their earnings and dividends (Australian examples are Star Entertainment Group (SGR), Treasury Wine Estates (TWE), Transurban (TCL etc)) then hedge out “Mr Market” risk when we think it is appropriate to take some portfolio insurance.

Don’t get me wrong; this isn’t a note on how smart my team is. When markets are like this it’s almost impossible not to lose some money on paper. The absolute key is to lose a lot less than everyone else and have capital to deploy at cheap prices in great companies. We must always remember the idea is to buy low, not sell low, which heightened volatility and the 24 hour news cycle (which focuses on bad news) can tend to make you do.

2016 year to date has already seen stock, sector, country and index volatility. In fact, it’s not just volatility. We are also seeing every wide divergence in stock, sector and country performance. I have to say it’s the performance divergence that is most stunning to me and best evidenced by simply looking at the year-to-date performance of the world’s leading equity indices.

- Dow Jones +1.67%
- S&P500 +1.1%
- NASDAQ -1.73%
- TSX +2.59%
- Mexico +5.36%
- Bovespa +10.9%
- Euro Stoxx -10.9%
- FTSE 100 -1.29%
- CAC 40 -7.6%
- DAX -10.4%
- IBEX -12.1%
- Italy -19.5%
- Nikkei -17.4%
- Hang Seng -7.79%
- CSI 300 -12.5%
- Shanghai Composite -13.7%
- HSCEI -10.1%
- Taiwan +2.1%

- KOSPI +.5%
- ASX200 -6.61%

I can't remember a quarter of greater global index performance divergence. It's absolutely stunning and reflects genuine uncertainty about global growth. The outperformance of US equities is basically about the world having confidence in the US economy over all others. Investors also feel the Federal Reserve has become far more "dovish" and will delay US interest rate rises. This has seen the US Dollar Index fall and takes pressure off US multi-national companies that dominate the key US equity indices. However, there is another big factor at work driving the outperformance of US equities: the real "big short".

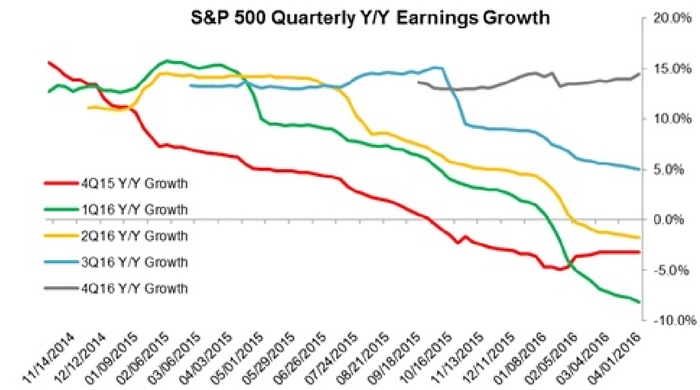
There is now over $1 trillion of US equities shorted. That is 4% of the free float of the entire US equity market. That short position is now the largest since the peak of the GFC in March 2008.

That massive US equities short position is one reason US equities appear far more supported on dips than any other global index. The question then becomes if the Fed is backing off raising interest rates and the US economic data is good, why the record short position in US equities?? The answer: EARNINGS.

The majority of the shorts are based on the fact US equity earnings are going down. Let's look at expectations for the pending US reporting season.

1Q16 earnings expectations

1Q16 US earnings expectations have been revised significantly lower ~15% in the last 12 months, the worst revision in recent quarters. The S&P 500 1Q16 EPS implies a 9.8% y/y decline, and the S&P 500 ex-Financials is implying a 10.1% earnings decline y/y. This would mark the 5th consecutive quarter where earnings have declined *(data from Morgan Stanley Research).*



Source: Factset, Morgan Stanley Sales & Trading

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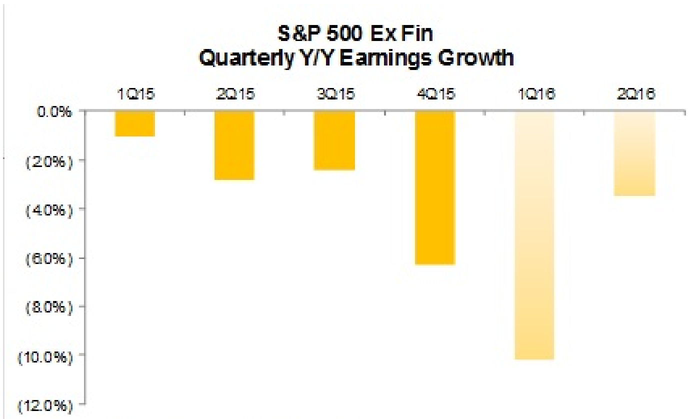
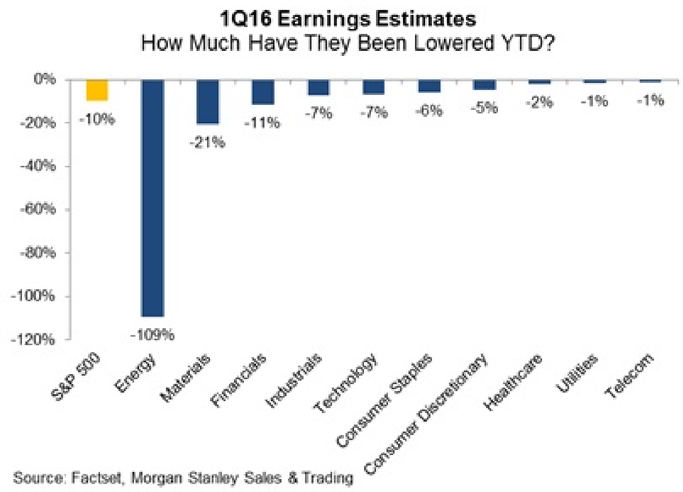
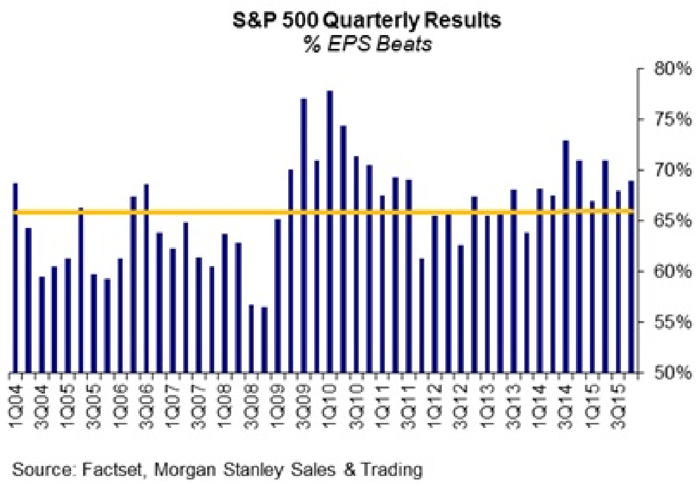


Source: Thomson Financial, Factset, Morgan Stanley Research.
Note: Based on earnings data available as of 03/31/2016
As of 06/07/2013, earnings estimates are sourced exclusively from Thomson Financial I/B/E/S estimates

On a sector basis, Energy is implying a 101.6% y/y decline (meaning negative earnings $-0.22bn for the energy sector this Q), followed by Materials -22.8%, Industrials -12.2%, Financials -8.7%, Utilities 7.7%, Info Tech 7.3%, and Staples 6.1%. On the positive side, Healthcare, Discretionary and Telecom, which make up 31% of the S&P 500 earnings, are projecting a modest 4.7%,7.3%,12.6% y/y growth in 1Q16, respectively *(Data from Morgan Stanley Research)*. In terms of just how much 1Q16 earnings estimates have come down since the beginning of the year, Energy earnings have been revised down over 100%, Materials 21%, and Financials 11%, and not a single sector saw estimates revise up (see chart below).



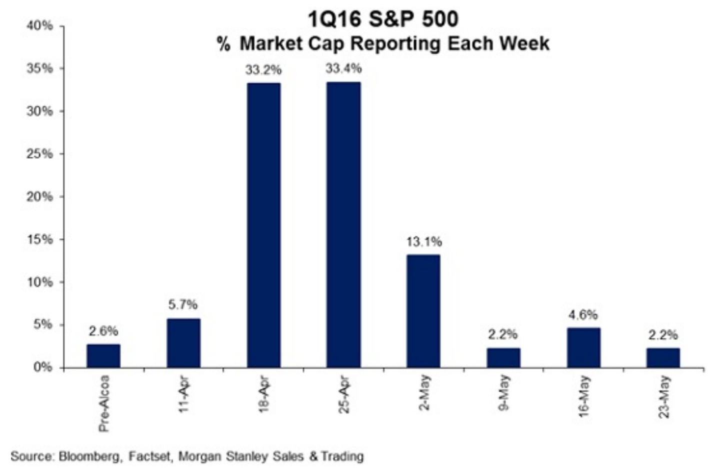
Given the significantly lowered estimates, earnings numbers will be more likely to beat than miss consensus, as has been the trend historically (see chart below).



The average beat since 1Q04 has been 4.19% for the S&P 500 ex-Financials, and the average positive earnings surprise ratio has been 66%.

1Q16 earnings calendar

This quarter's earnings season officially kicks off next Monday with Alcoa. By the end of the month of April, 76% of the S&P 500 will have reported earnings. Next week, while just 6% of the S&P 500 report earnings, notably 34% of Financials will be reporting, including JP Morgan, Bank of America, Wells Fargo, and Citi. The big weeks this earnings season are the weeks of April 18 and April 25 when 33% of the S&P market cap report each week.



Percentage of sector's announcing earnings each week

No doubt the weak US earnings expectations do justify the short position. But if short positions in US equities are at a record and earnings expectations for the quarter are already very low, then you do have the ingredients for a short-squeeze in US equities, if US earnings come in no worse than expected. If this happened alongside Oil prices rallying, the short-squeeze could be very violent to the upside.

Similarly, it's worth noting that institutional cash levels in the US are also the highest since the GFC. The combination of record short positions and very high cash levels is also supportive of US equities on any "less worse" news.

Don't get me wrong, there is plenty to worry about in the world and US earnings could come in worse than expected. But positioning is already in place for that scenario and on the other side central banks are becoming more and more accommodative, making the return on anything outside of equities pathetic.

Keep in mind global long bond yields made a record low average yield of 1.30% this month. While that does signal a long period of low growth and low inflation, it also signals central banks will be with us for the long run with their easy money policies. On that basis, I continue to believe being invested in the right equities that are growing their earnings and dividends will deliver total returns well above cash and fixed interest.

Either way, I wanted to explain to you today where the “real big short” is. It’s in US equities and the shorters are either going to be proven very right or very wrong over the next few weeks. Watch this space: whatever happens, when a short position is this big there will be volatility.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

3 ways to play the beaten-down mining sector

by Tony Featherstone

Buying stocks when there is “blood on the street” is easier in theory than in practice. Even hardened contrarians have struggled to buy small- and mid-cap resources in the past year, despite signs that the worst for the resource sector might have passed.

Resource bulls say the sector is turning. The S&P/ASX 300 Metals & Mining index is up 3.5% this calendar year on a total-return basis (including dividends). That compares with an almost 6% drop in the S&P/ASX 200 Accumulation Index.

Wiser heads know this for what it is: a sucker’s rally in a bear market in resource stocks. Granted, the sector looks cheap with many mining and energy stocks trading at decade low, despite some commodities starting to find a floor. Unrelenting pessimism and investors ignoring the sector is another positive for contrarians.

But finding a catalyst for a sustainable re-rerating in the resource sector is hard. Global growth remains fragile, emerging-market concerns are growing, and the 12-month outlook for commodity prices is patchy at best. The tailwind of a lower Australian dollar, a boost for local gold producers, is losing strength as our currency rises against the Greenback.

BHP Billiton (BHP) and Rio Tinto (RIO) are likely to report lower iron-ore shipments this year and analysts continue to lower forecasts for resource-sector earnings and commodity prices. Moody’s downgraded Fortescue Metal Group’s (FMG) credit rating by one notch in March.

So if the mining majors are still heading lower, what hope is there for small- and mid-cap resource stocks that generally have lower-quality assets and higher production costs? They also have less capacity to raise debt or issue equity without excessive share-price dilution.

My hunch is we have not seen the final washout that characterises the end of a massive bear market in resource stocks. The best time to buy resource stocks is when quality companies stop investing in new projects and weaker ones are collapsing or selling their best assets at fire-sale prices. That time is getting closer, but not here just yet.

That does not mean investors should avoid all small- and mid-cap resources. The best opportunities usually emerge when investors give up on sectors and take a blinkered view. It does mean, however, that prospective investors in small- and mid-cap resource stocks need to understand that risks remain elevated, despite the carnage over the past year.

Do not assume the sector is due for a period of strong outperformance after five years of chronic underperformance. The mining sector has underperformed by almost 20% annually over the past five years (on a total-return basis), based on a comparison of the Metals and Mining index and ASX 200 index. That underperformance can continue.

Caveats aside, some parts of the resource sector look more interesting for bargain hunters, and others have less appeal. I cannot get excited about bulk metals and minerals, coal in particular. Base metals have mixed prospects; precious metals look okay.

The worst for the energy sector might have passed, or at least is much closer. And some mining-services stocks, an almost forgotten part of the market, are worthy of further investigation.

Here are three ways to play small- and mid-cap resource stocks.

1. Gold

I have had a favourable view on gold for the past year and a preference for investing in gold bullion (via commodity exchange-traded funds) over gold equities. The main rationale was that increasingly volatile financial markets and gold's traditional role as a store of value, as global currencies were debased, would drive the precious metal higher.

I expected the Australian dollar to decline against the Greenback in 2015 and benefit local producers through a higher Australian dollar gold price. The S&P/ASX All Ordinaries Gold Index did not disappoint with a 34 % total return over 12 months. Gains are much needed for gold bulls given the sector's horrific underperformance over five years.

Evolution Mining (EVN) has interesting prospects. It has rallied from 60 cents at the start of 2015 to $1.52. The company had a mixed first half, but continues to reduce costs, improving margins and lowering debt.

Chart 1: Evolution Mining

Source: *Yahoo!7 Finance*

Evolution upgraded FY16 production guidance to 770,000-820,000 gold ounces, and reduced its all-in cost guidance to $A970-$1,020 per ounce. With the Australian dollar gold price at $1,634, it has scope to grow profits as production and margins expand. Evolution is trading a touch below fair value at $1.53 and could be a takeover target for an offshore gold producer.

2. Energy

Trying to second-guess the oil price is a mug's game and there are growing concerns that the market will remain in oversupply in 2016 and drive prices lower again, if Saudi Arabia refuses to freeze oil output and join several other major producing countries.

However, it may be posturing and a rapid supply response should help restore some equilibrium to the oil market and boost prices in the next 12 months. Respected US market watcher Byron Wien recently called the oil-market lows as a "major bottom".

I favour AWE (AWE) among smaller Australian oil stocks. The $290 million company has oil and gas exploration and production projects in Australia, New Zealand and Indonesia. Like other oil stocks, AWE has been slaughtered over 12 months, falling from $1.60 to 53 cents.

Chart 2: AWE

Source: *Yahoo!7 Finance*

Every stock has its price. AWE has a good record of project delivery, long-life gas fields, and strong leverage to any recovery in energy prices. It has higher-quality assets than most mid-tier energy stocks and, as such, could be a takeover target for a larger player.

AWE needs a rising oil price to be re-rated given its higher operating costs compared with energy majors such as Woodside. A new CEO in David Biggs is another factor for investors.

Morningstar values AWE at $1.60, or more than three times the current share price, but has upgraded the uncertainty rating for the company's valuation from high to very high. Speculators who believe the oil price cannot head much lower from here will be attracted to AWE. It has a decent rally ahead if the oil price can mount a more sustained recovery.

3. Mining services

Few sectors felt the brunt of the resource recession more than mining and energy services stocks. Once a market darling, the sector has been decimated as mining companies cut, suspend or defer exploration, reduce production, and renegotiate supply contracts. Buyers have all the bargaining power in a market that was once a seller's paradise.

Monadelphous Group (MND), once one of the market's best-rated mid-cap stocks, is a better play an eventual slow recovery in mining services demand, compared with smaller operators that have strained balance sheets and uncertain prospects.

Monadelphous has fallen from a 52-week high of $11.75 to $6.80. It traded above $26 in January 2013, but like other service providers has suffered from falling profits.

Chart 3: Monadelphous

Source: *Yahoo!7 Finance*

It reported a 38% decline in first-half FY16 profit to $37.6 million, flagged a 25% drop in FY16 revenue, expects conditions for mining-services companies to remain challenging. It is hard to see an end to Monadelphous' earnings downgrades, given deteriorating industry conditions.

All of the 14 brokers who cover the company have hold or sell recommendations. A median share-price target of $6.03 suggests it is still overvalued.

The market might have become too bearish on Monadelphous. It still has a solid balance sheet with $182 million of net cash and the firepower to buy weakened competitors or diversify the business away from mining and into the faster-growing infrastructure sector. Growth in maintenance contracts is another opportunity.

Monadelphous is trading at a significant valuation discount (based on forward Price Earnings multiples) to its nearest peers: Downer, CIMIC, RCR Tomlinson, Transfield Services, UGL and WorleyParsons. It has a case to trade at a small premium given its long-term record, balance-sheet strength and expected 7.3% yield before franking in 2016-17 based on consensus analyst estimates.

It would help if Monadelphous lifted its exposure to infrastructure, an industry in which its peers have greater presence.

All up, there's no compelling reason to buy Monadelphous just yet: the odds favour further shares price falls this year amid ongoing earnings pressure. But value is emerging. Share-valuation service Skaffold calculates Monadelphous' intrinsic or true value at $10.61 share – a 36% safety margin to the current $6.80.

Investors might watch and wait for better value in Monadelphous in the next six months. Buying high-quality companies in sectors that are horribly out of favour has a habit of paying off for patient, long-term investors.

– Tony Featherstone is a former managing editor of BRW and Shares magazines. This column does not imply any stock recommendations or offer financial advice. Readers should do further research of their own or talk to their adviser before acting on themes in this article. All prices and analysis at April 6, 2016.

Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Beadell Resources (BDR) Upgrade to Outperform from Neutral by Macquarie B/H/S 2/1/0

The results of the pre-feasibility study for the Urucum underground mine indicate it is a low capex and relatively low cost and long life proposition.

The broker expects this to extend the life of Tucano and deliver a mine better suited to the variable environmental conditions.

RCR Tomlinson (RCR) Upgrade to Buy from Accumulate by Ord Minnett B/H/S 2/0/0

The company has undergone a major restructure, closing 16 sites which have been marginal or unprofitable for some time. The cost of the restructure is $44m. The main negative is the $34m in cash outflows, Ord Minnett contends, significant for a company with a $170m market cap.

The broker's recommendation is upgraded to Buy from Accumulate, relying on seeing through the FY16 result with a rebound in FY17 and assuming some of the preferred contracts commence.

In the not-so-good books

Aristocrat Leisure (ALL) Downgrade to Neutral from Outperform by Credit Suisse B/H/S 3/2/1

Credit Suisse offsets FX downgrades with operational upgrades, noting competitors do not have the momentum to unseat the company's market share in Australia.

Growth is expected to slow significantly in FY17 and FY18 relative to the last two years. Aristocrat has achieved 70% market share in segments of the market in Australia and the broker does not expect material improvement in this area.

Downer EDI (DOW) Downgrade to Equal-weight from Overweight by Morgan Stanley and Downgrade to Lighten from Hold by Ord Minnett B/H/S 3/2/1

Morgan Stanley did not expect Downer would lose its entire Fortescue Metals (FMG) contract. Strategically, the broker believes this calls into question the future of the mining operations.

The broker did not expect Fortescue would take the operational risk of removing Downer from the Christmas Creek mine from October for what is likely to be a limited saving.

Ord Minnett was not altogether surprised by the Fortescue decision but notes the contract loss is material.

The broker suspects earnings were likely to decline even before the loss of this contract.

Estia Health (EHE) Downgrade to Neutral from Outperform by Macquarie B/H/S 2/2/0

The Department of Health is now projecting aged care funding outlays to be 2.1% above forecast in FY16. History suggests that when outlays exceed forecasts, the government introduces measures to recoup some of that amount, Macquarie notes. Last year's MYEFO included announced savings to come from as yet unknown changes to aged care funding.

The broker has pulled back its earnings forecasts for listed aged care providers, offset to some extent by assumed cost controls measures. Downgrades of

3-5% have been applied for each provider.

Macquarie cannot see a catalyst to re-rate Estia prior to its August result release, and hence downgrades to Neutral.

National Australia Bank Downgrade to Hold by Morgans B/H/S 1/5/1

Morgans suspects the major banks may need to increase provisions for certain single name exposures that are currently in trouble. Stress in the consumer segment is also increasing with the broker noting softness in the economies of Queensland and Western Australia.

Most of the institutional names in trouble belong to the resources sector, which suggests to Morgans a broad-based problem. The broker lowers earnings forecasts for each of the major banks, largely because of higher bad debt charge forecasts and lower net interest margin forecasts.

Nine Entertainment (NEC) Downgrade to Sell from Hold by Ord Minnett B/H/S 4/0/2

Nine Entertainment’s trading update signals a slow start to 2016 Free-To-Air (FTA) TV advertising spending. As a result Ord Minnett lowers second half forecasts to a fall in the market of 2.5% from 1.0%.

The broker envisages FTA audience declining 3.8% in 2016 so far, following the 6.0% decline in 2015. The broker believes this is the beginning of a structural decline in FTA advertising dollars.

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Death benefits and super

by Tony Negline

The payment of death benefits from super funds continues to cause confusion and problems for survivors.

Two cases, handed down in late 2015 from South Australia are quite interesting and add to our level of knowledge about this important but often misunderstood area.

The two cases involved the deceased estate of Professor John Brine, who lived in Adelaide and had died in December 2012.

One case involved real estate and other assets that Brine owned, while the other case involved his super monies.

At the time of death, his recognised de facto spouse was Norma Carter. He had three adult sons from a prior marriage. All four were co-executors of Brine's deceased estate, which was estimated to be worth more than $5 million in net assets.

Brine's Unisuper accounts

Based on the court decision, it would appear that all of Brine's super money was held in the Unisuper Super Scheme, which is a fund set up for all university employees.

At the time of death, Brine was semi-retired and had elected to take part of his super money as an indexed lifetime pension. After he died, this pension was automatically paid to Norma Carter as his recognised spouse and will be paid for as long as she lives. Once she dies, there will be no further money paid from this pension. There was no dispute about this pension.

With the remainder of his super money, Brine had invested in a Flexi Pension, which is the name Unisuper gives to an Account Based Pension. At the time of his death, the account balance was about $545 000.

Brine's Will And Flexi-pension

Brine asked Unisuper to commence the Flexi-pension in January 2001. In his application form, he indicated that he would like these proceeds in the pension remaining on his death to be paid to his estate. In that communication, he nominated Norma Carter as his de facto spouse. He also mentioned his intentions in a covering letter and in another letter he wrote to Unisuper in April 2001.

It's important to note that in January 2001, the Unisuper fund didn't allow Binding Death Benefit nominations – that is, directions from members as to how they want their monies paid out of the fund on death. (Technically, these had been allowed under the legislation since May 1999.) It finally allowed for this on 1 November 2004.

In March 2008, Brine made a will that gave Carter a life interest in some of the properties he owned and on her death, they would be distributed to Brine's children and grandchildren. The rest of his assets he left to his sons and grandchildren. Carter witnessed this will. In May '08 he made a will involving a property he and Carter owned in France but this isn't relevant here, again, giving her a life interest and then on her death, reverting to his sons and grandchildren.

In summary, we find ourselves with a super investor, who has indicated via an application form, his will and other communications that he would like certain assets to be paid to his children and grandchildren. The documents on which this information is conveyed to Unisuper were quite old – that is, some of them were made more than 10 years before he died.

Brine seemed quite keen to ensure his children and grandchildren were the beneficiaries of his wealth on his death. In my experience, university professors are quite good at working out how the world works.

A key unanswered question is – why did Brine assume that a mere indication to the Unisuper trustee was adequate when between early ’01 and his death, over 10 years later, the fund would have told him, presumably several times, that he could complete a Binding Death Benefit Nomination that would have enforced his wishes on the trustee?

Carter’s initial conversations with her fellow executors

After Brine died, Carter investigated his superannuation assets by calling Unisuper. There is a dispute as to when and how she conveyed information about Brine’s money.

I would be the first to admit that super and trust law aren’t easy to understand and often the average layman doesn’t grasp the full understanding of various words and concepts used.

That being said, the Court found that from mid-December 2012 and early March ’13, Carter misled her co-executors in not explaining that the Unisuper Flexi-pension could be paid to them as Brine’s dependants or his deceased estate.

The Unisuper decision

From early March ’13, the Brine sons had worked out for themselves their entitlements and applied for the Unisuper benefit as executors. At that point, Carter applied on her own behalf and stood aside from those executorial decisions on this issue.

One of the Brine sons was told that although Unisuper’s trust deed allowed death benefit payments to a deceased estate, it typically paid to dependants if any survived the deceased.

Unisuper initially decided to pay Carter the death benefit. Even after several challenges of this decision by the Brine sons, this decision remained unchanged.

The Super Complaints Tribunal when it reviewed the case said that it was clear to them that Carter was Brine’s dependant.

That is, Carter ended up with the Flexi-pension money, even though it would appear that Professor Brine would have preferred another solution.

The SA Supreme Court decided this was the right decision.

Who paid the costs for these cases?

In relation to the court case involving the super benefit, the Brine sons were order to pay 50% of Norma Carter’s costs. For the other court case, Carter was ordered to pay some of the Brine children’s costs and vice versa.

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My SMSF

by Cathryn van der Walt

Cathryn van der Walt manages her own public relations company, 12 Worlds. She tells us about why she went down the do-it-yourself path and her unique investment portfolio.

Age: *48*

Other members of the SMSF: *My husband, Brad Middleton*

Why did you start it up?

Total disillusionment with the traditional funds management and adviser model. The trigger point personally for me was no communication on a fund rollover on the worst possible day, date and time during the global financial (GFC) crisis by one of Brisbane's supposed experts in wealth creation. My own wealth creation was put at jeopardy and it took me years to recover – it was unnecessary, very stressful and showed a total disregard for client services and risk management. Their follow up to my complaints was a meeting that they attempted to charge me $700 for! Moving away from that practice was the best thing I ever did.

How big is it?

Under $1 million but not for long hopefully!

Is it more or less difficult to manage than you thought it would be?

Setting it up is time consuming, as well as the initial research into your asset allocation and then the assets themselves. If you focus on investing time and effort here and automating the rest, it's very beneficial. We do have experience in finance, Brad works in financial services and I work in the tech communications sector and this gives us a solid base. Our research is thorough – I check demand and trends and Brad takes care of the annual reports and financial fundamentals.

Are you pleased with its performance?

Absolutely. We have had realistic goals in our first two years and we know that we made the right choice for our retirement plans.

Can you give us some numbers around performance over the last 1, 3 and 5 years?

The fund is only two years old however we have produced a 30% return on equities in the first 12 months and again 30% in the second 12 months. I can only describe our cash returns as minimal.

What is your asset allocation?

Our breakdown is 40% cash, 40% domestic equities, 20% international equities. Sectors are broken down into 40% food, beverages; technology 35%; financial services 10% and the balance is split between personal care/resources.

What are your favourite investments/stocks and why?

Whilst we balance growth against dividend stocks, our favourite investments focus on items that are of high value in every day life, basically investments that make the world go round currently or will become the high demand items for the future and, of course, pizza!

So our favourite stocks are the Bellamy's (BAL), Dominos (DMP), Salesforce (CRM), Broadcom (AVGO), Albermarle (ALB), IRESS (IRE) and a range of data centre and security providers here in Australia and the US. We also have some entirely spec stocks in the health, payments, dark fibre and networking as a service space that we remain quietly confident will deliver over time. I would say that our portfolio is not very traditional.

What investments do you have outside of superannuation?

Property, however, we have reduced our exposure. These aren't attractive 'homes' and your price per square metre for purchase is too high. Couple this with the oversupply of investment apartments, overhang of developer stocks and the increased frustration of property managers not covering themselves in glory, it is really unappealing to engage in property. We don't see this as a viable investment option for us for the time being.

Do you use an advisor or any kind of service provider?

Not for general advice. We do, however, use service providers. We rely on Superfund Partners for the administration of our SMSF and it is excellent.

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Gold and Transurban

by Questions of the Week

Question: At the Switzer investor day, you spoke about the role of gold in a portfolio. I am just about to invest via an exchange-traded fund (ETF). BetaShares' gold ETF is hedged and ANZ's gold ETF is unhedged. Which way should I go? The fees are .65% & .40% respectively. I will be doing my broking online.

Answer: (Paul Rickard): Notwithstanding the higher management fee, I would probably be inclined to buy the hedged gold ETF (from Betashares – ASX Code (QAU)). I think fair value for the Australian dollar is around 70 US cents – so don't see that much value in being unhedged at these levels. I don't rule out the Australian dollar having a good go at the 70 cent level – but in the long term, I don't think we are too far off fair value.

Question: I have just read Charlie Aitken's article on Transurban (TCL), with which I strongly concur. I have also recently read articles on the impending great recession/depression, which is about to ravage the world economies, and various ways to prepare for this likely/unlikely event. Various measures include buying large quantities of gold (the real stuff, not paper), and investing in 'hard' assets.

My question is whether he considers TCL a hard asset, owning as it does many quality roads with a strong moat, and whether this company would be a suitable investment to guard my capital against this depression if and when it arrives.

Answer (Paul Rickard) I don't agree with your analysis that a great recession or depression is impending.

If the great recession does happen, I think Transurban shares would qualify in the medium category rather than hard. Transurban will suffer some decline in revenue as discretionary motor vehicle trips are reduced and the economy slows.

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