Switzer Super Report
Advice you can trust

Thursday 31 March 2016

Learning from a master

Investing is all about learning from the experts and today Charlie Aitken borrows an investment idea from a master and uncovers a stock that would have the Warren Buffett seal of approval.

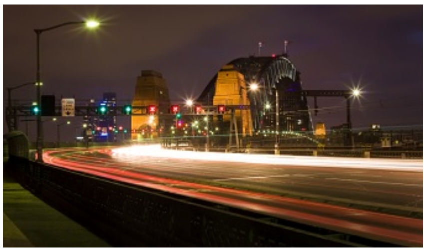
And with the Berkshire Hathaway annual meeting in Omaha just around the corner, Barrie Dunstan gives us his take on Buffett's golden rules to buying quality businesses.

Also in the *Switzer Super Report*, Tony Featherstone uncovers a number of stocks set for a turnaround.

Sincerely,

Peter Switzer

Inside this Issue



Buffett's dream investment
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T: 1300 SWITZER (1300 794 8937) F: (02) 9327 4366

Buffett's dream investment

by Charlie Aitken

One of my seven key structural growth themes is ***"monopoly toll bridges"***. It's a concept I have "borrowed" from the master, Warren Buffett, who is often quoted saying *"a monopoly toll bridge is my dream investment".*

When you think about that statement it is absolutely valid, but even more so in a world of ultra-low interest rates, low growth and low inflation. High barrier to entry, long duration, infrastructure assets with pricing and volume power will continue to outperform in that environment.

We are in a world of negative interest rates and negative real yields on most long bonds in the world. Anyone who buys a long bond and pays a government an interest rate, in my opinion, is insane. That is return free risk and I think there are many ways of buying bond similar instruments that will continue to strongly outperform long bonds in terms of total returns.

Infrastructure assets with long concessions benefit on all fronts in the current environment. That environment will continue as even the US Federal Reserve is backing away from interest rate rise forecasts. In reality, the world is still cutting interests rates at the aggregate level and buying long bonds in the form of QE.

For an infrastructure stock, you have the benefit of falling interest costs on their debt, the ability to refinance debt at better rates and longer duration, mandated toll rises above inflation, and in some cases, volume growth (traffic growth) that is driving earnings and distribution growth. You also have indebted governments wanting the private sector to own and operate key infrastructure assets that is further driving growth.

I also believe the best investment ideas are those that you see with your own eyes in everyday life. Infrastructure assets, such as airports and toll roads, are classic examples of assets you can assess with your own eyes in everyday life. Today I'm going to write about a company that readers of these notes from Sydney, Melbourne and Brisbane use either directly or indirectly on a daily basis: Transurban Group (TCL); Australia's true monopoly toll bridge.

TCL owns and operates a monopoly ring of toll roads around Australia's three most populated cities. **You pretty much can't get around or across Sydney, Melbourne or Brisbane without paying TCL a toll.** The move to "cashless tolling" has made using TCL's toll roads painless and is part of the reason for the structural increase in traffic volumes and toll revenues. Most of us don't even know on a daily basis what our total tolls paid are. All we notice is TCL direct debiting another $100 from our bank accounts every few weeks!

Click here to look at what TCL owns and the length of the concessions.

As you can see, Australia's three largest cities are simply ringed by TCL assets. I'm sure you all recognise the toll roads and tunnels in the slides above, and most likely use them.

The good news for TCL shareholders is TCL management is 'sweating' these monopoly assets hard. It's one thing to have a wonderful monopoly asset endowment, but the real skill is generating the highest economic "rent" from these assets. TCL is generating high economic rent from their assets. This was evidenced at the interim result in February where TCL raised both revenue and distribution guidance.

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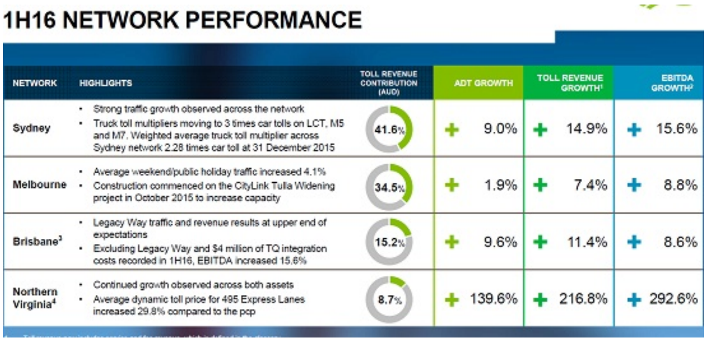
1H16 NETWORK PERFORMANCE

NETWORK	HIGHLIGHTS	TOLL REVENUE CONTRIBUTION (AUD)	ADT GROWTH	TOLL REVENUE GROWTH[1]	EBITDA GROWTH[2]
Sydney	• Strong traffic growth observed across the network • Truck toll multipliers moving to 3 times car tolls on LCT, M5 and M7. Weighted average truck toll multiplier across Sydney network 2.28 times car toll at 31 December 2015	41.6%	+ 9.0%	+ 14.9%	+ 15.6%
Melbourne	• Average weekend/public holiday traffic increased 4.1% • Construction commenced on the CityLink Tulla Widening project in October 2015 to increase capacity	34.5%	+ 1.9%	+ 7.4%	+ 8.8%
Brisbane[3]	• Legacy Way traffic and revenue results at upper end of expectations • Excluding Legacy Way and $4 million of TQ integration costs recorded in 1H16, EBITDA increased 15.6%	15.2%	+ 9.6%	+ 11.4%	+ 8.6%
Northern Virginia[4]	• Continued growth observed across both assets • Average dynamic toll price for 495 Express Lanes increased 29.8% compared to the pcp	8.7%	+ 139.6%	+ 216.8%	+ 292.6%

Most importantly, this extraction of economic rent is driving distribution (dividend) growth. I can't stress enough how much more important dividend GROWTH is over dividend yield. You always should seek dividend GROWTH over basic dividend yield. TCL offers, in my view, structural dividend GROWTH.

This really is the key point: TCL is all about distribution growth and that distribution growth will beat ANYTHING a long bond can deliver.

Part of this inflation protection/pricing power is driven by TCL's toll mandates. In a low inflation world, the ability to raise prices and therefore revenue is a major structural advantage.

Obviously, to keep growing distributions, you have to keep growing revenue and TCL has years of growth projects ahead of it in the three key east coast cities that will continue to increase traffic and, therefore, toll volumes on its network.

(Click the links for the Sydney, Melbourne, and Brisbane networks).

You can see why I think TCL has a bright short, medium and long-term future. This is in reality a ***"structural growth bond".***

The 1H FY16 result delivered double digit earnings growth of +14.6%. The FY16 distribution guidance was upgraded to 45.5c, which equates to distribution growth of +13.8% yoy.

In a world where genuine double digit EPS and DPS growth is hard to find, these are highly attractive numbers and in my view there is more to come.

TCL consistently states they have further efficiencies to improve network and financial performance, utilising technology. This suggests further economic rent will be extracted from this wonderful set of assets, which will be positive for TCL shareholders.

I genuinely believe TCL should be a core portfolio holding for all Australian investors.

Yes, you don't get fully franked distributions, but fully franked distributions aren't the be all and end all. In fact, you've recently seen fully franked dividends haven't stopped the Australian banks falling -25%. One of the banks problems is their dividends are flat or falling, whereas TCL's dividends are rising.

I can also see no higher barrier to entry business listed in Australia than TCL.

TCL has no competition, if anything, they have further enhanced their monopoly position in all key markets. This is a very important point.

TCL has all the attributes I seek in an investment. It is Australia's "monopoly toll bridge" and if you believe in the Warren Buffett approach to long-term investment, you should own it.

When you are next driving along a TCL owned toll road, ask yourself: why don’t I own these shares?

The best investment ideas you see with your own eyes in everyday life.

The AIM Global High Conviction Fund owns TCL shares.

***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.*

6 turnaround stocks to consider

by Tony Featherstone

Identifying turnaround stocks is fraught with danger. A "market darling" falls from $1 to 20 cents and naïve investors assume it is a bargain. Then it falls to 10 cents, wiping out half the new investor's capital in a blink.

Confusing price and value is a sure-fire way to destroy capital. As is relying on share prices to form a view on company value and anchoring expectations to the past. Those who do, inevitably buy stocks whose share-price pattern resembles a tombstone, and ride them all the way to the corporate graveyard.

That does not mean investors should avoid all potential turnaround situations. The market sometimes overreacts to the slightest disappointment, leaving a stock badly oversold. Contrarians who recognise the value snap up incredible bargains.

The usual rules apply with turnaround situations: buying high-quality companies when they trade below their intrinsic or fair value. Also, a few extra steps can minimise the risk of being caught in a stock bloodbath, and maximise opportunities.

The first is avoiding most speculative turnaround situations. Stick to companies that have good balance sheets and capacity to raise extra capital through equity issuance, without excessive share-price dilution. Turnaround stories have enough risk as it is, without chasing companies at risk of running out of cash or breaching debt covenants.

Second, focus on the reasons for the share-price fall. Was it because of management incompetence or factors outside the company's control? Imaging diagnostics provider Capitol Health is an example: it's been hurt by heightened regulatory risk. More on it later.

Third, is there a near-term re-rating catalyst? It's no good buying a turnaround stock if it takes years to recover. Many resource stocks fall into that category. Form a view on what could re-rate the stock and when. If a re-rating catalyst is hard to find, or years from eventuating, think twice about buying.

Fourth, combine fundamental and technical analysis with turnaround situations. I favour fundamental over technical analysis, but believe charting is especially useful in identifying when to buy turnaround situations. Identifying fallen stocks that spike higher after a long period of consolidation or sideways movement can be rewarding.

Fifth, understand the risks. Stocks in steep downtrends have a habit of falling further than the market expects and staying there longer. The first bout of bad news is rarely the last and it can take management years to rebuild market confidence. Often, new management and sometimes a new board is needed.

Caveats aside, here are some turnaround opportunities to consider.

1. South32

The mining company can justifiably dispute references to it as a "turnaround play". Operationally, it has not done much wrong since being demerged from BHP Billiton last year, in the context of torrid resource-sector conditions. But the share price slumped from $2.25 to a low of 87 cents at the peak of the resource-sector rout and has since rebounded to $1.45. The price turnaround can continue in the next few years.

South32 (S32) copped plenty of flak during the market's largest and most complex demerger. There was a view that BHP Billiton bundled up its weaker assets and dumped them on shareholders through an *in specie* share distribution.

Belatedly in some quarters, it has been recognised that BHP Billiton brought South32 to market in good shape. A balance sheet with low debt means South32 does not have the commodity and financial leverage that characterises too many resource stocks.

It has significant scope to buy mining assets during fire sales and potential to drive productivity gains through organisation restructuring. If all goes to plan, the well-run South32 will be well positioned to capitalise on a commodity-price recovery when it finally arrives.

Chart 1: South32

Source: *Yahoo!7 Finance*

2. CYBG Plc

It seems disingenuous to describe the United Kingdom-focused bank as a turnaround play when it only demerged from the National Australia Bank last month and has traded solidly since its debut.

But CYBG (CYB, or Clydesdale as it is better known), is a clear turnaround play. It consistently underperformed under NAB's ownership and its uncommitted parent had long signalled it wanted to offload its troubled banking operations in Northern England.

Clydesdale has a new, revitalised management team and exposure to one of Europe's stronger-performing economies. The UK financial services sector is ripe for further consolidation and Clydesdale should have a new lease of life as a standalone company. Its closest peers have delivered good returns and it can too as the business is restructured.

Do not expect a quick fix or big share-price gains. But there's enough to suggest Clydesdale's turnaround has a better chance as a standalone company, and that its exposure to the UK banking sector, which is likely to outperform Australia's this decade, has merit.

Chart 2: CYBG Plc

Source: *Yahoo!7 Finance*

3. Austal

The ship builder has had a tough start to 2016. It was smashed late last year after announcing schedule and margin pressure on the Littoral Combat Ships (LCS), of which Austal (ASB) is the prime contractor.

Austal plunged from a 52-week high of $2.56 to 98 cents and has since recovered to $1.51. The turnaround should continue, but will take time.

Austal continues to win service work, most recently a US$13.9 million LCS servicing contract. The ability to build a large order book of LCS servicing work – it now has more than US$200 million worth – is one of Austal's attractions. It can develop a growing, annuity-style income stream for servicing work that underpins medium-term earnings growth.

Like other reasonable turnaround plays, Austal has a strong balance sheet and significant opportunities in Australia and the United States. It bounced back from the disappointing profit warning – and the market's overreaction to the news – with two service-contract wins this year.

My long-term thesis for Austal remains intact: it has scope to develop extra maintenance work from the

US Navy and, in time, add a second navy as a client. Its relationship with the US Navy is a significant asset and a reason why Austal can recover.

Chart 3: Austal

***Source**: Yahoo!7 Finance*

4. Lifehealthcare Group

Founded in 2006 through six acquisitions of medical-device companies, Lifehealthcare Group (LHC) distributes high-end medical devices in Australia and New Zealand and works closely with surgeons, hospitals, nurses and other medical specialists.

Unlike a Cochlear or a ResMed Inc, Lifehealthcare does not research, design or build devices, and mostly distributes high-end medical products made by others. Its competitive advantage is relationships with surgeons who use the devices it distributes, and its position in a network of medical-device suppliers, hospitals, surgeons, private health-insurance providers and patients.

Lifehealthcare raised $76.6 million through an Initial Public Offering in December 2013 at $2 a share. After peaking at $3.92 last year, it nosedived to a low of $1.26 in February before improving to $1.46.

A sharp fall in net profit for the first half of the 2016 financial year, mostly due to higher expenses, was the main culprit.

As with other healthcare stocks, the market was spooked by the Federal Government's review of private health insurance and the price of prosthetics – a key product for Lifehealthcare. About 35% of its projected forward revenue relates to prosthetics. The interim dividend was cut from 7.5 cents to 5 cents.

It was a disappointing result, but not enough to justify the full extent of the share-price plunge. Lifehealthcare said full-year revenue for 2016 should be $113-116 million (it was $99.3 million in FY15) and that margins should be in line with historic performance.

Importantly, it said the capital-equipment pipeline for the second half of FY16 had "significantly strengthened" and that expenses had stabilised.

The key to Lifehealthcare's long-term fortune is growth in its active surgeon customer base (key decision makers on its products) and higher revenue per surgeon. Surgeon numbers are growing solidly but average revenue per surgeon was down slightly because of reduced volumes in key accounts.

Make no mistake: industry risks for Lifehealthcare Group have risen. But I still like its business model and leverage to an ageing population that needs more medical devices.

Lifehealthcare is sticking to its target of around $200 million in revenue within five years. As a small-cap stock, it suits experienced investors comfortable with higher risk, but has merit as a long-term turnaround idea.

Chart 4: Lifehealthcare Group

***Source**: Yahoo!7 Finance*

5. Capitol Health

I described the "small cap" as a healthcare stock worth following for the *Super Switzer Report* in early March, after its horrific share-price falls. It looks interesting on valuation grounds but comes with significant regulatory risk.

Capitol Health (CAJ) provides diagnostic-imaging facilities and services, such as general X-ray and magnetic resonance imaging (MRI) in Victoria and New South Wales. It had grown quickly by acquisitions and a year ago was among the higher-rated small caps with fund managers.

After soaring from 20 cents in April 2013 to $1.10 in April 2015, Capitol Health has plunged to 12 cents. It was especially hard hit by the Federal Government's Medicare Benefits Schedule Review Taskforce, designed to reduce waste in healthcare and improve sector outcomes.

The review is affecting the behaviour of medical referrers sooner than expected, presumably to avoid government scrutiny of their treatment-referral patterns. CT scan and MRI volumes have dropped noticeably this financial year, Medicare data shows, after several years of strong growth.

That is bad news for Capitol Health. After-tax profit fell 52% for the first half of FY16 to $2.2 million and the interim dividend was suspended.

The main problem is debt. Capitol Health grew quickly by acquisitions on the basis of continued growth in demand for its key services. It had non-current loans and borrowings of $96 million at the end of December 2015 and total equity of $92.3 million. Net cash flow from operating activities of $94,585 at the end of December 2015, down from $7.7 million a year earlier, highlights Capitol Health's challenges.

It's a tough proposition for a company capitalised at $62 million and a key reason why Capitol's total return is down 88% over 12 months, using Morningstar data.

Capitol Health is by far the highest-risk turnaround play on this list. Its fate is not entirely in its control because of the government healthcare review and its findings, expected later this year.

The good news is that Capital is taking decisive steps to fix its problems. It is investigating launching up to a $50 million capital raising in the second half of FY16 through a senior unsecured bond issue, which, if successful, would alleviate some balance-sheet pressure.

On demand for its services, the company last week said it had seen a stabilisation of referral patterns in the second half of FY16 and "signs of improvement" in trading. It expects the second half to be stronger than the first.

There's media speculation that the Turnbull government is considering watering down some of the Abbott government's healthcare cuts. It's too early to know how this and the Medical benefits review will play out, but the market might have got ahead of itself with massive downgrades in healthcare-sector valuations, if referral patterns for healthcare are less affected than expected.

Longer term, I like the outlook for imaging diagnostics services amid an ageing population that will need more X-ray and CT scans. Capitol Health's recent partnership with Enlitic to enhance its technology capabilities and lower costs has real merit. It should lift its productivity and margins and better align its cost base to lower revenue.

The consensus from a small group of analysts, who cover Capitol Health, is for a median share-price target of 21 cents. That suggests it is materially undervalued at 12 cents, but prospective investors are taking considerable risk in pursuit of that return.

Capitol Health is, at best, a punt at this stage – albeit among the more interesting in micro-cap land given the healthcare sector's long-term outlook. Speculators might set a tight stop-loss level (a pre-determined point at which to sell) compared to the current share price, to minimise capital loss if it falls further. Be prepared to exit early.

Long-term investors could wait until Capitol forms a clear share-price base and consolidates in a sideways pattern as it resolves its issues. Then buy when it starts to move higher. Giving up some potential early share-price gains to lower risks makes sense.

It's worth noting that Capitol Health breaks my first rule in turnaround plays: avoiding speculative situations and companies with strained balance sheets. I cannot emphasise enough that this stock does not suit conservative or inexperienced investors or those who cannot tolerate short-term capital losses. But every stock has its price and, occasionally, some beaten-up micro-caps are worth the risk.

Still, the experience of other small caps that grow quickly through acquisitions, such as Slater & Gordon, and load up on debt, shows how far the industry consolidators can fall when the music stops.

Chart 5: Capitol Health

***Source**: Yahoo!7 Finance*

6. Other turnaround ideas

I intended to include RCR Tomlinson and Incitec Pivot in this list of turnaround ideas, but ran out of room after devoting extra coverage to Capitol Health in response to reader requests. They will be covered in future columns.

– 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 29 March 2016.

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Ardent Leisure Group (AAD) Upgrade to Add from Hold by Morgans B/H/S: 3/4/0

The company intends to divest its d'Albora marina portfolio. Morgans assumes the company's benchmark is the book value of the business at $108m. The company intends to use the proceeds to accelerate the roll out of Main Event.

Morgans notes the market has been anticipating this sale for years and it makes sense. The broker considers the announcement a key catalyst for the stock as it alleviates concerns around a stretched balance sheet and re-deploys capital to a higher returning business.

Graincorp (GNC) Upgrade to Outperform from Neutral by Credit Suisse B/H/S: 2/1/1

After recent share price weakness, Credit Suisse upgrades the business.

The broker believes the current share price more than adequately reflects downside to domestic storage and logistics volume and there is upside from a return to more normal grain trading and local growing conditions.

South32 Limited (S32) Upgrade to Equal-weight from Underweight by Morgan Stanley B/H/S: 3/4/1

An accelerated cost reduction plan has changed Morgan Stanley's perspective. The broker upgrades the business.

Capturing the cost profile increases earnings forecasts by 3c per share and the target rises to $1.65 from 90c. The broker notes the balance sheet is strengthening and there are no immediate project investment decisions.

Commodity prices remain the main driver of sentiment.

See also S32 downgrade.

TPG Telecom (TPM) Upgrade to Hold from Reduce by Morgans B/H/S: 1/3/1

First half results impressed Morgans, with strong growth and earnings from the recently acquired iiNet. Morgans upgrades earnings estimates by 11.5%.

The broker had previously assumed margin pressure under an NBN would be more severe but now expects TPG will pull sufficient costs out of iiNet in the medium term to offset this a little.

In the not-so-good books

Australia & New Zealand Banking Group (ANZ) Downgrade to Neutral from Buy by UBS B/H/S: 5/2/1

ANZ is re-assessing its Asian strategy. UBS observes, while Asian revenue has grown, the cost bases are too high and growth has been very capital intensive.

The broker expects the bank to reduce its exposure further and, if product spreads do not improve, there is the prospect of a more significant pull back.

A capital release from a pull back in Asia is expected to help maintain the dividend. This is predicated on a soft landing in Asia, the broker highlights.

Rating is downgraded to Neutral from Buy, as UBS envisages few catalysts for outperformance, until a successful pull back in Asia is demonstrated.

Fortescue Metals Group (FMG) Downgrade to Hold from Buy by Deutsche Bank B/H/S: 1/4/2

Deutsche Bank has reduced medium and long-term iron ore forecasts in its quarterly review. FX estimates for the Australian dollar have been increased. These changes offset an increase in the broker's assumed price realisations for Fortescue.

Iluka Resources (ILU) Downgrade to Sell from Hold by Deutsche Bank B/H/S: 1/2/4

Deutsche Bank has reduced medium and long-term iron ore price forecasts in its quarterly review, which impacts the company's MAC royalty. Mineral sands price increases appear unlikely in the near term but the broker believes pricing has found a floor.

Rating is downgraded given the recent strong share price performance.

Premier Investments Limited (PMV) Downgrade to Sell from Neutral by Citi B/H/S: 2/2/2

There's more to Premier Investments' "impressive" half-yearly performance than initially meets the eye. Citi analysts see slower growth ahead and margin pressure as FX hedging benefits disappear.

Citi downgrades to Sell from Neutral with the share price seen as "fair value" but weakness is anticipated on slowing in the pace of growth.

South32 (S32) Downgrade to Hold from Buy by Deutsche Bank B/H/S: 3/4/1

Deutsche Bank has reduced nickel and alumina price forecasts in its quarterly review. FX estimates for the Australian dollar and the South African rand have been increased. For South32, this is partly offset by an increase in zinc price forecasts.

Deutsche Bank downgrades to Hold from a Buy rating on valuation.

See also S32 upgrade.

Buffett's 3 rules to buying quality stocks

by Barrie Dunstan

For decades, Berkshire Hathaway's Warren Buffett and his vice-chairman Charlie Munger have been entertaining investors with their homespun humour and investment wisdom at annual meetings in Omaha – and this year anyone will be able to share in the fun via a webcast.

Buffett has embraced technology for pragmatic reasons. Berkshire's meetings – more than 40,000 attended last year – have outgrown the capacious CenturyLink stadium's facilities and Omaha's accommodation.

There's another reason, he explains in his annual shareholders' letter: "Charlie is 92, and I am 85. If we were partners with you in a small business . . . you would want to look in occasionally to make sure we hadn't drifted off into la-la land."

Fat chance of that! Over the last 40 years, they have grown the now massive, diversified group at a compound rate of more than 20% a year – or twice the growth of the S&P 500. (This is despite the last volatile decade producing only 5% a year compound – and below the broad S&P500, as Buffett has long been predicting).

While everyone has been enjoying hours of "aw shucks" fun at the annual Omaha jamboree, those two old fogeys have been able to successfully grow what is now arguably the most diverse conglomerate we have ever seen.

Berkshire Hathaway now ranks in the top 20 in the S&P index's market capitalisation (just below oil giant Chevron and just ahead of IT group Oracle).

It hasn't been driven by ego or empire building but by what Buffett calls its biggest problem – finding ways to handle its "endless gusher of cash." Perhaps a few other large company boards might profit from Berkshire's rules for expansion.

First, it will only make friendly acquisitions. "At Berkshire, we go only where we are welcome."

Second, it concentrates on excellent businesses and prefers part of a wonderful company to owning 100% of a so-so business. "It's better to have a partial interest in the Hope Diamond than to own all of a rhinestone."

Third, it is prepared to be flexible in allocating capital, often investing large sums in passive investments as an alternative to takeovers. Buffett jokes this follows a Woody Allen adage: "being bi-sexual . . . doubles your chance of finding a date on Saturday night."

The acquisition rules are in addition to the long-standing Berkshire blueprint to build its per-share intrinsic value:

1. constantly improve the basic earning power of its subsidiaries;
2. further increase their earnings through bolt-on acquisitions;
3. repurchase Berkshire shares when they are at a meaningful discount from intrinsic value; and;
4. make an occasional large acquisition, preferably for cash and not shares.

A lot of other investors in major companies would love their acquisition-happy boards to adopt this approach to maximise value for shareholders. (One catch: Berkshire doesn't pay dividends.)

Buffett, renowned as a long-term investor, has no time for current pessimism in the US. "Many Americans now believe that their children will not live as well as they do. That view is dead wrong: the babies being born in America today are the luckiest crop in history," he says.

For those investors worrying about big threats (which Buffet defines as successful cyber, biological, nuclear or chemical attacks on the US), he notes that Berkshire shares this risk with all American businesses.

While it's a small probability in a short period, it approaches certainty in the longer run, he adds helpfully. "If there is only one chance in 30 of an event occurring in a given year, the likelihood of it occurring at least once in a century is 96.6%.

On climate change, he says even if there is only a 1% chance the planet is heading toward a truly major disaster, inaction now is foolhardy. "Call this Noah's Law: If an ark may be essential for survival, begin building it today, no matter how cloudless the skies appear."

To view the meeting, to be held in Omaha on April 30, click here. It starts at 9 a.m. (US Central Daylight Time) or midnight May 1 on the Australian east coast. The Yahoo! webcast will begin with a half hour of interviews with managers, directors and shareholders before Buffett and Munger start answering questions.

Sirtex and paying for advice

by Questions of the Week

Question: What is going on with Sirtex (SRX)? I am new in the share market.

Answer (Peter Switzer): Sirtex had a big run up in 2015 and it looks like the market is starting to question whether they can achieve dose sales increases of 20% per annum, plus also the challenges with clinical trials.

Broker Morgans recently wrote this (precis):

Morgans observes investors are starting to question the sustainability of 20% underlying volume growth. The broker does not believe that SIRFLOX results will boost sales. There are also headwinds from the US reimbursement environment. Morgans remains pessimistic about the slowing dose sales growth per treatment site and continues to believe portfolios should exit positions to limit downside risk. Reduce rating retained. Target is $17.60.

According to FN Arena, the broker consensus target price is $35.67 – with a range of $17.60 to $46.90. This is a huge range – which shows the divergent views on this stock. Sirtex is one of the more volatile health care stocks, and I would caution having a position in this stock unless you really understand the business well.

Question: What is a typical charge for a financial adviser to manage your self managed fund?

Answer (Paul Rickard): It would depend on a couple of factors, including the size of your fund and the number of members, and the complexity of the investment structures. While there is no standard, I would say that a typical ongoing advice fee is in the range of $3,000 to $5,000 per annum. If the adviser is doing other things – for example, accounting or administrative services like paying pensions or lodging tax returns, then these services could attract additional fees.

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Stock take: Friendless banks and is Ardent Leisure a takeover target?

by Christine St Anne

Just last month, Paul Rickard believed the banks were in the buy zone with beaten-down share prices reflecting global economic concerns, the spectra of negative interest rates (which could squeeze bank margins) and the usual fears about the banks' exposure to a possible housing price bubble. Paul noted that there was also unease about falling commodity prices with "market fears that there may be some horrible exposures, leading to large write-offs".

At the time of writing, the banks' prices were a bargain buy with ANZ's closing price at $22.56, Commonwealth Bank at $70.72, NAB at $24.41 and Westpac at $28.56.

Share prices have since risen but remain under pressure, with the big four banks falling 2% on Tuesday, continuing last Thursday's sell off.

Last Thursday, ANZ warned that it expects to take an extra $100 million in credit provisions for the first half of its financial year, while Westpac increased its debt provisions because of bad consumer loans in the resource-driven states of Western Australia and Queensland.

In today's *Switzer Daily,* both Peter Switzer and Paul Rickard provide a detailed analysis behind the recent fall in bank prices and why they have been "unnecessarily beaten up". Super Stock Selectors' Michael McCarthy also joined the debate with a detailed piece on ANZ.

In a nutshell, Peter says the banks have the added pressure from short-sellers and overseas reports that the Australian banks are vulnerable to a housing crisis.

He notes that ANZ's $100 million write-down is material to its earnings, a view shared by Macquarie analysts. And while ANZ is not in the good books with UBS, the broker downgraded the bank because of its Asian exposure.

In his article, Banks on the nose, Paul noted the banks are a "little friendless'" and any "news no matter how material, adds oxygen to the fire".

Michael looked at some of the specific pressures confronting ANZ, in particular, its disappointing results from its Asian operations. "Once perceived as ANZ's strength, its engagement with the higher growth economies of Asia failed at the tactical level," he writes.

Peter remains a bank believer and while he is concerned "about external events derailing my optimistic story for bank stocks" that "goes with the patch of investing in stocks".

Michael sees value in ANZ, noting that at current prices (and even if ANZ halved its dividend) that would still put the dividend yield at 5.5%. As he is not forecasting a disaster in Australian debt markets, he reckons "investors should have ANZ on their radar right now".

Paul still believes banks are in the buy zone and may stay cheap until the markets get clarification over what is happening with the credit exposures. "My take is that the overall credit environment remains broadly stable, and while employment remains strong, Australian banks will continue to enjoy relatively low levels of credit losses," he says.

While profits and dividends are not growing, Paul says, "they won't get smashed either". With the official banking reporting season kicking off in over four weeks, the results will certainly be watched with interest and, hopefully, the results might provide the tonic the market needs to start liking the banks again.

Tony's call on Ardent

This week, Ardent Leisure (AAD) made it on the brokers likes' list. The business was a stock pick by Tony Featherstone back in August, when he analysed the tourism megatrend. At the time of Tony's article, the stock had fallen to $2.36 compared to a 52-week high of $3.49. It's since trading around $2.24 levels, which is just below a median target price of $2.49.

Ardent Leisure owns the Main Event family entertainment business in the US, health clubs, bowling alleys, Gold Coast theme parks, and marinas in Australia. Recently the business announced it would sell its d'Albora marina business in a bid to boost its balance sheet and focus on the Main Event family entertainment business.

The business booked a net profit of $22.7 million for the six months through to December, an increase of 20.4% on the prior interim period. Revenues rose 16.8 % to $333.8m over the same period.

Tony still believes that the business has a strong leverage to the boom in inbound Asian tourism through its Gold Coast theme parks but acknowledges it "should be performing better than it is".

"Recent weakness in the Main Event business is an emerging concern, as it is the main valuation driver," he says.

The relatively new chief executive Deborah Thomas still has some work to do, according to Featherstone. Thomas was a surprise pick, according to the analyst community when she was appointed in May 2015, following the unexpected retirement of longstanding CEO Greg Shaw. Thomas was formerly the editor of *Women's Weekly* and many questioned her ability to run a public company.

Analysts' views also support the marina sale, with Morgans, Citi, UBS and Deutsche Bank noting that the decision was strategically sound.

Tony wouldn't be surprised to see a takeover offer if its operational momentum does not improve. "It looks a possible candidate for a private equity privatisation," he says.