

# HWC FINANCIAL SERVICES



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*'Partners in Success'*

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### Will the big returns continue?

This year is likely to be very positive for investors, however it will be a challenge to replicate 2004. Forecasting is one of the toughest jobs in economics and my crystal ball cracked into pieces long ago. With out my spiritual aid we are left with historical data and heavily critiqued logical estimates and

assumptions. We as a nation have not had a backward step for a very long time and some argue that it is statistically getting closer. So for 2005, our thoughts on the subject at hand, you ask. The Australian economy should experience another year of solid economic growth in 2005 as support from an expanding world economy and rising business investment offset falling housing activity and less exuberant growth in consumer spending.

We do however feel that there will be elevated uncertainty on a macro economic level the issues are in the areas of currency, oil and geopolitical stability. We are in uncharted waters with these issues and we strongly advise clients to diversify their portfolios.

Military conflict over oil sadly is something that seems to be a trend, I feel this will with us for some time yet. The oil price is still high and global demand does not look like slowing to any degree. Our entire economies around the world are built on oil and with a high price tag it is a bit like an extra GST across the board.

The US dollar is still the world base currency but it has been experiencing volatility in 2004 and now in 2005. The Federal Reserve Chairman, Mr Allan Greenspan has been giving the market mixed messages in relation to the direction of the dollar. This may well be a ploy to reduce currency speculation and provide breathing space for the

market. Some commentary has inferred the Mr Greenspan has been providing political support for the Bush administration rather than acting as a independent central banker. Regardless of the many views in the market, it would be safe to assume that the continuing volatility in the US dollar will create ripples in other markets around the world. Recently a client of mine returned from India and informed me that many of the trade contracts that were once calculated in US dollars a now being transacted in Euro. Apparently the Indian Government has a more favourable exchange with the Euro than the US dollar. This will be an interesting development to observe and may indicate a trend in the market.

Real estate is a big concern for 2005. The residential unit market was showing some significant capital losses at the end of 2004 and currently in 2005. Victoria appears to be the worst effected so far.

The profile of listed property trusts has changed dramatically, and after a year of volatility and turmoil it is tempting to forecast 2005 as a period of stability. Such an outcome is unlikely. Most real estate companies are priced for take over or growth, and the pressure is enormous for management to justify lofty valuations.

It should be noted that margin lending for equities in 2004 was equal to only two per cent of housing finance.

The problem with the current luxury of cheap money around developed world right now is that massive amounts can be directed into asset classes creating massive imbalances. Real Estate is a very under regulated market, this is a bit of an anomaly in the investment world. A person dealing in property can make a recommendation to invest in the millions dollars to an individual with no repercussions to that individuals financial circumstances. We on the other hand can not and are totally liable on any amount, big or small. It is the combination of ability to access large amounts of finance to enter a market with few safeguards for the investor that we believe will create a big problem for many. At best current property valuation will remain the same for a good while to come.

## Does the bull market have more to run?

Ironically, the market index is close to its record highs, but the overall share market is not expensive, at least when benchmarked against the P/E ratio. In fact the low P/E is one of the strongest arguments for expecting another big year on the market in 2005.

The first thing I always look at when I want to buy a share is the PE, call me old fashioned. I can honestly say it has rarely failed me in the past. When I saw people buying triple digit PE tech stock before the wreck I would tell them that you will have died before that company makes enough money to pay you what your going to pay for that share at the current rate of earnings. They still bought.

A second encouraging pointer to 2005 is the expectation by economist and analysts, that corporate Australia will report another year of strong earnings growth in 2005. Australia has still not reached the levels of productivity as have been seen in the US and I feel this has scope to boost earnings growth as well.

It also appears to be a global trend in companies to provide attractive yields to retain and attract investors. That trend appears to be a continuing theme. It would be prudent to consider dividend yield as a way of maintaining income rather than only seeking share price growth. If the consensus is wrong and the market travels sideways in 2005, a bias toward yield stocks will produce a strong and tax effective return.

in all cases. The challenge on the local market will be in isolating sectors and individual shares that are going to out perform this year. We have seen in 2004 this rise in the Banking and Insurance sectors. My eyes will be watching Resources, Energy and Consumer Staples. The synergy of ChinDia, yes it is the term used for both China and India will still be a big factor in 2005 for Australian companies. Even if both these countries slow a bit in 2005 the sheer size and volumes involved in doing business with them will be positive for our market.

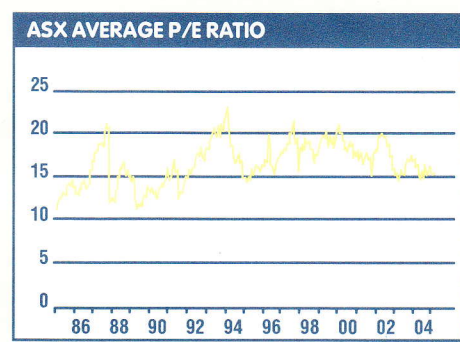
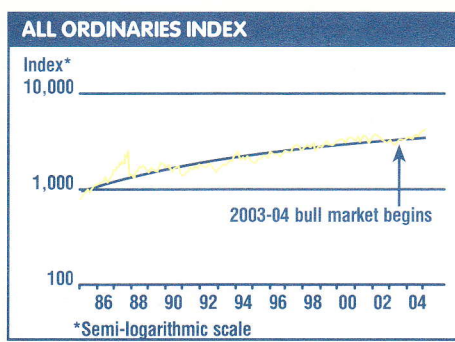
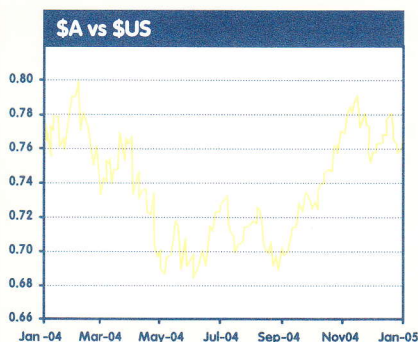
There are few signs of their economies slowing dramatically. Often one of hardest things to remember while investing, is to consider the time in the market, not just market timing on its own.

May 2005 bring Health, Wealth and Happy Days to us all...

Yours Sincerely



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The liquidity aspects of an equity portfolio are becoming more attractive to many. We are hearing many clients complain of being asset rich with property but cash poor and not wanting to pay for more cash by the use of more finance. Cash will always provide the best default asset class

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If you would like to discuss any topics outlined in this issue, please contact our office on 07 5574 1044, email [hwc@hwcfinancialplanning.com.au](mailto:hwc@hwcfinancialplanning.com.au) or mail PO Box 8318 GCMC QLD 9726 to arrange a time to meet with Tony Wilson and/or Brad Smoling.

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