



ABN·AMRO Morgans



## ASX Investor Hour Stocks for your Stocking

*Aaron Ross-Connolly*  
*Investment Manager*  
*Authorised Representative*

### Creating Wealth for Our Clients

Stockbroking • Financial Planning • Corporate Finance  
Superannuation • Portfolio Administration  
Retirement Planning • Life Insurance • Fixed Interest  
Cash Management • Margin Lending



## Executive Summary

- ▶ **Current Market – From a Historical Context**
- ▶ **Why have Global Investment Markets been so bad?**
- ▶ **The critical role of Portfolio Management**
- ▶ **2009 Outlook**
- ▶ **Stocks for your Stocking**



# Aaron Ross-Connolly – Investment Manager

- ▶ **10 Years industry experience as an Investment Manager**
- ▶ **Ultimately responsible for all client results and outcomes**
- ▶ **Worked for a number of international companies including Shell and BP prior to joining ABN AMRO Morgans**
- ▶ **Bachelor of Chemical Engineering (Honours), a Graduate Diploma in Applied Finance and Investment, a Diploma of Technical Analysis and is Level 1 & 2 Accredited Derivatives Adviser**
- ▶ **Advising on over \$80 million in Private Funds**
- ▶ **Private Clients, Self Managed Super Funds, Family Trusts & Charities**



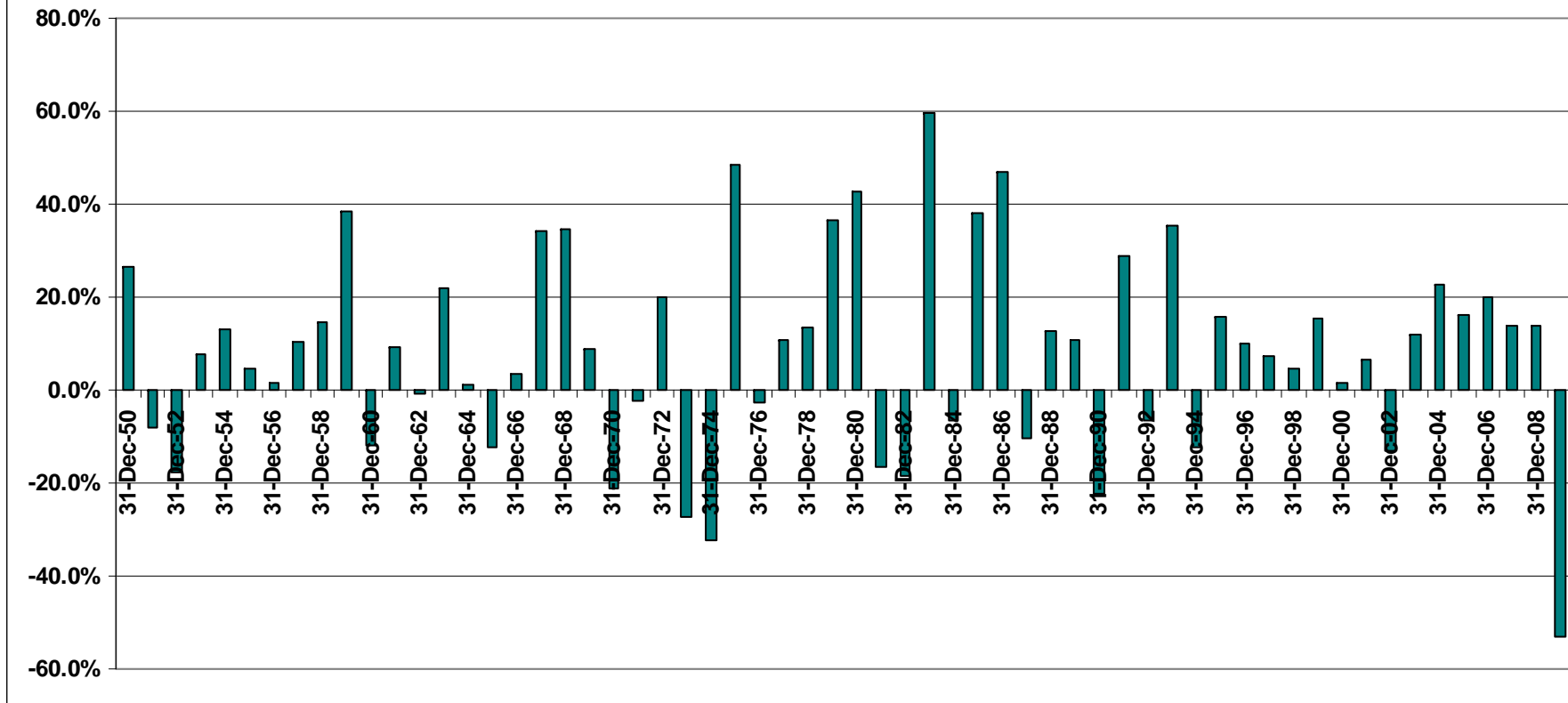
# Investment Philosophy

- ▶ **Long Term Horizon - Pronounced equity bias - Listed opportunities**
- ▶ **Financial Planning**
  - Does not mean flogging Insurance and Managed Funds
  - Does mean getting investment structures and strategies correct to maximise clients wealth & minimise tax
- ▶ **Stock Broking**
  - Does not mean speculative or short term trading to 'double your money overnight'
  - Does mean building quality portfolios of investments to suit clients personal investment requirements
- ▶ **Outcome – Unconstrained Solutions**



# Current Market – From a Historical Context

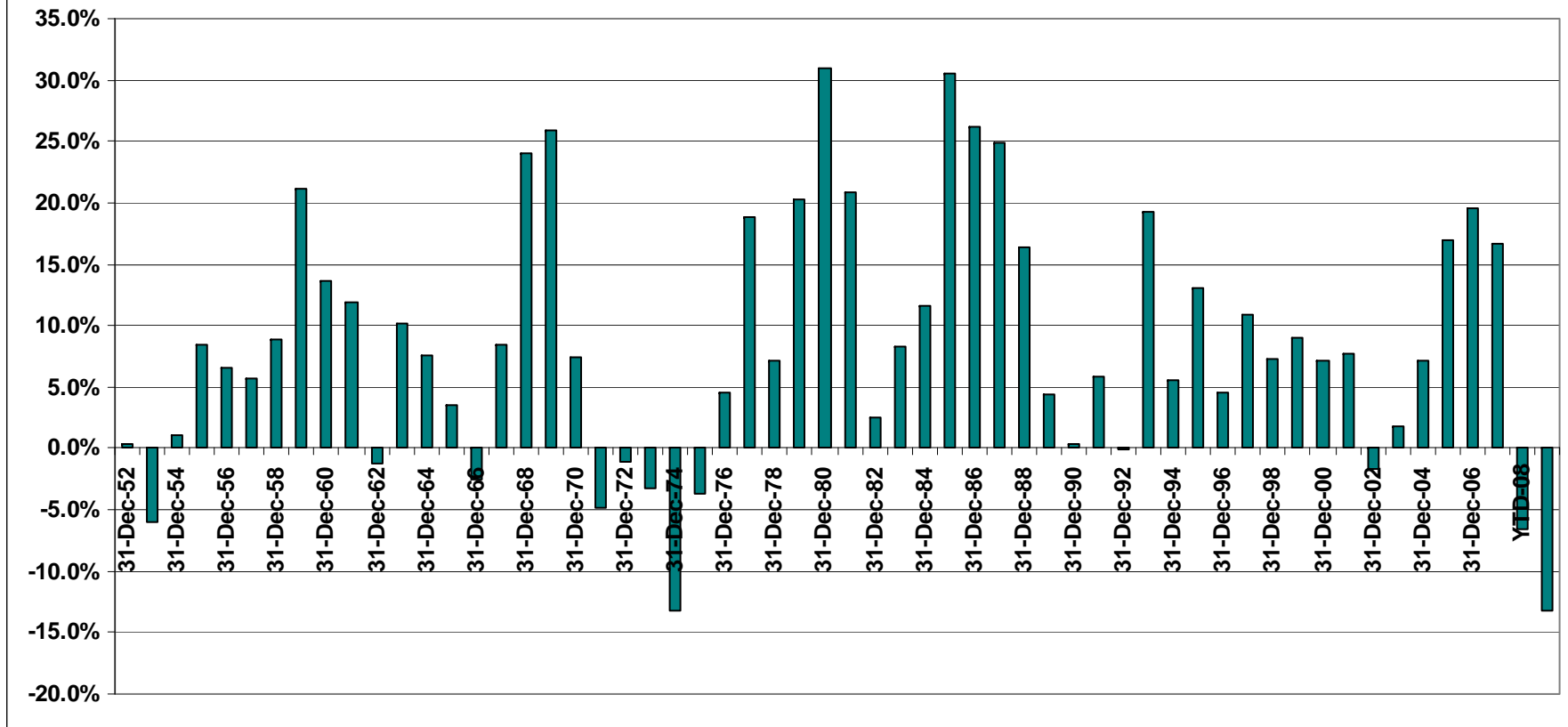
## All Ordinaries - Calendar Year Performance





# Current Market – From a Historical Context

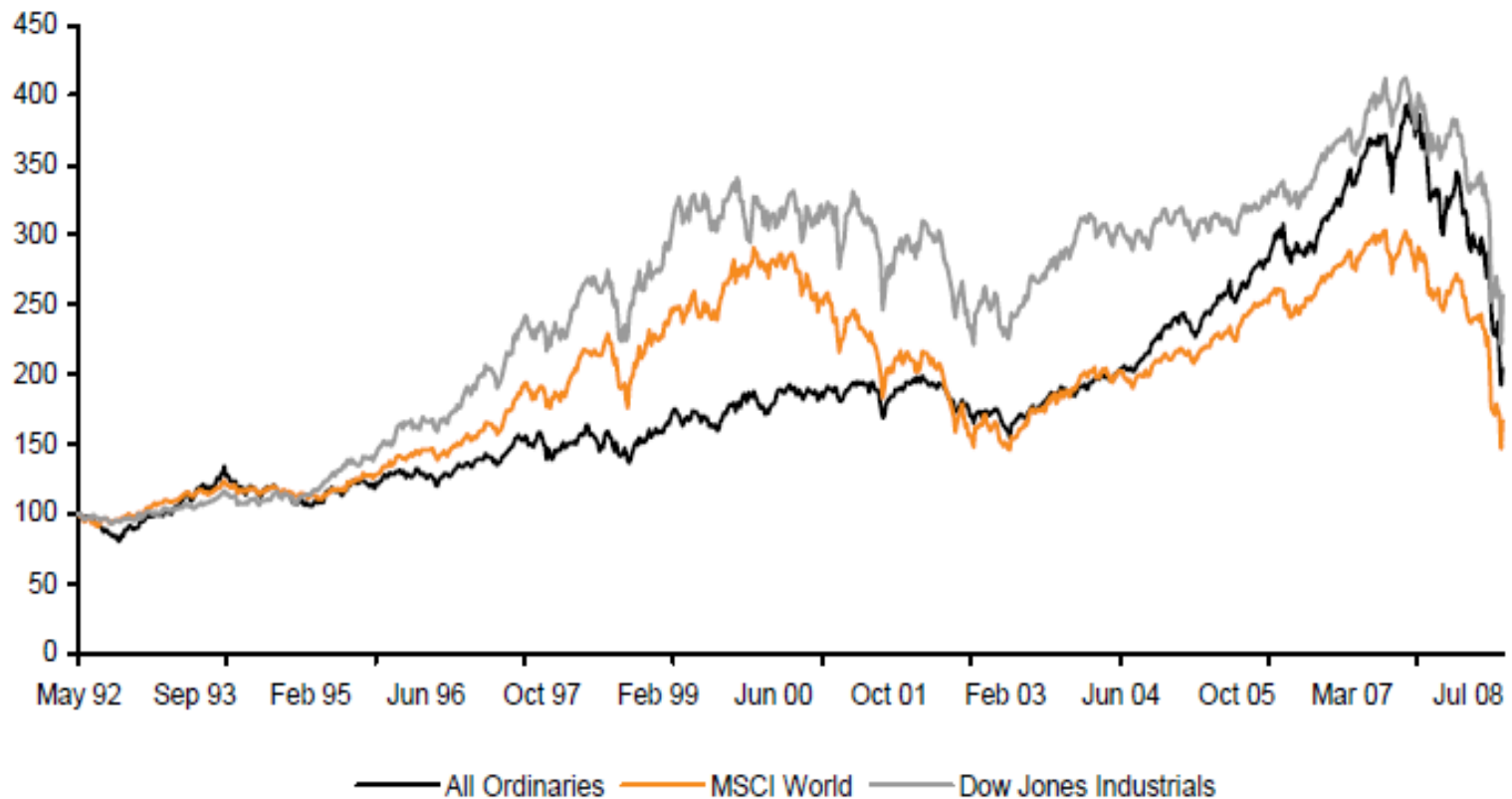
## All Ords - Rolling 3 Year Performance - annualised





# Current Market – From a Historical Context

Chart 1 : All Ordinaries vs the MSCI World





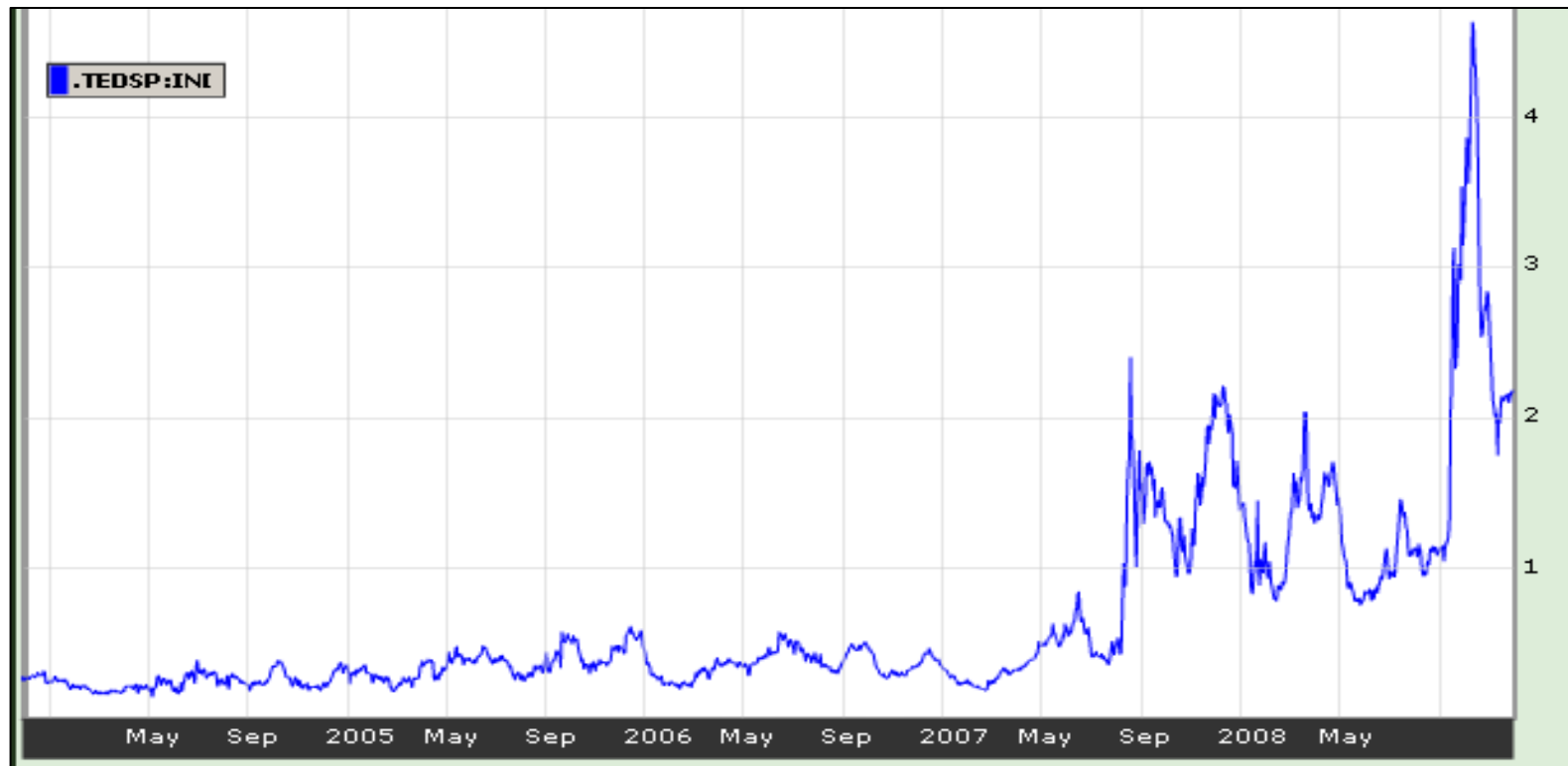
# Why have Global Investment Markets been so Bad?

- ▶ **Massive de-leveraging in global credit markets**
- ▶ **Catalyst was fall in US house prices**
- ▶ **Broadened and expanded with the Chapter 11 Bankruptcy of Lehman Bros**
- ▶ **Initiated massive unwinding of hedge fund positions**
- ▶ **De-leveraging of toxic structured debt products by banks**
  - **Lethal cocktail led to unprecedented losses for banks creating systemic stresses in the global financial system**
  - **Secondary effect on equity value and on equity markets generally**
- ▶ **Has spilt over into banks ability to lend and non-banks ability to source finance**
- ▶ **This is affecting the real economy – consumers & business**



# Why have Global Investment Markets been so Bad?

- ▶ **The deterioration in risk spreads since the collapse of Lehmans indicates the lockup of the international banking system.**
- ▶ **Fed action has now reduced this spread, but it remains above crisis levels by any previous historical standard.**





# The Critical Role of Portfolio Management

- ▶ NO INVESTOR OR INVESTMENT ADVISOR CAN CONTROL INVESTMENT MARKETS – THE KEY IS PORTFOLIO MANAGEMENT.
- ▶ In market terms, investors can control what risks they take on but not what the markets will do.
- ▶ You choose how YOU want YOUR portfolio managed
- ▶ There are two distinct portfolio management options
- ▶ The two options are titled “ACTIVE” and “LONG TERM”
- ▶ **ACTIVE** is the management option derived primarily from momentum or technical indicators
- ▶ **LONG TERM** is the management option derived primarily from fundamental indicators



# The Critical Role of Portfolio Management

- ▶ ACTIVE – Pro's & Con's
- ▶ **Pro's**
  - Clear and distinct 'buy' & 'sell' criteria
  - Focus is on capital preservation
  - Tighter risk controls from a price perspective
- ▶ **Con's**
  - Largely ignores 'fundamentals'
  - Risk of selling too early
  - Risk of buying too late
  - Greater transaction activity and costs



# The Critical Role of Portfolio Management

- ▶ LONG TERM – Pro's & Con's
- ▶ **Pro's**
  - Focus is on 'fundamentals' and ongoing income generation
  - Low transaction activity and costs
  - Comfort from the analyst community
- ▶ **Con's**
  - Largely ignores 'technicals'
  - Assets will continue to be held through negative periods
  - Poor risk control from a price perspective



# Portfolio Management - ACTIVE

Rule 1:- Always determine a review price before making an investment.

Rule 2:- Never purchase an investment where the review price is greater than 15%.

Rule 3:- Be aware of the % Loss to % Gain table:

% Loss of Capital	% Gain on remaining Capital to recover Loss
10	11.1
20	25.0
30	42.8
40	66.7

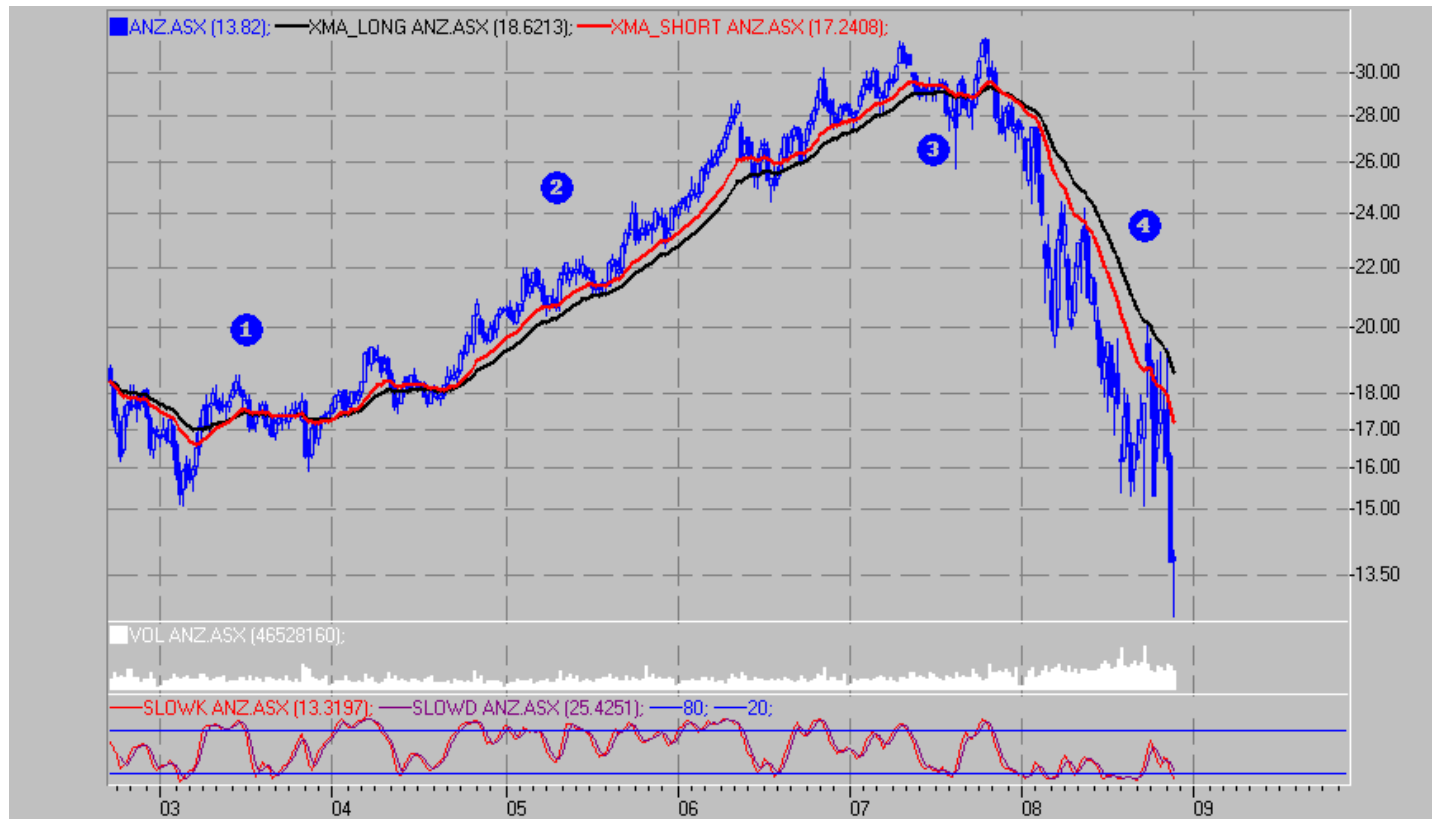
Rule 4:- Be willing to take a loss.

Rule 5:- Have a Plan – both Strategic & Tactical



# Portfolio Management - ACTIVE

- ▶ UTILISING MARKET ACTION
- ▶ A study of price action provides a glimpse into the market's perception of the stock as opposed to an individual opinion
- ▶ A key premise is understanding STAGE Analysis





# Portfolio Management – LONG TERM

To satisfy our investment criteria on a Fundamental Basis a company must achieve at least 8 following criteria:

1. Forecast Grossed up yield  $>6.5\%$
2. Forecast Price / Earnings (PE) Multiple  $<17$  times
3. Earnings Per Share (EPS) growth in at least 8 of the last 10 years
4. Average annual EPS growth (last 10 years) of  $> 8\%$
5. Forecast EPS growth of  $>10\%$
6. Dividend per share (DPS) growth over the last 10 years
7. No recent negative company announcements
8. Top 100 company by market capitalisation
9. Net Interest Cover  $> 2.5$  times
10. ABN AMRO Morgans research - recommendation of “Hold” or better



# 2009 Outlook

- ▶ Baseline: The dominant influence on equity markets in 2009 is a global recession
- ▶ More risk than return in 2009: focus on shorter-term intra-year moves



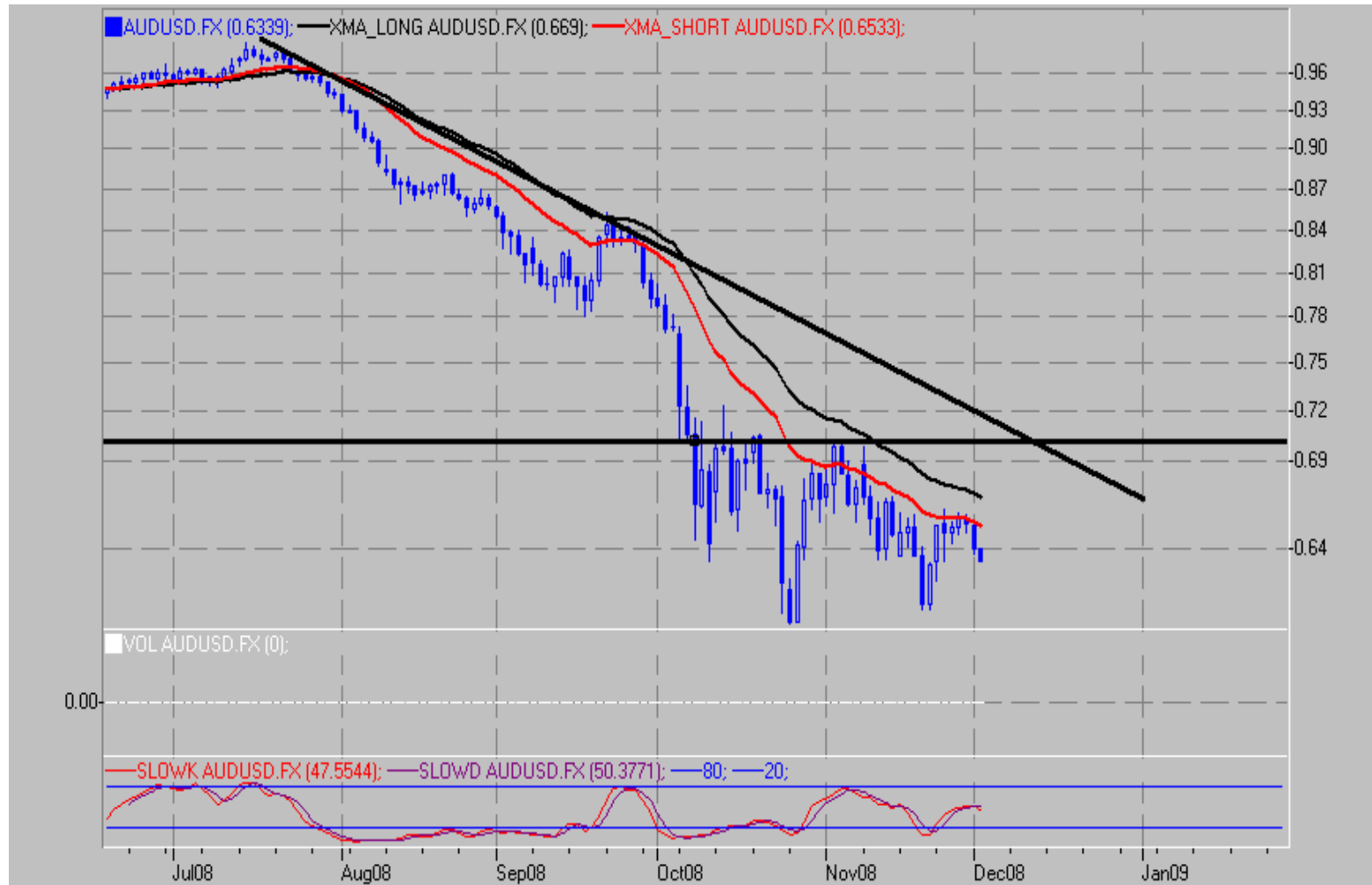


## 2009 Outlook

- ▶ Downside risks to consensus: Analysts still forecasting 5% 2009 EPS Growth – Analysts still too positive
- ▶ Transmission channels to Asia: Export Linkages, Lower Commodity Prices & Financial vulnerabilities
- ▶ Policy Response: Aggressive policy stimulus is being enacted globally – effectiveness is not yet clear
- ▶ Potential Path: 1Q 2009 rebound, 2Q retest, 3Q&4Q rally

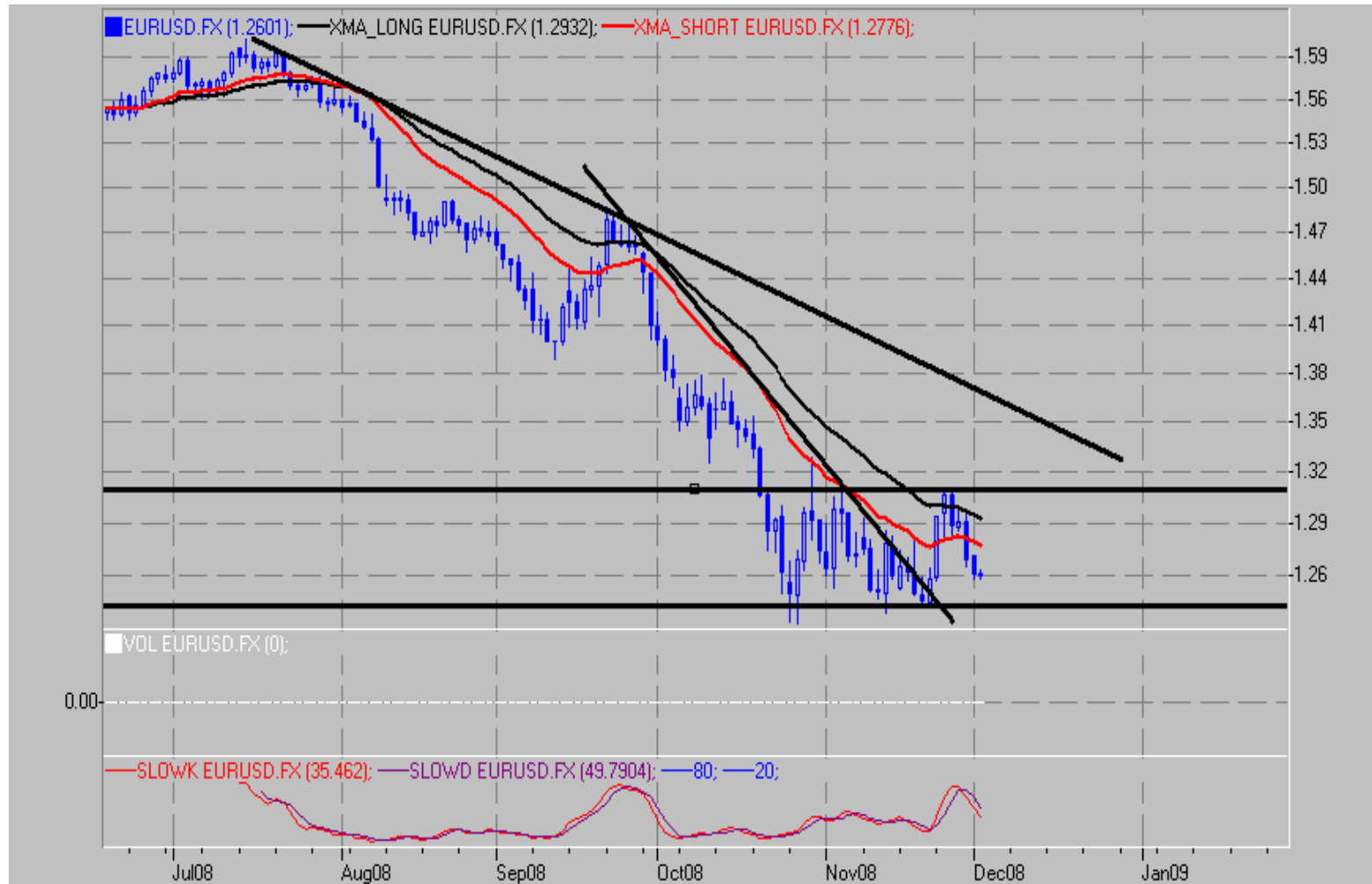


# 2009 Outlook



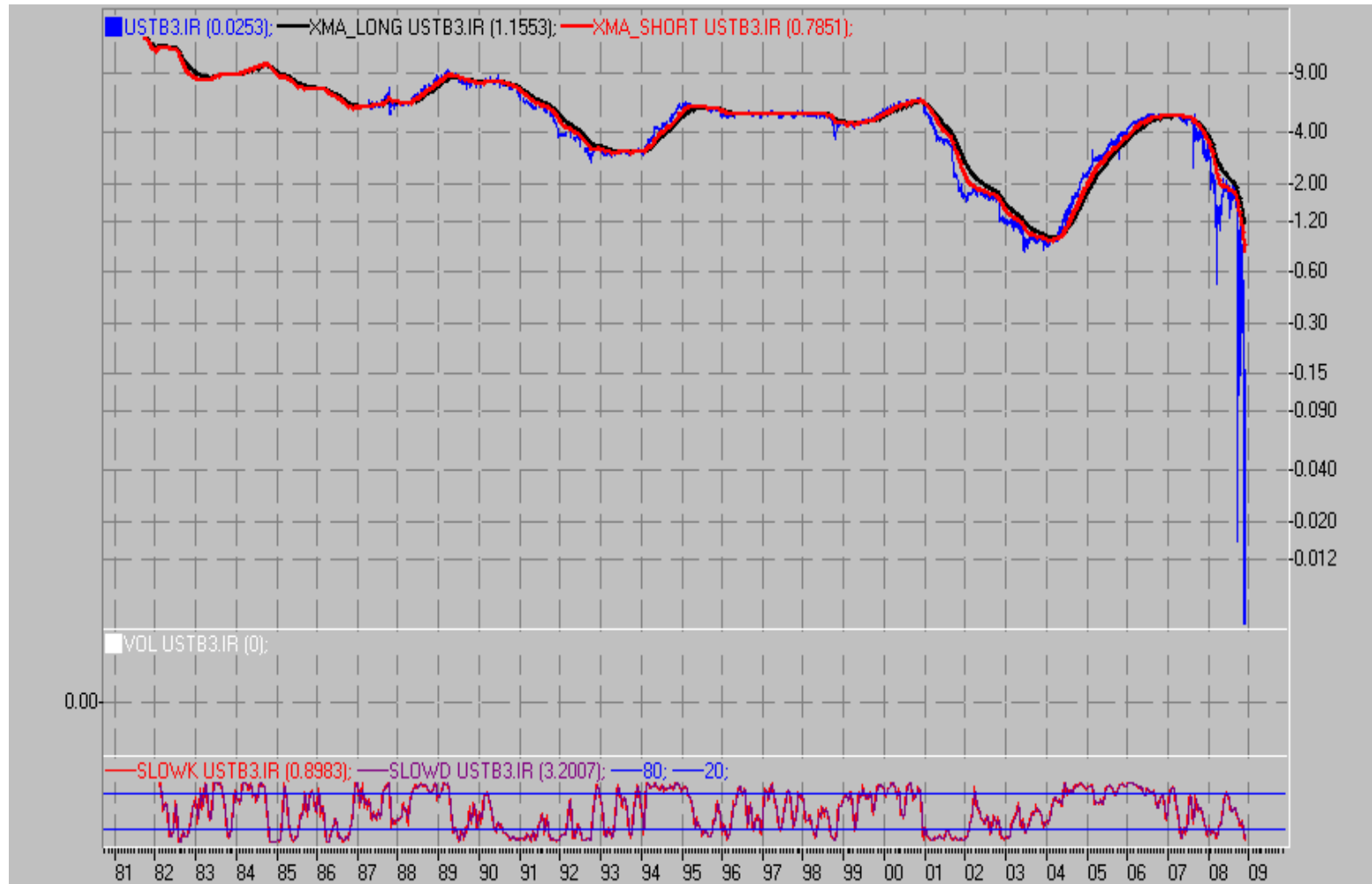


# 2009 Outlook



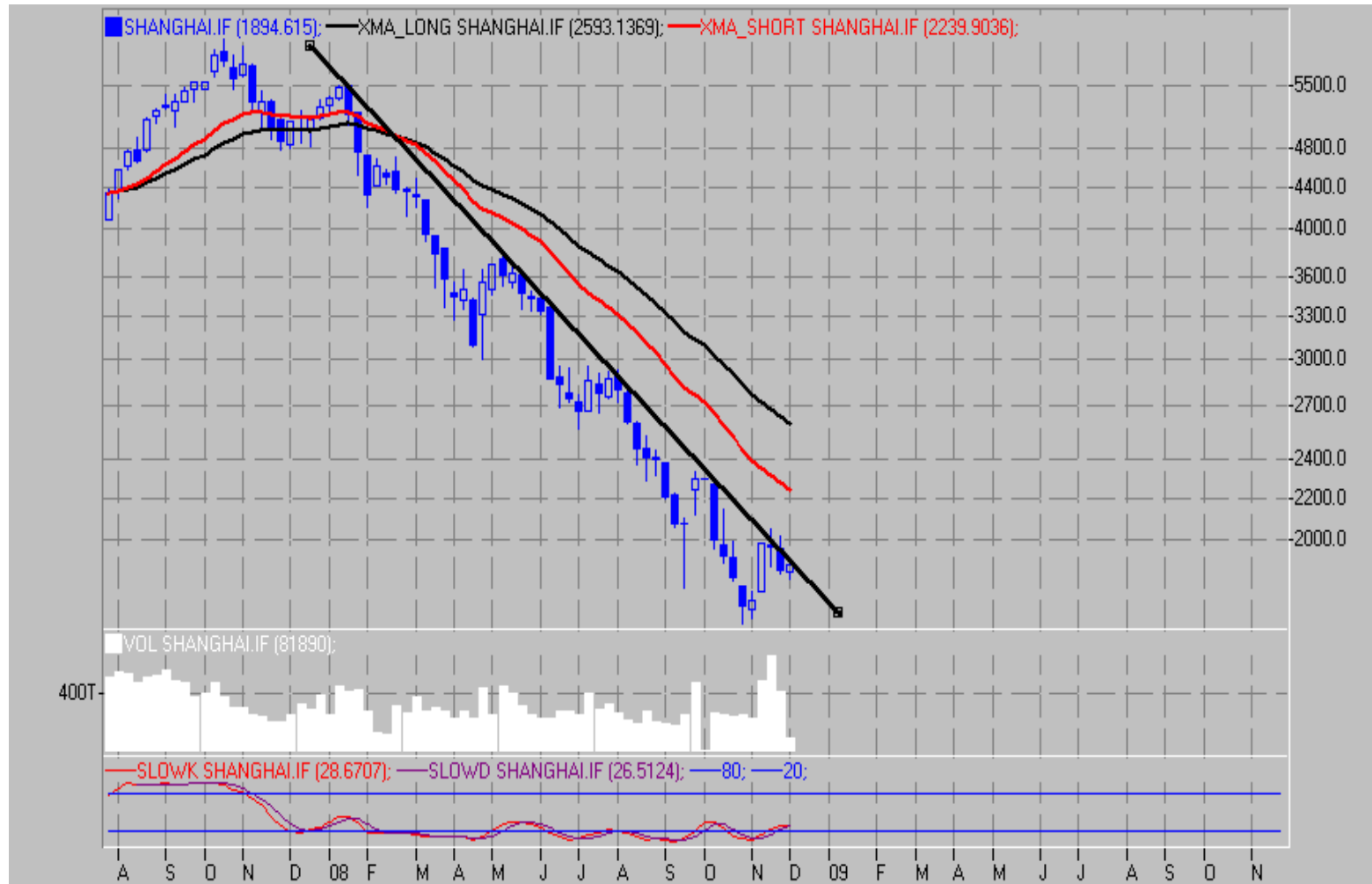


# 2009 Outlook





# 2009 Outlook



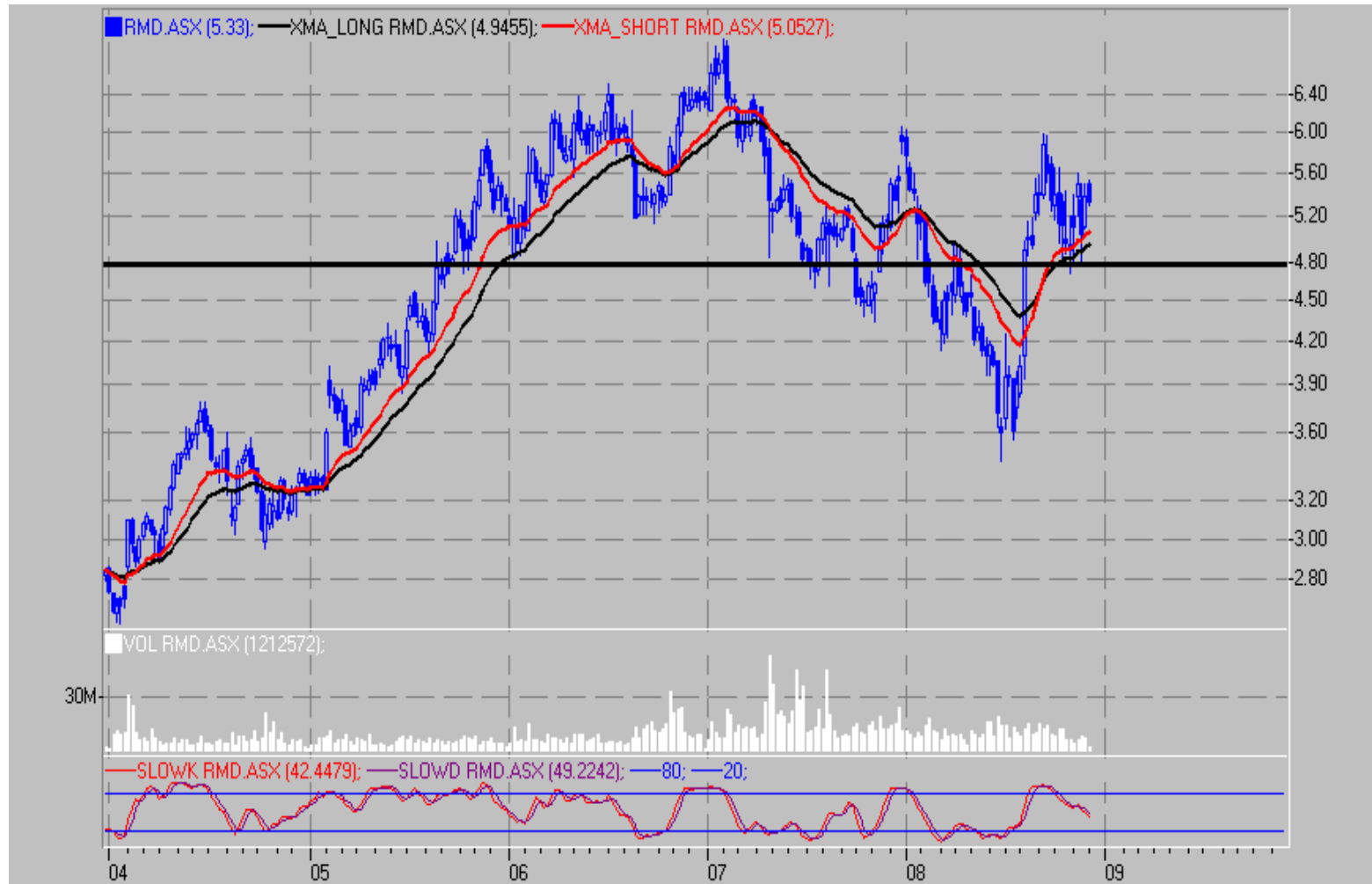


## Stocks for your Stockings – Long Term

- ▶ Zero to limited debt
- ▶ Strong cash flow
- ▶ Simple business
- ▶ Dominant market position
- ▶ Long term history of growing earnings and dividends
- ▶ Compelling value
  
- ▶ Examples
  - ASX, TLS, CBA, TOL, QBE, WOW, BHP

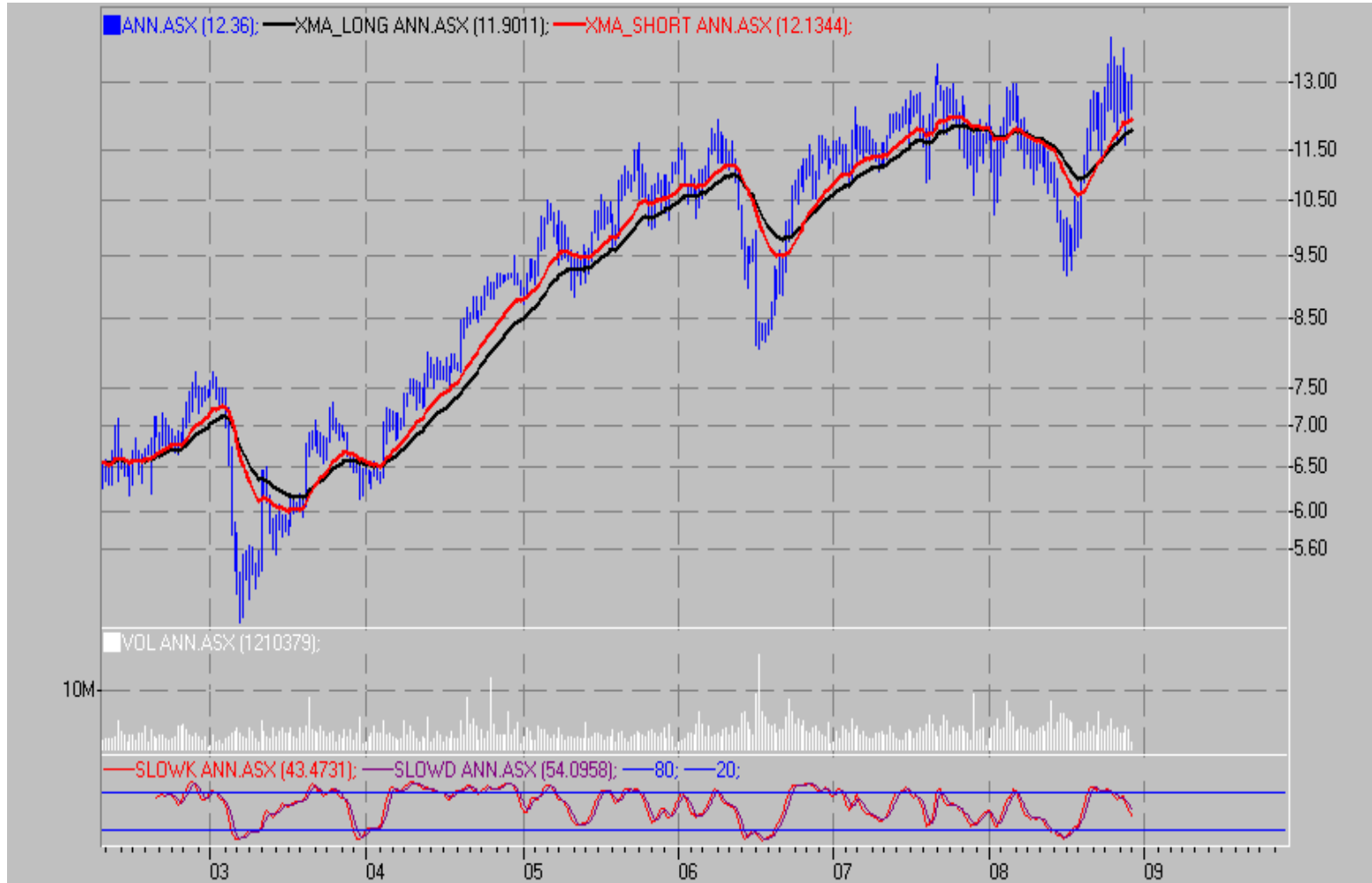


# Stocks for your Stockings – Active





# Stocks for your Stockings – Active





# Disclaimer

## **DISCLAIMER - ABN AMRO MORGANS LTD**

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of ABN AMRO Morgans Ltd ("ABN AMRO Morgans"). While this report is based on information from sources which ABN AMRO Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect ABN AMRO Morgans judgment at this date and are subject to change. ABN AMRO Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of ABN AMRO Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an ABN AMRO Morgans investment advisor before doing so.

ABN AMRO Morgans and/or its affiliated companies may make markets in the securities discussed. Further, ABN AMRO Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. ABN AMRO Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. ABN AMRO Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

## **DISCLOSURE OF INTEREST**

The Directors of ABN AMRO Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Proper Authority holders may be remunerated wholly or partly by way of commission.

## **PRIVACY**

Personal information held by ABN AMRO Morgans may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans office or to Reply Paid 888, Perth WA 6842.

**MANAGING DIRECTOR**  
**ABN AMRO Morgans Ltd**