



Monthly Newsletter - March 2014

UNIONS RETREAT FROM THE KILL ZONE

There's a good read in the bookstores at the moment, it's titled "Australia's Secret War: How Unions Sabotaged Our Troops in World War 2" written by Perth lawyer Hal Colebatch. It's a collaboration of untold stories of Servicemen and women, our freedom fighters, who were sabotaged by the actions of Australian Trade Unions between 1939 and 1945. Actions of corruption and greed were commonplace, where workers would steal food meant for Australian Soldiers, whilst at the same time demanding "danger money" for unloading biscuits. Nothing has changed, in fact it's gotten worse. Don't get me wrong, I'm a supporter of workers' rights, but unions over time, through their characteristic herd mentality have gouged the pockets of employers at every angle, to a level where gratitude no longer exists, instead overtime replaced by the attitude of entitlement.

It's a difficult attitude to break, when the herd all think the same and as the saying goes "where all think alike, no one thinks very much". Critical thinking goes out the window where questions such as "are we being too greedy with our demands?", "what effect will these demands have on our industry?" never see the day of light. The point is, industrial relations, specifically wage negotiations are the number one reason behind some sectors, particularly the manufacturing sector, being priced out of the market. **It's the inflexible component in a dynamic economy** and as a consequence Australia has now witnessed the loss of the entire Car Manufacturing Industry through the withdrawal of Ford, Holden and Toyota. Take the following comparison between the Holden enterprise agreement and the Modern award wage:

Holden Enterprise Agreement (Union)	Modern Award Wage (National Standards)
Base Wage Rate (Full Time)	Base Wage Rate (Full Time)
\$60,000-\$80,000 per annum	\$32,000 to \$44,000 per annum

Sourced from Fairwork Ombudsman, 2014

This means when Holden opens its doors for business, it is paying near double the modern award wage and this is before 34 allowances are paid to employees. As sourced from the 2011 Holden Enterprise Agreement these allowances include:

- Confined Space Allowance
- Dirty Work Allowance
- Height Money Allowance
- Drivers Handling Garbage Allowance
- Tool Allowance
- Extreme Temperature Allowance

The mind boggling list of allowances goes on and on. It's no wonder Mitsubishi left in 2008. The union's micros analyze every component all the way down to a person's footwear in their bid to justify their existence and create large slush funds for political clout and to fund the odd "Lady of the Night".

Thankfully with the change of government, Treasurer Joe Hockey has applied the pressure to where it's needed most; at the Union level. Declaring the "age of entitlement over", he has ruled out using tax payers' money to fund the disconnection between workers and their employers, calling upon them to instead come to compromise on wage costs for a sustainable future.

Not surprisingly, Paul Howes, the AWU National Secretary, conceded the Union industrial relations system in Australia has led to the job crisis we face today. **Not surprisingly** because he is clever enough to realize the unions are fighting a losing battle and so they now retreat from the kill zone in order to reduce the number of casualties. In addition, if Mr. Howes wants to be Prime Minister one day (I suspect he does), insulting the public's intelligence like Ex-AWU National Secretary Bill Shorten, won't do him any favors in lifting his public profile. This shift in the industrial relations landscape is Australia's opportunity to rebalance the two speed economy, but it won't happen without some short term pain.

The Australian Bureau of Statistics Wage Price Index (WPI) reported wage growth at its slowest annual pace since 1997 at 2.6%. What hasn't been widely reported is real wage growth is now Negative since inflation stands at 2.7%. Negative wage growth effectively means your money is effectively losing its purchasing power year on year. It is no wonder Gold, the hedge against inflation and a store of wealth, has picked up its pace in recent times.

INVESTMENT STRATEGY – STILL HUNTING FOR YIELD AND GROWTH

Lower wage growth coupled with rising unemployment means lower consumer spending and considering consumer spending accounts for around 60% of GDP, Australia's growth profile is likely to remain lethargic. Our interpretation of this situation is that we remain adamant Interest Rates will be on hold for longer than the market expects. Our investment strategy has not changed, rather recent developments have emphasized the necessity in making your money work to reach your financial goals. Taking out the rubbish first, we would suggest **avoiding**:

- Consumer Discretionary,
- Information Technology,
- Mining services
- Airlines
- Property Trusts
- Materials – Construction, Building Materials

The sectors we like include companies that have been proactive in their approach in reducing costs when shareholders demand they do so. If any companies you have invested in are only now thinking about doing so, then you should reconsider your position. The market is now focused on how companies will expand their earnings off a reduced cost base.

Woodside Petroleum Limited (ASX Code: WPL) is the perfect example of a company that exists in this space. It's sitting on a \$2.5 billion cash conundrum. Shareholders would be enjoying the special capital returns but pressure has been mounting on how the board intends to build upon its 1.44 billion barrels of oil equivalent reserves which is at its lowest level since 2005. The good news is, shareholders could be seeing the beginning of a cash splurge in late March as the company continues to work with the Israeli Government in clarifying certain policy, tax and regulatory issues on its potential \$2.6 billion (25% interest) investment in the Leviathan Gas Field. The latest news is they have just signed an AUD\$2.9 billion LNG supply deal, which will primarily be sourced from the Pluto LNG project in WA with Korea Gas Corporation. This comes 5 days after the RBA signed a bilateral local currency swap with the Bank of Korea to allow the exchange of local currencies between the two central banks to the tune of \$5 billion dollars.

Despite its apparent lack of growth options, we consider Woodside's downside risk in the near term limited given its 80% dividend payout ratio and the potential deal in the Leviathan Gas Field, which due to the recent cautious reactive nature of investors, we believe is not being priced in. In addition the coalition's push towards repealing the carbon tax would be welcomed by shareholders if it can be passed through the senate. If you don't have Woodside in your portfolio you should consider some long term exposure.

WOODSIDE PETROLEUM - SHORT TERM

The stock on technical analysis, has been range trading between \$37.00 and \$39.00 since August 2013 as shown below.



The share price action since July 2012 has developed a series of lower lows, creating the uptrend as shown above. From a technical perspective, what we are seeking is lower volume leading up to resistance at \$39.00 followed by a break above this line on **increased volume**. This would generate technical trading interest and if supported by a major fundamental catalyst (rather than a short term shock for example) a permanent change in the current trend. A short term trading opportunity utilizing Exchange Traded Options (Call Options) would exist for risk seekers if price action fulfils the criteria.

REVIEW OF RECENT RECOMMENDATIONS

RAMSAY HEALTH CARE LIMITED (ASX CODE: RHC)

Recommended: 17th July 2013

Price at time of recommendation: \$36.50

Target Price of \$33.00 reached: 16th August 2013

Today's Price: \$48.36

Ramsay has been our best performer to date in the blue chip category. Its share price currently sits at \$48.36 with a current yield of 2.2%. From a long term investor perspective we maintain a **HOLD** on this stock due to strong half year results, in particular its strong growth prospects through recent acquisitions in France (full ownership of Medispy Psychiatric Facilities) and its exposure to the Asian market (Malaysia). Technically, in the short term the share price looks overbought therefore we suggest any new entrants to the stock wait for a lower entry price after the stock goes ex-dividend on the 4th March. The lead up to the dividend is likely to be producing false support at the current price level.

INVOCARE LIMITED (ASX CODE: IVC)

Recommended: 17th July 2013

Price at time of recommendation: \$11.80

Target Price of \$10.95 reached: 8th November 2013

Today's Price: \$11.20

Invocares growth file remains intact after reviewing its Full Year 2013 results released on the 20th February 2014. Despite the flat result we see favorable demographics and its continued focus on mergers and/or acquisitions to underpin its long term performance. We maintain a **HOLD/ACCUMULATE** on this stock long term investment for growth and yield.

CREDIT CORP LIMITED (ASX CODE: CCP)

Recommended: 6th February 2014

Price at time of recommendation: \$9.20

Today's Price: \$9.70

We maintain a **HOLD** on this stock, long term investment for growth and yield.

APA GROUP LIMITED (ASX CODE: APA)

Recommended: 23rd October 2013

Price at time of recommendation: \$6.05

Today's Price: \$6.47

We maintain a **HOLD** on this stock, long term investment for growth and yield.

Performance of Key Indices

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	5415.40	210.3	4.04%
S&P/ASX200	5404.80	214.80	4.14%

Dow Jones (US)	16303.76	604.91	3.85%
NASDAQ	4331.58	227.7	5.55%
S&P500	1859.03	76.44	4.29%
FTSE 100 Index	6815.77	305.33	4.69%
Nikkei 225 (Japan)	14841.07	-73.46	-0.49%
10-year bond rate (US)	2.68%	0.000327	1.23%

Upcoming RBA Events

Reserve Bank Board Meeting – 4th March
Governor's appearance before the House of Representatives' Standing Committee on Economics, Sydney – 7th March
Minutes of the RBA meeting – 18th March
Glenn Stevens, Governor, addressing the 17th Annual Credit Suisse Asian Investment Conference, Hong Kong, China - 26th March

ABS releases March

Business Indicators – 3rd March
Building Approvals – 4th March
Retail Trade (January) – 6th March
International Trade in Goods and Services (January) – 6th March
Housing Finance (January) – 12th March
Labour Force (February) – 13th March
Lending Finance (January) – 14th March

Upcoming US Economic Releases

ISM Manufacturing Index – 3rd March
International Trade – 7th March
US Employment Situation (February) – 7th March
Retail Sales – 13th March
Consumer Price Index – 18th March
FOMC Meeting Announcement – 19th March
Durable Goods Orders – 26th March
GDP – 27th March
Jobless Claims – Weekly Basis

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