Switzer Report

Advice you can trust

Thursday 2 November

China Focus

In Today's *Switzer Report*, Charlie Aitken explains why your portfolio needs more direct exposure to China! Also in the *Report,* retail may have taken a pounding this year, but as Tony Featherstone explains, smart investors will see long-term value in 'fortress' shopping centre owners.

In today's *Buy, Hold, Sell – What the brokers say*, Macquarie Group and Woolworths were in the good books, while Fairfax copped a downgrade. Plus, Reliance World Wide Corporation was this weeks Professional Pick, find out why!

Sincerely,

Peter Switzer

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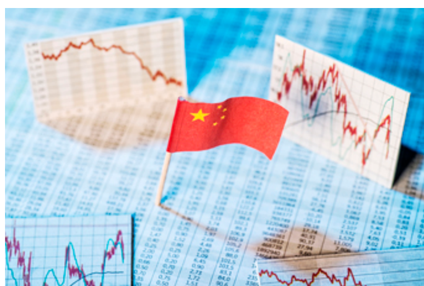

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switzersuperreport.com.au

Switzer Super Report is published by Switzer Financial Group Pty Ltd AFSL No. 286 531
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Why I'm bullish on China

by Charlie Aitken

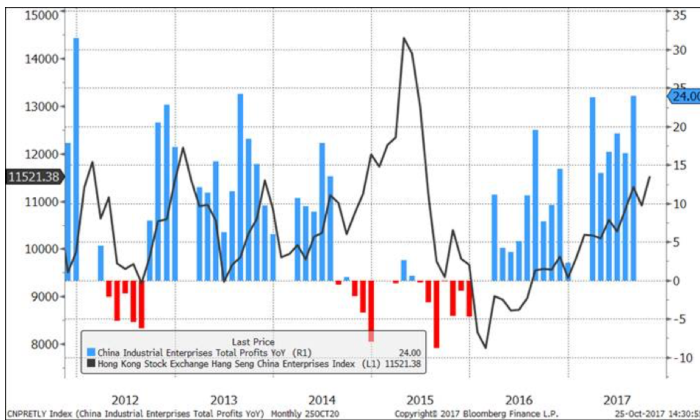
Regular readers of *The Switzer Report* will know that Hong Kong listed Chinese equities ("H-Shares") have been our most significant single bet in terms of geographic positioning for the past 12-months and that H-shares currently comprise around 45% of the AIM Global High Conviction Fund. Given we have just returned from a week in Beijing, it's timely to recap some high-level thoughts on the state of the Chinese economy and equities markets.

During our visit to China, we met with 20+ corporates, macro advisers, and Chinese government officials. It would be hard to describe the mood in Beijing as anything other than buoyant. ***The Chinese economy is enjoying its best period of growth in six years***.

One measure that does a decent job of tracking the state of the Chinese economy is the Li Keqiang index. Named after Chinese Premier Li, this index tracks the year-on-year change in bank lending, rail freight, and electricity consumption. This simple dataset is much easier to assess in real time, and therefore less prone to "manipulation" than official Chinese GDP data. In the chart below we have plotted China's official GDP growth (in Red) versus the Li Keqiang Index (in Blue). While official GDP data has shown steady growth of 7-8% pa over the six years, the Li Keqiang index tells a different story. It shows a distinct cycle of very poor growth in 2014/2015 followed by a very healthy expansion over the past 18 months. While many expect this growth to moderate next year, we believe the economic environment will continue to be positive, particularly given the likely strength of the export sector adding another leg to China's growth story.

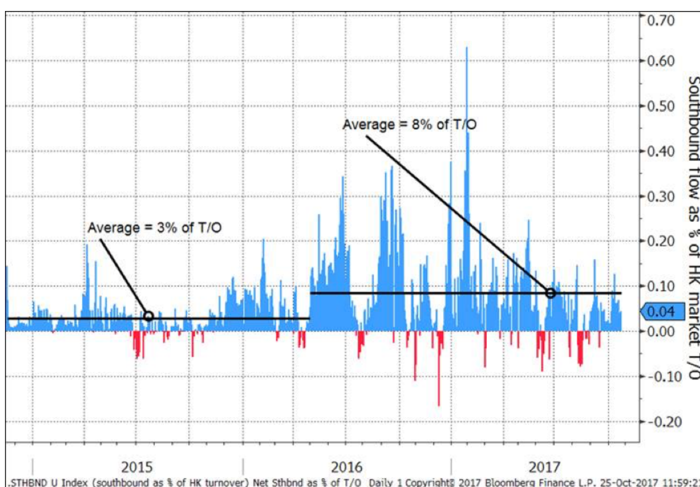
Source: Bloomberg

The Li Keqiang Index (above) also supports the trend in Chinese Industrial profits – a fall in aggregate profits in 2014/2015 followed by a sharp rebound in 2016 and 2017. We have plotted the year-on-year change in industrial profits (the bars in the chart below) against the H-Share Index of Chinese corporates listed in Hong Kong (the black line). This shows that the H-share market enjoyed an enormous rally in early 2015, built on hype around stock market reform, at the exact time that Industrial profits were falling off a cliff. A very poor foundation for a share rally! The market sell-off that ensued and the turnaround in the economy in early 2016, set the foundations for the stellar rally that H-shares have enjoyed over the past 18 months (+46% from the lows). As depicted in the chart below, this rally has a much sturdier footing than the 2015 exuberance.



Source: Bloomberg

We also continue to think that money flowing out of mainland China into H-shares, known as "Southbound flow", is a significant catalyst that can drive valuations higher in Hong Kong. The prevailing foreign exchange controls make it difficult for residents of mainland China to diversify their investments overseas. As a result, mainland residents currently allocate less than 1% of their total assets to overseas investments. The introduction of the stock connect program has significantly increased access to the Hong Kong market for mainland investors. In the past 18 months, an average of almost RMB1.0 billion of net southbound capital has flowed into the Hong Kong stock market daily. This has accounted for about 8% of the turnover on the Hong Kong stock market – it's little surprise that this has helped drive the market higher. The chart below shows net Southbound flow as a percentage of total daily turnover on the Hong Kong stock market.



Source: Bloomberg

Finally, we look to the commentary of global businesses operating in China for an independent view on the economy. Last week alone, as Q3 reporting season gets underway, we have seen numerous supportive comments from a broad range of corporates, some of which we provide below:

"China continues to be a bright spot and a surprise to the upside…. primarily due to higher end-user demand for construction equipment. Our current estimate for 2017 is for the 10-ton-and-above excavator industry in China to more than double versus last year." *Brad Halverson, **CFO of Caterpillar.** Q3 results call 24 October 2017*

"In Asia Pacific, the highly positive purchasing trends by local clientele were further confirmed. Mainland China, but also Hong Kong, Macau, Singapore, Korea, and now Taiwan, achieved strong double-digit rises…In Mainland China, it's worth noting that momentum is spreading to all tier cities," Jean-Marc Duplaix, ***CFO Kering Group*** (owner of luxury brands such as Gucci, Bottega Venetta and Balenciaga). *Q3 results call 24 October 24*

"China is a fast-growing economy. You would probably realize that China is driving the growth across the whole of Asia, not just in insurance, but all part of the economy. Let me remind you…we estimate there will be a total 225 million middle-class customers [in China] by 2030. This is equal to the total population of the world's fifth largest country today." Garth Jones ***CFO AIA Group***. 20 October 2017

We continue to believe that Chinese equities are cheap and our rigorous bottom-up research continues to identify plenty of interesting investment opportunities in predominantly consumer-facing sectors, such as tourism, diversified financial services, technology and healthcare.

What's good for China is good for Australia and it is no coincidence that Australian equities are breaking out of their moribund trading range as the Chinese economy shows clear evidence of strong growth.

I remain of the view that the emergence of the Chinese economy is the biggest economic development of our lifetime. All investors need more

direct exposure to China in their portfolios.

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Retail property a better bet than retailers

by Tony Featherstone

Contrarian investing is much easier in theory than practice. Spotting an oversold sector that can recover is only half the battle; getting the timing right separates great investors from the rest. Buying too early exposes portfolios to horrific losses.

Mining services is an example. The sector was on life support at the start of 2016 as investors feared further earnings downgrades and bankruptcies. Those who bought when everybody else rushed for the exits deserve every dollar of profit from the mining-services recovery.

A similar story is unfolding in retail. Persistent consumer gloom and fears about new competition from Amazon in Australia have smashed the sector. One retailer after another has downgraded earnings and many retail stocks have lost more than 40% in a year.

It's a bloodbath. The signs are there of irrational pessimism; it's hard to picture decent wage gains – the key to a retail revival – after years of record-low growth. Or retail sales growth quickening as consumers struggle with a mountain of household debt.

Or Australian retailers, in segments such as apparel, fighting off international competition. Or department stores having a future. Or discount department stores, such as Big W, ever turning around. Or smaller retailers combating the online threat and living with lower margins.

Inevitably, it's when the market gives up on a recovery that real value emerges. The smart money notices emerging greenshoots in the sector and slowly starts accumulating stock, adding to positions as more evidence emerges of a sustained turnaround.

That could be the case in retail. I spoke to almost a dozen fund managers and analysts about retail stocks last week. Few were bullish on retail, but most could see long-term value emerging in the sector, and several were starting to buy retail stocks for the first time in years.

The big unknown among fund managers was the timing of a retail recovery. Make no mistake: retailers are battling awful conditions; cyclical weakness from a struggling consumer and structural weakness from greater online and international competition.

On the first point, I'm looking for a modest improvement in wages growth in the next two years. We're starting to see more workers testing their bargaining power through industrial action and pushing more forcefully for wages growth (think Unilever and industrial action in its Streets ice-cream factory, and warehouse workers at Woolworths). One can picture more workers following suit as they push for higher wages growth in an improving jobs market.

On point two, the Amazon threat looks vastly overhyped. Amazon will have a big impact here, but so far has public plans for a 24,000 square metre fulfilment centre in outer Melbourne – hardly enough infrastructure, just yet, to turn Australian retailing on its head.

The online threat is well known to local retailers and e-commerce is nothing new to consumers here. Many retailers have invested in online capabilities for years and large players overseas, such as Best Buy in the US, have shown they can compete with the Amazon juggernaut.

Although the macro outlook for retail looks marginally better in 2018, and valuations for several quality retailers are undemanding, it's too soon to take big

bets on the sector.

Risk-reduction strategies in turnaround sectors

It pays to look for lower-risk plays in contrarian investing when the outlook is unclear. Buying the highest-quality players in the sector at the start of a recovery, and moving up the risk curve as certainty starts to return is the best strategy. Buying higher-risk companies in higher-risk sectors can produce stellar gains, but too many speculative plays destroy capital rather than create it.

The big shopping-centre owners are an interesting way to invest early in a nascent retail recovery. Think Westfield Corporation in the United States and United Kingdom, and Scentre Group and Vicinity Centres in Australia with their "fortress" shopping malls.

Put another way, these trusts are a bet on the owners of retail property rather than retailers themselves. Both, of course, are inter-related, but I'd back the big shopping-centre owners to maintain performance a lot longer than their tenants if retail hits new lows.

Westfield, Scentre and Vicinity have fallen this year amid broader retail fears. Westfield is almost 20% down from its 52-week high. Scentre is down 16% ; Vicinity is off 14% . The market is worried about key tenants, such as Myer Holdings, closing stores and the risk of discount department stores, such as Big W, rationalising space in shopping centres.

Myer's depressing quarterly sales update this week added to the gloom about department stores and the likelihood of more lease exits at shopping centres.

Moreover, general retail weakness is expected to lead to higher occupancy rates at shopping centres and lower rentals when leases are reset. Longer term, rapid growth in online retail must reduce demand for bricks-and-mortar retail and the shopping centres it occupies.

That's the theory. The reality is the big shopping-centre owners have almost full occupancy despite hyperbole that the retail sky is falling in. Retail experts I know say rents at the best shopping centres have held up reasonably well, despite tenant protests.

I'm not as convinced about the near-term risk of space rationalisation from department stores and discount department stores at shopping centres. Granted, it can be costly for shopping centres when anchor tenants with large space footprints exit; capital expenditure is usually required to upgrade the space and incentives may be needed to backfill it with new tenants.

But large store rationalisation programs are also costly for retailers, a point Macquarie Equities Research made in its excellent review of retail property trusts this week. Macquarie believes there is a variety of tenants willing to backfill space from Myer stores in quality shopping centres. The best centres may be able to increase rents as new tenants are found; second-tier centres that house department stores will probably suffers from department store exits.

Department stores and discount stores must reduce shopping-centre space to combat the e-commerce threat and increase their own online capabilities. That trend is entrenched in the US, although comparisons with Australia are problematic because the US has a lot more shopping-mall space per capita. Department-store rationalisation here will take years to play out.

Longer term, the fortress shopping malls are fabulous assets. A prime shopping centre, such as Chadstone in Melbourne, or Westfield Bondi Junction, is impossible to replicate at the location. As they attract more service outlets, such as fancier restaurants, consumers are visiting the mall as much for entertainment as to buy basic products.

In time, newer fortress shopping centres will offer upmarket housing accommodation and hotels, as integrated property developments. Westfield is embracing this trend offshore.

The changing retail mix at fortress malls will lead to a higher average spend per customer, per visit, in the next five years. More people will eat breakfast at the mall when they shop early; or dinner when they go to a movie there. We'll buy more goods and services at fortress malls and fewer at strip shopping malls and sub-regional (or second-tier) malls.

It's no surprise that Westfield is rationalising its US, UK and European portfolio away from second-tier assets to fortress centres. The shopping-centre giant wants to own the world's premium shopping-centre portfolio and is investing billions to get there.

Westfield is a story of short-term pain for long-term gain. Its shopping-centre redevelopment will drag on earnings as rents are foregone during construction. But the medium-term effect should be faster growth in Westfield's net tangible assets and a rising share price.

I nominated Westfield as a preferred Australian Retail Estate Investment Trust for the *Switzer Report* at $9.50 in late 2015. The AREIT is down 20% on that price, but my positive view on Westfield remains. It is the pick of the retail property trusts.

An average share-price target of $6.86 for Westfield, based on a consensus of 10 broking firms, implies the AREIT is overvalued at the current $7.70. The market is too bearish; Morningstar's $8.70 fair value for Westfield and accumulate recommendation looks more realistic. Macquarie has a $9.72 price target and outperform tip. I'll stick with the bulls on Westfield.

Chart 1: Westfield Corp

Source: ASX

Elsewhere, Scentre Group and Vicinity Centres have more exposure to the coming space rationalisation of department and discount department stores. About 30% of Vicinity's gross leasable area is in department and discount department stores; Scentre has 35% exposure on Macquarie numbers. That's a lot of space potentially at risk.

My hunch is the big retailers will exit space at sub-regional centres with lower sales productivity; the tier-two shopping centres rather than the fortress malls. Vicinity has more exposure to department-store rationalisation in sub-regional centres than Scentre Group.

There's less risk of department stores exiting space at fortress malls, such as Chadstone in Melbourne, which have higher sales productivity. And if they do, the top shopping centres have a longer backlist of new or existing tenants wanting that space. The cost of exiting prime shopping-centre space for department stores is probably greater than the cost of riding out the lease for an underperforming store.

Brokers are more optimistic on Vicinity; a consensus price target of $2.94, based on 11 firms, compares to the $2.64 price. An average price target of $4.49 for Scentre Group, based on the consensus of 12 broking firms, suggests it is fully valued at the current $4.

Chart 2: Vicinity Centres

Source: ASX

Chart 3: Scentre Group

Source: ASX

I'll go against the market and suggest all three retail AREITs are reasonably valued at the current price and attractive investments for those with a medium-term outlook (at least one to three years).

Shorter term, these trusts could remain out of favour

for some time as the market frets about department-store rationalisation and the threat of online retailing. But that is creating the value opportunity for investors who sensibly bet on the owners of retail property, rather than their higher-risk tenants, in anticipation of a sector upswing in the next few years.

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Professional's Pick - Reliance Worldwide Corporation

by Jun Bei Liu

What's the stock?

Reliance Worldwide Corporation supplies water flow and control products and solutions for the plumbing industry in the US, Australia, UK, Canada, and New Zealand. Its key product categories are Fittings and Pipe, Control Valves and Thermostatic products, used in behind-the-wall plumbing and hot water systems.

How long have you held the stock?

We have held the stock since May this year.

What do you like about it?

We like Reliance because of its strong business franchise and superior manufacturing / distribution capability.

Reliance has developed a very strong brand within the plumbing industry over the past 50 years in its push to connect fittings and accessories. While there are several other manufactures of similar products, Reliance has driven category growth in both the US and Australia. Its brand strength and first mover advantage has helped it maintain 85% category share of push to connect fittings in the USA and over 90% share in Australia.

On the manufacturing front, it has led the development of automated technologies for the production of push-to-connect fittings, with its most recent iteration of robotics representing the sixth generation of development. This is unmatched by any of its competitors. Reliance's distribution capability is also strong, with the company consistently exceeding its DIFOT targets. During its roll-out of product to the Lowe's distribution network in the US, Reliance continues to achieve 100% delivery with its current largest distributor, The Home Depot.

From an investment point of view, this is a company that has increased it's earnings almost ten fold in the past five years and will continue to grow at least 15% per annum over the next three years. This impressive growth is underpinned almost entirely by its core push to connection product Sharkbite. Reliance is also working on a number of other adjacent products, each has the potential to dominate its category. Trading on a Price/Earnings to Growth Ratio of 1.5 times, a substantial discount to growth companies with similar characteristics.

How is it better than its competitors?

Reliance's key competitiveness has long been debated. For a seemingly simple product, what is the key attribute that differentiates it from the cheap imports and enable it to dominate the category across Australia and the US for so many years. Our view is first mover advantage coupled with superior manufacturing/distribution capability. Reliance's focus on delivering value to its customers, end users, and intermediaries holds it in good stead to continue its growth path.

What do you like about its management?

Reliance has a strong and stable management team and most key senior executives have been with the company for over 20 years. Many have worked in various roles across the business and have intimate knowledge of the product and its market.

The CEO – Heath Sharp – has been with the company for 27 years. During the early parts of Heath's career at Reliance, he worked in the Product Development team as a Design Engineer. Over time,

he has held senior management positions in the company's two key geographies of the US and Australia. Heath is supported by experienced senior management, including Sean McClenaghan (Head of the Americas) who has been with the company since 2014. Prior to Reliance, Sean was in the recruitment, private equity and management consulting industries. Other key senior managers include Brad Reid, CEO of Asia Pacific (a position be has held since 2007, and has been with the company for 26 years) and Bill Kluss, Chief Manufacturing Officer (who has been with the company since 1975).

What is your target price?

We regularly update our financial models to reflect the true underlying fundamental valuation of the business. Our target price currently sits at $4.20.

At what point would you sell it?

We will be lightening our position when the stock trades closer to our target price.

How much has it added to your overall portfolio over the last 12 months?

Share price has outperformed by over 20% since our purchase in May.

Where do you see value?

We like international earners that are exposed to the upswing in economic activities across US and Europe, and sectors with cyclical earnings momentum such as mining services.

Source: ASX

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Buy, hold, sell – Macquarie Group and Fairfax

by Staff Reporter

In the good books

CSR Limited (CSR) Upgraded to Outperform from Neutral by Macquarie. B/H/S: 1/4/1

First half results were above Macquarie's expectations. The most positive aspect was building products, and the broker suggests it could have been even better if it weren't for the expensing of capital investment and the impact of sharply rising electricity costs. Macquarie upgrades to Outperform from Neutral as the sell-off following the solid result was a surprise and presents an opportunity. Target is raised to $5.15 from $4.40.

Macquarie Group Limited (MQG) Upgraded to Outperform from Neutral by Credit Suisse: B/H/S: 2/4/1

Credit Suisse upgrades FY18 earnings estimates by 1% following the first half result. Despite the fact earnings growth was narrowly based, the broker observes profitability continues to improve and the balance sheet is being replenished. Rating is upgraded to Outperform from Neutral and the target raised to $105 from $100. Target price is **$105.00**.

Orocobre Limited (ORE) Upgraded to Buy from Neutral by Citi and to Neutral from Underperform by Macquarie B/H/S: 4/1/1

September quarter production was soft, as expected, although still below Citi's estimates. The cash margin profile is considered to be better and the balance sheet has been de-leveraged. Along with improving fundamentals in the lithium market, Citi no longer views the stock as high risk and upgrades to Buy from Neutral. Target is raised to $5.50 from $3.90. Orocobre's Sep Q production and sales missed forecasts, driving higher costs. The company has maintained first half production guidance but this would require a record second quarter, Macquarie notes. A strong October supports guidance, and management is confident costs will fall in FY19 when the CO_2 circuit is installed. Before then, better volumes are needed. The share price fall has taken the stock down to where Macquarie sees fair value, hence an upgrade to Neutral. Target rises to $4.97 from $4.90.

Woolworths Limited (WOW) Upgraded to Neutral from Underperform by Credit Suisse: B/H/S: 3/2/3

The September quarter update suggests to Credit Suisse that food deflation remains a risk to the outlook. The main issue for the broker is whether the competitive environment is stabilising enough to allow for meaningful margin expansion over the medium term. Following a period of underperformance in the share price, the broker upgrades to Neutral from Underperform. Target is raised to $25.31 from $25.17.

In the not-so-good books

AWE Limited (AWE) Downgraded to Sell from Neutral by UBS B/H/S: 1/3/2

September quarter production was ahead of expectations, up 16% and driven by strong east coast gas. However, UBS observes, this is not sufficient to change full year guidance of 2.5-2.7mmboe. The broker attributes the 16% rally in the share price over the past two weeks to recent good news at Waitsia. However, this appears overdone and UBS downgrades to Sell from Neutral. Target is lowered to $0.47 from $0.45.

Beadell Resources Limited (BDR) Downgraded to Neutral from Outperform by Macquarie B/H/S:

0/3/0

While Beadell's September Quarter production and costs showed big improvement on the June Quarter, they still both fell well short of Macquarie's expectations. The company is now guiding to the lower end of the production range but this will require a big improvement in the December Quarter, the broker notes. It is not beyond the realms, but falling short could put mill upgrade funding at risk, and this is critical, Macquarie suggests, to improving the long term outlook for Tucano. Downgrade to Neutral. Target falls to 20c from 25c.

Beach Energy Limited (BPT) Downgraded to Neutral from Buy by Citi B/H/S: 2/3/0

Beach Energy's Sep Quarter numbers beat Citi on more oil in the mix and higher realised oil prices. Cooper wells have been tied in earlier than expected. The broker has upgraded FY18 forecast earnings by 15.6%. The market was nevertheless concerned over Origin Energy's ((ORG)) realised gas price for its Lattice business Beach is set to acquire, but the broker sees year one prices as less relevant than later years once Beach normalises for Otway interests. While the stock price has rallied with the oil price, Citi estimates a long term oil price in excess of US$66/bbl is being assumed. Downgrade to Neutral on valuation. Target rises to 97c from 92c.

Fairfax Media Limited (FXJ) Downgraded to Hold from Buy by Deutsche Bank B/H/S: 2/3/0

Deutsche Bank now incorporates Domain into forecasts as a separate entity. The uplift in corporate costs and the outflows relating to the agent equity model reduce the broker's valuation. Whilst recognising the growth potential inherent in Domain, Deutsche Bank believes it is now fully factored into the share price. The broker downgrades to Hold from Buy and reduces the target to $1.10 from $1.15.

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Questions of the Week - Commonwealth Seniors Health Card

by Questions of the Week

Question: I currently subscribe to the *Switzer Report*. My wife and I have been receiving the CSHC (Commonwealth Seniors Health Card) for the past six years as we have had superannuation income and no taxable income.

In December, 2016 we sold a townhouse we have been using for holidays since 1992. This has created a capital gain of $168,000 and 50% of this is taxable between the two of us in our 2016-2017 tax year. This together with a taxable amount of $5,000 each from share income makes our taxable income $94,000 between the two of us. This puts us over $84,472 allowable for a couple and we will now lose the CSHC and will have to reapply for it.

In the 2017-2018 financial year, we will again have no taxable income but will have to take into consideration our superannuation income due to the new rules and as our superannuation income is above the $84,472 we will not be eligible to qualify for the CSHC. We are over the limit for the 2016-2017 financial year by about $10,000. Is there any way we can spread this over more than one year and reduce our taxable income?

Answer by Fabian Bussoletti, Technical Services Manager with AMP Advice:

While the reason behind the sale of your former holiday home is unclear, it is worth noting that in certain specific circumstances, it may be possible to qualify for the CSHC based on your estimated Adjusted Taxable Income (ATI) for CSHC purposes for the 2017/18 financial year, provided that the estimated income falls within the income test threshold.

This may allow you to retain your CSHC notwithstanding the sale of your holiday home as your 2017/18 income year estimate would not include the capital gain amount. Depending on the circumstances surrounding the sale of the home, this may warrant further investigation.

Otherwise, unfortunately there is no way of spreading out the “income” (capital gain) arising from the sale of your former holiday home.

In relation to your superannuation income stream, assuming your superannuation income stream is an account based pension (ABP), it is worth noting that it is not the actual income you receive from such a pension that is added to your ATI, but rather an amount that you are *deemed* to be receiving from the ABP.

This deemed income figure is calculated based on the account balance of your ABP and a set of Government prescribed deeming rates – which means that the deemed income from your ABP may in fact be less than the amount that you are receiving from the ABP.

If required, a reduction in the account balance of an ABP will in turn reduce the level of deemed income that is assessed toward your ATI for CSHC purposes under the new rules you mentioned.

One way to reduce the account balance of an ABP may be to simply transfer an amount from your ABP back into the superannuation accumulation (or savings) phase. However, investment earnings derived in the accumulation phase will be taxed at a maximum rate of 15% (as opposed to the 0% tax rate that applies to earnings derived within an ABP) – this trade-off will need to be carefully considered.

Finally, it should also be noted that there are also likely to be other considerations when moving money

out of your ABP, such as estate planning considerations. As such, it is imperative that you seek professional advice that is specific to your circumstances to ensure the best possible outcome is achieved for you, and that any considerations are appropriately addressed.

I am not aware of any underlying problems with URB. Rather, the stock is very thinly traded, and trading at a small discount to its last disclosed NTA of $1.03 (end September).

Question: I read your article on the 16 October re TCL, which made sense to me and I purchased TCL. I have now read Charlie Aitken's article on Thursday and am concerned with what he had to say about TCL. What is your response? I also own SWTZ and wonder what you have both come up with for the trust re TCL and similar entities?

Answer (by Paul Rickard):

Thanks for the question. I don't disagree with Charlie in that if bond rates go up, there will be capital losses and a number of the equities with bond like features will be impacted. This is what happened in October through to December 2016. Where I disagree with Charlie is:

1. the pace of bond rate increases; and
2. the impact on Transurban (TCL).

Charlie fears that the US 10-year-bond could quickly rise to 3.0% – I don't think this is going to happen unless the US economy really shows a head of steam, or the new Federal Chairman takes a more hawkish view. In regard to TCL, I think it is wrong to think of it as a bond substitute because it is growing revenue at a CAGR of around 8% to 10%, and although very leveraged, all borrowing are fully hedged. That doesn't mean, however, that the market won't view it initially as a bond substitute – but over the medium term, they will reassess it for what it is worth.

Here is how I concluded my article: "While I have been largely wrong so far, I think bond rates will head higher over the next six to 12 months as the US economy expands and the US Federal Reserve tightens interest rates and winds back its balance sheet. This will affect bond proxies such as Transurban, although the lesson from last October/November is that dips will be well supported. If you can afford to be patient, look to buy Transurban in market weakness or on the next blip up in bond rates.

Question: In April 2017 I bought 10,000 shares in the URB Investments Ltd share offer. I know infrastructure investments take time to mature, but I am surprised by URB's volatility. For example, yesterday they fell 4% for no apparent reason. My question – is URB's volatility due to being thinly traded, or are there underlying fundamental problems?

Answer (by Paul Rickard):

I am not aware of any underlying problems with URB. Rather, the stock is very thinly traded, and trading at a small discount to its last disclosed NTA of $1.03 (end September).

Question:

1) I have Woolworth shares, shall I keep them?

2) Do CSL and Cochlear have more upside? Is it time to take profits?

Answer (by Paul Rickard):

I'll start by a quick recap on what the major brokers say (according to FN Arena);

- Woolworth: 3 buys/1 neutral/3 sells – target price $26.18 cw last price of $26.31
- CSL: 6 buys/1 neutral – target price $140.77 cw last price $140.40
- Cochlear: 4 neutrals, 2 sell – target price $142.97 cw last price $174.65

CSL and Cochlear are fabulous companies, trading on very high multiples. The market seems scared to sell them, since there are so few companies that can demonstrate the growth record they have. On the basis of the broker valuations, I would be inclined to take profits (moreso with Cochlear than CSL). I would, however, look to establish new buying points. Woolworths is in a different category. Unfortunately, it

is an industry facing headwinds as competition intensifies. That said, I was impressed with the quarterly sales results (particularly the improvement with BigW) and I think the rally of around 3% in the share price is appropriate. They have momentum and are probably a hold – but I think it is a sector to remain underweight in.

Question: I am an accountant by trade and enjoy managing my own SMSF myself. This includes keeping the books and completing the annual returns. Obviously I pay for an external audit. I use a program called MySF to keep the books of the SMSF, however, this program is no longer going to be supported. I was wondering if you could recommend any SMSF accounting/administration software programs for home use?

Answer (by Paul Rickard): Provided you are comfortable with a double entry system, try BGL's Simple Fund 360 Trustee Edition. I use the non-cloud version (Simple Fund Trustee Edition) for my SMSF.

***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.*