



Collected Wisdom
By James Frost

This is an edited summary of Australia's best-known investment newsletters and major daily newspapers. The recommendations offered represent the views published in other publications and may not represent those of Eureka Report.

The funds management wing of Westpac is about to be spun off into **BT Funds Management (BTT)**. The company has stated that the impetus for the action was not to cash out five years into a bull market but rather a strategy to retain quality staff, who are offered equity at rival operations. Westpac will retain 60% of the group, 6% will be allocated to senior management and the remaining portion will be offered to Westpac shareholders, employees and institutions. The group has about \$46 billion worth of funds under management. About 83% of these funds are invested in low margin products while the remaining 17% is in high margin products. The group's success, while intimately tied to the overall performance of the stockmarket, will be also measured by how well it can move clients to the higher-margin products, which are defined as those charging more than 0.6% per annum. One publication has generated a favourable 15.3 price/earnings ratio based on full-year 2008 forecasts. Supposing a valuation of \$5.15 a share, BT is substantially cheaper than Platinum and IOOF. The indicative price range is between \$4.80 and \$5.50. *Apply for units in BT Investment Management.*

Shareholders in **Macquarie Bank (MBL)** have been on a rollercoaster ride since August 2006 when its share price fell below \$60 before soaring over the next nine months to peak at \$97.10 on May 18, 2007. Since then sentiment turned against the investment bank faster than you can say "sub-prime mortgage" and its price has softened considerably despite chief executive Alan Moss stating the bank has no material exposure to the toxic investment class. Macquarie was trading today at about \$82. Its most recent half-year results from were strong and, in typical Macquarie fashion, they followed conservative forecasts. Equity markets are expected to be a little more volatile in the second half so many analysts are lowering full-year estimates by about 5% to \$1.87 billion. During its last bout of share price weakness, on August 8, Eureka Report relayed a buy recommendation from a popular investment newsletter. *That newsletter continues to stand buy its recommendation and suggests that you buy Macquarie Bank up to \$83.75.*

Suncorp-Metway (SUN) has proved its ability to absorb bolt-on businesses with the well orchestrated GIO takeover. This bodes well for its more recent acquisition of Promina,

which makes the group Australia's second-largest domestic insurer. The group has been criticised for its approach to investor disclosure; at its recent AGM the group confirmed earnings guidance for the full-year 2007 result but didn't give a first quarter operational update. Separately, it is forecasting growth of 10% in its wealth management division, which one publication feels to be a little disingenuous when its rivals are forecasting at least double that. The increased cost of credit is expected to increase costs by about \$10–15 million but is not considered material given the group produces earnings of about \$1 billion a year. Excluding an unforeseen weather event of considerable scale, Suncorp-Metway is likely to deliver insurance margins of 13–16%. Mean yield forecasts are about 5.5% and expected to rise, so the stock is suitable for both growth investors and income seekers. *Buy Suncorp-Metway to \$20.10.*

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One investment publication is concerned that the strong Australian dollar will savage profits at **Caltex Australia (CTX)**. As the Australian dollar has risen, the all important refiner margin has shrunk, leading some analysts to question whether the upward momentum might be leaving this offshoot of Texaco. The Caltex story for many investors really began in 2001 when it fell below \$1 after extensive write-downs and concerns about management. But since then it has enjoyed a dream run to the point where it hit a high of \$28 on June 21 before coming off the boil, softening to \$21.75 on November 16. The latest analyst notes suggest that this weakness may continue with forecasts for a drop in profits from the company next year. Warning bells sounded when Caltex itself changed its method of calculating replacement cost of sales operating profit, known as RCOP. It now includes the effect of fluctuations in the Australian/US dollar exchange rate, as well as the US dollar price of crude oil. Such a decision would not have been made lightly and the move reeks of pessimism from a company that occupies an otherwise bullish sector. About one month ago this column reported a buy recommendation on the strength of its management team. *Although this latest development is not a reflection on them, it is nevertheless serious enough to report a rival stock tippers recommendation that you sell Caltex at current prices.*

In the light of the booming resource sector, the underperformance of **Lion Selection (LST)** remains something of a mystery. The company regularly trades at about a \$70 million discount to net tangible assets, roughly the size of its 30% investment in a Cracow gold mine, in central Queensland. The other 70% of the mine is held by Newcrest, which has said it is interested in selling for at least \$200 million. Lion Selection will have first right of reply should a bid emerge. After a high of \$1.89 on June 10 and a low of \$1.44 on the 29 August, the share price has stabilised and since October has traded in a range of \$1.70–1.76. Downside risks at this point are present but limited and investors who already have exposure to gold may find themselves overweight. *For investors with a higher tolerance for risk, buy Lion Selection at about \$1.74.*

Emerging gold-base metals explorer-developer, **D'Aguilar Gold (DGR)**, is a stock that has been identified as a potentially rewarding investment for prospective shareholders. Including its stable of five subsidiaries, D'Aguilar directors claim the company has an enterprise value of \$110 million but as sentiment turned against the company it has been knocked down to a market capitalisation of less than \$38 million. The ability to meet that

estimated value is dependent on a series of floats likely to unfold in the next year. After hitting a high of 47.5¢ on June 15 it has softened to 28.5¢. *One of our favourite speculators has put his weight behind the Brisbane-based company and its new board, suggesting that D'Aguilar Gold is a speculative buy at current prices.*

Watching the directors

The week to November 16

- Coal tycoon Ken Talbot, director of Sundance Resources (SDL), has purchased \$1.6 million worth of stock.
- Terence Peabody has purchased \$6.7 million worth of stock in Transpacific Industries (TPI).
- Continued buying by Geoffrey Wilson, director of Wilson Investment Fund (WIL). Over \$650,000 worth of stock purchased since the beginning of October.
- Peter Smith, director of Gulf Mines (GLM), has purchased about \$75,000 worth of stock in three transactions over the week. This is in addition to purchases made by Peter Smith and Graham Raveleigh in August and September.
- Three directors of Tanami Gold NL (TAM) have purchased parcels of shares in the past few weeks.
- Chris Mackay, a director of Magellan Flagship Fund (MFF), has purchased another parcel of shares, \$400,000 worth.
- Buying by the directors of Centro Properties Group (CNP).
- Buying by Graeme Beissel, director of Integra Mining (IGR).
- Three directors of Hudson Resources (HRS) have purchased shares this month.
- Two directors have bought shares in Downer EDI (DOW) since the recent price fall.
- Buying by Ian Gust, a director of Biota Holdings (BTA).
- Derek O'Neill, a director of Billabong International (BBG), has purchased \$500,000 worth of stock. Another director, Fergus McDonald, purchased parcels of shares in August and September.

Previous week

- Well-known mining entrepreneur Michael Kiernan has bought over \$500,000 worth of stock in Monarch Gold Mining Company (MON).
- Buying by Terrence Streeter and Julian Hanna, directors of Western Areas NL (WSA).
- Ross Herron, a director of Select Harvests (SHV), has just purchased a parcel of shares. He is the second director to purchase shares in the past month.
- Buying by Simon Madder, a director of Prime Financial Group (PFG). He has purchased a few parcels of shares over the past few months.
- Over \$900,000 worth of stock purchased by Adrian Fini, a director of Little World Beverages (LWB).
- A director of Downer EDI (DOW) has purchased shares as the price has come down.
- Buying by two directors of ADV Group (ADS).

- Continued buying by Stephen Bartrop, a director of Icon Resources (III).

Recent directors' trades worth more than \$200,000						
Date	ASX	Director	Volume	Price	Value	Action
12/11/07	ORL	James Vicars	480,000	3.9	AUD1,872,000	BUY
8/11/07	BBG	Derek O'Neill	35,200	14.23	AUD500,896	BUY
8/11/07	MFF	Chris Mackay	500,000	0.808	AUD403,750	BUY
7/11/07	SDL	Kenneth Talbot	3,000,000	0.539	AUD1,615,865	BUY
7/11/07	CHO	Robert Millner	30,000	6.75	AUD202,500	BUY
6/11/07	TPI	Terrence Peabody	618,737	10.976	AUD6,791,562	BUY
2/11/07	WSA	Terence Streeter	100,000	5.852	AUD585,233	BUY
2/11/07	MON	Michal Kiernan	1,000,000	0.247	AUD246,561	BUY
2/11/07	LWB	Adrian Fini	590,626	1.591	AUD939,808	BUY
1/11/07	PFG	Simon Madder	775,052	0.893	AUD691,921	BUY
1/11/07	MON	Michael Kiernan	1,000,000	0.267	AUD266,651	BUY

Source: [The Inside Trader](#)