23rd October 2012 - 16th April 2013

Sector Reviews: Round I

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WoodHall Investment Research

Preface

I write a fortnightly column for the Switzer Super Report (www.switzersuperreport.com.au) in which I review each of twelve sectors of the ASX 200 in a cycle. At the beginning of each cycle I publish two or three general reports on the market as a whole. The reports collected in this volume are the reports as I submitted them. Since the editor at *SSR* often changes the layout and text, these reports do not reflect what was actually published.

The theme of the reports is that I am thinking in terms of building and rebalancing a High Conviction Fund – which I define in the first report. In essence it is a fund dominated by large companies that pass a certain hurdle based on broking analysts' consensus recommendations.

The next report focuses on the high yield sectors with a view to demonstrating how yield has taken centre stage with forecast yields being a constraint on capital gains. This report is followed by a general review of all of the sectors in one short note.

The S&P/ASX 200 has 10 major sectors – the so-called tier 1 GICS (Global Industry Classification Standard) sectors – but our Property sector – REITS or Real Estate Investment Trusts – is so dominant in the Australian market that S&P Financial sector can be broken down into Financials-ex-REITS and REITS. I refer to these as Financials and Property as more user-friendly terms.

Also because of the large number of companies in the Materials sector, I split up the discussion of this sector into Materials (Mining) and Materials (Nonmining). The latter subsector is dominated by building materials.

This review cycle started on 23rd October 2012 and ended on 16th April 2013. I typically submit each report on alternating Tuesdays for the SSR to be published on the following Thursday.

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What is a High Conviction Fund?

It is a term often used but less often defined. My view is that it is a fund of quality stocks that can be left unmonitored for periods of time – usually without tinkering. There are no speculative stocks – from exploration nor corporate actions – in a High Conviction Fund. Importantly, a drop in price of one or more stocks is more likely to attract attention for any spare cash rather than a cause for abandonment!

I have my own rules for assembling a High Conviction Fund. At times like present, I would advocate 8 – 15 stocks if equally weighted but more if some stocks are given less weight. There are ways of determining the equivalent number of stocks for general portfolios. In more turbulent times – such as 2008 – 2010 – the optimal number of stocks is more like 12 – 20, and possibly more. I have papers in the *Switzer Super Report*, *Professional Planner*, and my website woodhall.com.au on these and many more associated issues.

I determine how much weight should be given to each of the 11 major sectors using my quantitative methods. Then, I allocate an appropriate number of stocks for each sector based on the size of the sector and the quality of the component stocks. Care should be taken not to have too much exposure to any one stock. Only companies from the ASX 100 belong in a High Conviction Fund in my world.

When I assemble a new portfolio, I only choose stocks with a 'good' consensus rating from brokers as published by Thomson Reuters. With '1' for a buy and '5' for a sell, I would only 'buy' a stock with a 2.5 or better. However, I would not sell unless the ratings fell well below that number. I have rules.

I like to think of rebalancing a 'High Conviction Fund' either once or twice a year. Rebalancing any more often is a sign of a trader's spirit.

The problem is that even big companies sometimes have mergers or divestitures associated with them, capital raisings and the rest. Real portfolio management is a full-time job but a High Conviction Portfolio should require less effort – but not no effort.

I also build High Octane Funds which seek out smaller capitalisation stocks of high consensus ratings. These are higher risk and possibly higher return funds. My High Fusion Funds are an amalgam of the High Conviction and High Octane Funds – and the blend of the two funds varies as other factors change.

How to Read Our Sector Reports

Starting in late October, we have been publishing a report on each sector - one per fortnight - on www.switzersuperreport.com.au. Of course the statistics could be updated daily but we do not yet have a system (or the resources) in place to so do. In the meantime this report is designed to help any readers understand and interpret what we discuss in each sector report. Space on the super reports precludes such detail. Since this 'How to' report is not to be updated - at least not frequently - the examples will be outdated and should be ignored as current information.

The sectors

The Global Industry Classification System (GICS) is the official definition of the sectors of stock markets around the world. At the top level (tier 1) there are ten sectors. However, in the case of Australia, it is possible to decompose the Financials sector into Property (REITS) and the rest - Financials-x-REITS for the ASX 200. Thus, we plan to report on 11 major sectors. Also, where the number of stocks in the sector is too large for analysis on the Switzer Super Report site, the GICS sector will be split into two or more reports. The 11 sectors are:

Energy	- Oil, gas, coal, uranium, etc.
Materials	- Mining, building materials, steel, etc.
Industrials	- Includes mining services, etc.
Consumer Discretionary	- Nonessential consumer goods.
Consumer Staples	- Essential consumer goods.
Healthcare Services	- Plasma, pathology services, hospitals, etc.
Financials (-x-REITS)	- Banks, diversified financials, insurance, etc.
Property (REITS)	- Listed property trusts, etc.
Information Technology	- Technology services, etc.
Telecommunications	- Telecommunication services, etc.
Utilities	- Power distribution, infrastructure, etc.

High conviction style

The focus of our sector reports is on the bigger companies in the sector providing that their broker recommendations are acceptable. For this reason, the first round of reports focuses on the stocks in the ASX 100.

Broker recommendations - and all of the other data sources - are taken from Thomson Reuters Datastream. Each broker is invited to report the strength of their recommendation on a scale of 1 - 5:

1 - Buy

2 - Outperform

3 - Hold

4 - Underperform

5 - Sell

The number of brokers reporting on a particular stock varies by company and over time. Clearly, one might have more regard for an average recommendation over brokers the more brokers that happen to report. It should be noted, however, with new stocks, or those that were recently small - but growing rapidly - there may be only a

handful of recommendations. In such cases, tracking the recommendations as well as the number of brokers over time can give an indication of perceived performance.

The data table

Each report contains a table presenting certain key information. The example table contains information on the Energy sector for a time at the beginning of November, 2012. The columns of the table contain the following information ranked by the size of the market capitalisation - largest to smallest.

Table: Data on companies in the ASX 100's Energy sector

Company name	Ticker		Price growth over		Price target			Concensus	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	rec.	brokers	yield	P/E	share
WOODSIDE PETROLEUM	WPL	34.22	3.3%	-6.7%	29.73	41.95	57.15	2.2	17	4.2%	13.4	30.7%
ORIGIN ENERGY (EX BORAL)	ORG	11.00	-5.7%	-21.6%	11.20	15.77	16.55	2.2	15	4.6%	13.4	17.0%
SANTOS	STO	11.37	-2.1%	-13.3%	12.00	15.30	18.43	1.9	16	2.7%	18.7	15.4%
OIL SEARCH	OSH	7.44	-2.7%	15.7%	8.29	9.25	9.87	1.9	16	0.5%	61.4	11.1%
WORLEYPARSONS	WOR	24.62	-10.4%	-11.8%	21.86	27.46	35.10	3.0	14	4.4%	14.5	7.6%
CALTEX AUSTRALIA	CTX	17.40	2.8%	30.2%	13.07	15.55	19.80	3.3	9	2.1%	12.5	3.3%
WHITEHAVEN COAL	WHC	2.89	-5.2%	-49.4%	3.20	4.35	6.01	1.7	14	0.7%	40.7	2.9%
BEACH ENERGY	BPT	1.38	2.2%	16.5%	1.20	1.55	2.00	2.4	11	1.4%	13.1	2.5%
AURORA OIL & GAS	AUT	3.83	3.5%	18.6%	2.61	3.80	4.93	2.9	10	0.0%	9.7	2.4%
PALADIN ENERGY	PDN	1.10	-15.8%	-21.2%	0.93	1.81	4.75	2.2	19	0.0%	39.5	1.1%

Note: the estimates in the Table are current to the close of business 5th November 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Column 1	Datastream's 'long' company name.
Column 2	The code for the stock used in trading.
Column 3	The closing price for the stock in dollars.
Column 4	The capital gain for the stock over the previous quarter.
Column 5	The capital gain for the stock over the previous year.
Column 6	The lowest reported target price.
Column 7	The median of all of the brokers' target prices.
Column 8	The highest reported target price.
Column 9	The average of all of the broker recommendations (scale 1 - 5).
Column 10	The number of brokers who contributed to targets and recommendations.
Column 11	The brokers' forecast dividend yield.
Column 12	The brokers' forecast price to earnings ratio.
Column 13	The market capitalisation of the company expressed as a fraction of those in the sector - and in the ASX 200.

Interpretation

The statistics and estimates in the data table are, perhaps, best used in a relative sense for those stocks in that sector. For example, a stock with an unusually large capital gain or loss might be singled out for further investigation as to why that stock was behaving differently.

Price targets are a bit fuzzy and not accurate but they do put the current price into perspective. It is not encouraging when a stock's price is above the median target! The width of the band (high target - low target) gives some idea of whether the median's target view is something to have some degree of confidence in. However, it could be that one broker reports the low target but all of the other brokers are quite close to the median or high target. Like all of these statistics, they are best used together to form a picture of the whole sector.

Although '1' is a buy, it is very difficult to get a consensus recommendation that is a '1' because it is most likely averaged with 2's, 3's etc. One way to deal with this is to use, say, less than 1.5 for the average as a buy, 1.5 -

2.5 as an outperform, 2.5 - 3.5 as a hold, etc. However, since there is a tendency for brokers not to report a 'sell'. 2.5 - 3.0 might be a better 'hold' and greater than 3.5 a 'sell'.

The yield forecasts are based on current prices and so will be higher after a price fall providing the dividend forecast in dollars is not also downgraded. Companies usually try to maintain dividend payments in dollars but this is not always possible.

P/E ratios - or price to earnings - can be used with historical earnings or predicted earnings - giving forecast P/E. P/E ratios vary a lot over the cycle and are more easily compared across companies in the same sector at the same time. If a P/E ratio is low it could indicate that the stock is underpriced - or earnings may come in short of expectations!

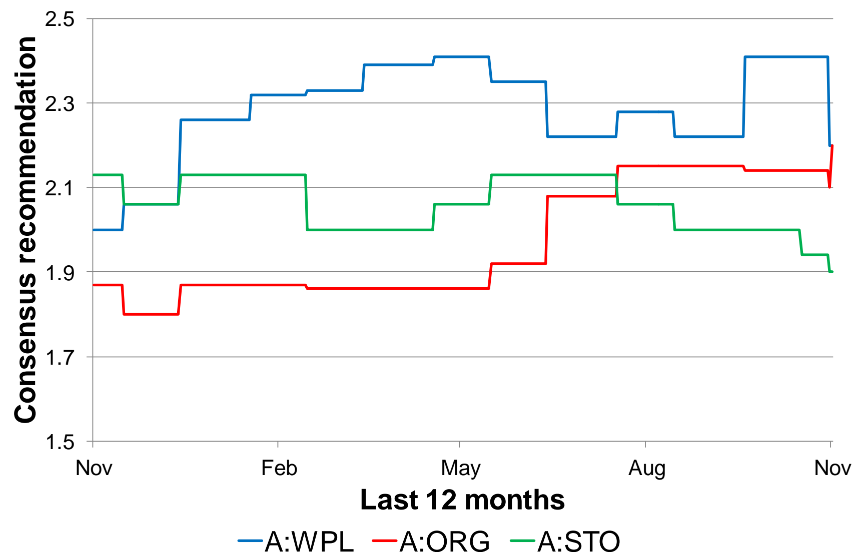
Consensus recommendations over time

Consensus recommendations change over time for three important and distinct reasons. Obviously, individual brokers might change their view on any given day. The larger the number of brokers, the less impact one broker's change of view will have on the average. The second reason is that a broker might stop covering a stock or, more likely, a new broker will start coverage. Since the latter is more likely to happen when there are few brokers, the latter can have a pronounced impact on the consensus recommendation. Also, when a broker changes his or her view, it is often only one notch up or down but a new broker might have a substantially different view on the stock. Finally, brokers might temporarily withhold their view while they research some new information. For these reasons, a simple snapshot of consensus recommendations can be lacking.

In Figure 1, a one year history of consensus recommendations is shown for the three largest capitalisation stocks. Woodside and Origin happen to have the same, very good consensus recommendation of 2.2. However, Origin's recommendation has been slipping since the middle of the year - and took another hit in the last day of the history. Interestingly, a few days later, Origin came out with a profit downgrade and its stock price fell sharply.

Santos, on the other hand has had a consensus recommendation that has been better, stable, and possibly gradually improving. Woodside did have a downgrade in its recommendation in recent months. Importantly, during that downgrade period there was one broker less reporting. The change is, therefore, of less consequence as, when the broker returned, so did the consensus recommendation.

Figure 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 5th November 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Mispricing

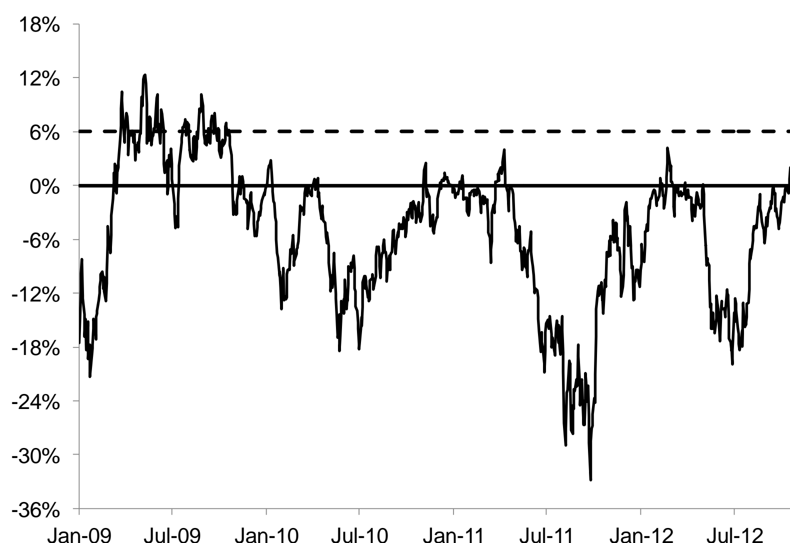
Woodhall Investment Research has a proprietary measure of mispricing which they call exuberance. The basis of the measure is the generation of a set of forecasts for capital gains over the next 12 months for each sector and the ASX 200. The forecasts are based on the same set of brokers' forecasts of dividends and earnings.

The basic principle of exuberance is that a sector's price that is running faster than the forecast is overpriced. Conversely, a price that is not keeping up with the forecasts is underpriced. The actual process is far more complicated than that by bringing to bear forecasts of different vintages and weightings of them. We have found from real-time experience over the years that an exuberance measure of over +6% is very overpriced - to the extent that there might be a correction of 6% to 10% or a prolonged sideways price movement until the fundamentals improve to erode the over-pricing.

Obviously cheap markets can get cheaper and expensive markets can stay expensive for quite a while. Importantly, exuberance is not a rule for traders. Investors sometimes avoid buying stocks when the sector is overpriced and are encouraged by underpricing (negative exuberance).

A 12-month history for the Energy sector is shown in Figure 2. We note that the sector did get overpriced by 6% or more a number of times in 2009 before a pull-back. The sector at the end of that period (November 5) was underpriced and, therefore, not a deterrent to buying relevant stocks.

Figure 2: Exuberance in the Energy sector



Note: the estimates in the Figure are current to the close of business 5th November 2012. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

Summary

We will now go through the analysis of this sector as we did at the relevant point in time - November 5, 2012.

Woodside is nearly twice as big - by market capitalisation share - as the next biggest stocks, Origin and Santos. It is nearly three times the size of Oil search. Given the size of the sector - about 6% by market capitalisation, most concentrated portfolios (say, less than 25 stocks in total) would not need more than two stocks.

Each rating is very good (2.2, 2.2 and 1.9) but we noted the slippage in Origin and dismissed it. It so happens, the next week saw Origin downgrade its profit forecast making this an easy one (in hindsight) to have called.

Whitehaven Coal had the best recommendation (1.7) but, at the time, there was intense speculation about take-overs and other events. That the price had fallen nearly 50% over the previous 12 months makes additional analysis worthwhile (given the market did not move by anywhere as near as much).

The P/E ratio for Whitehaven is very high which also causes concern - but it could be symptomatic of an earnings upgrade. That possibility is an additional risk in portfolio construction. Of course Oil Search and Paladin have as high or higher P/E ratios raising questions about those stocks.

Based on our analysis that leaves Woodside and Santos as (at the time) leading contenders for inclusion in a portfolio to represent the Energy sector. By reference to the median target price, Woodside has some expected price growth but the low target is well below the current price. In the case of Santos, even the low price target allows for further capital gains and the median for very nice gains.

In summary, Woodside and Santos pass some reasonable tests but Santos looks the better. Instead of allocating cash in proportion to market capitalisation - as is often done - tilting the weight towards Santos might prove to be a better investment. If new cash is to be allocated to the portfolio, the cheapness of the sector and the assessment of Santos makes it a leading contender for a top up.

Sectoral overview

23rd October 2012

The theme for my next series of reports is an overview of each of the major sectors of the ASX 200. In this first of these contributions, the background is set by reporting at a high level on all of the sectors. In each of the future contributions, one sector will be analysed in detail.

The 11 major sectors of the ASX 200 are listed in column one of the table. Using broker forecasts of dividends and earnings, Woodhall produces 12-month-ahead forecasts of total returns (including dividends but not franking credits), capital gains and the yield for each sector and the aggregate. Exuberance is our measure of mispricing and it can change markedly from day to day. All data in the table were current at the close on 22nd October 2012. Updates are published on the website each Saturday.

The Consenus rec(ommendation)s are the averages of the broker buy/hold/sell calls from brokers weighted by market capitalisation for the companies within each sector. Market share is the relative size of the market capitalisations of each sector.

Table: Forecasts and measurements for the ASX 200 and its major sectors

	12-month ahead forecasts			Exuberance	Consensus	Market
Sector	total returns	capital gains	yield		recs	share
Energy	11.0%	8.1%	3.1%	1.3%	2.3	6.3%
Materials	29.2%	26.8%	3.1%	1.0%	2.2	21.4%
Industrials	17.6%	13.6%	4.6%	-0.1%	2.5	6.2%
Consumer Discretionary	12.2%	9.2%	3.3%	1.0%	2.8	4.4%
Consumer Staples	11.0%	6.5%	5.0%	4.5%	2.9	8.3%
Health	14.3%	12.1%	2.5%	6.4%	2.7	4.1%
Financials ex Property	11.0%	5.1%	6.4%	4.9%	2.7	36.0%
Property	11.7%	6.4%	5.8%	5.5%	2.8	6.1%
IT	16.4%	13.3%	3.6%	5.5%	2.4	0.6%
Telecommunications	10.4%	4.0%	6.9%	5.5%	3.2	4.9%
Utilities	22.4%	17.7%	5.8%	-1.3%	2.7	1.7%
ASX 200	15.7%	11.5%	4.9%	2.2%	2.6	100.0%

Note: the estimates in the Table are current to the close of business 22nd October 2012. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

At this point in time, the outlook for the ASX 200 is bright with a capital gain forecast of 11.5% but, as the sector is slightly overpriced (+2.2%) care should be taken with buying the index. However, not all sectors are overpriced and their 12-month ahead expectations show a broad divergence.

Woodhall uses an exuberance level of +6% as a 'danger sign' that the sector or index might correct or move sideways for a prolonged period. Clearly Health is above that range but it has retreated slightly from recent highs of +8%. Consumer Staples, Financials, Property, IT, and Telcos are all too close to that 6% level for comfort. These estimates suggest that future growth of these sectors might be muted or may contract sharply before growth to trend level is re-established. Possibly, there will be some rotation from these sectors to the cheaper ones.

Energy, Materials and Consumer Discretionary are only mildly overpriced. Industrials and Utilities are slightly cheap. While there are other important statistics to be considered when building or maintaining an equity portfolio, Materials, Industrials and Utilities are currently strong sectors being not significantly overpriced and with good growth prospects.

The Consensus recs are all in a narrow range because of the averaging across companies in these sectors. Note that 1 is a buy, 2 an outperform, 3 a hold, 4 an underperform and 5 a sell. Only Telcos - dominated by Telstra - does not exceed the hold recommendation. Materials - including BHP and RIO - again looks good using this statistic. It is rare that a sector has an average recommendation above '2'.

While the current equity market seems reasonably stable, that has not been the case in recent times. Most resource-related stocks were hit badly in September as iron ore prices plummeted before rebounding. It is not wise to place too much reliance on statistics for a given day such as in the Table. In the individual sector reviews, a recent history will be included to better judge how much equity to hold in each sector, if any.

The Energy Sector

6th November 2012

As foreshadowed in my last piece, I intend to report on my analysis of each of the 11 sectors of the ASX 200 in turn. The first is the Energy sector. I plan to keep a similar format to each piece to enable comparison.

My version of a High Conviction equity portfolio starts with the top 100 companies that attract a sufficiently strong consensus rating from Thomson Reuters Datastream. I usually use 2.5 as a cut off being halfway between an outperform (2) and a hold (3). I focus on the largest companies by market capitalisation that meet this criterion.

The table contains much of the information I use in stock selection. There are 10 stocks in the ASX 100 assigned to the Engery sector. However, I use my own filters to exclude stocks I do not want to include - as I discussed at the start of my contributions. In my opinion WOR is better thought of as mining services company and so I assign it to the Industrials sector. Similarly, I assign CTX to that same sector as it is a refiner/distributor rather than a 'resource' stock. I exclude PDN because I feel the future of the uranium stock is heavily influenced by changes in the political landscape. That leaves seven stocks to chose from.

Table: Data on companies in the ASX 100's Energy sector

Company name	Ticker		Price growth over		Price target			Concensus	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	rec.	brokers	yield	P/E	share
WOODSIDE PETROLEUM	WPL	34.22	3.3%	-6.7%	29.73	41.95	57.15	2.2	17	4.2%	13.4	30.7%
ORIGIN ENERGY (EX BORAL)	ORG	11.00	-5.7%	-21.6%	11.20	15.77	16.55	2.2	15	4.6%	13.4	17.0%
SANTOS	STO	11.37	-2.1%	-13.3%	12.00	15.30	18.43	1.9	16	2.7%	18.7	15.4%
OIL SEARCH	OSH	7.44	-2.7%	15.7%	8.29	9.25	9.87	1.9	16	0.5%	61.4	11.1%
WORLEYPARSONS	WOR	24.62	-10.4%	-11.8%	21.86	27.46	35.10	3.0	14	4.4%	14.5	7.6%
CALTEX AUSTRALIA	CTX	17.40	2.8%	30.2%	13.07	15.55	19.80	3.3	9	2.1%	12.5	3.3%
WHITEHAVEN COAL	WHC	2.89	-5.2%	-49.4%	3.20	4.35	6.01	1.7	14	0.7%	40.7	2.9%
BEACH ENERGY	BPT	1.38	2.2%	16.5%	1.20	1.55	2.00	2.4	11	1.4%	13.1	2.5%
AURORA OIL & GAS	AUT	3.83	3.5%	18.6%	2.61	3.80	4.93	2.9	10	0.0%	9.7	2.4%
PALADIN ENERGY	PDN	1.10	-15.8%	-21.2%	0.93	1.81	4.75	2.2	19	0.0%	39.5	1.1%

Note: the estimates in the Table are current to the close of business 5th November 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

The top three companies by size (WPL, ORG & STO) each have strong ratings (2.2, 2.2,1.9) with a sufficient number of brokers contributing to those ratings (17, 15, 16). If I wanted to be a bit more adventurous I might consider looking at the stock with the best rating, WHC (1.7). However, I note this company is experiencing a lot of takeover talk in the media and has a forward P/E ratio (40.7) well above the average for the sector. This company could turn out to be a great buy but my assessment is that there are additional risks that I would not wish to accept.

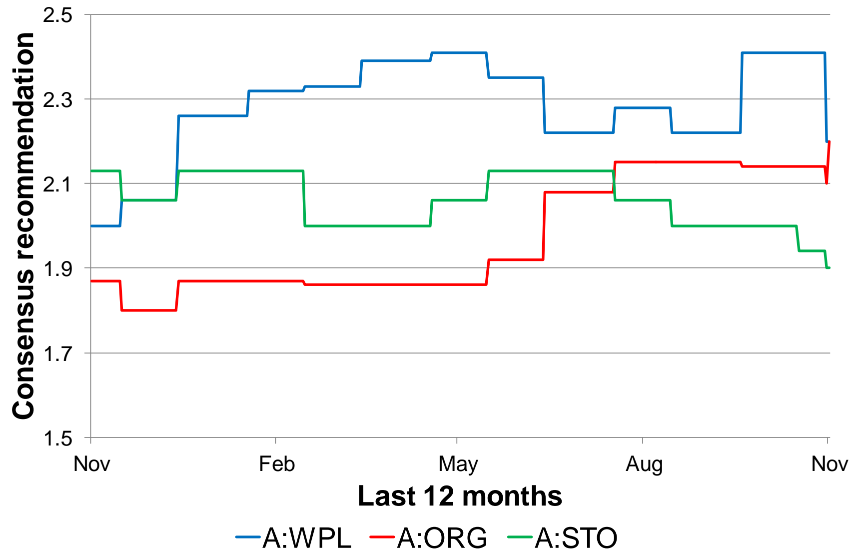
I happen to hold WPL and STO and not ORG. At the time I first bought my Energy stocks, STO had a much better rating than ORG which swayed me - but these rating change over time as can be seen in Figure 1 for the last 12 months. WPL and ORG currently have a similar rating but WPL's rating has typically been worse in the last 12 months. However, WPL is the biggest company by far being about 30% of the Energy sector in the ASX 200. STO currently has a better ranking but, importantly, STO's ranking has been improving while ORG's has been deteriorating a little. My current preference between the two is still for STO .

If I determined that I needed some energy stocks, I need to know if it is a good time to buy. My updated Energy 12-month forecast of capital gains (from the previous issue) is for 8.9% against an ASX 200 forecast 11.8%. Finally, I have the sector as being a little bit cheap from Figure 2. Indeed, in the last year or two, the Energy sector has rarely been overpriced. This chart, and similar ones for the other sectors are updated each week on www.woodhall.com.au.

The current price of WPL is $34.22 well below the median target price of $41.95 but the lowest target price, at $29.73, is below the current price. However, for STO even the lower price target ($12.00) is above the current price ($11.37). Forecast dividend yields of WPL (4.2%) and STO (2.7%) are reasonable for resource stocks in my opinion.

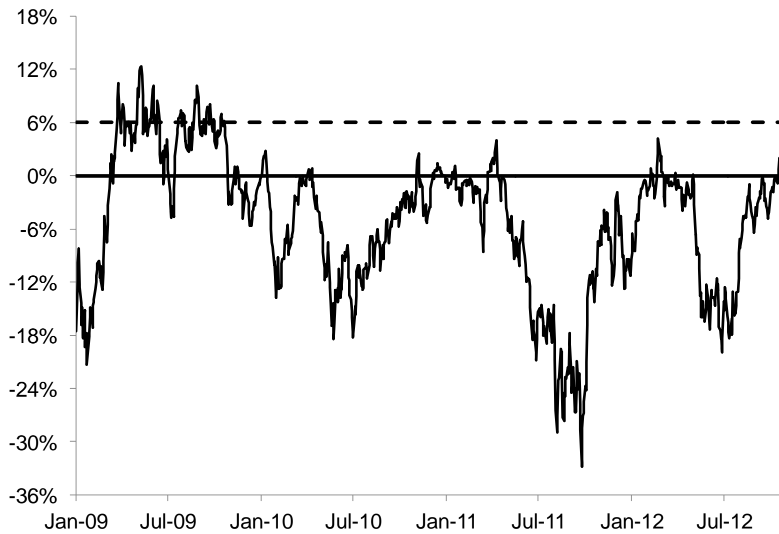
Of course all of the information used in this report can change on a daily basis and often does. Also, other factors might be considered - such company's outlook statements - before selecting stocks. And perhaps I can remind readers that the rules for selling or rotating stocks are, for me, different from those I use to buy.

Figure 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 5th November 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Figure 2: Exuberance in the Energy sector



Note: the estimates in the Figure are current to the close of business 5th November 2012. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Materials (Mining) Sector

20th November 2012

Continuing my sector review theme, I now turn my attention to the Materials sector that is an unusual mix of mining and building companies - but that is how the GICS (Global industrial Classification System) defines this one of 11 major sectors. Since there are 22 companies in the top 100, I am splitting the analysis into two parts: one for mining stocks and one for the rests. That leaves 11 stocks in my 'unofficial' Materials (Mining) sector. For brevity readers should refer to my last piece on the Energy sector and the previous piece that compares all 11 sectors for details.

The table contains much of the information I use in stock selection. These stocks account for 76.7% of the market capitalisation of the ASX 200 Materials sector - the sum of the column headed Market cap. share. The Non-mining sectors accounts for 14.4% and the remaining 8.9% accounts for the lower 100 of Materials stocks in the ASX 200.

Table: Data on companies in the ASX 100's Materials (Mining) sector

Company name	Ticker		Price growth over		Price target			Concensus	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	rec.	brokers	yield	P/E	share
BHP BILLITON	BHP	32.93	-5.9%	-8.9%	31.74	39.14	52.67	2.1	18	3.7%	11.8	48.3%
RIO TINTO	RIO	56.90	-3.8%	-15.1%	60.49	74.57	104.84	1.8	16	3.0%	10.2	11.3%
NEWCREST MINING	NCM	24.57	-10.7%	-31.5%	25.00	30.00	39.10	2.5	17	1.8%	14.4	8.6%
FORTESCUE METALS GP.	FMG	3.90	-7.8%	-19.6%	3.13	4.70	8.20	2.2	21	2.1%	8.1	3.3%
ILUKA RESOURCES	ILU	7.79	-27.9%	-50.5%	7.00	10.95	16.80	2.7	17	8.9%	5.6	1.3%
REGIS RESOURCES	RRL	5.41	0.4%	63.9%	4.00	5.65	7.56	1.9	16	2.6%	10.1	0.9%
OZ MINERALS	OZL	7.31	-13.9%	-32.9%	6.25	9.15	12.00	2.9	20	3.1%	14.4	0.8%
PANAUST	PNA	3.16	-9.7%	-4.2%	2.73	3.85	4.34	2.1	19	2.5%	8.8	0.7%
ATLAS IRON	AGO	1.45	-13.9%	-52.6%	1.30	2.10	3.61	2.1	20	2.1%	12.3	0.6%
LYNAS	LYC	0.56	-19.0%	-54.1%	0.65	0.88	2.44	2.8	9	0.0%		0.5%
PERSEUS MINING	PRU	2.33	-12.7%	-21.8%	2.50	3.27	5.80	1.8	17	4.7%	7.6	0.4%

Note: the estimates in the Table are current to the close of business 16th November 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

The top three stocks (BHP, RIO and Newcrest) all have reasonable to very good ratings with a 'Consensus re.' of 2.5 (market outperform) or less. I believe that many investors favour Newcrest because they see it as a 'gold play' without resorting to buying the commodity. However, the correlation between the gold price and NCMs price is not that high. Apparently, gold miners extract from more difficult - hence costly - locations when the price is high. I have a personal aversion to anything associated with gold!

I have held Atlas and Lynas for some time to accompany my BHP and RIO holdings. When I first purchased AGO and LYC they were not in the top 100 but they had excellent ratings. I chose to use these stocks as my Small Cap exposure and have added to and sold during the time since my first purchases.

AGO, a Western Australian iron ore miner had looked promising until the middle of this year when the negative stories about China emerged in great numbers. The price fell sharply but the rating - at 2.1 - remains firm. Since I always believed that the China in slowdown story was well overdone, I have not sold recently since I am not fleet of foot enough to be a trader. I believe in the long run prospects.

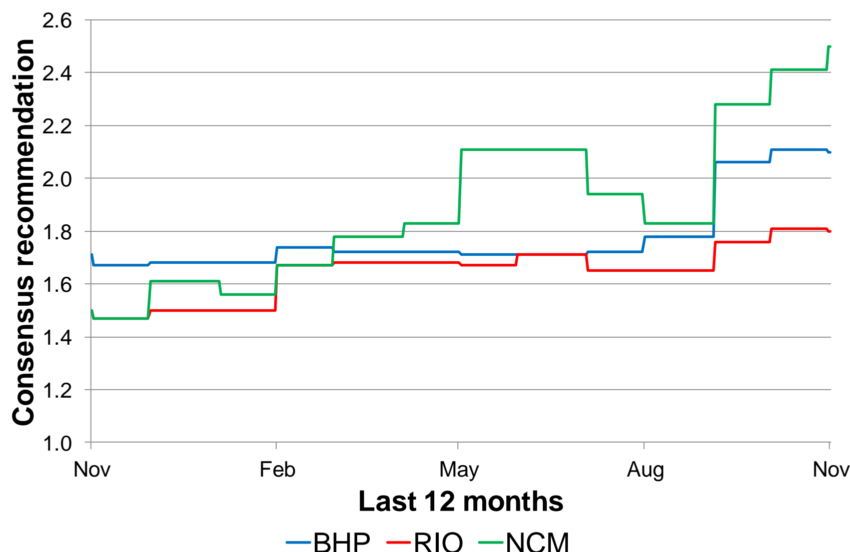
LYC was the market darling of 2011. It mines rare earths that are used in many high tech products - and China produces about 95% of world output. The price rocketed up from under 20 cents to nearly $3. I sold nearly half of my exposure to lock in a guaranteed profit even if the price of my remaining holding falls to zero. Therefore, I felt it reasonable to hold on to the stock during the protests in Malaysia that have been trying to prevent LYC from processing there. There is the danger that the plant will not go ahead but the rare earths are still owned by LYC in Australia - but the share price would no doubt fall. Given the Malaysian government signed off on the plant and it has withstood a couple of appeals there is scope for a potentially very valuable stock. If the plant is stopped, the impact of foreign investment in Thailand could be major. Its current rating of 2.8 is not impressive and reflects the political nature of the stock.

The ratings for ILU and OZL are too poor for me to consider buying at present and PNA and PRU are too dependent on exploration for my liking. RRL is dependent on gold mining and so is not one for me. FMG, the iron ore miner, went through some well publicised debt negotiations recently, but my reason for not holding it is because its fortunes seem to be too linked to the charisma (and ability!) of its chairman, Andrew Forrest. Too much key man risk for me.

Turning back to the big three stocks in the sector, the last 12 months data on their recommendations are shown in Figure 1. All ratings have deteriorated - along with the controlled slow-down in China but NCM has taken a

bigger jump recently - adding to my lack of interest in the stock. RIO looks to be preferred to BHP not only because of its current rating but the widening gap.

Figure 1: Variation in consensus recommendations for selected stocks

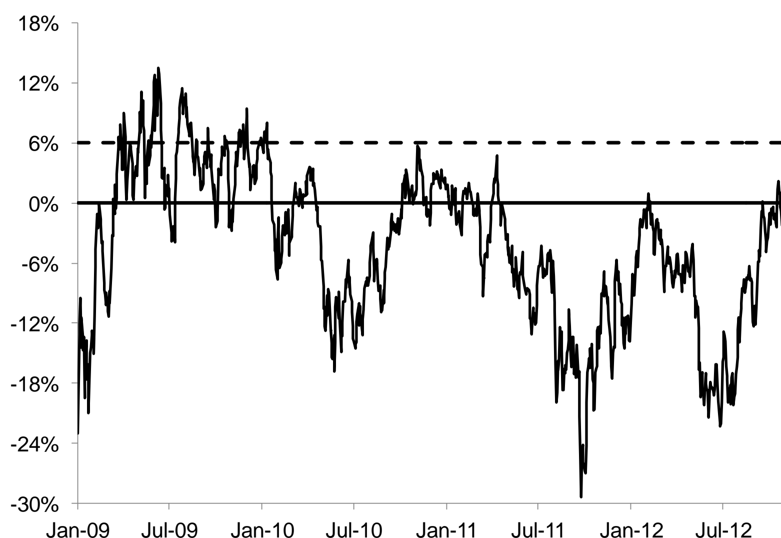


Note: the estimates in the Figure are current to the close of business 16th November 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

We currently have the whole Materials sector predicted to have the best capital gain of the 11 sectors over the next 12 months of 27.5% and, from Figure 2, the sector is well underpriced (-6.8%). We did have the sector very overpriced in 2009 and sufficiently overpriced for a correction in late 2010.

With the consensus target price range of $31.74 to $52.67 with a median of $39.14, BHP stock price makes it worthy of consideration. For RIO the range is $60.49 to $104.84 with a median of $74.57 making it more attractive than BHP which is consistent with the ratings differential. AGO has a very wide target range of $1.30 to $3.61 with a median of $2.10 reflecting more risk being associated with this stock going forward. LYC similarly has a very wide range of $0.65 to $2.44 with a median of $0.88. Clearly the risks associated with these forecasts - in particular - should be taken into account and the possibility that any of these data points/forecasts may change rapidly, and often do.

Figure 2: Exuberance in the Materials (Mining) sector



Note: the estimates in the Figure are current to the close of business 16th November 2012. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Materials (Non-Mining) Sector

3rd December 2012

In this second report on the Materials sector, I now turn my attention to those stocks left over from the previous issue - which I shall broadly refer to as Non-mining stocks. There are nine such stocks in the ASX 100 and they are listed in the table. Clearly, from the column marked 'Market cap. share' - which is the percentage share of each company within the ASX 200 Materials sector - these companies are relatively small. As such, there may be no need to delve into this subsector to build a high conviction portfolio. However, for completeness, I will take my usual approach to analysing stocks.

Table: Data on companies in the ASX 100's Materials (Non-Mining) sector

Company name	Ticker		Price growth over		Price target			Concensus	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	rec.	brokers	yield	P/E	share
ORICA	ORI	24.45	-2.5%	-6.6%	24.49	27.13	30.60	2.1	17	4.1%	12.0	3.9%
AMCOR	AMC	7.99	2.6%	7.7%	7.25	8.25	9.25	2.5	14	5.1%	13.6	3.8%
INCITEC PIVOT	IPL	3.19	2.2%	-0.6%	3.05	3.40	4.25	2.0	15	4.1%	12.6	2.1%
JAMES HARDIE INDS.CDI.	JHX	9.17	-1.0%	31.9%	7.63	8.77	9.92	3.2	14	2.9%	23.9	1.4%
BORAL	BLD	4.05	12.2%	9.2%	2.98	3.64	4.25	3.0	14	3.0%	20.4	0.9%
ALUMINA	AWC	0.93	-0.5%	-32.9%	0.63	0.99	2.03	2.8	16	1.1%		0.8%
BLUESCOPE STEEL	BSL	0.53	10.4%	39.5%	0.40	0.52	1.15	2.2	9	1.9%	17.2	0.7%
SIMS METAL MANAGEMENT	SGM	8.85	-3.6%	-34.1%	8.40	11.00	20.58	2.1	13	3.8%	13.1	0.5%
ARRIUM	ARI	0.79	12.9%	-6.0%	0.63	0.87	1.67	2.6	10	7.6%	5.4	0.4%

Note: the estimates in the Table are current to the close of business 3rd December 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

The top three stocks (Orica, Amcor and Incitec Pivot) all have reasonable to good ratings with a 'Consensus re.' of 2.5 (market outperform) or less. Orica is a diversified manufacturer of chemicals, food and beverage flavourings, fragrances and explosives (used in the mining sector). Amcor is an international integrated packaging company and Incitec Pivot is a fertilizer manufacturer and supplier - also including explosives.

Orica's share price has fluctuated in a narrow channel between 2007 and the present - except for the two years of the GFC: June 2008 - June 2010. It has a respectable dividend yield (4.1%) but it does not seem the stuff of a smaller cap stock to spice up a portfolio. It has been a reasonably good defensive stock.

Amcor's stock price, on the other hand, has grown steadily since the bottom of the market. As a momentum play with a reasonable recommendation of 2.5, and a slightly higher dividend (5.1%) it might be preferred to Orica.

IPL was a market darling in 2007 and 2008 as its price shot up rapidly to just under $9 (after correcting for a share split) but it fell just as dramatically. With food for Asia being a recent catchcry, fertilizer is important but the market has not yet valued it so. However, IPL does have the best recommendation in this subsector.

The remaining stocks in the subsector, except for SGM - a scrap metal recycler, relate to building materials manufacturing. Steel (BLS and ARI) does not seem to me to be a viable industry in this country - without government assistance - and so I would avoid them. Indeed, I have never held any of these stocks.

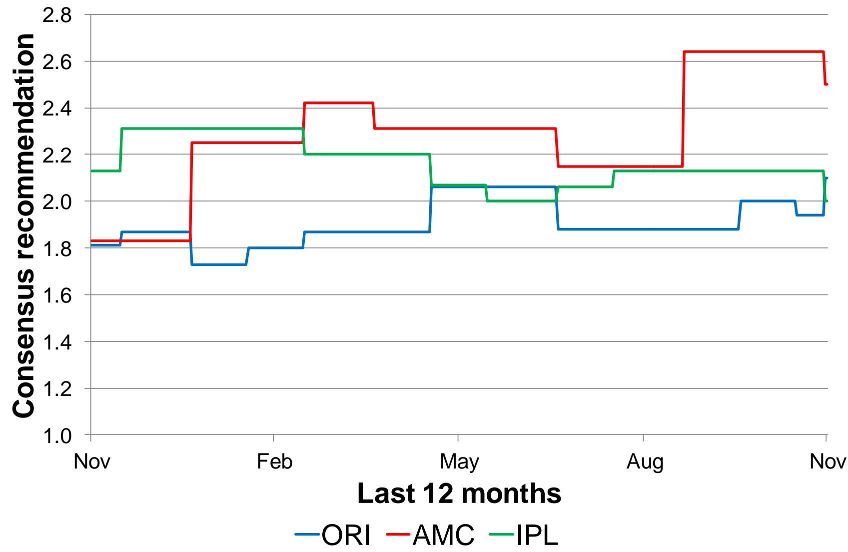
Turning back to the big three stocks in the sector, the last 12 months data on their recommendations are shown in Figure 1. Orica's rating has been stable and strong for the last 12 months - but that has not been accompanied by good capital gains. Amcor's rating has been deteriorating for 12 months and that takes some of the gloss off the preference I alluded to earlier. IPLs recommendation has been gradually improving and is at a strong level with a respectable number of brokers.

We still have the whole Materials sector (including mining) predicted to have the best capital gain of the 11 sectors over the next 12 months of 29.8% and, from Figure 2, the sector is still underpriced (at -2.5%). It should be stressed that this sector is dominated by mining stocks and the broader index may not be representative of the non-mining subsector. There is no readily available data on this subsector to enable a fuller analysis.

Orica's price is almost equal to the low target price and the median target does not inspire acquiring this stock. Amcor's and Incitec Pivot's prices are well inside the respective low - high ranges. Without other strong information on these companies - which I do not have, but may exist - I find no reason to add any of these stocks to a high conviction portfolio.

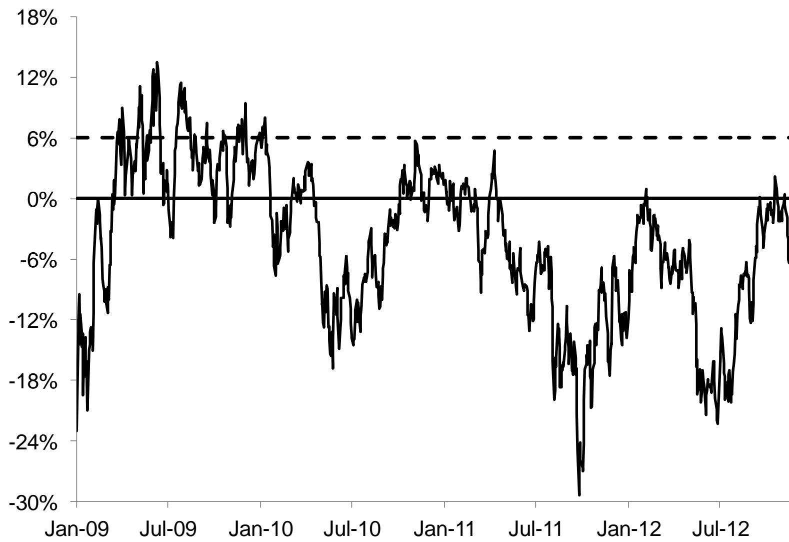
Readers who want more detail on how I carry out my style of analysis can find a new paper on my approach on www.woodhall.com.au under the 'Market Updates' tab - general information.

Figure 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 3rd December 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Figure 2: Exuberance in the Materials sector



Note: the estimates in the Figure are current to the close of business 16th November 2012. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Industrials Sector

18th December 2012

There are 13 stocks in the Industrials sector of the ASX 100 - ignoring the international drilling company Boart Longyear (BLY) that exits the top 100 on December 21 after a big price fall. The drivers for this sector are many and varied. There are a number of mining services companies but only Monadelphous makes the top 100 list. However, it might be recalled that I chose to reallocate Worley Parsons from the Energy sector to Industrials in my review of the Energy sector but its rating of 2.6 precludes my selection of it at this time. Only 6 of the 13 stocks in the Table have a recommendation (less than or equal to 2.5) sufficient to warrant my consideration for including in a high conviction portfolio. The largest, Brambles, which runs an international distribution network of pallets and plastic containers fails to make my list. So the three biggest stocks by market capitalisation with a sufficiently good rating are Transurban, Aurizon and Asciano. There is a paper on www.woodhall.com.au under the 'Market Updates' tab that illustrates my methodology and provides more detail on the statistics I use.

Table: Data on companies in the ASX 100's Industrials sector

Company name	Ticker		Price growth over		Price target			Concensus	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	rec.	brokers	yield	P/E	share
BRAMBLES	A:BXB	7.35	8.9%	2.1%	7.07	7.89	9.71	2.6	13	4.1%	16.3	16.4%
TRANSURBAN GROUP	A:TCL	6.15	3.0%	8.1%	5.60	6.18	6.50	2.4	15	5.4%	47.5	11.8%
AURIZON HOLDINGS	A:AZJ	3.62	6.5%	2.0%	3.40	3.90	4.52	2.5	15	3.3%	16.4	9.6%
SYDNEY AIRPORT	A:SYD	3.47	10.5%	23.9%	2.95	3.15	3.55	3.2	12	6.3%	38.4	6.0%
ASCIANO	A:AIO	4.51	3.2%	-1.7%	4.60	5.20	6.10	2.1	14	2.4%	12.1	5.4%
TOLL HOLDINGS	A:TOL	4.59	-3.4%	2.9%	4.55	4.86	5.15	2.7	13	5.7%	10.7	4.8%
ALS	A:ALQ	9.61	10.2%	-2.5%	8.20	9.15	12.73	2.8	17	4.8%	14.1	4.7%
LEIGHTON HOLDINGS	A:LEI	16.82	-1.3%	-14.6%	15.66	18.38	21.90	2.7	16	6.5%	9.4	4.1%
QANTAS AIRWAYS	A:QAN	1.40	12.5%	-8.2%	1.31	1.50	1.88	2.3	13	1.4%	10.3	3.8%
MONADELPHOUS GROUP	A:MND	22.50	13.4%	17.7%	18.00	23.50	27.86	2.6	15	6.7%	13.0	2.9%
SEEK	A:SEK	7.05	5.1%	14.3%	6.00	7.23	8.45	2.5	20	3.1%	15.2	2.7%
UGL	A:UGL	10.69	-0.7%	-14.4%	9.50	12.21	13.65	2.8	17	6.9%	10.2	2.7%
DOWNER EDI	A:DOW	3.82	6.1%	17.5%	3.73	4.35	5.02	1.9	17	3.1%	7.7	2.5%

Note: the estimates in the Table are current to the close of business 14th December 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Transurban is an infrastructure company that owns motorways in Australia. Hence, price growth is not usually expected to be particularly strong but the dividends are quite reasonable at 5.4%. Aurizon is a rail freight company based in Queensland and Asciano is involved in rail and port services. Downer EDI is much smaller company involved in engineering and infrastructure services but it does have the best rating (1.9) of the 13 stocks in the top 100.

The sector as a whole looked quite promising at the beginning of the year but it took a beating when the doom and gloom story about China emerged in mid-2012. It has always been our opinion that the China story was massively overdone and the prices of many stocks in this sector have improved markedly in the last few months. These wild price fluctuations have had a major impact on the relative market capitalisations. As a result, it might be worth considering other stocks outside the current biggest three with acceptable ratings.

Our current forecast for capital gains for the Industrials sector over the next 12 months is a very respectable 14.5% with a forecast dividend yield of 4.6%.

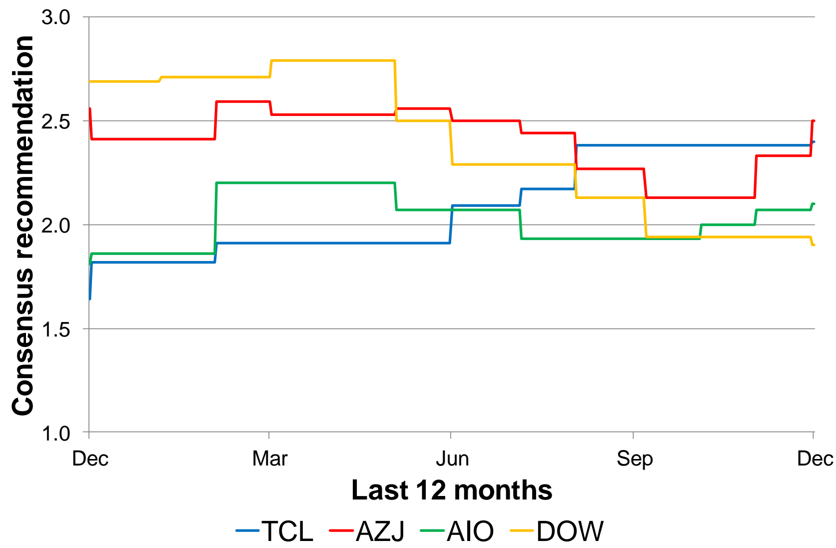
I would never own an airline for so many reasons and so Qantas is not on my list - even though its rating is quite good (2.3) - but SEEK (2.5), an internet employment services company, seems to have some merit.

The recent history of the consensus recommendations for TCL, AZJ, AIO and DOW are shown in Chart 1. TCLs ratings has been deteriorating for much of the time and this trend is a concern. The ratings for AZJ and AIO have been reasonably stable. DOW's rating has improved strongly which is why I have added it to my list for consideration.

The wild fluctuations in stock prices have led to the sharp changes in our measure of mispricing - exuberance - shown in Chart 2. We had the sector very underpriced - around -18% - in the middle of 2012 and another good buying opportunity arose in mid-November. We currently have the sector priced at about par which does not - in our methodology - imply that one should not buy - but that there is no 'free kick' to accompany a buy at this point.

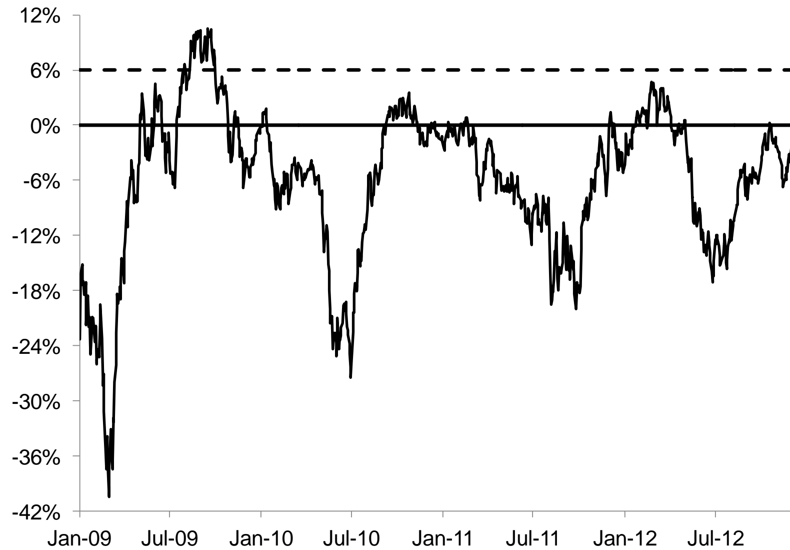
I do not currently own any of the stocks from this list but I did once own some TCL. My current holdings are Boart Longyear (BLY), Bradken (BKN), and Emeco (EHL) - three mining services companies in the ASX 200. All three went down sharply with the sector on the China story but all three are showing promising signs of recovery. If, as we believe, the world will look a lot stronger in coming months, these stocks prices might ride the wave back up.

Chart 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 14th December 2012. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Chart 2: Exuberance in the Industrials sector



Note: the estimates in the Figure are current to the close of business 14th December 2012. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Discretionary Sector

10th January 2013

There are 11 stocks in the Consumer Discretionary sector of the ASX 100 - which are all listed in the Table. Five are stocks associated with gambling (TTS, CWN, EGP, TAH, ALL), three are retail store chains (MYR, DJS, HVN) and two are media (NWS, FXJ). The remaining stock is Flight Centre. News Corp dominates in size being 41.2% of the sectors market capitalisation in the ASX 200.

I sold out of this sector in May 2011 having been burned a couple of times in HVN and I have not returned since. I exited NWS quite some time before. However, Consumer Discretionary has been one of the standout sectors for the year - but it was coming from a low base.

I am not against gambling - as many 'ethical investors' are. My problem is that these stocks can be very much affected by changes in regulation which might not be flagged in advance. Media companies are going through a major transition given the impact of the internet on the manner in which consumers take delivery of content - and how to charge for it. Need I say more about retail stores? Australians have changed their savings habits and the internet is also impacting this sector.

My views are largely reflected in consenus recommendations. Only three pass my 2.5 rule (please see my paper on this on www.woodhall.com.au under the Market Update tab). They are NWS, CWN and FLT.

Table: Data on companies in the ASX 100's Discretionary sector

Company name	Ticker		Price growth over		Price target			Concensus	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	rec.	brokers	yield	P/E	share
NEWS CORP.CDI.'B' (ASX)	A:NWS	25.63	3.1%	40.4%	21.06	28.48	30.15	2.2	8	0.9%	14.2	41.2%
TATTS GROUP	A:TTS	3.13	9.8%	31.5%	2.10	2.85	3.37	3.0	13	5.1%	19.4	8.7%
CROWN	A:CWN	11.00	17.3%	38.2%	8.60	11.00	11.85	2.0	13	3.5%	16.5	8.1%
ECHO ENTERTAINMENT GROUP	A:EGP	3.49	-12.3%	1.1%	3.30	3.75	4.80	3.1	13	2.6%	18.9	5.0%
TABCORP HOLDINGS	A:TAH	3.10	8.4%	11.5%	2.60	2.98	3.30	3.1	13	5.2%	15.8	4.0%
FLIGHT CENTRE	A:FLT	27.32	7.1%	62.6%	23.30	26.75	29.50	2.1	17	4.7%	12.2	3.1%
MYER HOLDINGS	A:MYR	2.21	19.5%	12.8%	1.65	2.12	2.70	2.7	14	8.1%	9.9	2.4%
DAVID JONES	A:DJS	2.40	-5.5%	-1.6%	1.70	2.20	2.56	3.6	14	7.1%	13.0	2.3%
ARISTOCRAT LEISURE	A:ALL	3.23	16.6%	45.5%	2.45	3.00	3.50	2.9	14	3.7%	16.3	2.2%
HARVEY NORMAN HOLDINGS	A:HVN	1.93	-2.0%	4.1%	1.35	1.70	2.28	3.4	13	4.7%	11.5	2.0%
FAIRFAX MEDIA	A:FXJ	0.54	33.3%	-27.0%	0.40	0.50	0.90	3.0	13	3.7%	9.0	1.3%

Note: the estimates in the Table are current to the close of business 4th January 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Turning to Chart 1, I note that FLTs recommendation, while being very good, has been slipping for 12 months - but it did improve in the last two days. I would monitor this recommendation a little while longer before I would consider buying.

The NWS was also very good until the second half of last year. But again, it did improve in the last couple of days.

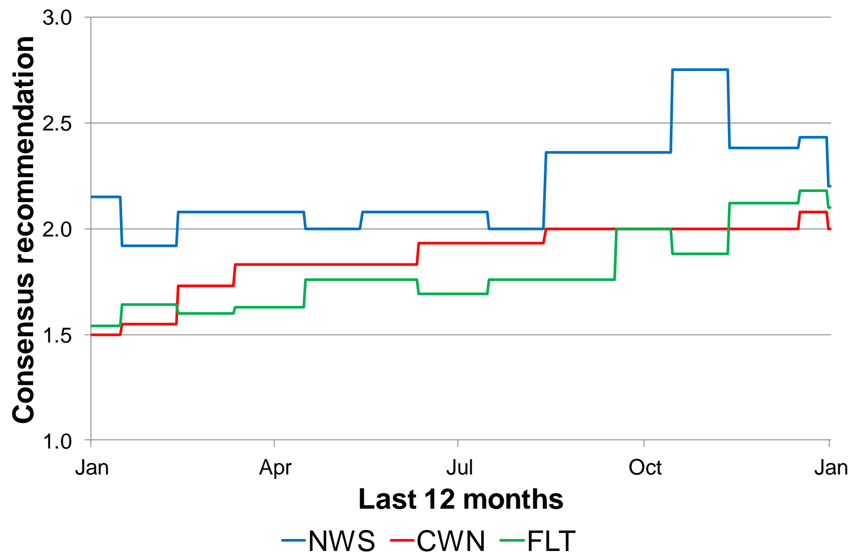
CWN has the best recommendation but it too has slipped a bit. This looks to be the best of the bunch on recommendations alone.

FLTs price is above its median target price and CWN is on it. NWS has room for capital gains based on the median price. All three have had massive growth in the last 12 months: NWS (40%), CWN (38%), FLT (63%).

The exuberance chart shows the current drama. Mispricing is currently 4.8% which is not far below our 'trigger point' of 6% for a correction. The ASX 200 has just been through 7 consecutive weeks of gains. It is all looking a bit much to me in this sector.

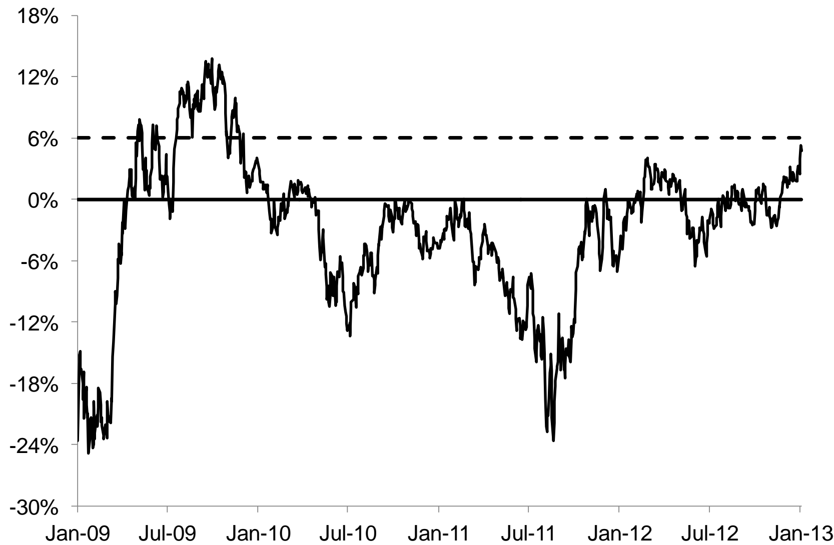
The only stock that interests me in this sector is Flight Centre but today does not seem to be the best time to buy - at least according to broker forecasts of target prices, our measure of exuberance, and the strength of the trend. If we look back to my last two papers - both on the materials sectors, most of the stocks have so far done quite well - and that is consistent with my way of analysing stocks and sectors as I discuss in that paper on our website.

Chart 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 4th January 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Chart 2: Exuberance in the Discretionary sector



Note: the estimates in the Figure are current to the close of business 4th January 2013. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Staples Sector

24th January 2013

There are only 6 stocks in the Consumer Staples sector of the ASX 100 - which are listed in the table - and there is only one more stock that makes the top 200 sector - that is Goodman Fielder. I think all are of these companies are household names so I will not discuss what they do. Perhaps the only one that needs some explanation is Wesfarmers (WES) - let's refer to it as Coles - as it goes head-to-head with Woolworth's in its supermarket chain - but 'Coles' also has coal and industrial interests!

Staples, by its name, is a sector that produces goods that we always need. The bread and butter stocks that should not be expected to go through the price cycles that their cousins, Consumer Discretionary, go through - and certainly it is not a sector that might be expected to swing through the big Resource sector cycles.

Coles and Woolworths are about the same size - as can be seen from the last column of the table. And these two companies account for over 80% of the weight for this sector in the top 200. Both pay reasonable dividends - WOW (4.5%) and WES (5.1%) and both have prices that have run hard over the last 12 months (24.0% and 24.6%).

My views (as is usual) are largely reflected in consensus recommendations. None pass my 2.5 rule - and that failure is more or less peculiar to this sector. Possibly brokers have factored in the recent strong run in prices. The two big guns have recommendations better than 3 (a 'hold') - an absolute minimum standard for me to buy in. The other is Metcash - a smaller chain that does not excite me.

Table: Data on companies in the ASX 100's Staples sector

Company name	Ticker		Price growth over		Price target			Recommend-	No. of	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	ation	brokers	yield	P/E	share
WOOLWORTHS	WOW	30.88	4.8%	24.0%	22.00	29.17	33.35	2.9	14	4.5%	15.8	41.7%
WESFARMERS	WES	37.69	7.3%	24.6%	31.10	34.98	42.39	2.7	14	5.1%	17.5	41.3%
COCA-COLA AMATIL	CCL	13.45	-1.1%	15.4%	12.00	13.64	14.25	3.2	14	4.5%	17.2	7.2%
METCASH	MTS	3.59	-3.5%	-12.0%	3.00	3.38	4.15	2.9	14	7.5%	11.1	3.3%
TREASURY WINE ESTATES	TWE	4.80	-12.7%	33.7%	3.30	4.30	6.50	3.3	13	3.3%	19.4	3.2%
GRAINCORP	GNC	12.12	36.9%	53.2%	7.35	12.55	13.40	3.3	11	3.5%	16.3	2.4%

Note: the estimates in the Table are current to the close of business 18th January 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Turning to Chart 1, I note that the recommendations for WOW and WES slid in recent months. Before that they were OK. And WES looks better now than WOW. Since these recommendations are not *bad* the reasonable dividends might be associated with not much growth in capital gains making a buy seem reasonable - but I will now turn to this aspect in detail.

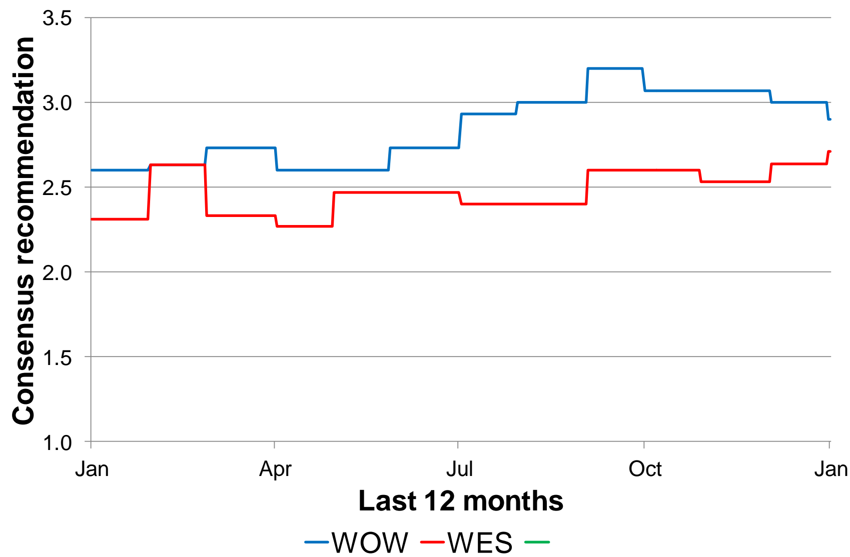
One of the main planks of my investment strategy is our proprietary measure of exuberance - or market mispricing. Often when I write about a particular sector or stock, it seems to be too late or too early to make an important comment. Chart 2 says it all to me - today. And for anyone interested in such charts and more, I update them all each Saturday on www.woodhall.com.au. I think they are self-explanatory after a brief discussion such as this. I also have a general paper on that site that describes my methodology used in these sector reviews.

From experience, I use +6% overpricing (or exuberance as I prefer to call it) as a trigger for a price correction of about 6% - 10% - or a prolonged sideways movement in price. I have been monitoring these statistics and related methods for more than 8 years and I think they have served me very well.

From Chart 2 I note that the Staples sector crossed the 'magic' dotted line of 6% on 17th August 2012. At this point the sector price had run hard. Exuberance then fell to around 0% (a buying opportunity?) before rebounding. During this time the price index for the sector went largely sideways (a bit down) - until about 21st November - when it shot up again. I wouldn't buy either WOW or WES now (the sector is nearly back to +6% exuberance) but I might have been tempted when it was fairly priced by our measure!

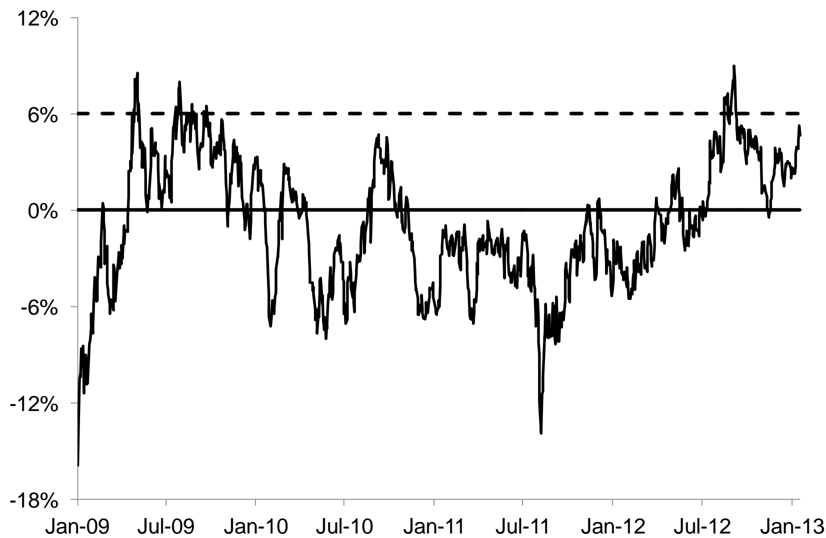
On a personal note - I have never owned a stock from this sector. If I just want dividends I go for Financials. If I just want defensives, I go for Health and Utilities. But I don't think I am necessarily 'normal'. We all should make our own choices. I hope this analysis helps you make decisions that are good for you.

Chart 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 18th January 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Chart 2: Exuberance in the Staples sector



Note: the estimates in the Figure are current to the close of business 18th January 2013. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Healthcare Sector

7th February 2013

There are only seven stocks in the Healthcare (Health) sector of the ASX 100 - which are listed in the Table - and there are another four in the next 100. Despite being in the same sector, these seven companies are largely quite different in their products/services and markets.

CSL, the plasma company, is by far the biggest – being more than 50% of this sector's top 200 market capitalisation. Resmed has products for sleep disorder; Sonic runs pathology services in Australia and overseas; Ramsay owns hospitals etc; Cochlear is a world famous ear implant producer; Ansell produces health protection products; and Primary produces goods and services for use by health professionals.

The Health sector may benefit going forward from an aging population. It is certainly considered by most to be a defensive sector as evidenced by the performance of many of these stocks through the GFC. However, the dividends are not high by ASX 200 standards and often are not fully franked because of overseas exposure. They also typically trade on high P/E ratios compared to those of the broader index.

Only three stocks meet my '2.5' broker recommendation status (please see my paper on the Market Updates tab of our website www.woodhall.com.au) for details. They are CSL, Resmed and Primary – and two of them only just!

CSL, seemingly a very well-run company, has run very hard in price over the last year (+86.9%) and I find it hard not to think CSL has overly benefited from the flight from cash and bonds into equities. On a personal note, I held CSL throughout the GFC and made a nice profit from it – but it seems I sold (last year) too soon. I sold because I had the sector overpriced by more than 8%. I also sold Sonic at the same time and for the same reason – and that seems to have been a wiser call on my part.

Having been a short-term user of a Resmed product I cannot understand the business. For someone with bad sleeping patterns, I could not cope with what felt like a diving mask and tube to an aqualung attached to me in bed. The business and stock price have clearly done well (the price perhaps too well at 55.1% for the last 12 months) but I am content not to have invested in it. Primary too has run very hard at 48.7% for the last 12 months.

Table: Data on companies in the ASX 100's Health sector

CSL	A:CSL	56.06	18.3%	86.9%	48.31	50.84	61.50	2.5	1.8%	21.0	54.9%
RESMED CDI.	A:RMD	4.28	8.9%	55.1%	3.56	4.65	5.49	2.0	1.8%	14.7	13.1%
SONIC HEALTHCARE	A:SHL	13.84	7.9%	23.0%	12.10	13.55	14.55	2.7	4.6%	15.2	8.8%
RAMSAY HEALTH CARE	A:RHC	29.81	25.6%	59.6%	20.58	23.78	28.12	3.3	2.4%	20.5	7.6%
COCHLEAR	A:COH	70.00	-4.3%	20.5%	49.25	63.18	76.40	3.5	3.6%	24.5	4.9%
ANSELL	A:ANN	17.01	9.7%	12.4%	15.44	15.86	18.43	2.7	2.5%	14.7	3.3%
PRIMARY HEALTH CARE	A:PRY	4.49	20.4%	48.7%	2.72	4.07	4.85	2.5	3.3%	14.4	2.8%

Note: the estimates in the Table are current to the close of business 6th February 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

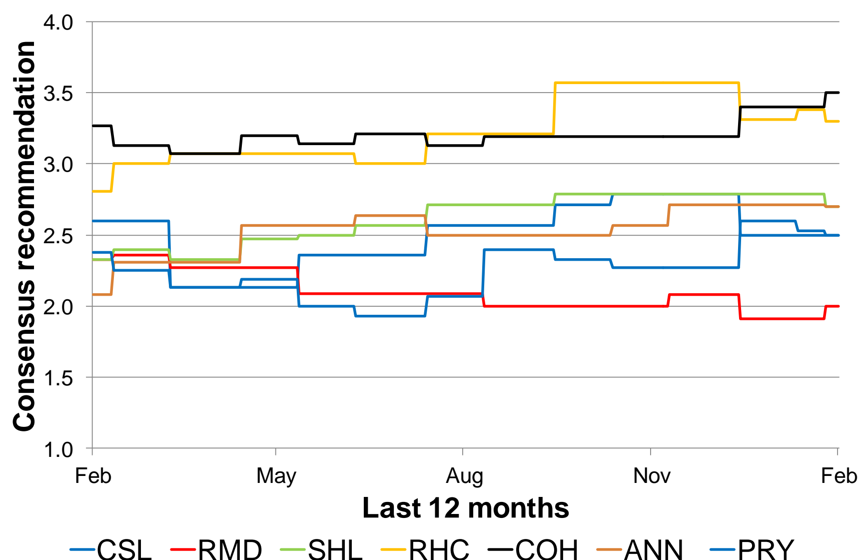
Turning to Chart 1, I plot the recommendations for all of the seven companies as two of the top three are marginal with a 2.5 and the other I do not like! Resmed's trace over time in Chart 1 is the best (with a recommendation of 2.0) and it has been improving for most of the year. Ramsay and Cochlear have the worst ratings of this group of seven – and the others are clustered together.

I have owned Cochlear for many years and feel that the brokers could have this one wrong. Its price was about $80 when it chose to recall one of its products last year and the stock price suddenly fell to nearly $50. Since that time, its price returned to over $80 and it did so at very much the same rate as the sector's index. I wonder if it had not needed to recall one of its product, which seems to have been handled very well, would its price have risen from the same rate over the same time but from a base of $80 (to well over $100!). Cochlear reported this week and just missed estimates. As a result, the stock price got hammered. Since the future looks good – with strong growth in Asia – and a bad year behind it because of the cost of the recall, I have a personal buy on this stock in conflict with the brokers – just as when I bought more at about $55 just after the recall last year.

From experience, I use +6% overpricing (or exuberance as I prefer to call it) as a trigger for a price correction of about 6% - 10% - or a prolonged sideways movement in price. I have been monitoring these statistics and related methods for more than 8 years and I think they have served me very well.

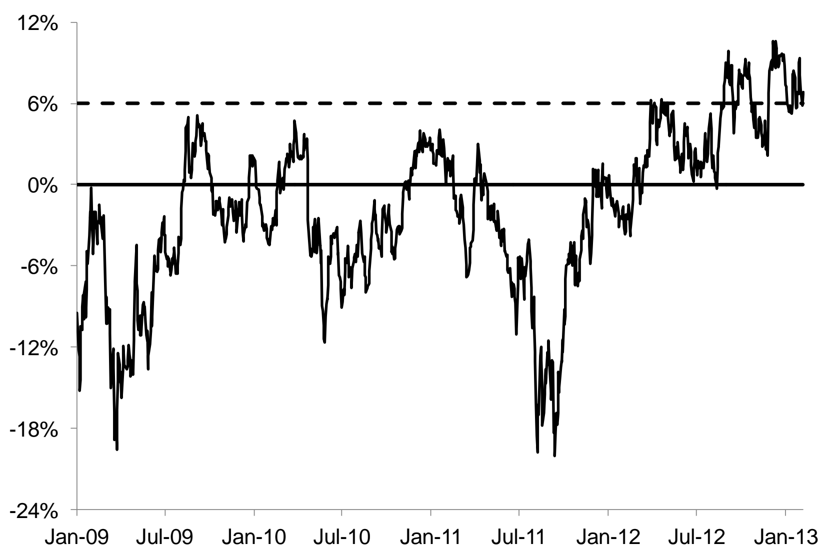
From Chart 2 I note that the Health sector behaved as I might expect until mid 2012 but crossed the 'magic' dotted line of 6% and has largely stayed there. While I do not necessarily expect a large price correction in this sector, I do expect the race has been largely run and a move into resources from defensive sectors will be the theme of 2013. I am still overweight this sector but I was very much so during the bad times.

Chart 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 6th February 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Chart 2: Exuberance in the Health sector



Note: the estimates in the Figure are current to the close of business 6th February 2013. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Financials-x-REITS Sector

19th February 2013

The 'big four banks' reside in this sector – along with some regional banks, insurance companies and diversified financials like Macquarie – making 14 stocks in total this ASX 100 sector – and these companies are listed in the table.

The recommendations for most of these stocks are not great. Five of them are not even better than '3' for a hold! Two of the big four – CBA and WBC – do not meet my criterion of a 2.5 or better, but the other two do just make it (please see my paper on the *Market Updates* tab of our website www.woodhall.com.au for details). Having worked in the industry for decades, I am well versed in the Sydney (CBA, WBC) versus Melbourne (ANZ, NAB) divide and I (naturally?) fall into the Sydney camp. My undocumented view is that ANZ and NAB seem to have had more problems in the past with overseas strategies and risk issues than the other two big banks.

I hold CBA and WBC and I have done very nicely with them – even though it has been a while since they had good ratings. Dividends in this sector are reasonably big and consistent over time. For me, a fully-franked dividend and moderate capital gains with no big issues pull me towards CBA and WBC. Of course, a stock can have an underperform rating because their prices have run very hard – and not because the company is 'not good'. Anyone who read CBA's stellar accounts last week would have regretted not being in it during its 32% capital gain in the last year to a new all-time high. WBC is close to its all-time high but the other two banks are not near such peaks – and NAB's price would have to increase be nearly 50% to beat its previous peak!

I have held other stocks in this sector in the past but I am not tempted to revisit. I can get my excitement elsewhere! Of course anyone who invests in insurance companies must live with the distinct possibility of a major disaster striking not just the people but the insurers' balance sheets with little warning.

Table: Data on companies in the ASX 100's Financials sector

Company name	Ticker		Price growth over		Price target			Recommend-	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	ation	yield	P/E	share
COMMONWEALTH BK.OF AUS.	CBA	65.78	12.9%	32.4%	52.00	59.00	73.70	3.4	5.5%	14.3	23.8%
WESTPAC BANKING	WBC	30.20	23.7%	49.9%	24.00	26.50	28.50	2.7	5.9%	12.7	21.1%
AUS.AND NZ.BANKING GP.	ANZ	28.50	20.5%	32.3%	22.90	26.50	32.33	2.5	5.3%	12.1	17.6%
NATIONAL AUS.BANK	NAB	30.15	30.0%	32.7%	24.50	28.50	33.00	2.2	6.2%	11.6	15.9%
AMP	AMP	5.49	22.3%	29.5%	3.60	5.15	5.60	2.7	5.1%	15.5	3.6%
SUNCORP GROUP	SUN	11.45	21.8%	38.3%	9.12	11.14	12.20	2.1	5.9%	12.5	3.3%
MACQUARIE GROUP	MQG	38.85	27.4%	47.4%	28.00	35.00	42.00	3.2	5.0%	12.6	3.0%
QBE INSURANCE GROUP	QBE	13.65	25.1%	18.8%	9.27	12.46	14.43	3.0	5.3%	10.9	2.9%
INSURANCE AUS.GROUP	IAG	5.26	19.3%	83.9%	4.40	5.00	6.26	2.5	4.9%	12.5	2.5%
ASX	ASX	36.14	25.0%	18.2%	26.50	31.15	38.00	3.3	5.1%	17.4	1.4%
LEND LEASE GROUP	LLC	10.42	24.2%	42.9%	8.00	9.60	11.09	2.0	4.3%	10.7	1.3%
BENDIGO & ADELAIDE BANK	BEN	10.17	32.6%	26.8%	7.35	8.40	9.50	3.3	6.0%	11.6	0.9%
BANK OF QLND.	BOQ	9.12	33.7%	34.2%	6.70	7.55	8.70	2.8	5.9%	11.2	0.6%
CHALLENGER	CGF	3.68	23.5%	-14.2%	3.00	4.23	5.00	2.2	5.2%	6.2	0.4%

Note: the estimates in the Table are current to the close of business 18th February 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Turning to Chart 1, I plot the recommendations for all of the big four. CBA has been consistently worst by this measure and WBC has been not much better. NAB's rating has improved much in recent times - perhaps on the back of yet another new strategy.

The exuberance trace for this sector shown in Chart 2 tells an important story. It has bounced beautifully off the 6% dotted line that is our indicator of a correction or prolonged sideways movement. It did stay at elevated levels during the latter part of 2009 – as did most sectors – as investors piled in hoping the GFC was over. In recent weeks, the 6% line has been broken – and with much momentum. The question to be asked now is whether this is a re-run of late 2009 or an accident waiting to happen?

The critical issue is whether analysts start to upgrade earnings forecasts in the wake of last week's CBA report. If they do, some of this overpricing will be eroded leaving the four banks as good dividend plays and two of them as very good plays!

Chart 1: Variation in consensus recommendations for selected stocks

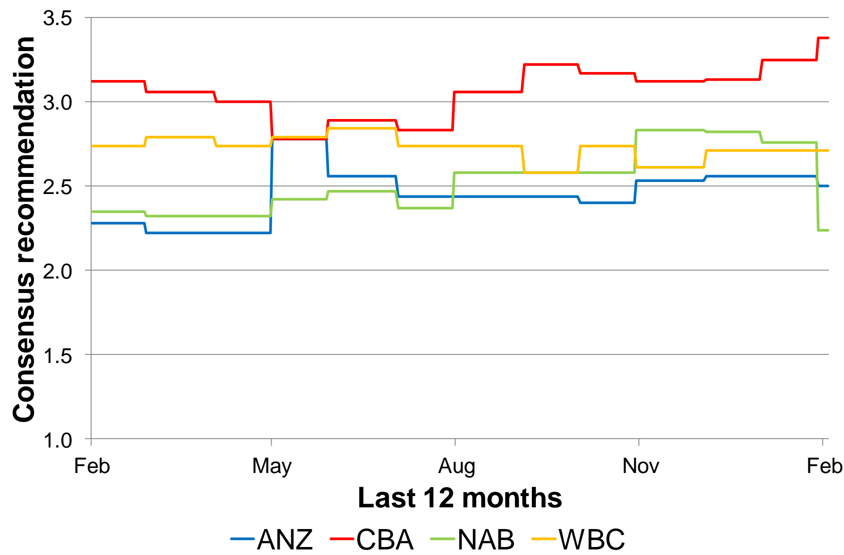


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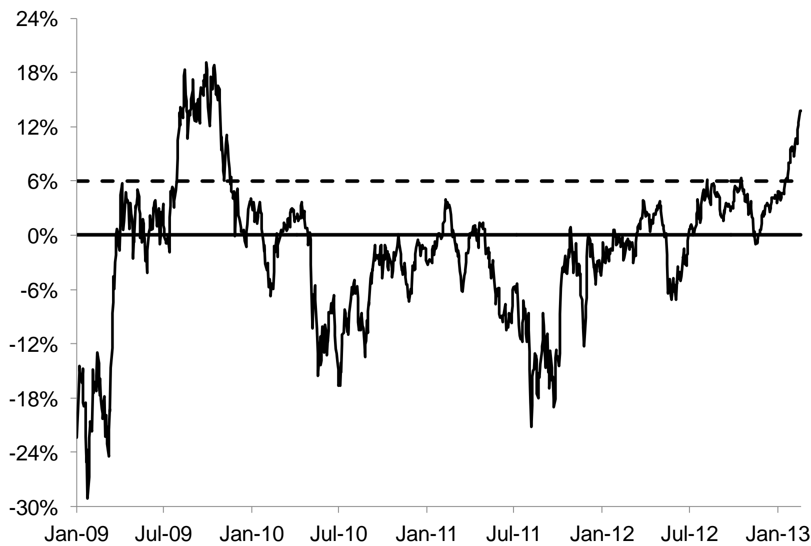
Chart 2: Exuberance in the Financials sector



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The Property Sector

4th March 2013

The Property sector, more correctly called REITS (Real Estate Investment Trusts), has long been considered a way to invest in property other than residential. Indeed, in many asset allocation frameworks, REITS are double counted as part of Australian equities and also as a representative for property exposure. The 11 members of this group in the ASX 100 are shown in the table. It can be seen that all of these stocks have high expected yields.

Only two of these stocks have consensus recommendations that pass the '2.5' test (please see my paper on the *Market Updates* tab of our website www.woodhall.com.au for details) – namely Westfield Retail Trust (WRT) and Dexus Property Group (DXS). Westfield Group (WDC) is by far the biggest listing in this sector and its recommendation of 2.7 is not that far below 2.5, as is the recommendation for Stockland (SRG).

Table: Data on companies in the ASX 100's Property sector

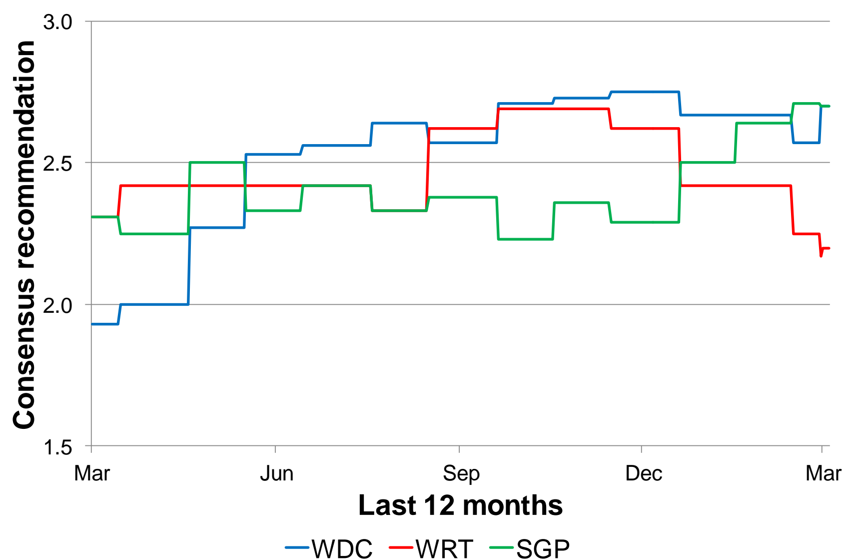
Company name	Ticker		Price growth over		Price target			Recommend-	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	ation	yield	P/E	share
WESTFIELD GROUP	WDC	11.10	6.5%	26.3%	9.58	10.75	11.80	2.7	4.6%	16.5	27.5%
WESTFIELD RETAIL TRUST	WRT	3.05	2.0%	21.5%	2.99	3.31	3.60	2.2	6.6%	15.5	10.1%
STOCKLAND	SGP	3.72	9.7%	17.4%	3.29	3.60	3.98	2.7	6.5%	14.9	10.0%
GOODMAN GROUP	GMG	4.63	0.2%	35.2%	3.93	4.53	5.40	2.8	4.5%	13.6	9.4%
MIRVAC GROUP	MGR	1.61	9.5%	34.2%	1.43	1.63	1.70	2.6	5.6%	14.4	7.4%
DEXUS PROPERTY GROUP	DXS	1.07	6.0%	20.3%	1.02	1.05	1.15	2.5	5.5%	13.8	6.9%
GPT GROUP	GPT	3.89	11.5%	24.7%	3.46	3.74	4.14	3.0	5.1%	15.6	6.7%
CFS RETAIL PR.TST.GROUP	CFX	2.03	4.6%	15.3%	1.88	2.06	2.17	2.8	6.9%	15.1	6.2%
FEDERATION CENTRES	FDC	2.42	11.0%	29.8%	2.00	2.34	2.47	2.7	5.8%	14.9	4.3%
COMMONWEALTH PR.OFFE.FD.	CPA	1.11	8.3%	14.5%	1.04	1.10	1.20	3.4	6.0%	13.0	2.9%
INVESTA OFFICE FUND	IOF	2.98	2.8%	19.2%	2.99	3.10	3.25	2.8	6.0%	13.3	1.9%

Note: the estimates in the Table are current to the close of business 4th March 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

One problem with this sector is that, during the GFC when credit dried up, stock prices plummeted. Indeed, credit is still not particularly easy to get but most stock prices in the table have risen 20% or more over the last 12 months.

Turning to Chart 1, I plot the recommendations over time for the three largest stocks. Not only does WRT have the best current rating, this stock's rating has been improving throughout 2013. WDC has been holding ground in recent times but SRG has been slipping almost as sharply as WRT has been improving. In that sense, WRT and WDC are preferred to SRG.

Chart 1: Variation in consensus recommendations for selected stocks

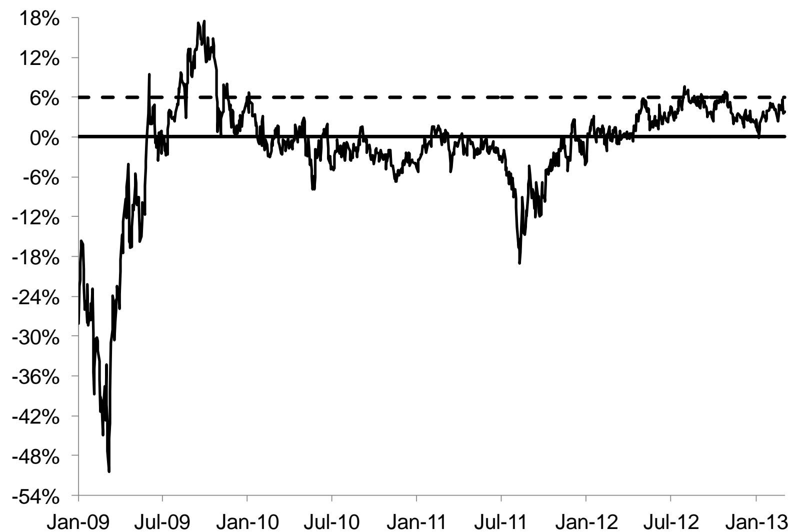


Note: the estimates in the Figure are current to the close of business 4th March 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

The exuberance trace for this sector shown in Chart 2 highlights the problems that befell the sector during the GFC – and again in mid 2011 during the onset of the Greek Debt Crisis. Like the Financials sector, Property exuberance has bounced beautifully off the 6% dotted line that is our indicator of a correction or prolonged sideways movement. It did stay at elevated levels during the latter part of 2009 – as did most sectors – as investors piled in hoping the GFC was over. In recent weeks, the 6% line was approached again but not breached – and that is a good sign. Exuberance has now retreated to +3.8% a little high but not symptomatic of an impending correction.

We have the sector's capital gains growing by 3.3% for the next 12 months. Since the current overpricing of the sector by 3.8% nullifies that expected growth, we see this sector as only a dividend play over the next 12 months. With one year term deposits at just over 4%, such a dividend play maybe not such a bad idea.

Chart 2: Exuberance in the Property sector



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The IT Sector

19th March 2013

The IT sector in Australia is a misnomer. In the US, this sector includes companies the like of Microsoft, Intel, Apple, Dell, HP and many more big game changers. It is the biggest sector in the US stock market. In Australia, our IT sector is dominated by a very good company – but it is a share registry – Computershare (CPU). There are only two IT companies in the top 100 and 4 in the top 200 – listed in the table. The Australian IT sector is less than 1% of the ASX 200 by market capitalisation!

The sector does contain an interesting company –carsales.com that has risen in share price by over 70% in the last year. But the sector is so small that investment in it or otherwise will have almost no effect on a portfolio that is to be compared to the benchmark ASX 200.

Only CPU passes the '2.5' test (please see my paper on the *Market Updates* tab of our website www.woodhall.com.au for details) and only just! P/E ratios are high by ASX standards. Yields are OK but not great and all have prices above the median target price.

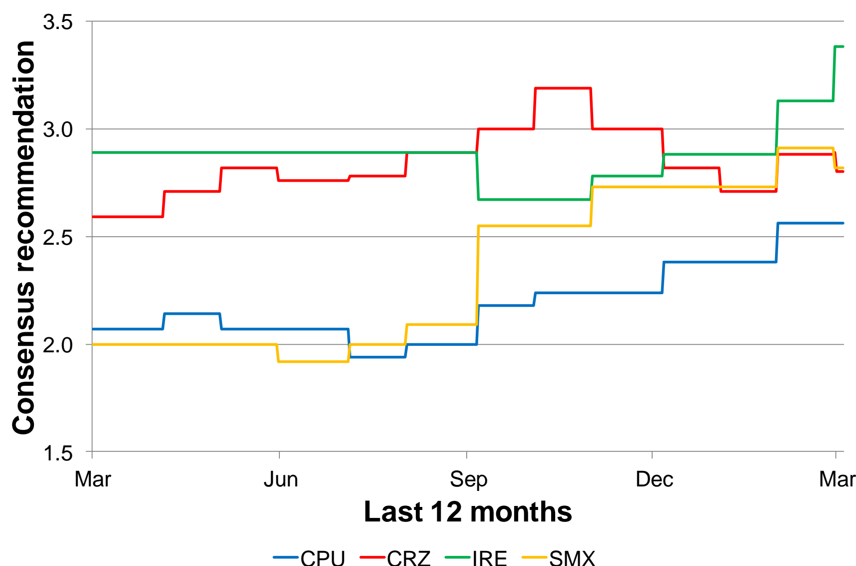
Table: Data on companies in the ASX 100's IT sector

Company name	Ticker		Price growth over		Price target			Recommend-	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	ation	yield	P/E	share
COMPUTERSHARE	CPU	10.52	20.4%	25.2%	8.50	10.32	12.38	2.6	2.9%	18.3	69.8%
CARSALES.COM	CRZ	9.26	25.8%	67.5%	5.90	8.43	10.02	2.8	3.5%	24.0	17.3%
IRESS	IRE	7.65	-7.9%	8.1%	6.50	7.60	8.40	3.4	4.8%	20.2	8.9%
SMS MAN.& TECH.	SMX	5.43	18.8%	3.2%	4.99	5.30	6.00	2.8	5.5%	13.6	3.9%

Note: the estimates in the Table are current to the close of business 18th March 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Turning to Chart 1, I plot the recommendations over time for the four ASX 200 companies (given there are only two ASX 100 companies). CPU, IRE (IRESS, one of the big data providers for financial analysts) and SMX have gone backwards – big time. Carsales (CRZ) has held its course despite its price growth.

Chart 1: Variation in consensus recommendations for selected stocks

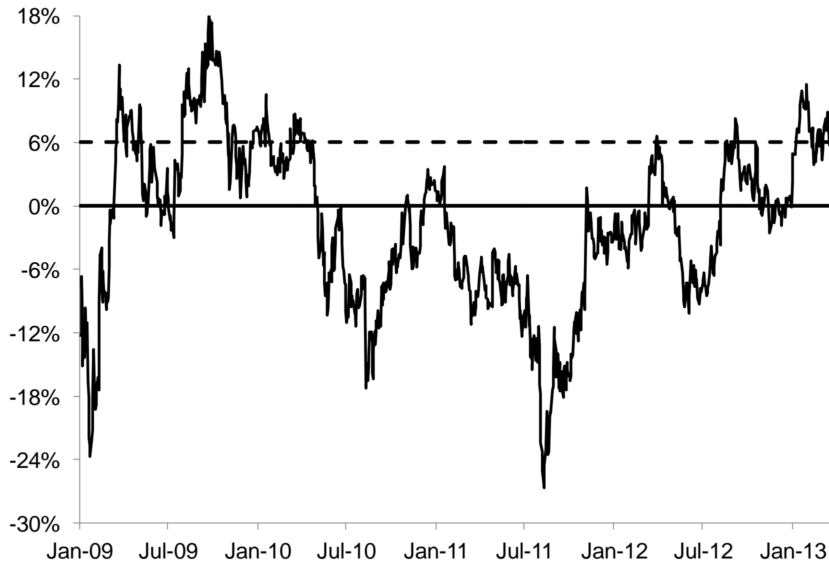


Note: the estimates in the Figure are current to the close of business 18th March 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

The exuberance trace for this sector is shown in Chart 2. It has been recently and is overpriced by more than we are comfortable with (above the 6% dotted line). We do have a thesis that there are dividend seekers exiting cash but this is not the sector for them to reside in. It is not as overpriced as some sectors – but at least those sectors are paying in excess of 5.5% yield often with franking credits.

We have good prospects for the sector at about the ASX 200 average at +12% but being more than 6% overpriced - by our measures – there are better sectors to follow. At the moment, Financials are just ‘buyable’ for yield, and big miners for capital growth.

Chart 2: Exuberance in the IT sector



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The Telco Sector

2nd April 2013

There is only one stock in this sector in the ASX 100 – Telstra. As a result, we will also provide some discussion of the other members of this sector that reside in the next 100 of the ASX 200. Since Telstra does not pass the '2.5' test (please see my paper on the *Market Updates* tab of our website www.woodhall.com.au for details) there are grounds for avoiding this sector altogether. However, Telstra is a consistently strong dividend payer and can be considered more like a bond than a stock.

The yield has been driven down to 6.4% which is solid compared to even the big banks. But, if the stock price retraces as interest rates start to rise, capital losses may wipe out prospective yield. For many years' total returns (capital gains plus dividends) were pretty flat. It wasn't until the rise of NBN Co and the fall in interest rates that Telstra's price rose – in fact by 40% in the last 12 months.

With recent statement that support continued dividends at these lofty levels, that side of the equation is relatively assured. However, it is not clear what may happen after the September 14th election nor what may happen as a result of delays in NBN Co. Moreover, interest rates are now being forecast to rise and not fall – as early as this year. When the risk premium between Telstra's yield and term deposit rates closes, the stock price might start to retreat.

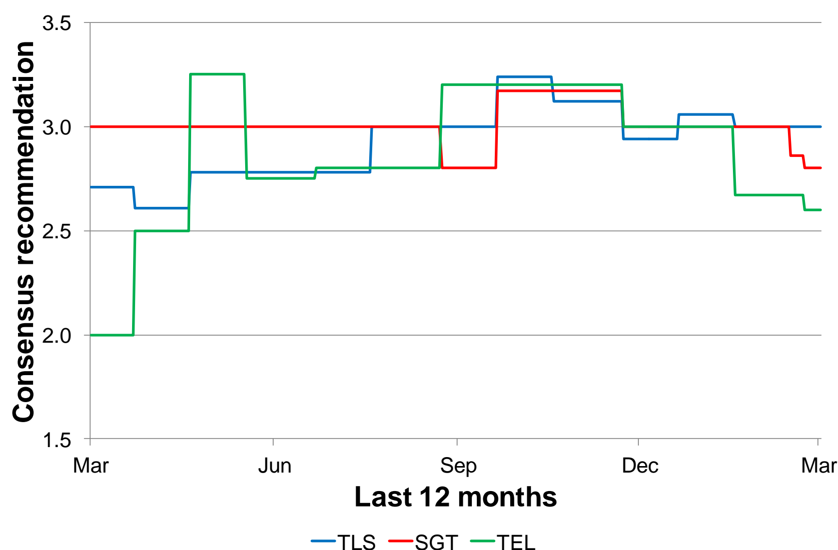
Table: Data on companies in the ASX 200's Telco sector

Company name	Ticker		Price growth over		Price target			Recommend-	12-month forecast	
		Price	quarter	year	low	median	high	ation	yield	P/E
TELSTRA	TLS	4.53	3.7%	39.8%	3.85	4.30	5.07	3.0	6.4%	14.9
SINGAPORE TELECOM CDI. (ASX)	SGT	2.74	5.0%	16.1%	2.53	3.48	4.64	2.8	6.2%	14.8
TELECOM CORP.NZ. (ASX)	TEL	1.79	-0.8%	-2.7%	1.83	2.33	3.07	2.6	9.5%	11.8
TPG TELECOM	TPM	3.12	25.8%	72.4%	2.15	2.62	3.20	2.5	2.6%	16.3
M2 TELECOM.GP.	MTU	4.84	17.2%	46.0%	3.75	4.94	5.95	2.4	4.8%	13.2
IINET	IIN	5.22	18.1%	76.4%	4.36	5.20	5.66	2.2	3.8%	13.2

Note: the estimates in the Table are current to the close of business 28th March 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

Clearly from the Table all of the stocks – except for the NZ Telco – have run hard over the last 12 months but three of them – TPM, MTU, and IIN – deserve some attention based on recommendations. Turning to Chart 1, I plot the recommendations over time for three of the Telcos – Telstra, the NZ version, TEL, and the Singapore Telco, SGT.

Chart 1: Variation in consensus recommendations for selected stocks



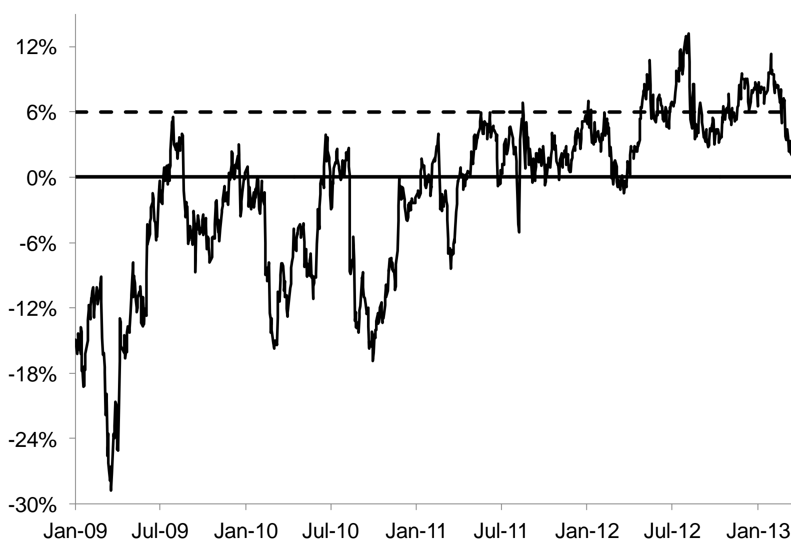
Note: the estimates in the Figure are current to the close of business 28th March 2013. They are based on Thomson Reuters Datastream.

Telstra's recommendation trace has been trending to the downside for much of the last 12 months, while SGT's recommendation has moved sideways. TEL has moved sideways since mid-2012 but was an 'outperform 2' 12 months ago.

The exuberance trace for this sector is shown in Chart 2. It behaved normally until mid 2012 – in that it repeatedly bounced off the 6% line. However, as rate cut after rate cut took income away from term deposit holders, these investors seemed to have stepped back into the market in search of yield. In so doing, they forced prices up into what would otherwise be serious overpricing. However, they have only so far bid down expected yield for the sector from 8.25% to 6% over the last 15 months – leaving a respectable gap or risk premium over term deposit rates. Exuberance is now back at moderate levels.

We continue to forecast good prospects for the ASX 200 at 11.9% for the next 12 months. However, the comparable forecast for this sector's capital gains is only 2.9%. As a dividend play Telstra still seems reasonable but little might be expected on the capital gains front. Of course Telstra's dividends are accompanied by 100% franking credits which is great for super funds in pension mode – unless of course, Wayne Swan has other ideas in his May budget.

Chart 2: Exuberance in the IT sector



Note: the estimates in the Figure are current to the close of business 28th March 2013. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.

The Utilities Sector

16th April 2013

There are five ASX 100 stocks in the Utilities Sector. This sector is very much considered to be a defensive sector with good dividends. Only two of these stocks pass the ‘2.5’ test on consensus recommendations for a market outperform (please see my paper on the *Market Updates* tab of our website www.woodhall.com.au for details) and one stock is only 0.1 away from that bound.

AGL Energy is a gas and electricity sales and distribution company, APA Group is involved in natural gas infrastructure while Spark Infrastructure Group (SKI) invests in infrastructure projects.

The yield on this sector gravitated towards 5.5% along with Financials, Property and Telcos over the last 15 months in what seems to be the place for cash on the sidelines to go to in search of better yields. However, as we can see from the Table, the price paths over the last 12 months have been many and varied. AGK, the biggest player in this sector does deserve some special mention because of its links to coal seam gas and some analysts say that this company will not do as well under a Coalition government.

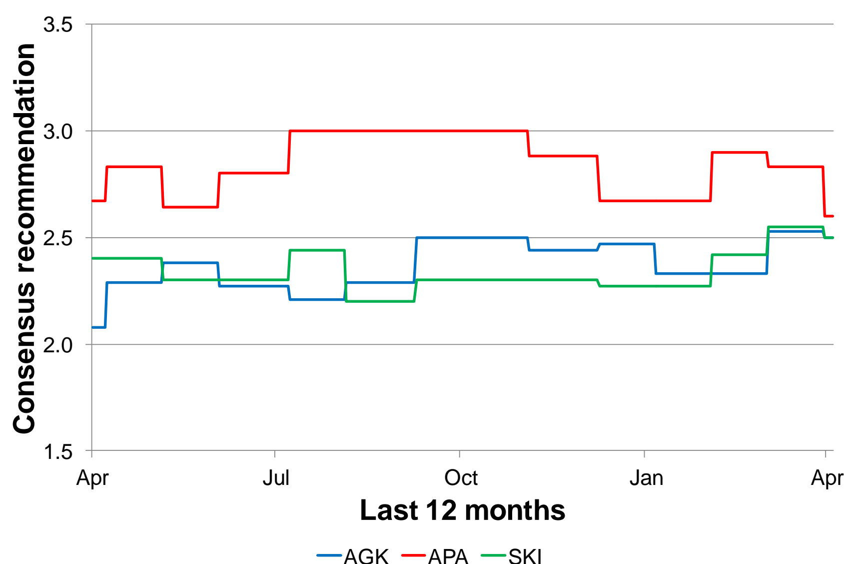
Table: Data on companies in the ASX 100's Utilities sector

Company name	Ticker		Price growth over		Price target			Recommend-	12-month forecast		Market cap.
		Price	quarter	year	low	median	high	ation	yield	P/E	share
AGL ENERGY	AGK	15.52	0.5%	8.0%	16.00	16.57	18.00	2.5	4.3%	12.8	42.3%
APA GROUP	APA	6.17	8.4%	17.1%	4.77	5.94	6.50	2.6	5.8%	27.7	22.1%
DUET GROUP	DUE	2.39	10.6%	33.9%	1.90	2.23	2.40	2.7	7.1%	25.0	12.8%
SPARK INFRASTRUCTURE GP.	SKI	1.72	-1.7%	16.6%	1.54	1.75	1.97	2.5	6.4%	10.6	9.0%
SP AUSNET	SPN	1.22	8.4%	16.1%	0.95	1.11	1.25	3.0	6.8%	14.7	8.7%

Note: the estimates in the Table are current to the close of business 13th April 2013. They are based on Thomson Reuters Datastream. The price target is the brokers' forecast of where the stock price is heading - often considered to be in the next 12 months.

The closing prices (on the 13th) are reasonable when compared with the target prices. After all, it is the dividend and stable prices that attract investors to this sector. AGK’s forecast yield is the lowest at 4.3% but the others are much healthier.

Chart 1: Variation in consensus recommendations for selected stocks



Note: the estimates in the Figure are current to the close of business 13th April 2013. They are based on Thomson Reuters Datastream.

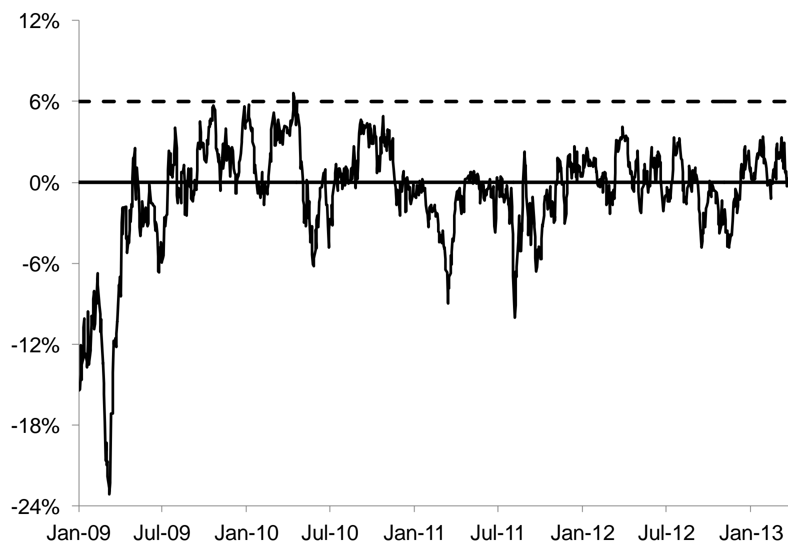
AGK’s recommendation trace in Chart 1 has slipped a fraction over the last 12 months while SKI’s is a little better. While APA’s current recommendation, at 2.6, is close to our value that we prefer before adding a stock to a portfolio, the trace has been a little wayward.

The exuberance trace for this sector is shown in Chart 2. It did the 'classic' bounce off the 6% trigger for a correction or a prolonged sideways movement in 2009-10. Unlike most other sectors, Utilities have remained reasonably priced since that time and is currently close to fair value.

With the weaker than expected data from China on Monday, and weaker results for the US and Australia last week, defensive sectors are worth some serious attention for those wanting a yield in excess of those from term deposits. And with news of the Boston bombing coming over the wires as I write, defensives might help portfolios through the next little while. If we go back to the 9/11 attack – if indeed Boston turns out to be a terrorist attack – our market bounced back within a week or two.

We still have the next 12 months pencilled in for 12% capital gains on the ASX 200 – but we do not expect to get there in a straight line. Defensive stocks play a big role in smoothing out some of the bumps.

Chart 2: Exuberance in the Utilities sector



Note: the estimates in the Figure are current to the close of business 13th April 2013. They are based on Thomson Reuters Datastream. Please go to www.woodhall.com.au for more information on the assumptions behind the estimates.