



Oh Contraire!

Simon Whiteley, Equity Trustees Superannuation Limited

An 18th century nobleman and member of the Rothschild banking family, Baron Rothschild coined the phrase, "buy when there is blood in the streets, even if the blood is your own". You will hear investment professionals talk about investment style and this phrase is the mettle of the contrarian investment style. In layman's terms, contrarian investing is based on the belief that the worse things look in the markets - the more opportunities that exist to make money.

Possibly the most renowned contrarian investor is Warren Buffett. On 28 September 2008, Buffett rescued the Goldman Sachs Group in the darkest hour of the GFC when Berkshire Hathaway bought preferred stock to the value of \$5 billion with warrants to purchase another \$5 billion. Buffett's preferred shares yielded 10% and his warrants had a strike price of \$115 (just over 1 year later they traded overnight - 4 November 2009 - at \$171). Not bad for a day's work, although some criticised him of losing his touch when the shares were as low as \$47 last November.

Today, just as the share markets are showing signs of weakness on the back of a week of negative returns, the sage of Omaha is at it again. Overnight, Buffett purchased railroad, Burlington Northern Santa Fe, for US\$26 billion. The important thing to note is that Buffett has not used the Daily Telegraph's investment dart board, school kid or psychic to choose which asset to buy. An incredible amount of research has been involved in making this latest acquisition - the second largest asset in the Berkshire Hathaway stable. In fact, Berkshire already owned a 22% stake in the railroad, bringing Buffett's total stake to \$44 billion.

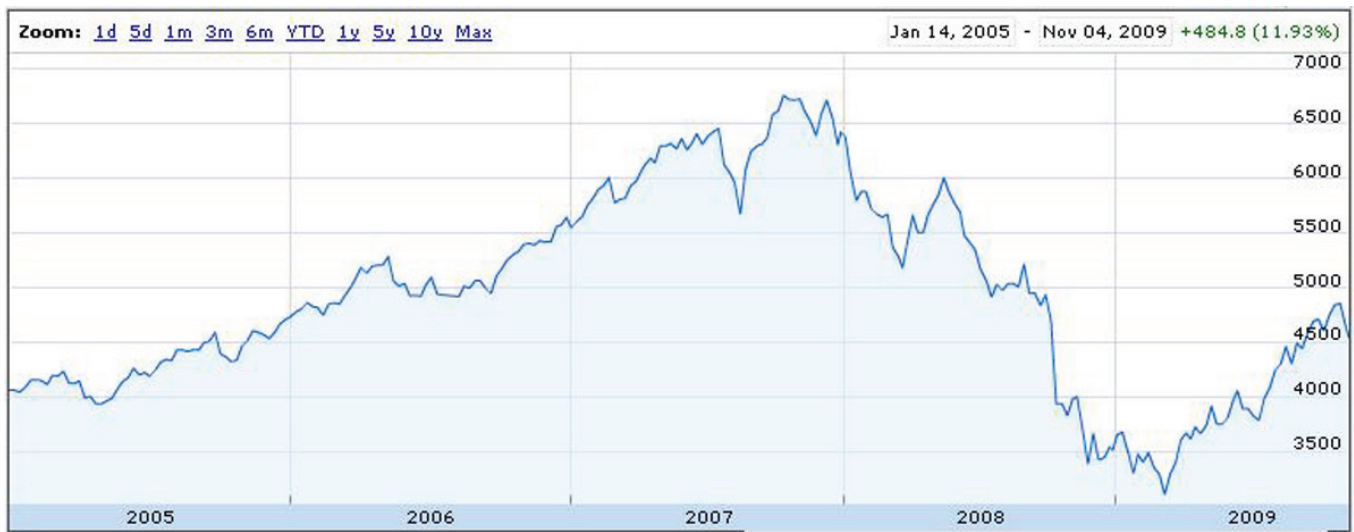
Contrarian investing is not about buying any penny stock in a downturn and hoping for a fat profit when markets recover. It is about intensively researching an asset and looking for a competitive advantage over other sectors and within sectors. Using Buffett's choice of asset this time around, Burlington Northern has a pre-tax income of \$3.3 billion on revenue of \$18 billion. Compare that to a trucking company, The McLane Unit, which showed \$276 million income on over \$29 billion revenue. In this example, the operating costs of rail compared to road transport demonstrate the value of in-depth research in stock selection, and will be the difference between the winners and losers.

I am not writing today to pay homage to the great Warren Buffett, although his is an interesting story that I could write on and on about. I am writing today to discuss market volatility. This has been an incredible year for investing. For me it has been a year of giving investors the little push they needed to get their feet wet again. For investors it has been difficult to dip that toe after the previous 18 months of global downturn and near catastrophe.

What we as investors face as markets are again posting negative returns is flashbacks. A flashback is a vivid recollection of a recent traumatic event and it brings back all of the fear and uncertainty of the last downturn. Flashbacks tend to make us focus on short-term market movements and relate them back to the feelings that were familiar to us during the last downturn. It is important to remember that with all investments there is a degree of risk. We can define risk as the likelihood that the value of an investment will display a level of volatility in the short-term. The greater the degree of expected volatility, the higher the risk is. The solution is to position your portfolio to accept a level of volatility that you are comfortable with and manage your expectations of returns for a given amount of volatility.

Don't panic

Despite the size of the recent sharemarket rally, there is still a long way to go before we reach the peaks of November 2007. I strongly believe that when we look back in 5 or 10 years at the Australian Sharemarket of November 2009 we will be saying, "That was a good time to invest. It may not have been the bottom of the market but prices were still attractive".



The Australian All Ordinaries from Jan 2005 to November 2009: Source Google Finance

Long-term Investing

Remember that growth assets such as shares or property are long-term investments. By long-term I mean at least 5 years or more. So unless you are a high risk day-trader you should avoid micro-managing your portfolio. That is what you pay investment managers to do for you. It is important to keep your finger on the pulse, but ideally you will set a strategy that will position your portfolio to take advantage of the global growth that will occur over the next decade and review at least annually with your financial adviser. Resist the temptation to log on to your portfolio daily and scrutinise short-term movements, unless you are researching your next investment opportunity.

Financial advice

Remember that we are here, willing and able to help you with any investment decisions you need to make. Whether it is in the form of general/specific market information, a second opinion on an idea that you are considering, or a comprehensive annual review and risk assessment, I am just a phone call away. Please don't hesitate to contact me on 0413 244 733 or email simon.whiteley@eqtsuper.com. I always look forward to hearing from you.

Disclaimer: This information in this update is intended to be only general in nature and does not take into account your personal financial situation, goals or objectives. You should not rely on this information to make investment decisions or interpret it as financial advice. You should seek professional financial advice before making any investment decisions to ensure they are appropriate for your individual circumstances, goals and objectives.