Success lies in the timing and location

Experts give the lowdown on picking stocks in a neutral economy, writes **Tony Featherstone.**

The asset allocators

Mark Delaney, chief investment officer, AustralianSuper
Australian equities are neutral value. We don't expect last year's gains to be repeated this year. Other asset classes will provide stronger competition. We recently interviewed several managers who invest in our funds. Most were comfortable with the market's average level, but some diverged in views about resource valuations. Globally, we are positive on China but believe US growth could fade in 2011 and 2012 as government stimulus washes out.

Joe Bracken, head of global macro strategies, BT Investment Management
The world growth story is not intact, so 2010 is challenging for global equities. Much recent growth has been bolstered by government stimulus and we are yet to see the US and European private sectors drive higher growth. You must look at where growth will come from, and it is clearly China and economies linked to it. You either believe in the Asian growth story or not. Commodity prices are rising but are nowhere near previous peak levels. We favour equities in Australia, south-east Asia and Hong Kong. US and European recoveries are further off.

Annette Vlismas, client portfolio manager, Russell Investments
Australian equities are close to fair value. Some sectors have had almost straight gains during the recovery. Resources shares, in particular, look relatively overvalued on the back of overly optimistic commodity super-cycle expectations. We have invested directly in commodity funds to reduce company-specific risk. We have been moving into listed alternative investments, global listed infrastructure, emerging markets and higher-yielding bonds in the past 18 months. We will buy more Australian shares once we see revenue growth, rather than earnings coming mostly from cost-cutting, and better use of capital. An upside could come from companies putting to work the billions of dollars they raised last year to repair their balance sheets.

The stock pickers

George Clapham, managing partner, Fortis Investment Partners
Resource stocks and banks are on higher multiples for good reason: they are in an earnings "sweet spot". Analysts have been upgrading forecasts for BHP and Rio Tinto, but their share prices have been mostly flat this year. The banks strengthened their competitive position during the crisis and are well placed to capitalise on economic recovery. We like the big miners, are more neutral on banks and see value in select industrials with US exposure.
Favoured stocks: ResMed, Brambles, News Corporation and Amcor.

John Campbell and Jeremy Bendich, portfolio managers, UBS Small Companies Fund
We are broadly positive on Australian equities. There is still value in the market, although not the bargain-basement value we saw early last year. Our "bottom-up" analysis shows robust earnings growth for many companies in the next two to three years, which is not fully captured in current valuations. In terms of sectoral performances, we have a reasonable weighting in financial services and like mining services, information technology sectors, and we favour retailing.
Favoured stocks: Monadelphous, Ausenco,Bradken, SMS Management & Technology, IOOF Holdings, Bank of Queensland and Super Cheap Auto.

Neil Carter, portfolio manager, Macquarie Funds Management
Our base case is for continuing growth in China and sub-trend growth in the OECD economies. As such, we favour mining and related industries such as mining services. Energy also looks interesting. We are less positive on industrials, although see interesting value among small telcos. Small-cap stocks could still outperform blue chips given their stronger leverage to the domestic economy and the rising Australian dollar.
Favoured stocks: Matrix Composites & Engineering, Austin Engineering, Discovery Metals, iiNet and Amcom Telecommunications.

Roger Montgomery, fund manager, author
Value is becoming harder to find. Most stocks are trading in line or above their intrinsic value. Investors should always buy highest-quality companies, and especially now. If more doubts creep into the market about the sustainability of China's economic growth or sovereign debt issues in Europe, lower-quality companies will fall fastest and hardest. Right now, the appetite for risk is growing, precisely at a time when investors are arriving late to the party.
Favoured stocks: OrotonGroup, McMillan Shakespeare, JB Hi-Fi, Nick Scali.

Andrew Doherty, head of equities research, Morningstar
We see pockets of value, but certainly less than six months ago. Our base case is for continuing growth in China and an emerging US recovery, so we favour resources and mining services sectors. We like some beaten-down industrials that have company-specific problems and offer leverage to domestic recovery. The banks mostly look fully valued. We have concerns over discretionary retailers with interest rates rising. Our preference is for defensive retailers.
Favoured stocks: BHP, Rio, CSR, Telstra.

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Joe Bracken