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# Top stocks for 2011

With the combined fire power of four leading share market analysts, *Your Money Magazine* brings you a selection of 15 stocks set for take-off in 2011. From retail and energy giants to boutique goods and services companies, our experts' picks should provide good capital gains in the medium to long term

## Your Money Magazine's 15 stock picks

Stock code	Price 10 Dec 2010	Expert's target Sep 2010	Potential % gain	Bloomberg Consensus price target 13 Dec 2010	Potential % gain
ANZ	\$23.83	\$27.50	15.4%	\$26.32	10.4%
CCL	\$11.12	na	na	\$12.65	13.8%
CSL	\$36.74	\$38.25	4.1%	\$36.39	-1.0%
ILU	\$8.58	na	na	\$8.31	-3.1%
IVC	\$7.87	\$7.82	-0.6%	\$8.55	8.4%
JBH	\$18.34	\$26.53	44.7%	\$21.76	18.6%
MCE	\$5.70	\$6.17	8.2%	na	na
MMM	\$11.12	\$12.15	9.2%	\$12.21	9.6%
NCM	\$40.24	\$42.00	4.4%	\$47.05	16.9%
ORC	\$7.87	\$8.15	3.5%	\$8.12	3.1%
ORL	\$8.55	\$9.15	7.0%	na	na
QBE	\$12.33	\$13.00	5.4%	\$13.02	5.6%
RKN	\$2.39	\$2.54	6.3%	\$2.64	10.5%
SOL	\$12.33	\$19.50	58.2%	na	na
WOW	\$26.34	na	na	30.6	16.2%

# Roger Montgomery

www.rogermontgomery.com



"Don't treat the stock market as a place to bet on "up" or "down" but as a place to buy a piece of some of the best quality businesses. You will do very well over long periods of time if you are patient and buy the best businesses at large discounts to their 'intrinsic' value.

I don't have any opinion about where the economy is going and I don't believe that you need to be able to predict these things to do well as an investor. It is a mistake to pass up the opportunity to buy an extraordinary business because of short-term fears about the market or the economy. Turn the market and its noisy and distracting prices off and just focus on businesses."

## JBH JB Hi-Fi

Stock name	JB Hi-Fi
ASX code	JBH
Sector	Retailing
12-month return	24%
52-week high	23.71
52-week low	17.77
Dividend yield	2.95%
Market cap	\$2.4bn
P/E ratio	20.37
Debt to equity	6.10%

Australia's largest home entertainment retailer, JB Hi-Fi is an "AI" business – an absolute category killer, winning more and more market share. It has a high return on equity (ROE) and low debt, and is currently trading at discount to intrinsic value. It also has an impressive history of entrenching its competitive advantage by lowering prices and reinvesting profits in even lower prices, which is serving both consumer and investor well.

The place is run on the smell of an oily rag – and while the company may say that's a function of the fact it's a tough market, in reality it is doing it deliberately to entrench its competitive advantage. When staff at Apple tell you it's cheaper to buy their products at JB Hi-Fi, that's telling you something. They really do dominate the market.

### Buy & Sell

With an intrinsic value of \$26.53, the bigger the discount you can get on that figure the better. Assuming there is no fundamental change to the value of the business and its prospects, the lower the price, the more attractive it is. If the intrinsic value of the company drops then that's your sell signal – at \$29–30 it would be starting to look very expensive. Also watch closely for any lack of growth in sales, which may produce a cooling share price.

## ORL Oroton

Stock name	Oroton
ASX code	ORL
Sector	Retailing
12-month return	93%
52-week high	7.99
52-week low	4.42
Dividend yield	5.52%
Market cap	\$326m
P/E ratio	14.51
Debt to equity	20.80%

A designer and maker of luxury handbags, leather goods and accessories, Oroton is another "AI" business.

With a high ROE and low debt it is currently trading at a significant discount to intrinsic value.

Oroton is an amazing business and Sally MacDonald at the helm is a big part of its success story. Before she took the reins, Oroton was returning around 27% and since her arrival it has been averaging 50% return on equity. The latest results will be around the 80% mark. She's rewarded the best staff in the business, and made processes and staffing much more efficient.

Oroton also has a strong relationship with manufacturers so it is a stable investment. It is also now experimenting with a low-cost store in Hong Kong to see how they go overseas. All these factors will translate to a climbing share price.

### Buy & Sell

With an intrinsic price of \$9.15, whatever discount you can purchase at to that price is a good-value investment. A real bargain would be getting in at \$5–6 – a level it hasn't been at in a. The CEO of Oroton has been selling a few shares so it's worth keeping an eye on this.



## MCE Matrix

Stock name	Matrix
ASX code	MCE
Sector	Energy
12-month return	240%
52-week high	4.81
52-week low	1.3
Dividend yield	0.87%
Market cap	\$323m
P/E ratio	14.9
Debt to equity	-9.17%

**M**atrix is another one of my "A1" companies; it engineers submersible buoyancy devices for deep-sea oil rigs and is one of only four companies in the world who



do this. Also one of its major competitors is about to go under, meaning it can claim an even greater portion of the market.

There are of course risks associated with the deep-sea mining industry, but with enormous planned expenditure in the sector, climbing oil prices and reduction in availability of the resource, it's looking good for Matrix.

It only recently listed on the market, but it's a robust company and has been in business since 1982 – sometimes when opportunities to buy newly listed companies come along people assume they haven't been around very long but this is not the case with MCE. The management that founded the business also still has a very big stake in the company, which is always encouraging.

### Buy & Sell

The market would be right on the money with \$6.17, so shoot for as much of a discount to that price as you can get, and steer clear if it overshoots that amount.