Book in a wild ride

Listed investment group buoyant but on alert

TREVOR CHAPPELL
INVESTMENT

MIRRABOOKA Investments says it is bracing for market volatility for the foreseeable future, despite enjoying a bumper performance in the past year.

And leading US-based wealth managers BlackRock and State Street Global Advisors say investors should also prepare for ongoing volatility.

Listed Australian investment company Mirrabooka yesterday revealed its earnings in the year to June had jumped almost a quarter, helped by strong performances from Treasury Wine Estates and Mayne Pharma, but it said conditions remained choppy.

"Heightened volatility is likely to be widespread in markets for the foreseeable future given economic and political uncertainties," the group said.

Belinda Boa, chief investment officer of BlackRock's Active Investments for Asia Pacific, said it was a "very difficult" time for markets.

Fears about the implications of Britain's move to exit the European Union, the ability of central banks to steer economies through the uncertainty and upcoming elections in the US, Germany and France would drive future moves, she said.

"The only thing that is certain is uncertainty," she said, noting it was "turning out to be a spectacular anti-establishment year".

State Street chief investment officer Rick Lacaille said the asset manager expected "spikes in volatility triggered by a range of geopolitical factors will continue to characterise markets" this year.

Mirrabooka booked a net profit of $8.8 million for the year to June, up 24 per cent from $7.1 million a year earlier.

Earnings were boosted by dividend income and a rise in the contribution from the trading portfolio, in which stocks are held on a short-term basis.

The group said big companies on the share market were affected by growth concerns and market volatility throughout the financial year.

However, it said small and mid-sized companies with good growth prospects in attractive industries generated strong share price performances.

Mirrabooka said Treasury Wine, Netcomm, iProperty and Mayne Pharma had made significant contributions to its performance. The company's portfolio return, including dividends and franking credits, was 15.4 per cent.

AAP

Qantas, Jetstar at home in rarified air

ROBYN IRONSIDE
AVIATION

QANTAS has cemented its place in the world's top 10 airlines, moving up one spot to ninth in the annual Skytrax World Airline Awards.

The Flying Kangaroo also won the awards for best airline in the Australia-Pacific region, best airline staff in the region, and best premium economy on-board catering.

Budget partner Jetstar won best low cost carrier in Australia-Pacific, leaving rival Virgin Australia empty-handed.

The world's biggest airline, Emirates, took the top honour, beating last year's winner Qatar Airways.

The awards are based on surveys of 280 airlines by more than 19 million travellers from more than 100 countries.

It was the fourth time Emirates has won the top award since it started 15 years ago.

"We constantly invest in our product and services both on the ground and in the air," president Sir Tim Clark said.

"We listen carefully to our customers and then relentlessly challenge ourselves to deliver and exceed expectations."

The fact the awards were based on passenger feedback was "gratifying and wonderful recognition for the hard work that has gone into creating the Emirates' experience," he said.

Qatar Airways took out world's best business class and best business class airline lounge, while Etihad scored world's best first class.

The other airlines to make the top 10 were Singapore Airlines, Cathay Pacific, ANA, Etihad, Turkish Airlines, Eva Air and Lufthansa.

Virgin Australia was rated 18th, down from 16th.

A Qantas spokeswoman said the airline had worked hard on improving its product and the awards "matched up nicely with the really strong customer satisfaction we're seeing through our own passenger surveys".

"We often say that our people are our best asset and the win for best airline staff in Australia-Pacific is a testament to what a great job they do on the ground and in the air," she said.

Jetstar was equally thrilled with its nod for best low cost carrier in the Australia-Pacific.

"To stay No.1, we've continued to provide low fares every day for customers and lifted the bar for customer service for low cost airlines," it said.

Qantas shares jumped 2.1 per cent to close at $2.99.

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Qantas flight attendant Maria D'odorico with Chad Elson from Seppeltsfield. Picture: CALUM ROBERTSON

SAVOURING THE TASTE OF HISTORY

IT'S not often two centenarians can get together for a drink and look back over their lives.

On Friday, 100 years to the day that aviation giant Boeing was incorporated in the US, select Qantas passengers will get the chance to be in the box seat as Barossa Valley-based Seppeltsfield winery pours tastes of its renowned 100 Year Old Para Tawny (Port).

Seppeltsfield Estate will serve samples of its 1916 fortified in Qantas First lounges in Melbourne and Sydney, and business sections on select flights between Adelaide and Perth and the QF73 from Sydney to San Francisco.

The lucky passengers will get to taste one of the rarest wines in the world, a sip worth about $80. A 100ml bottle costs $700 specially boxed. It is regularly awarded a perfect 100 points by Australian wine guru James Halliday.

Qantas was in 1959 the first airline outside the US to operate the Boeing 707.

TONY LOVE

Investors desert low-return bonds for blue-chip shares

THE SHORT CUT
with ROGER MONTGOMERY

AROUND the world five-year government bonds are paying paltry returns to their investors.

Indeed, in some countries, rates are negative.

In Germany the rate is -0.6 per cent, in Switzerland it's -1.1 per cent, in the US it is 1 per cent and in Australia it is little more than the cash rate.

Longer term bond rates are not much better.

In Germany, the 30-year rate is just 0.4 per cent, which means that over 30 years an investor will receive a total return of just 12.7 per cent.

Professionally managed pension and super funds that are investing in these bonds are locking their investors into very low returns for extremely long periods.

Events such as Brexit only add fuel to the fire, causing investors to stampede towards security, driving bond prices even higher and yields lower. Investors are laying the groundwork for the next collapse in the value of their retirement savings.

Yes, Baby Boomers chasing high-yielding "safe" blue-chip shares, with low-yielding bonds are likely to cop another destructive hit to their wealth and purchasing power before their days are up. But it may be a year, two or three, before it occurs.

After flip-flopping on talk about interest rate increases in the United States, the US Federal Reserve's St Louis president James Bullard issued a report anticipating only one rate hike in the US before the end of 2018.

We believe investors need to accept that returns will be lower for longer.

From property to shares to private equity transactions — see the sale of the UFC, which earned $788.8 million in revenue last year and was reportedly sold for $5.26 billion — asset prices are elevated, but earnings growth is flat. In Australia, aggregate earnings per share growth has been negligible since 2010, and despite this, or because of it, company payout ratios have increased from 55 per cent to 80 per cent.

What that means is less of each year's profit is being retained to grow the business and its future earnings.

Other means are available to grow of course. A company can borrow money — unfortunately, the appetite for debt is low despite low interest rates.

This is because we are at the end of a long-term credit cycle, not at the start.

In other words, the world is awash with debt, much of which has been borrowed to fund financial engineering, such as share buybacks and mergers and acquisitions, rather than productive capacity increases.

Neither credit-fuelled growth nor self-funded growth are available options.

The only alternative is to issue more shares, but so much debt has been used to fund share repurchases that companies would appear bipolar if they started selling new shares.

Here in Australia the stock market looks expensive on a number of measures.

The ASX 100 index's 12-month forward price to earnings ratio is at 15.4 times, as high as it was at the market peak prior to the GFC.

And while interest rates are much lower than 2007, they are not fuelling earnings growth and so should not be used to justify even higher price to earnings multiples.

The ASX 200's 12-month forward P/E is also at its highest level of the past 15 years, and excluding the banks, is above 18 times — well above the highest level recorded in that time.

We have an investment world with elevated asset prices supported only by low interest rates.

Growth and returns will likely be muted for some time, even if interest rates stay low.

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