INVESTMENT PROPERTY

Five signs you should consider selling

Finding the value in a fluctuating market

Continued from Page 1

the E [earnings] forecasts, and that's difficult for a lot of investors."

Valibhoy doesn't see the Australian market (the S&P/ASX 200 stocks) as being expensive, but neither does he see it as cheap. "The market isn't fully valued; it's just that there are times in the market in which sentiment plays a much bigger part than normal valuations and that's what we have at present.

"You can tell people that a particular stock is good value, but they're not going to listen to you if they're fearful of the market taking a hit because investors are jittery about the European debt crisis or the US debt build-up or the prospect of China slowing. Sentiment rules the roost at the moment," he says.

Bendeich is in the unique position of starting a new small-capitalisation fund from scratch, after UBS's Australian small-caps team left the firm in April. Bendeich and the team have partnered with Bennelong Funds Management to start Avoca, which goes live on July 1. He says it is an interesting time to be starting a new fund because "there's no screaming value that leaps out at us".

"There is not a lot of absolute value that we can see at the moment, but given that we invest on a relative basis — we've got to be invested, we can't just put the whole fund in cash — we'll choose the

ing expensive, but neither does he see it as cheap. "The market isn't fully valued; it's just that there are times in the market in which sentiment plays a much bigger part than normal valuations and that's what we have at present.

"You can tell people that a particular stock is good value, but they're not going to listen to you if they're fearful of the market taking a hit because investors are jittery about the European debt crisis or the US debt build-up or the prospect of China slowing. Sentiment rules the roost at the moment," he says.

Bendeich is in the unique position of starting a new small-capitalisation fund from scratch, after UBS's Australian small-caps team left the firm in April. Bendeich and the team have partnered with Bennelong Funds Management to start Avoca, which goes live on July 1. He says it is an interesting time to be starting a new fund because "there's no screaming value that leaps out at us".

"There is not a lot of absolute value that we can see at the moment, but given that we invest on a relative basis — we've got to be invested, we can't just put the whole fund in cash — we'll choose the

higher the dividend yield, the better the value, or so the theory goes.

The NTA also can be compared with

current life cycle and work out what we believe to be the stock's intrinsic value."

Roger Montgomery, managing direc-

Roger Montgomery, managing director of Montgomery Investment Management, says retail investors often don't get past the P/E, the price-to-NTA ratio and the dividend yield, but the problem is that these three ratios are based on the share price.

"The P/E doesn't tell you anything," Montgomery says. "It can't tell you what's cheap or not because price can't tell you anything about value. When you're calculating value, it's got to be completely independent of price."

Montgomery focuses on the returns generated by the book value of the company. "We're looking at how powerful an earner is that book value. We use net asset value: we include intangible assets because they're actually more powerful in many cases, they're more valuable. We're valuing all of the money that's been put in and left in the company."

For example, he says, suppose you have $1 of book value, earning 10 per cent a year, and you're happy with that return. "That book value is worth $1. If it's available in the market for $2, you wouldn't touch it. But if it's available for 50c, you might be very interested in it.

"Or let's say we find a business that has $1 of book value, and we believe in the future it can continue to earn 20 per cent a year. We're happy with a 10 per cent return, so we can pay $2 for that $1 of book value, but no more. It's as simple as that," Montgomery says.

tor of Montgomery Investment Management, says retail investors often don't get past the P/E, the price-to-NTA ratio and the dividend yield, but the problem is that these three ratios are based on the share price.

"The P/E doesn't tell you anything," Montgomery says. "It can't tell you what's cheap or not because price can't tell you anything about value. When you're calculating value, it's got to be completely independent of price."

Montgomery focuses on the returns generated by the book value of the company. "We're looking at how powerful an earner is that book value. We use net asset value: we include intangible assets because they're actually more powerful in many cases, they're more valuable. We're valuing all of the money that's been put in and left in the company."

For example, he says, suppose you have $1 of book value, earning 10 per cent a year, and you're happy with that return. "That book value is worth $1. If it's available in the market for $2, you wouldn't touch it. But if it's available for 50c, you might be very interested in it.

"Or let's say we find a business that has $1 of book value, and we believe in the future it can continue to earn 20 per cent a year. We're happy with a 10 per cent return, so we can pay $2 for that $1 of book value, but no more. It's as simple as that," Montgomery says.

"The P/E doesn't tell you anything," Montgomery says. "It can't tell you what's cheap or not because price can't tell you anything about value. When you're calculating value, it's got to be completely independent of price."

Montgomery focuses on the returns generated by the book value of the company. "We're looking at how powerful an earner is that book value. We use net asset value: we include intangible assets because they're actually more powerful in many cases, they're more valuable. We're valuing all of the money that's been put in and left in the company."

For example, he says, suppose you have $1 of book value, earning 10 per cent a year, and you're happy with that return. "That book value is worth $1. If it's available in the market for $2, you wouldn't touch it. But if it's available for 50c, you might be very interested in it.

"Or let's say we find a business that has $1 of book value, and we believe in the future it can continue to earn 20 per cent a year. We're happy with a 10 per cent return, so we can pay $2 for that $1 of book value, but no more. It's as simple as that," Montgomery says.