Fairfax turmoil

Strike may hit Budget coverage

STUART CONDIE
MEDIA

Fairfax chief executive Greg Hywood says an even greater focus on costs is necessary.

JOURNALISTS at Fairfax Media have voted to strike for a week — putting their coverage of the federal Budget under a cloud — following the company's decision to cut a quarter of its Australian editorial workforce.

Editorial staff at Fairfax, publisher of *The Age*, took the stance after the company announced yesterday that 125 newsroom positions would be cut.

Fairfax is cutting costs by $30 million in the face of declining advertising and circulations.

"While we will be looking across all parts of the newsroom, at the end of the redundancy program we expect there will be significantly fewer editorial management, video, presentation and section writer roles," the company said in an internal note.

The journalists' union, the Media, Entertainment and Arts Alliance, said in a statement that Fairfax staff were "disgusted" by the decision.

"None of the other parts of the Fairfax business are worth anything without the journalism and yet it is the journalism that Fairfax always cuts," MEAA chief executive Paul Murphy said.

"The editorial staff are really angry. They think the company has made a terrible decision that is not in the best interests of the company, its audience or its staff."

Fairfax axed 120 editorial jobs from its newsrooms in Sydney and Melbourne a year ago in an earlier cost-cutting exercise and outlined its latest target last month.

The latest move followed a decision by the New Zealand Commerce Commission earlier yesterday to block a merger between the publisher's NZ division and rival publisher NZME.

Fairfax chief executive Greg Hywood said the watchdog was too focused on traditional media and its decision did nothing to address the challenge of search engine and social media giants such as Google and Facebook, which he said pay "minimal, if any, local taxes".

"In light of the NZCC decision, an even greater focus on cost efficiency will be necessary," Mr Hywood said.

"Further publishing frequency changes and consolidation of titles is an inevitability." Fairfax shares yesterday fell 1c to $1.07.

AAP

SMALL FRY IN PITCH TO KEEP TAX CARROT

SMALL businesses have urged the federal government to retain the $20,000 instant tax write-off in Tuesday's Budget.

A survey by accounting group MYOB has revealed the accelerated depreciation initiative, which encourages businesses to buy equipment and claim an immediate tax deduction, was viewed as the most pressing need by 60 per cent of respondents.

SMALL BUSINESS

It also found reductions in company tax and subsidies to employ young Australians were being sought. Some 43 per cent of businesses thought the Budget would not be positive for them.

MYOB chief Tim Reed said it showed the small business community was facing the Budget with trepidation. "The $20,000 instant tax write-off is a budget measure which has an immediate impact on the sector it targets and we can't ignore the benefits it provides to the Australian small business community," he said.

CLAIRE HEANEY

Health feels pinch amid sector growth

AUSTRALIA'S service sector activity has continued to expand in April, but the jobs-heavy health and community services industry, along with retail trade, have contracted.

The Australian Industry Group's Performance of Services Index rose 1.3 points to 53 in April, remaining above the 50-point level signifying expansion.

It was the seventh consecutive month in which headline services activity either expanded or held steady.

Ai Group chief executive Innes Willox said a lift in sales,

SERVICES

employment and new orders helped improve the pace of growth.

Five of the nine services sub-sectors expanded in the month, with growth concentrated in property and business services, wholesale trade, finance and insurance.

Hospitality services, including accommodation, cafes and restaurants, was stable, but other sub-sectors — including health and community services, retail trade and communication services — shrank.

THIRST FOR PROFIT IN LIQUID ASSETS

ROGER MONTGOMERY
THE SHORT CUT

TODAY'S column is about securities we don't like — those we'd prefer to be short.

In the past, we have warned about investing in overpriced infrastructure securities, retailers and supermarkets, as well as REITs (real estate investment trusts), Telstra, the banks and overpriced residential real estate. As time passes and prices continue rising, the list gets longer, bringing me to this week's column.

This week, we discuss selling "illiquidity" itself.

When central banks acted collectively to drive short term interest rates to zero and then to flatten the yield curve by also buying global long-term bonds, they triggered a mass migration of investors out of cash and into every other asset class.

As US 10-year bonds fell from nearly 16 per cent in 1980 to 1.36 per cent last year, yields on all assets fell amid a migratory buying frenzy that ignored quality and longer-term growth prospects.

The yield on the S&P500 index has declined from above 6 per cent in 1981 to just over 2 per cent today.

In 1992, Australian industrial property offered a yield of 12 per cent; today it offers about 6.5 per cent. Retail property offered 9 per cent in 1992, now it's 5.75 per cent.

A year ago, triple-C rated bonds (junk bonds issued by the highest-risk companies) yielded 9 per cent more than bonds issued by the US Treasury. Today that difference is just 4 per cent.

Australian residential yields in excess of 9 per cent in 1987 have fallen below 3 per cent.

Bond proxy infrastructure stocks Transurban and Sydney Airport's dividend yields have halved from more than 12 per cent in 2008-09.

If you aren't selling the above assets at today's prices, you are effectively buying. And what you are buying is a long duration asset with an inadequate income.

The classic response, of course, is that while the income is poor, investors will do well from capital gains.

This misses the point that in order to make a capital gain, the next buyer has to accept an even lower yield.

Capital gains don't occur in a vacuum. In order to sell, there must be a buyer, and that buyer must be an even greater fool to accept an even lower yield.

Of course, there is nothing to worry about right now, everything appears rosy and asset prices aren't falling. Why be concerned?

Quite simply, as bond rates continue rising from their recent lows, the fixed incomes of many assets will be less valuable. Investors will start reappraising their investment strategies and they will question the sense of locking in such low returns for multi-decade periods on multi-decade assets.

And that's where liquidity becomes important. I completely understand the logic of not holding cash in a low interest rate environment. Cash only yields 2.5 per cent. But now many less liquid assets yield the same amount albeit with much higher capital risks and less liquidity.

I challenge 20,000 readers to try to sell their leveraged apartment at a 10 per cent profit today. I'd be surprised if, in aggregate, that is possible.

I challenge 100,000 readers to sell their recently purchased apartment at break-even!

As billionaire Sam Zell once observed, liquidity is value. Only when you can actually sell is the value you have put on your asset correct. In a market full of investors trying to exit, market values will change suddenly. So ask yourself: if I need to get out in a hurry, will I be able to? If you aren't leveraged and you don't mind riding a cycle or two, you have little to worry about.

But cash is most valuable when nobody has any and given the migration that drove asset prices higher, few have any. If there's a migration back to cash, illiquidity could trigger a significant fall in asset prices.

ROGER MONTGOMERY IS MONTGOMERY INVESTMENT MANAGEMENT CHIEF INVESTMENT OFFICER

MARKET WRAP

BOURSE TUMBLES AMID BANKS, MINERS BLIP

FALLS by the major banks, miners and Australia's fourth biggest telco, Vocus, yesterday triggered the local share market's steepest fall in six weeks.

The benchmark ASX 200 index dropped 1 per cent after the big banks lost more ground on ANZ's weaker-than-expected first-half cash profit, announced Tuesday.

Weak iron ore futures hurt the miners and a profit warning from Vocus caused a plunge in its share price, Patersons Securities economist Tony Farnham said. Falls in those three major sectors outweighed gains in the energy sector and some health care companies.

"There are concerns that the net interest margin slippage seen in the ANZ result might repeat itself for the other banks," Mr Farnham said.

The ASX 200 closed down 58.1 points, or 1 per cent, at 5892.3 points while the broader All Ordinaries index was down 51.5 points, or 0.9 per cent, at 5919.9.

Among the big banks, **ANZ** dropped 90c, or 2.8 per cent, to $31.35, **National Australia Bank** shed 92c, or 2.7 per cent, to $33.09 ahead of its interim result announcement today and **Westpac**, which reports on Monday, fell 66c, or 1.9 per cent, to $34.32.

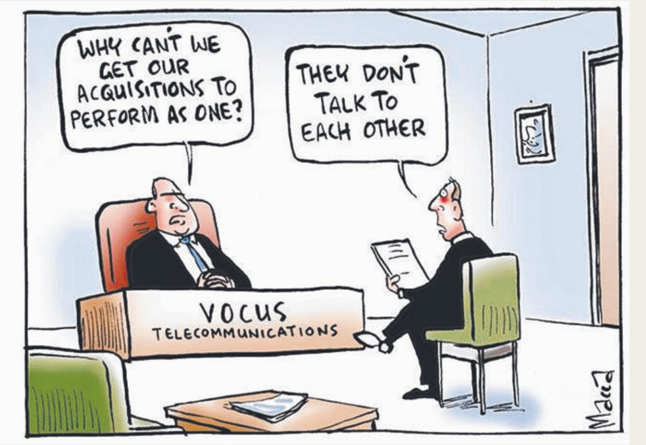
The **Commonwealth Bank** was $1.48, or 1.7 per cent, weaker at $85.35.

A second profit warning in six months sparked a 27 per cent fall in **Vocus** shares to a 3½-year low of $2.44, down 91c on the day.

Rival **Telstra** also fell in morning trade, but recovered to add 1c to $4.27.

BHP Billiton retreated 55c, or 2.3 per cent, to $23.21 and **Rio Tinto** and **Fortescue Metals** each shed 1 per cent, to $59.39 and $5.22, respectively.

Late yesterday the Australian dollar fell back below US75c amid weaker Chinese iron ore futures.


WHY CAN'T WE GET OUR ACQUISITIONS TO PERFORM AS ONE?
THEY DON'T TALK TO EACH OTHER
VOCUS TELECOMMUNICATIONS
Macca

DOLLARS & SENSE by MACCA