Teachers, there's a whole new world awaiting you

TIM BOREHAM

LiveHire (LVH) 85c

Backed by recruitment doyen Geoff Banks, of Morgan and Banks, LiveHire listed at an issue price of 20c in June last year.

After a slow start, shares in the recruitment outfit have doubled in the past four months as the "talent community" signs on more blue-chip corporate clients.

The internet may be the great enabler, but when it comes to recruitment, the web threatens to revert productivity levels back to the days of the resume penned with a quill and parchment.

"Five years ago the average job posting received 40 applications," says LiveHire's founder and "growth director" Mike Haywood. "Because applicants need only push a button to apply for the most unsuitable positions, this number has swelled to 120".

"For employers, the average cost of hiring someone is $6000 and the process has blown out from an average 28 days to 68."

LiveHire, with Banks as chairman, has attracted big-name clients to its talent pool model that curates an updated candidate list for every job in the organisation.

"The secret to LiveHire is candidates own their data and can join the talent pools of as many companies as they want," Haywood says.

When a CV is updated, it is automatically refreshed across the databases of participating employers.

LiveHire's sign ups to date include the Alfred Hospital, Barwon Health (Australia's biggest public healthcare provider), Queensland Health, health insurer Bupa, accountant KPMG and General Pants.

It recently won the mandate to handle the Roy Hill iron ore mine and its 1700 workers.

In the case of General Pants, an apparel retailer that needs to replace 600 of its 1300 staff each year, the hiring process was cut from 28 days to two.

"When we listed we were managing 56,000 (candidates) and now we have 362,000 across 50-plus talent communities," Haywood says.

LiveHire charges employers 50c for every candidate on their database, with a recommended 10 registered candidates for every job in the organisation.

In the June quarter, LiveHire reported cash receipts of $330,000, up 30 per cent, and a cash burn of $349,000. The company has cash of $17m, having raised $12.5m in March at 44c apiece.

We see two dangers to the LiveHire model.

- First, many companies won't want to share a candidate pool with rivals. Haywood says in the supposed war for talent, the parties have surrendered in favour of collaboration.
- Second is that most companies will keep doing what they have always done and keep a list of unselected candidates in the bottom drawer. Others say past candidates need not apply.

Haywood says the candidate details quickly turn stale and these lists are rarely revisited as a result. He acknowledges recruitment will remain an intrinsically human-to-human process. But before the chat and handshake stage, there is still scope to automate the process.

Schrole Group (SCL) not yet listed

Pay attention, class!

The lesson from this education recruitment play is that there's still investor appetite for small cap listings that offer more than vague aspirational statements.

A proposed backdoor listing, Schrole closed 50 per cent oversubscribed in its quest to raise $2m at 2c apiece, for an overall market value of just over $11m.

Founded by Rob Graham and Greg Smith in 2013, Schrole is based on cloud-based recruiting platforms for domestic and international schools (Schrole Connect), as well as one to source relief teachers (Schrole Cover).

A third arm, Schrole Develop, provides corporate training.

Schrole Connect has signed up just over 200 schools, split between domestic and overseas. The latter would seem to provide the greatest prospects because of the difficulty in attracting English speaking teachers to far-flung parts of the world.

Graham says globally there are 8900 international schools, employing 400,000 teachers. Turnover is 80,000, which means a constant need to find new teachers.

One problem is lack of awareness: local teachers are oblivious to the overseas jobs on offer. As a result, they're doing themselves out of $US100,000 salaries and perks such as flights, rent assistance and their own children's education.

Applicants don't pay a fee for a standard placement but can fork out $75 for a Linkedin Premium-style privilege that allows them to apply for the jobs on offer.

Graham won't provide financial forecasts — he's no class dunce — but he is entitled to 280 million performance shares, based on annual revenue reaching $7m within 36 months and EBITDA reaching $3m within four years.

"We are very motivated to achieve our performance share targets and would like to do so in advance of these dates," he says.

Schrole is back-dooring through the shell of property investor Acquaint Capital, with a listing date of mid next month.

Class dismissed!

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As rates change tack, so should we

Investors need to reassess strategies

JAMES KIRBY
WEALTH EDITOR

Is it a turning point? RBA governor Philip Lowe could not be more direct — "prepare for higher rates" he said this week — but how exactly might investors do that?

We all know interest rates are moving higher around the world but Lowe's comment capped a week which might just turn out to be a milestone.

Only days earlier NAB, which until recently suggested we would have no change in rates until 2019, reworked its numbers. Suddenly the bank changed its tune: there will be two rate rises next year, it suggests.

Other banks are not waiting for the RBA to move. At HSBC, where chief economist Paul Bloxham says the RBA will lift rates no later than March next year, the global bank is offering cash deposit rates of 3 per cent.

Why you might ask is a commercial bank offering deposit rates that are twice as high as official rates (still unchanged at 1.5 per cent). Because the wind is changing direction and investors need to sit up and notice.

It's hard to believe but Australian investors have not had to consider the implications for investing in a market where rates are rising since 2011. In other words, the so-called "hunt for yield" — better described as the hunt for non-cash yield — is coming to an end.

Just to put some figures on it, back in 2011 Australian investors, typified by SMSFs, had 20 per cent of their entire investment portfolios in cash; today that figure has dropped to 15 per cent.

Moreover, it was not that investors — especially older and more conservative investors — ever wanted to withdraw cash and place it in the riskier world of shares or property. They had little choice with rock-bottom rates which were often lower than inflation.

Now all that is about to change, and it may change a lot faster than anyone in the market, including HSBC, is forecasting.

What does it mean for the private investor? Put simply, it means a switch in focus from income to growth. But markets are rarely so easy to read. The reality is likely to be a lot more complex. Here's what you need to know for each asset class.

Cash

No other asset class has been so out of fashion since 2011 than cash but investors will now be looking at cash deposits once more. The risk-free nature of cash — especially the explicit guarantee from the government on cash holdings — means that from a security perspective this asset class is unbeatable.

With deposit rates inching higher all over the world — and early signs they are moving in our own market — cash deposits are set to return from their denuded role as a "store of value" to becoming a genuine investment choice once more.

Income stocks

It is hard to exaggerate the significance of what has happened to Telstra since the telco announced in August it was cutting its dividend: the stock has simply fallen in a hole. From a price of about $4.30 at the time CEO Andy Penn delivered the news to a stunned legion of shareholders, Telstra is now trading at $3.60. Not every "income stock" may suffer the same fate — bank stocks, for example, may profitably exploit rising rates — but for companies that have put income at the top of the agenda above all else, the writing is on the wall.

A-REITs

Property trusts — more commonly known as A-REITs — have already been suffering as the first wave of yield sceptics withdrew from the market.

With looming rate hikes, property trusts were always going to be in the firing line. They are down 6 per cent against a broadly flat ASX 200 this year. But there could be much more testing times ahead because they are leveraged at a time when rates are rising and prices are set to flatten.

Gearing rates above 40 per cent signalled real trouble the last time the cycle went against property trusts and there are several testing this level in late 2017: Cromwell and Centuria both have gearing rates above 40 per cent, Westfield is at 37.5 per cent. Crucially, these rates have not yet raised eyebrows because the trusts have been coasting on rising valuations.

Property

In common with bank stocks, which some will say are a proxy for the residential property market on the ASX, the outlook for direct property is much more difficult to call. House prices are already flattening and there is little doubt the "mortgage stress" barometer will be tested further if rates rise again.

Nonetheless we have already seen investor mortgage rates creep up above 5 per cent without any compelling evidence it is forcing house prices lower. More likely a string of negatives — including gradually increasing mortgage rates — will combine to cool house price growth in selected locations but not everywhere. For investors, if you have not fixed at previously low levels, the servicing of mortgages is almost certainly going to get more difficult.

Bonds

The Australian retail market has little direct exposure to bonds; rather, most investors have exposure through institutional super funds or balanced managed funds. Either way, a long anticipated surge in fixed bond yields with a parallel drop in bond prices is in the offing and the end results will be negative total returns in many cases. Bond yields are already up in the US, and the Australian government 10-year yield is now testing 3 per cent (2.8 per cent), the highest since 2014.

The key conclusion is that the hunt for yield is over. Everyone — not just income-seeking investors — needs to promptly reassess the investment market.

Red flags everywhere: higher interest will bring stock valuations down

ROGER MONTGOMERY

As predictions for higher rates multiply, it might surprise you know there are now more margin loans supporting buying in the US stockmarket than even during the tech boom of 2000.

Meanwhile those loans are chasing an ever-narrowing band of tech stocks on the back of a fear of missing out that overwhelms any fear of loss.

When I started down the list of NASDAQ 100 companies and their price-to-earnings ratios, I quickly counted a dozen on multiples of more than 200 times. Think about that. More than 12 per cent of companies in the NASDAQ are on PEs of more than 200 times — companies like Netflix, GoDaddy, Yelp and Salesforce. And some on PEs of 250 times.

At the pointy end you have companies like Tesla, Uber (unlisted) and Twitter with an aggregate market cap of $US140 billion but an aggregate profit of ... zero. Risk seem to be ignored in what Howard Marks has described as "the pursuit of the new, untrammelled by knowledge of the past".

We could be in the middle of the largest ever margin loan debt bubble ... and that may well surprise many people. But so might the fact that the sort of returns some are receiving for "buying the index" are also unsustainable.

Since the lows of the GFC in March 2009, the S&P 500 has delivered a total shareholder return of almost 18 per cent per annum. By itself this return is exceptional, but what makes it extraordinary is that the returns have come with a measure of risk of just 12 per cent.

In other words, over 100 months, the S&P 500 has delivered a Sharpe Ratio (a measure of risk adjusted returns) of 1.4. To put that in perspective, it has not happened since 1959 and the world's best hedge fund managers would give their right eye to produce numbers such as the broad stock market index is delivering now.

Ultra-low volatility and ultra high returns is not a function of an enlightened world and smarter investment products such as ETFs and index funds. It is a function of very cheap money, avoiding the punitive returns offered by cash, and chasing a narrowing pool of opportunities. I am once again reminded of Herb Stein who said; "if something cannot go on forever ... it must stop".

'Markets vulnerable'

On the subject of low interest rates it is worth noting that stocks only appear cheap because interest rates are low. The US 10-year Treasury bond is trading on a yield of 2.27 per cent. That's equivalent to a PE ratio of 44.1 times earnings and the earnings don't grow. Therefore, if you can find a stock with a lower PE than 44 and offering a little growth, the stock must be cheap.

But as you can also see such a game is a dangerous and relative one. It relies on rates staying low. If rates rise — and we now have both the US Fed and the RBA signalling rates will go higher — the apparent "value" vaporises. The Bank of International Settlements recently made this point in its report which detailed the dramatic level of margin loans.

The BIS suggested: "Valuations seem to be aligned with historical benchmarks only after account is taken of the level of bond yields" adding "equity markets continue to be vulnerable to the risk of a snapback in bond markets, should term premia return to more normal levels". (Term premia refers to the level of compensation investors require for taking on risks in bond markets.) And let's not forget the debt picture if "term premia" does indeed rise. US corporate debt as a percentage of GDP is near all-time highs. On all of the past three occasions that debt hit this level, a recession ensued.

Meanwhile corporate bond spreads — the premium lenders demand for lending to a company instead of the government — are at record lows, as is Moody's Covenant Quality Index. In other words, lenders are lending a lot, for very low returns and with very few requirements imposed on the borrower.

Red flags are everywhere and perhaps the reddest of all is the recent issue of a 100-year bond by Argentina. Anyone with any knowledge of Argentina's history knows that in the last 90 years the country has endured three periods of hyperinflation — with the worst, of 5000 per cent, occurring as recently as 1989. It has experienced dozens of military coups and civilian uprisings and as recently as 2001 declared what was the largest-ever sovereign debt default.

In fact it was only last year that Argentina emerged from that default, and 12 months later it issues a 100-year bond at a 5 per cent premium to a US government bond, and after offering $US2.75bn at the final yield, it received $US9.75bn in bids. It was massively oversubscribed!

Do you think there could be, or will be, a period of inflation, a credit event or rising interest rates in Argentina in the next 100 years? If you do, then you don't want to be holding those bonds. Such is the disdain investors have had for cash, it appears they'll buy almost anything and at any price. And that's the biggest red flag of all.

Roger Montgomery is founder and chief investment officer of the Montgomery Fund.

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