

# The Hudson Report

Thursday  
26 November  
2009

This weeks Hudson Report is brought to you by The Hudson Institute **Financial Adviser - Andrew MacDonald**

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In this week's Hudson Report we will look at the advantages and disadvantages of investing in the residential property and share markets, and whether we should invest our money in one or both of these asset classes.

If you would like more information about any of the subjects in this week's Hudson Report, [make an appointment](#) online or speak with your Hudson Adviser on (free call) 1800 804 296.



Take Care,  
**Andrew MacDonald**  
Financial Adviser



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Article 1 - [Property vs Shares - Which is Better?](#)

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Whisper of the Week - [CSL Limited](#) biopharmaceutical



One of the most polarising investment debates in modern Australia, is whether it's wiser to invest your hard earned savings for the long term in residential property or shares. Property buffs will swear black and blue that property is the only way to go, and that shares are too "risky". Share nerds will say property requires too big an investment, and you can't sell part of a house if you need some cash. Then there are those who realise that they both have historically delivered similar results, and that it makes sense to have exposure to both of these asset classes.

## Property Investing

### ADVANTAGES

1. **A tangible asset:** The fact that residential property is a physical asset that can be seen and touched is a great comfort to many people.
2. **More stable prices than shares:** Without a doubt, property prices have fluctuated less than share prices, and some people don't have the kind of risk tolerance that can handle the rollercoaster ride that share investments can sometimes be. Furthermore, the less variable prices reduce the importance of the timing of the investment issue.
3. **The banks will lend more against it:** The fact that property prices are more stable, gives the banks more

confidence to lend more against the asset. This allows an investor to use less of their own money in purchasing an investment, and therefore, potentially getting a higher return of the equity they do contribute.

4. **Tax incentives and stamp duty concessions for property investments:** There are many tax advantages to be gained from property investment. Due to negative gearing, the excess interest paid on the loan after rental income is considered tax deductible, and there are also attractive depreciation tax deductions available on the fixtures and fittings of the property. Ongoing investment expenses such as body corporate fees, council rates and maintenance charges are also tax deductible. When investing in new 'off the plan' properties in some states there are stamp duty tax concessions.

## DISADVANTAGES

1. **High transaction costs:** Anyone who has ever bought a property would know that there are a lot of little extra costs that add up to making the transaction costs to buy a property quite expensive. You have to pay stamp duty tax to the government, legal fees to get the *conveyancing* done, and when buying older properties, people often need to get a building and pest inspection done as well.
2. **Can have higher ongoing costs:** Once you own a property, it's not just a case of collecting rent. There are ongoing costs that also add up. Body corporate, council rates, maintenance etc, covering untenanted periods, insurances, etc, paying all these ongoing costs all add up. However, the positive side is these expenses are tax deductible (investment property only).
3. **Your buying only one asset:** The opportunity to diversify your assets and thus reduce the risk of the portfolio, is not as easy in property investment. You have to invest a large amount of money in one asset, whereas with shares, you can make small investments in many different assets.
4. **Large initial investment:** To buy quality, well-located property in the major capital cities currently sets you back at least \$350K-\$400K, which is obviously a large investment.
5. **Less liquid than shares:** With shares and managed funds you can normally have your funds in your hands 3 days after issuing a sell order. With property, it could take weeks or months to settle on a property sale and even then it can fall through.

## Share Investing

### ADVANTAGES

1. **Low holding costs:** If you hold direct shares there are no holding costs, unless you are getting advice as to what shares to buy. If you invest through managed funds you get professional portfolio management from between typically 1-2% of the investment.
2. **Tax advantages of dividend imputation:** Both direct share holdings and managed fund investments benefit from dividend imputation. Dividend imputation provides the investor with a tax credit, reflecting the fact that the company has already paid tax on the earnings before they paid out a dividend. If your marginal tax rate is lower than the company rate of 30% (i.e. super accumulation and pension accounts), you can get a refund of the excess tax paid.
3. **You can sell part of your holdings:** Unlike property investment, when investing in the share market, if you need to access part of your capital, you can simply sell part of your portfolio.
4. **You can diversify across companies:** When investing in the sharemarket, you can invest a small amount of your money in a variety of companies, or use a professional fund manager to do this for you. This reduces the risk of your portfolio and the risk of choosing an asset that performs poorly compared to the wider market.
5. **You can start investing with smaller amounts:** As mentioned previously, property investing requires a commitment of at least \$350K-\$400K to invest in quality residential property in a well located area. With share investment, particularly if you invest through managed funds, you can start investing with as little as \$1,000.
6. **High liquidity:** If you need your money due to an emergency or another reason, it is much easier to get your funds quickly when investing in the sharemarket, than having to sell an investment property. If you place an order to sell either direct shares or managed funds, you can have the funds in your hands within 3 days.

### DISADVANTAGES

1. **More volatile returns:** As we've learnt the hard way over the past 18 months, share prices can be volatile in the short term. This raises the issue of whether it's a good time to invest or not? One way around the timing issue is to invest set amounts on a regular basis and not worry about trying to pick the right time. By doing this, you automatically buy more when the prices are low, compared to when prices are high.
2. **Banks will lend less against shares:** Due to price volatility, banks will lend less against shares than they will against property. This means you have to invest more of your own money to get exposure to the market.

3. **Without home equity, you'll need to borrow using a margin loan:** Margin loans have lower 'loan to value ratios' than home equity loans. Loan to value ratio, reflects the lenders view on the value and stability of the asset they are lending against. For example, a bank may lend 80% of the money to buy a property and the investor puts in the remaining 20%, whereas, a lender may only lend 60% of the money required to buy a share portfolio and the investor has to put in the other 40%. Margin loans also expose the investor to the possibility of getting a margin call. A margin call is when the assets fall in price to such a level that the lender requests the investor provide more cash or security for the loan. If they can't provide this cash the lender can sell down assets. They also have higher interest rates than home equity loans, typically 1.5%-2% higher.

As discussed, there are advantages and disadvantages to both share and property investing. There is no 'one size fits all' investment strategy that will be all things, for all people. Over the long term, people who have invested in both shares and residential property have done very well.

At Hudson, we believe there is a place in most peoples investment portfolios for both of these asset classes. Please contact your Hudson Adviser to discuss **diversifying your investment portfolio on 1800 804 296** or by [making a booking online](#).

Source: [www.afrsmartinvestor.com.au](http://www.afrsmartinvestor.com.au)

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## Property Investment

### Melbourne & Brisbane - Australia's fastest growing cities

Recent treasury forecast predict Brisbane's population will grow to 4 million people by 2049. This represents more than double the current population of approximately 1.945 million. Melbourne's population is forecast to grow from its current population of 4 million to become Australia's largest city by 2049, with a population of 7 million.

The Treasury forecasts the current increase in the percentage population for Australia's 3 largest cities from 2009 to 2049:

- Brisbane's population to increase by 106%
- Melbourne's population to increase by 74%
- Sydney's population to increase by 54%

Of the 3 biggest population and commerce centres in Australia, Brisbane and Melbourne will grow the fastest. This is one of the reason's The Hudson Institute likes the prospects of residential property as an investment classes in these markets. [See our current Hudson Property Report](#)

Another factor, is the relative affordability of Brisbane and Melbourne in comparison to Sydney, and Australia's other major cities. In fact, both Melbourne and Brisbane have median dwelling values lower than the national median.

CITY	Median Home Value	CITY	Median Home Value
1. Sydney	\$550,273	2. Canberra	\$490,946
3. Perth	\$482,163	4. Darwin	\$478,911
Melbourne	\$471,736	Brisbane	\$436,115
Adelaide	\$408,524	Hobart*	\$322,308

**National Median \$487,917** (As at 30 September 2009) \*As at August 2009 Source | [www.rpdata.com.au](http://www.rpdata.com.au)



The table and diagram above shows that Melbourne and Brisbane, which are Australia's second and third largest cities in Australia respectively, are about to embark on large growth in their populations from a state of relative affordability.

The federal policy of increasing the immigration rate, and encouraging increases in the fertility rate with cash handouts such as the baby bonus, and proposed government funded maternity leave, has been projected to greatly increase Australia's population, and will place enormous pressures on the environment and infrastructure of these cities.

If like me, you have to catch a train to work, you may be noticing that the public infrastructure is already starting to creak under the strain of the increasing population. Peak hour traffic on the roads is also getting progressively worse. One can only imagine these issues will get worse as the population grows so rapidly, and improvements in public infrastructure will struggle to keep up with the rate of the projected population growth.

For these reasons, well-located properties within 10-15 kms of the CBDs of Melbourne and Brisbane, and close to public transport services will become highly sort after. This increase in demand for properties located close to transport and centres of employment, should over time, feed into higher rents and dwelling prices in these locations. Furthermore, as we've mentioned numerous times in the Hudson Report of late, supply of property is being constrained by banks tightening the supply of credit being made available to property developers, and the cumbersome development process required by state and local governments.

As property should always be made as a long-term investment, the prospects for well-located properties close to the centre of Australia's fastest growing cities, should perform well over the long term.

Source: [www.couriermail.com](http://www.couriermail.com) :: [www.brisbanetimes.com.au](http://www.brisbanetimes.com.au) :: [www.rpdata.com.au](http://www.rpdata.com.au)

**Want to know more about property Investing?** Book a consultation with your Hudson Financial Adviser by calling **free call 1800 804 296** or **book online** and please read our **GENERAL ADVICE WARNING**



## Investing in Gold

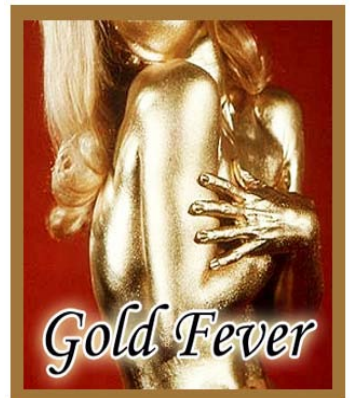
Due to the recent global financial crisis and asset price falls, there has been a growing interest in investing in gold. Two page spreads have been taken out in financial magazines and newspapers speaking of the untold riches that can be made by investing in gold. The other day, I even had a flyer placed in my letterbox telling me how I could buy pure gold coins from the Perth mint. This sort of behaviour should sound warning bells in the mind of long-term investors, as it's the classic behaviour of speculation. As the saying goes,

**"When the paperboy starts giving you investment tips, you should be cautious about his recommendations"**

The Gold price has recently reached a new record high in US dollars and is currently trading at US\$1164.34 an ounce. It should be noted that whilst this is a record in the nominal price, it is nowhere near the real (inflation adjusted) price record. Gold's inflation-adjusted peak price was US\$2,318 an ounce in the late 1980's. It should also be noted that whilst gold has performed strongly in the \$US of late, it has not performed that well in Australian dollars, as our currency has also strengthened by around 40%, relative to the \$US over the past year.

There are a number of reasons for the strong performance of gold in recent months in the US:

- Fears of inflation (gold has traditionally been an inflation hedge)
- Foreign central banks (e.g. India) buying gold to diversify their sovereign wealth away from \$US
- The ongoing fear in some quarters of another economic slump in the near future
- Most commodity prices (oil, silver etc) have been rising in recent months as traders can borrow money for virtually nothing in \$US and use these funds to speculate on asset and commodity prices



It must be stressed that gold is a highly speculative asset, and is not grounded by an income stream like most shares, property, bonds and cash. That is, any return achieved will come from speculation on future capital gains and not by an ongoing income stream. As a result, 'animal spirits' and the speculative mania of crowds can play a huge role in the determination of the gold price.

If you wish to have some exposure to gold, it is much safer for the average investor for this exposure to come from diversified exposure to physical commodities and resource markets. A good investment choice to this end is the Colonial First State Global Resource Fund, which invests in a diversified manner in resource companies around the world including major gold mining companies, such as Lihir Gold.

As to the investment merit in investing and holding physical gold, I would again lead you to my old mate, the American investment Guru Warren Buffett, who, when asked his opinion on investing in gold, responded with the following:

**"It gets dug out of the ground in Africa, or someplace, then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." – Warren Buffett**

SOURCE | [www.amp.com.au](http://www.amp.com.au)

from the floor...



Banker's reputations have taken a thumping over the past few years, but they're not all selfish. During the week, a German, 62 year old female bank branch manager, escaped jail for stealing \$12million from some of her wealthier clients. The interesting aspect of this theft was that the banker did not keep the money for herself. The branch manager was found guilty of moving a total of \$12.30 million dollars from numerous accounts between 2003 and 2005. The funds were directed to the accounts of heavily indebted customers.

**Her altruistic aim was to prevent clients from seeing their accounts closed for want of funds.** As a rule, she transferred the money back when the indebted clients were solvent again, but €1.1 million (\$1.79 million) was lost when certain customers were unable to repay their debts.

The German court in the City of Bonn took a lenient view and gave her only a 22-month suspended sentence, as she owned up immediately and took none of the money herself. The media dubbed her the 'Robin Hood banker'.

SOURCE | News.com.au



### Share market update for the week ending Wednesday 25/11/2009

The US, British and Australian stock markets were effectively flat for the week. However, this belies some volatile trading days. U.S. stocks rose in light trading volume on Wednesday, supported by data that pointed to stabilisation in the labour and housing markets, areas that have fed concerns about a "double dip" recession. Essentially at the moment, there is a tug of war going on between the bears (negative) and bulls (positive) on the global economic recovery.

The bears believe the positive economic data of late is all on the back of government stimulus and there is no sustainable recovery happening. The bulls believe there are genuine signs in the economic data that a sustainable economic recovery is taking hold, and that private demand and investment is building on the back of low interest rates.

#### At the moment the bulls are winning.

In Australia on Wednesday, the S&P ASX 200, which tracks Australia's largest 200 companies, closed up 36.70 points at 4,721.71. The broader All Ordinaries Index was up 32.40 points at 4,740.60. This was on the back of a bullish speech by Reserve Bank of Australia deputy governor Ric Battellino, where he claimed Australia was entering a record mining investment boom which would help underpin growth for years.

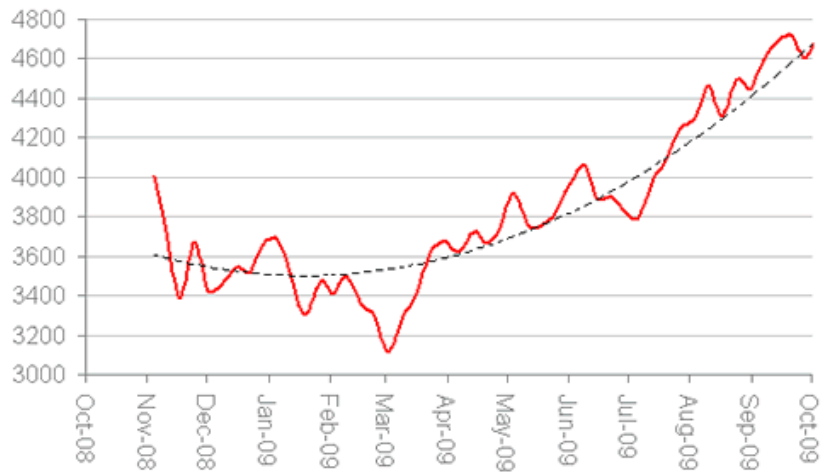
Source | www.afr.com :: www.reuters.com

Index	Close at 25/11/09
<b>All Ordinaries (Aus)</b>	Closed at 4,741. Down 0.30% for the week
<b>Dow Jones (US):</b>	Closed at 10,464. Up 0.55% for the week
<b>Nikkei 225 (Japan):</b>	Closed at 9,442. Down 2.94% for the week
<b>Hang Seng (Hong Kong):</b>	Closed at 22,612. Down 1.31% for the week
<b>S&amp;P 500 (US):</b>	Closed at 1,111. Up 0.18% for the week
<b>FTSE 100 (UK):</b>	Closed at 5,365. Down 0.30% for the week.
<b>Australian Dollar</b>	Closed at 0.9259c against the \$US

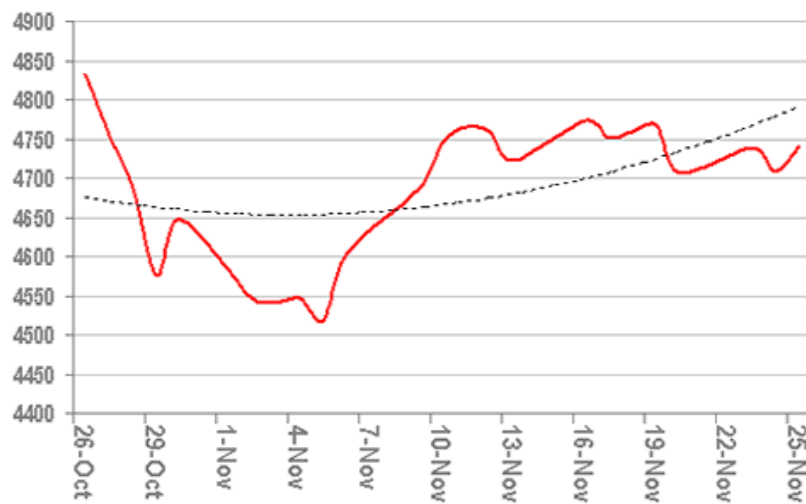
### All Ords Price History 1984 - Nov 2009 (monthly)



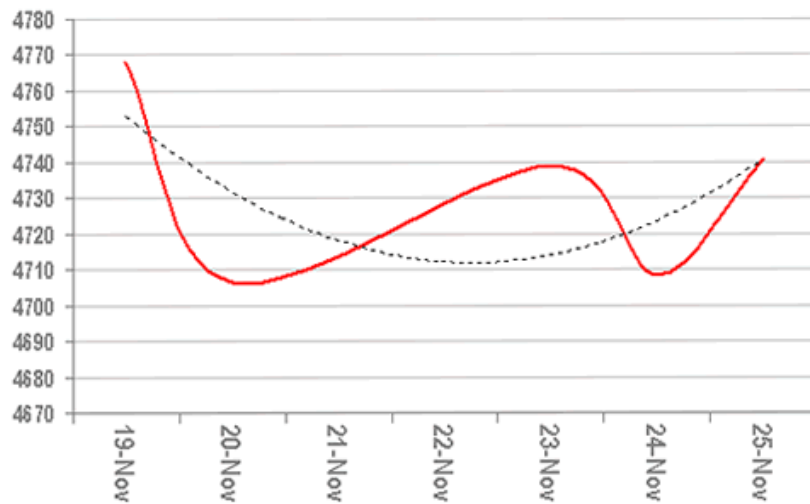
### All Ords Price History Nov 08 - Nov 09 (weekly)



### All Ords 1 Month Price History Oct-Nov 09 (daily)



## All Ords 1 Week Price History Nov 19-25 (daily)



SOURCE | The Australian Financial Review | www.reuters.com | Graph data: Finance.yahoo.com.au



### CSL Limited (CSL.AX)

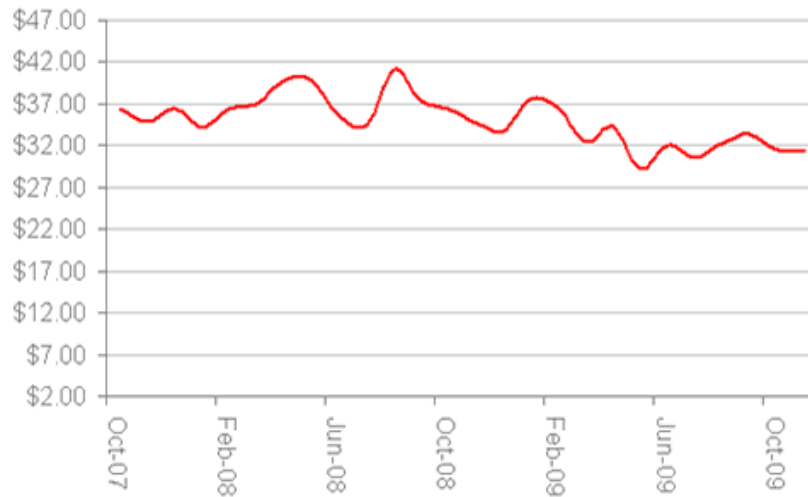
CSL Limited (CSL) is a global specialty biopharmaceutical company that researches, develops, manufactures and markets products that treat and prevent serious human medical conditions. CSL's activities comprise of the development, manufacture, marketing and distribution of pharmaceutical and allied products. The bulk of its sales are derived from their pharmaceutical and bioplasma divisions.

CSL has had very strong earnings growth over the last decade. In 2000, CSL reported earnings of 13.2 cents per share. At the financial year ending 30th June 2009, CSL reported earnings of 170.6 cents per share. This represents an annual compounded growth of the earnings of 29.2%. Furthermore, despite this outstanding growth in the earnings of the company, CSL is showing more value as measured by the price earnings ratio than earlier in the decade. In 2000, CSL sold at an average price of 50.9 times its earnings. In 2001, it was selling at 70.8 times its earnings. In 2009, it has sold at an average of 20.2 times its earnings and is currently selling at 16.6 times its earnings. Over the past 10 years, CSL has returned its shareholders through dividends and capital growth an average annual return of 17.7%. For more information visit their website [www.csl.com.au](http://www.csl.com.au)

Source | [csl.com.au](http://csl.com.au) :: [etrade.com.au](http://etrade.com.au)

Current P/E Ratio	16.63	<b>CSL Limited (CSL.AX)</b> <b>Long-term buy under \$31.70</b>
Dividend Cents/Share	70c	
Distribution Yield	2.4%	
52 week high	\$38.52	
52 week low	\$26.85	

## CSL.AX 2 year Price History Oct 07 - Nov 09 (monthly)



Source | Graph Stats: [finance.yahoo.com.au](http://finance.yahoo.com.au)

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