

# thebigpicture

guideposts for the private investor

Week Commencing 12 May 2003

## **Publishing and Subscription Information**

*thebigpicture* guideposts for the private investor is published by *thebigpicture* Economics (ABN 71 040 787 936). The author, John A Robertson, while working in Australia, London and New York, has over 20 years experience in international financial and commodity markets, corporate strategy, financial and business evaluation and government policy. He has been Chief Economist and a director of a leading Australian investment bank. He has been a top-rated institutional equity analyst and has marketed investment advice in all the major international financial centres.

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## The Australian Market Shrinks...Again

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Indeed, most companies have been interpreting continuous disclosure as requiring a statement from directors only when they are committed to a course of action which might have a material effect on price. The ASX has seemingly acquiesced in this interpretation.

Not only do individual investors not have the benefit of continuous disclosure but they also get relatively less disclosure than institutional investors. The latter can get a warning ahead of events unfolding. This might typically happen when an investment bank begins to canvas the reaction of institutions to the possibility of a share placement. At that point, the company has not agreed to proceed. Nor might it have commissioned the investment bank to act on its behalf. But parts of the market are being put on notice.

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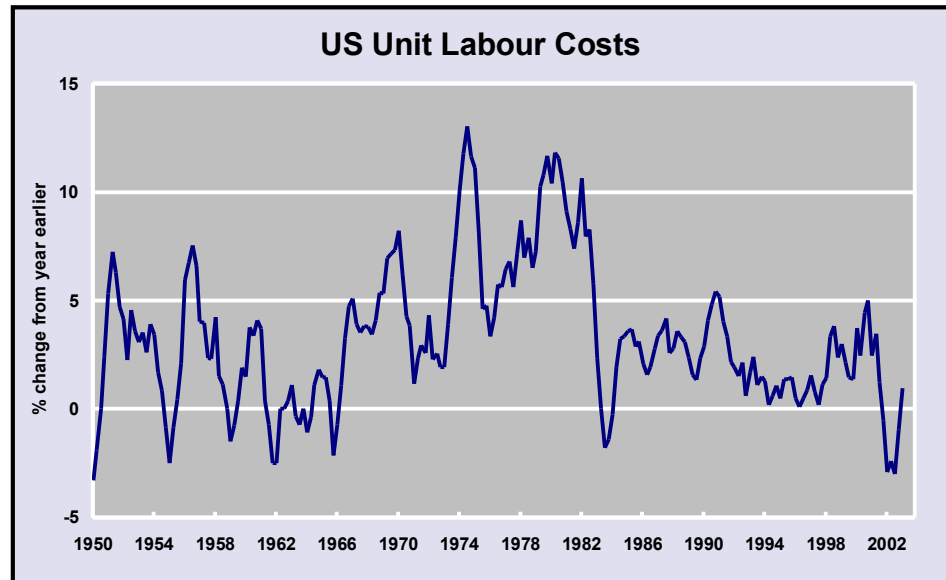
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## THE WEEKLY CHART SPOT

*“Unit labour costs – the cost of employing labour after taking account of its productivity performance – were cut from both sides: by asking the remaining labour to do more and by trying to reducing its price.”*



Source: US Bureau of Labor Statistics

An aggressive approach to workforce management has been a feature of business in the USA during the past two years while economic growth has been slow.

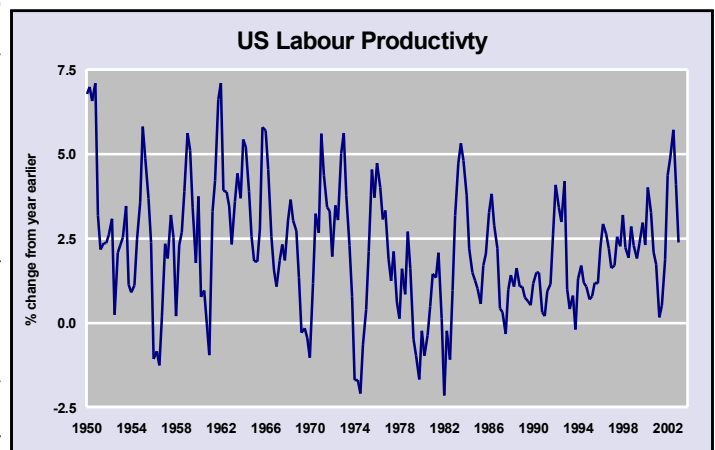
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Over the year to March 2002, employment was reduced by 1.3% and has continued to decline. There was also downward pressure on compensation rates which increased by only 1.3% over the year to March 2002 compared to an average annual rate of increase of 3.9% over the previous three years.

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Hence the recommendation of **thebigpicture** that proven performance should be given the highest weighting. A company which has consistently been achieving a rate of return in excess of its cost of capital (and the target return of investors) should form the basis for a stock portfolio.

An investor might give something away in the early stages of a recovery in following this advice but that is a better alternative than being sucked down the strategic black hole on a promise that recovery is at hand.

## JAPAN: A MODEL ECONOMY AGAIN CONT'D

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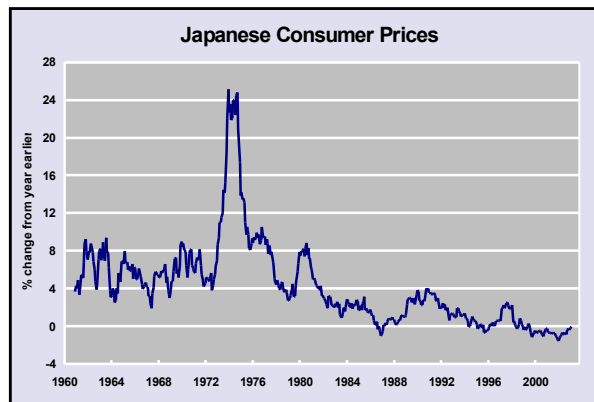
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No wonder that the Nikkei 225, the benchmark index for the Japanese stock market, is now barely a fifth of the value it was at the beginning of 1990. The negative wealth effect created by the falling market has had a detrimental impact on consumer spending. The exposure of banks and other financial institutions to asset values has also made them more nervous about taking risks. One of the factors underlying the tendency to recession has been their desire to rebuild their balance sheets.

Against that pressure, the Bank of Japan has had only limited success. With inter-

est rates cut to near zero, it has attempted progressively to encourage banks to pick up their lending by making sure that they are able to do so freely. At its most recent monetary policy meeting, the Policy Board of the Bank of Japan decided on a more expansionary monetary policy and agreed to increase the target range for banks' current account balances held at the Bank of Japan to 22 to 27 trillion yen from the previous range of 17 to 22 trillion yen. The Bank also reiterated its intention to provide liquidity irrespective of these guidelines should that liquidity be required.

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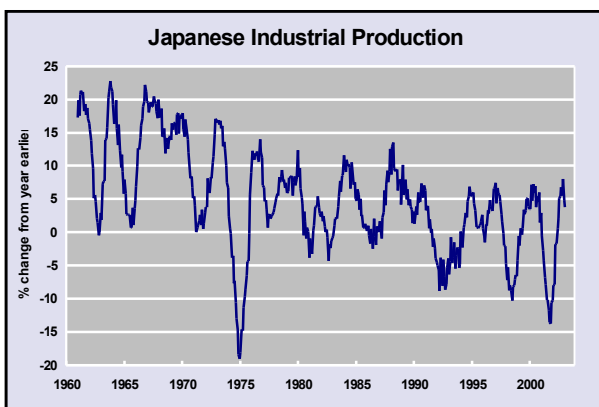
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**Japan's economic situation is again becoming something of an international model ... of what you don't want to have happen elsewhere. It is the model for the fear now being expressed by the US Federal Reserve**

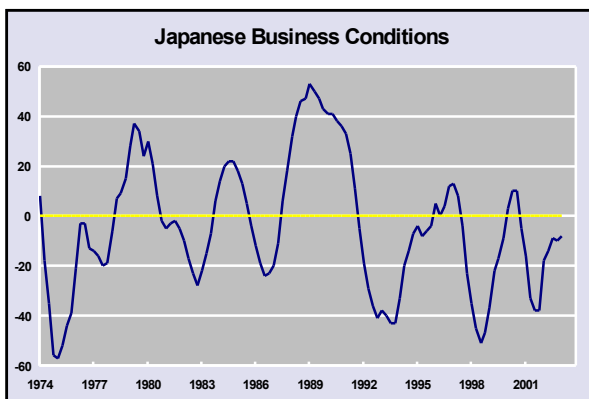
There was a time when the Japanese economy was held out as a positive model for the rest of the world. Its superior economic performance was reckoned to be



The adjacent chart showing growth in Japanese industrial production over the past forty years also highlights that the growth performance has been trending down over virtually all of that period exemplifying how the 1960s were really the heyday of the Japanese economy.

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were favourable for business than believed that conditions were unfavorable. There was a favourable rating in only eleven out of the 42 quarters since September 1992.

Now, the Japanese economy is mired in a quasi permanent recession. Deflation, the combination of slow growth and falling prices which typifies the affliction, is showing signs of occurring in Germany and, now, the US Federal Reserve has expressed publicly that lower inflation is a worry.

Suddenly, inflation is no longer the great fear it has been since the 1970s when higher oil prices first enveloped the developed economies and raised inflation into the high teens.

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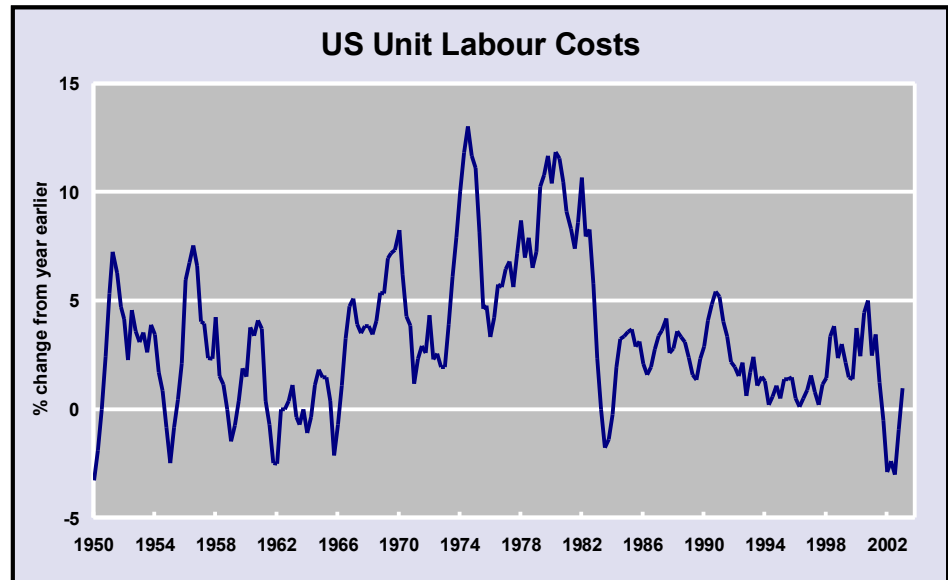
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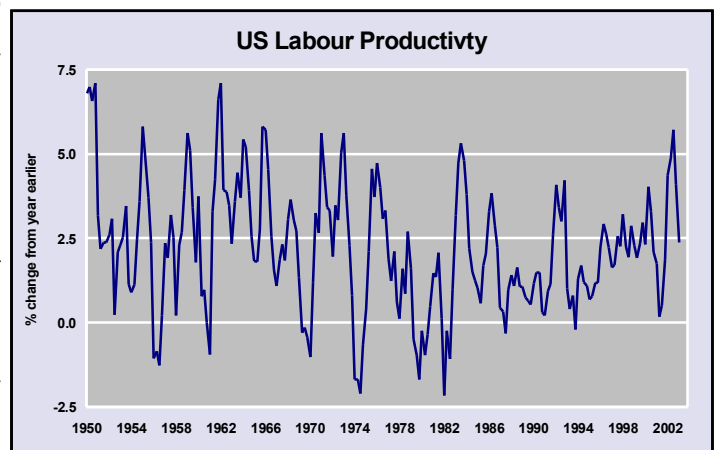
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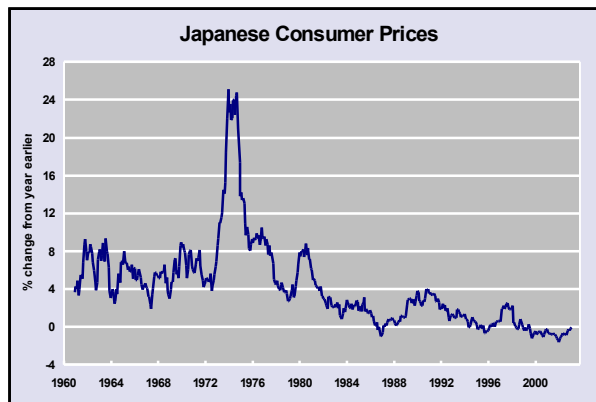
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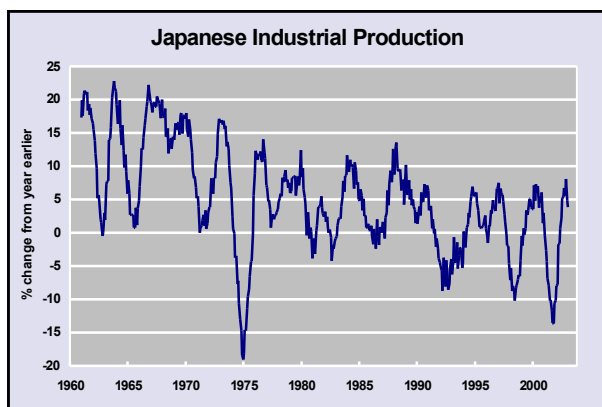
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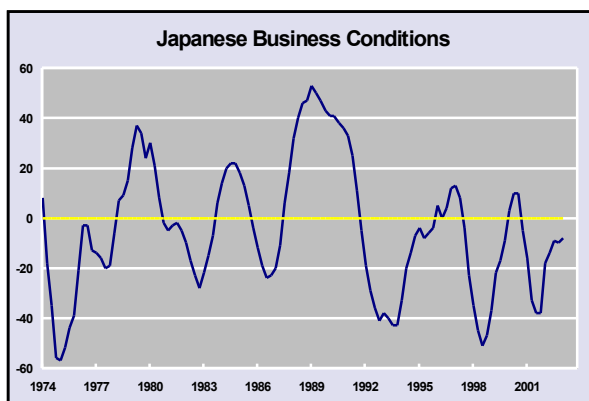
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