

2008 index

This is the full index of articles that have appeared in 2008, including the special conference issue. The Special Issue of JASSA will be published in January 2009. It will be devoted to papers from the 13th Melbourne Money and Finance Conference, titled 'Recent Developments in Australian Debt Markets', which was conducted by the Melbourne Centre for Financial Studies in May 2008. The conference was sponsored by the ANZ Bank, Commonwealth Bank of Australia, National Australia Bank, Reserve Bank of Australia and Australian Prudential Regulation Authority.

Entries are grouped under general subject headings and each contains the title, author, the issue (Issue 1, Issue 2, Issue 3, Issue 4 and the Special Issue) in which the article appeared and a brief summary of the content. Some entries in the index appear more than once, where the content is appropriate to more than one category. Following the subject index is an author index listing the names of authors, the titles of their articles and the issues in which they appear.

ACCOUNTING

Accounting for owner-occupied property: goldmine or landmine? by David Parker SF Fin, Issue 2, pp. 34–38.

Adoption of AIFRS may have been expected to provide increased transparency in financial statements. However, the failure by corporates to adopt the flexibility and transparency offered by AIFRS for reporting owner-occupied property potentially creates landmines and goldmines, rendering financial statements less useful to recipients and raising risk management issues for shareholders, analysts and other interested parties.

Fair or not? Fair value measurement in the sub-prime crisis, by Jane Hronsky and David Robinson, Special Issue.

Fair value accounting has come under significant scrutiny in the wake of the sub-prime mortgage market crisis and subsequent global liquidity crisis. Commentators have questioned whether current market prices are consistent with the definition of fair value in Australian accounting standards, or whether current market prices are more indicative of distressed sales. We argue that these prices do indeed represent fair values and convey useful information for market participants.

ASSET-BACKED SECURITIES

Recent developments in securitisation, by Susan Black, Special Issue.

The Australian securitisation market has become dislocated as part of the current credit market turmoil and investors' reappraisal of the risks associated with structured credit products. Prior to this, the securitisation market in Australia had grown rapidly, reflecting strong demand for housing finance, issuance by regional banks and the changing composition of lenders.

BANKS AND BANKING

Assessing the real profit efficiency of banks in less regulated markets, by Necmi K Avkiran SA Fin, Issue 1, pp. 35–39.

With the sub-prime lending debacle still unfolding, banks are looking for alternative sources of revenue with more discernible risks. In this context, it is timely to examine less regulated markets, such as the UAE, where the focus is on traditional banking practices rather than financial engineering. When evaluating the performance of banks in less regulated markets, however, caution should be exercised as disclosure and market practices in these markets can be quite different from more highly regulated markets.

Measuring operational risk in financial institutions, by Amanda Ganegoda and John R Evans F Fin, Issue 4, pp. 9–13.

Operational risk is now seen as a major risk for financial institutions. This paper considers the various methods available to measure operational risk, and identifies a new framework for analysis.

Operational risk in banks, by John Evans F Fin, Robert Womersley, Danny Wong and Greg A Woodbury, Issue 2, pp. 9–16.

Through empirical analysis of operational risk in a bank we derive a model to represent the distribution of losses, which we compare with more traditional models of operational risk. Our findings suggest that the generalised extreme value distribution provides a good fit to the annual loss distribution and that some conventional methods to model severity are inadequate because they neglect the extreme percentiles which are important in the type of analysis required under Basel II.

BOND MARKETS

Kangaroo bond issuance in Australia, by Jonathan A Batten, Warren P Hogan and Peter G. Szilagyi, Special Issue.

The issue of kangaroo bonds (foreign A\$-denominated bonds) has become a significant part of the Australian bond market. Issuers are overwhelmingly high credit quality, including major banks, financial organisations and supranationals attracted to Australia's highly liquid foreign exchange and derivatives markets. The Australian experience offers some lessons to other countries interested in developing their domestic bond markets.

The real risk-free interest rate in thin debt markets, by Michael Lawriwsky SA Fin, Special Issue.

It is standard practice to use the yield on inflation-indexed CGS as a direct observation of the real risk-free rate of return. However, it has been argued that excess demand for such securities artificially depressed their yields, causing this estimate to be understated, and forecasts of inflation given by the difference between nominal CGS and inflation-indexed CGS to be overstated. This paper suggests an additional hypothesis, namely that there has also been an excess demand for nominal corporate bonds.

Will the real AAA please stand up? by William Whitford, Special Issue.

While recent market upheaval has affected Australia's government bond markets, moves to increase the issuance of CGS and abolish the interest withholding tax on all semi-government bonds should continue to support an efficient and liquid bond market and make a greater contribution to financial stability.

CAPITAL RAISING

The unlisted unrated debentures market, by Alex Erskine, Special Issue.

Following the collapse of several issuers of unlisted unrated debentures in early 2007, ASIC established benchmarks for disclosure and advertising, and an 'if not why not' approach for issuers of these debentures to retail investors. These measures are intended to help retail investors make informed decisions about unlisted unrated debentures while maintaining the essential framework of the market.

CONSUMER DEBT

Recent developments in Australian household debt, by Andrew Worthington F Fin, Special Issue.

Household debt in Australia has risen to record levels in recent years with highly geared households also coming under increased stress due to deteriorating conditions in asset prices, incomes and interest rates. This paper assesses recent developments in household debt from macroeconomic and microeconomic perspectives, and provides a research agenda to cast further light on the causes of burgeoning household debt.

COST OF EQUITY

Calculating the cost of equity in emerging markets, by Mark Humphery von Jenner SA Fin, Issue 4, pp. 21–25.

Emerging markets offer high returns but carry high risk, which influences the cost of equity in these markets. While there are myriad ways to estimate the cost of equity, not all approaches are practicable or theoretically tenable. An analysis of six dominant approaches indicates that the investor's degree of international diversification determines the correct approach. Globally diversified investors should use a CAPM based on international inputs, whereas investors who only diversify locally should use a CAPM based on local inputs.

CREDIT RISK

Credit risk models: why they failed in the credit crisis, by Wilson Sy F Fin, Special Issue.

Credit risk models have played a key part in the global credit crisis. The main shortcomings of these models are examined and a new causal framework is proposed to build deductive credit default models that have predictive capabilities.

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DEBT MARKETS

The NZ term structure: going long in infrastructure, by Roger Bowden and Dawn Lorimer F Fin, Issue 3, pp. 24–29.

The growing need for infrastructure funding by central and regional government, on both sides of the Tasman, can be utilised to complete long-term debt markets. One possible structure is a sovereign infrastructure vehicle that invests in long-term primary debt securities written by state and local government to fund infrastructure projects and repackage these into asset-backed securities issued to the public. Synergistic enhancements include lifecycle derivatives and retirement funding.

DERIVATIVES

Do derivatives improve managed fund performance? by Alex Frino, Dionigi Gerace, Andrew Lehone and Brad Wong, Issue 3, pp. 5–10.

Our study highlights the importance of cash equitising fund flows using derivative instruments. It indicates funds that do not cash equitise experience diminishing returns as fund flow increases, while cash equitising funds experience no deterioration in performance due to increased fund flow. Given the size of the Australian funds management industry, these results potentially translate into significant economic savings.

DISCLOSURE

Risk management disclosure in volatile markets, by Ben Margow F Fin, Issue 3, pp. 16–20.

In volatile markets, companies with sound risk management practices and comprehensive disclosure of risk policy become increasingly attractive to investors. And, in these periods of heightened risk, such as in the current market conditions, these practices are likely to be key differentiating factors both for equity investors and debt financiers.

Use of proceeds disclosures in IPO prospectuses: do issuers come clean? by Maria C Balatbat and Scott T Bertinshaw, Issue 2, pp. 17–21.

We examined 174 IPO prospectuses issued during 1995–2000 to investigate the specificity on the use of proceeds disclosures, their accuracy and effects on shareholder returns. Our findings suggest that it may be useful to guide investors in making informed decisions by requiring firms to clarify why high levels of proceeds are being sought for working capital or to limit the proportion of the proceeds being raised for these and other unspecified uses.

DIVERSIFICATION

The diversification benefits of investing in Australia, by David Costello, Stephen Gray and Alan McCrystal, Issue 4, pp. 31–35.

We examine whether Australia offers any unique diversification benefits to an international investor. Our motivation arises from the implications such diversification benefits may have upon the trading strategies of offshore fund managers. Our research indicates that the Australian equities market, as a whole, does not provide a global investor with any unique diversification benefits that are not available elsewhere.

DIVIDEND REINVESTMENT

DRPs and the reinvestment discount, by Jean M Canil SF Fin and Bruce A Rosser SF Fin, Issue 4, pp. 26–30.

Our research indicates that Australian DRP discounts are related strongly to concurrent equity issues. This is partly because new equity issues require relatively high discounts to compensate investors for the risk of share price declines, given the well-documented undervaluation cost of new equity. For similar reasons, DRP discounts also relate strongly to related party ownership, with investors expecting higher discounts to compensate for the risks of investing in companies either controlled or strongly influenced by insiders.

EARNINGS PER SHARE

The impact of share buybacks on earnings per share, by Graeme P Gould, Issue 1, pp. 30–34.

While companies often undertake share buybacks with a view to raising earnings per share, share buybacks affect both the numerator and denominator in calculating EPS. To determine the conditions under which share buybacks will increase a firm's EPS, the impact on earnings from which the firm's resources are diverted must be considered, as well as the reduction in the number of shares.

EMERGING MARKETS

Calculating the cost of equity in emerging markets, by Mark Humphery von Jenner SA Fin, Issue 4, pp. 21–25.

Emerging markets offer high returns but carry high risk, which influences the cost of equity in these markets. While there are myriad ways to estimate the cost of equity, not all approaches are practicable or theoretically tenable. An analysis of six dominant approaches indicates that the investor's degree of international diversification determines the correct approach. Globally diversified investors should use a CAPM based on international inputs, whereas investors who only diversify locally should use a CAPM based on local inputs.

Emerging market equities: an Australian perspective, by Geoffrey Warren F Fin and Daniel Radcliffe, Issue 1, pp. 41–47.

Emerging markets should be viewed as a high-risk, but potentially high-return, sub-class of world equities rather than a diversification opportunity. In addition, a positive correlation with the Australian dollar can help to offset the impact of equity fluctuations, enhancing the attractiveness of emerging markets for Australian investors.

EQUITY MARKET

Analyst coverage of Australian listed firms, by Baljit Sidhu and David P Simmonds, Issue 1, pp. 19–29.

Australia's largest companies attract the lion's share of equity analyst coverage, leaving investors with limited access to forecasts for most ASX listed companies. In recent years, the number of forecasts generated by analysts has been dropping, however, there is some evidence that analysts are starting to pay more attention to smaller stocks.

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FINSIA NEWS AND VIEWS

Editorial

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 1, pp. 3–4.

As investment markets around the world grapple with the fallout from the meltdown in US sub-prime mortgage markets, it is not surprising that several articles in this issue of JASSA are about security analysis and equity markets issues. We also cover emerging markets and some of the information challenges faced by Australian banks in trying to identify potential partners in less regulated financial markets.

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 2, pp. 3–4.

This issue of JASSA reflects the diverse interests of our readership. The articles address issues in banking risk, investment strategy, stock valuation, IPO assessment, financial planning and accounting standards.

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 3, pp. 3–4.

This issue of JASSA includes a number of highly topical capital markets themes, including risk management and the search for elusive 'alpha'.

From the Chair of the Editorial Board, by Scott Donald SF Fin, Issue 4, pp. 3–4.

In view of the ongoing uncertainty and evident disruption to global financial markets in recent months, the final issue of JASSA for 2008 focuses on a range of topics relating to risk management, the appropriate pricing of risk and the effects of regulatory changes on market volatility and liquidity. It is only by delving more deeply into the causes of these recent events that we will develop new and better approaches to managing risk and innovation both at an institutional and industry-wide level.

From the Editors, by Kevin Davis SF Fin and Kim Hawtrey SF Fin, Special Issue.

Against the backdrop of the significant upheaval within global markets, this Special Issue of JASSA provides a valuable record of the events leading up to mid-2008. For finance industry professionals and academics, these papers may provide fertile ground for assessments of why the global credit crisis affected Australia as it did, and how these sorts of events might be avoided in the future. The papers are published as being current at the time of the conference in mid-2008 and/or including revisions very soon after that.

JASSA Prize

2007 JASSA Awards describing the best original article and three runner-up merit awards for outstanding original writing in JASSA over 2007, Issue 1, pp. 11–12.

Reading room

Family trusts, a plain English guide for Australian families of average means, by N E Renton. (4th edition, WrightBooks, 2007.) Book review by Tony Crilly F Fin, Issue 1, pp. 48–50.

One of the most difficult things for a succession lawyer is to ensure that the client fully understands the implications of Family Trusts. Renton examines the topic in a logical and useful manner: from conceptualising the Trust through to providing alternatives. This is a particularly useful text in relation to Succession Law aspects and is written in plain English.

Funds management in Australia: officers' duties and liabilities, by Pamela F Hanrahan. LexisNexis Butterworths, 2007. Book review by Scott Donald SF Fin, Issue 2, pp. 39–40.

This legal guide helps to steer financial services officers through the hellish maze of statutory rules and general law governing the industry.

National market national interest: the drive to unify Australia's securities markets, by Edna Carew. Allen & Unwin, 2007. Book review by Bill Lucas SF Fin, Issue 2, p. 41.

Edna Carew's latest book provides some fascinating insights into the development of the national securities market in Australia, from the first stock exchanges introduced prior to Federation to the impact of the information technology age in the post quarter century.

The Last Tycoons, by William D. Cohan. New York: Broadway Books, 2007. Book review by Martin Fahy F Fin, Issue 4, pp. 36–37.

Providing an elegantly woven history of the emergence of Lazard Frères & Co. as a powerhouse US investment banking advisory firm, this book will appeal to finance professionals through its detailed account of the internal mechanisms of financial markets and the machinations of the firm's various key principals.

The origin of wealth – evolution, complexity and the radical remaking of economics, by Eric D Beinhocker. Harvard Business School, 2006. Book review by Paul Davis CFA, Issue 3, pp. 48–50.

Macro-economics has largely become a guessing game in which monetary authorities are winging it and the economic 'rocket scientist' PhDs in quantitative funds and banks are leaving large craters in the financial ground. Beinhocker suggests that the 'Complexity Economics' revolution will remedy these mistakes,

although these new ideas have not yet penetrated outside the research halls of academia.

Webmaster

Webmaster recommends, Issue 1, pp. 51–52. Covers Socialommerce, start-ups, property market searching, marketing charts, UN data searching and shipment tracking.

Webmaster recommends, Issue 2, pp. 42–43. Covers the 3G iPhone, and the future for blogs.

Webmaster recommends, Issue 3, pp. 51–52. Covers financial literacy in action, and searching in context and privacy via Ixquick.

Webmaster recommends, Issue 4, pp. 50–52. Covers microfinance initiatives across the region.

FIXED INTEREST

An alternative for structuring fixed income investments, by Geoff Warren F Fin, Special Issue.

Investment in fixed income is often tied to indices which suffer from various shortcomings as a basis for structuring portfolios and evaluating performance. Here, a practical alternative is suggested, involving tailoring benchmarks around explicit exposure targets and risk premiums. This approach provides a flexible way to align fixed income portfolios with investor objectives, and to ensure that risk is accounted for appropriately.

Fixed income managers: evolution or revolution, by Susan Buckley, Special Issue.

Traditional approaches to managing fixed interest funds rely on benchmarks that may not represent optimal risk and return outcomes. New techniques based on separate alpha and beta management should improve portfolio performance.

Kangaroo bond issuance in Australia, by Jonathan A Batten, Warren P Hogan and Peter G. Szilagyi, Special Issue.

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FUNDS MANAGEMENT

Do derivatives improve managed fund performance? by Alex Frino, Dionigi Gerace, Andrew Lepone and Brad Wong, Issue 3, pp. 5–10.

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HEDGE FUNDS

How the managers of Australia's large superannuation funds view private equity and hedge fund investing, by John Evans F Fin, Issue 3, pp. 21–23.

A recent survey of major fund managers revealed that the key drivers for investing in these non-traditional assets were return enhancements and risk management through diversification. With the majority of super funds using the fund of funds method of investing, the survey also found that fund managers, on average, intended to lift their allocation to hedge funds slightly, while private equity allocations were expected to remain stable.

The search for hedge fund alpha, by Robert J Bianchi F Fin, Michael E Drew SF Fin and Alex Stanley, Issue 3, pp. 39–47.

While hedge funds continue to increase their funds under management, the evidence of their ability to earn alpha or excess returns remains mixed. Our study considers whether hedge fund returns can be explained by a simple multi-factor model without the inclusion of complex option-based investment strategies. We found that over the 1994–2006 period, only 5–7% of the hedge funds we studied earned statistically significant alpha, suggesting that hedge fund alpha is as elusive as ever.

HOUSEHOLD DEBT

Recent developments in Australian household debt, by Andrew Worthington F Fin, Special Issue.

Household debt in Australia has risen to record levels in recent years with highly geared households also coming under increased stress due to deteriorating conditions in asset prices, incomes and interest rates. This paper assesses recent developments in household debt from macroeconomic and microeconomic perspectives, and provides a research agenda to cast further light on the causes of burgeoning household debt.

HYBRID SECURITIES

Australian hybrid securities: two decades of evolution, by Michael Saba and David Finlay, Special Issue.

The Australian hybrid market is a great example of financial innovation to meet a changing issuance landscape, with the market increasing fourfold to \$20 billion this decade. This growth has been driven by regulatory changes, investor demand and issuers looking for funding alternatives.

INFRASTRUCTURE

The NZ term structure: going long in infrastructure, by Roger Bowden and Dawn Lorimer F Fin, Issue 3, pp. 24–29.

The growing need for infrastructure funding by central and regional government, on both sides of the Tasman, can be utilised to complete long-term debt markets. One possible structure is a sovereign infrastructure vehicle that invests in long-term primary debt securities written by state and local government to fund infrastructure projects and repackage these into asset-backed securities issued to the public. Synergistic enhancements include lifecycle derivatives and retirement funding.

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INSURANCE

Compulsory PI insurance for financial advisers: the new compensation arrangements, by Stefan Sudweeks and Richard Vinciullo, Issue 2, pp. 29–33.

Following changes to the Corporations Law on 1 July 2007, financial advisers are now required to hold 'adequate' professional indemnity insurance (PI insurance). The intended beneficiaries of the changes are the 'retail clients' of financial advisers with the aim being that through compulsory PI insurance, 'mum and dad investors' will be able to regain losses associated with negligent or illegal advice. But the burden of this new regime falls squarely on financial services licensees and insurers.

INTEREST RATES

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INVESTMENT PERFORMANCE

'Dogs of the Dow' down under, by Lakshman Alles F Fin and Yeo Tze Sheng, Issue 3, pp. 30–38.

We evaluated the 'Dogs of the Dow' investment strategy, and a number of variations to it, in the Australian context using the large cap S&P/ASX 50 Index. Our research indicated that after providing quite spectacular returns in the initial years, the strategy continued to provide modest abnormal returns over the sample period.

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INVESTMENT STRATEGY

All roads lead to Graham and Doddsville: the evolution of the modern value investor, by George Gabriel, Issue 2, pp. 5–8.

'Superinvestors' such as Warren Buffett have adapted the basic principles of value investing, developed by Benjamin Graham and David Dodd in the 1930s, to invest successfully in all market conditions, including the recent volatility in financial markets.

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MODELLING

Credit risk models: why they failed in the credit crisis, by Wilson Sy F Fin, Special Issue.

Credit risk models have played a key part in the global credit crisis. The main shortcomings of these models are examined, and a new causal framework is proposed to build deductive credit default models that have predictive capabilities.

A practical comparison of firm valuation models: cash flow, dividend and income, by Paul Bailey F Fin, Paul Brown, Michael Potter and Peter Wells, Issue 2, pp. 22–28.

Our research, based on a sample of listed Australian firms, indicates that the residual income model provides better estimates of firm value than two other commonly used models. It also provides advantages in that there is less need to forecast returns as far into the future and, with this model, a terminal value based upon a constant future return (or relatively low growth rates) can be used. This obviates the need to estimate an expected long-term growth rate, which is always problematic.

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PORTFOLIO PERFORMANCE

Do initial stop-losses stop losses? by Bruce Vanstone, Issue 4, pp. 5–8.

Many traders use stop-loss rules in their everyday trading. In addition, during periods of high volatility, traders often attempt to protect their downside by moving their stops closer to the price action. However, there appears to be little justification for doing this. Indeed, the results of this empirical study of the use of stops within a defined trading strategy suggest that initial stops degrade long-term portfolio performance.

PRIVATE EQUITY

How the managers of Australia's large superannuation funds view private equity and hedge fund investing, by John Evans F Fin, Issue 3, pp. 21–23.

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RIGHTS ISSUES

Distortions in the tax treatment of rights issues, by Christine Brown SF Fin and Kevin Davis SF Fin, Issue 1, pp. 5–10.

The current concessional tax treatment of long-term capital gains creates an incentive for long-term shareholders to sell rights rather than participate in rights issues of shares by Australian companies. To achieve consistent tax treatment of rights issues, we derive adjustments that can be made to the cost base of shares in companies which have made rights issues.

RISK MANAGEMENT

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SHARE BUYBACKS

Off-market share buybacks revisited, by Kim Wyatt and Jarrod McDonald SA Fin, Issue 1, pp. 13–18.

While previous research using the discount capital gain method has illustrated the benefits for low marginal tax rate shareholders of participating in off-market share buybacks, we explore some alternative scenarios in which it may also be beneficial for higher individual marginal tax rate shareholders to participate. This highlights the need for all shareholders to obtain prudent financial advice.

Off-market tender buybacks not driven by tax benefits, by Keith Kendall, Adam Steen and Keith Turpie, Issue 3, pp. 11–15.

While shareholders may gain some tax benefits from participating in share market buybacks, our research shows that prices offered by shareholders in off-market tender buybacks in Australia are not driven by tax consequences alone.

The impact of share buybacks on earnings per share, by Graeme P Gould, Issue 1, pp. 30–34.

While companies often undertake share buybacks with a view to raising earnings per share, share buybacks affect both the numerator and denominator in calculating EPS. To determine the conditions under which share buybacks will increase a firm's EPS, the impact on earnings from which the firm's resources are diverted must be considered, as well as the reduction in the number of shares.

SHAREHOLDER VALUE

All roads lead to Graham and Doddsville: the evolution of the modern value investor, by George Gabriel, Issue 2, pp. 5–8.

'Superinvestors' such as Warren Buffett have adapted the basic principles of value investing, developed by Benjamin Graham and David Dodd in the 1930s, to invest successfully in all market conditions, including the recent volatility in financial markets.

SHAREMARKETS

'Dogs of the Dow' down under, by Lakshman Alles F Fin and Yeo Tze Sheng, Issue 3, pp. 30–38.

We evaluated the 'Dogs of the Dow' investment strategy, and a number of variations to it, in the Australian context using the large cap S&P/ASX50 Index. Our research indicated that after providing quite spectacular returns in the initial years, the strategy continued to provide modest abnormal returns over the sample period.

SHORT SELLING

Has the short selling ban reduced liquidity in the Australian stock market? by Don Hamson, Manoj Wanzare, Gavin Smith and Peter Gardner, Issue 4, pp. 14–20.

By comparing a balanced sample of firms before and after the introduction of ASIC's short selling ban, we find that stock market liquidity has decreased. Intra-day volatility and idiosyncratic intra-day volatility have also increased. Investors have also been negatively affected by a slowing in the price discovery process, increases in the cost of trading and less efficient trading.

SUPERANNUATION

How the managers of Australia's large superannuation funds view private equity and hedge fund investing, by John Evans F Fin, Issue 3, pp. 21–23.

A recent survey of major fund managers revealed that the key drivers for investing in these non-traditional assets were return enhancements and risk management through diversification. With the majority of super funds using the fund of funds method of investing, the survey also found that fund managers, on average, intended to lift their allocation to hedge funds slightly, while private equity allocations were expected to remain stable.

TAXATION

Distortions in the tax treatment of rights issues, by Christine Brown SF Fin and Kevin Davis SF Fin, Issue 1, pp. 5–10.

The current concessional tax treatment of long-term capital gains creates an incentive for long-term shareholders to sell rights rather than participate in rights issues of shares by Australian companies. To achieve consistent tax treatment of rights issues, we derive adjustments that can be made to the cost base of shares in companies which have made rights issues.

Off-market share buybacks revisited, by Kim Wyatt and Jarrod McDonald SA Fin, Issue 1, pp. 13–18.

While previous research using the discount capital gain method has illustrated the benefits for low marginal tax rate shareholders of participating in off-market share buybacks, we explore some alternative scenarios in which it may also be beneficial for higher individual marginal tax rate shareholders to participate. This highlights the need for all shareholders to obtain prudent financial advice.

Off-market tender buybacks not driven by tax benefits, by Keith Kendall, Adam Steen and Keith Turpie, Issue 3, pp. 11–15.

While shareholders may gain some tax benefits from participating in share market buybacks, our research shows that prices offered by shareholders in off-market tender buybacks in Australia are not driven by tax consequences alone.

TRADING STRATEGIES

Do initial stop-losses stop losses? by Bruce Vanstone, Issue 4, pp. 5–8.

Many traders use stop-loss rules in their everyday trading. In addition, during periods of high volatility, traders often attempt to protect their downside by moving their stops closer to the price action. However, there appears to be little justification for doing this. Indeed, the results of this empirical study of the use of stops within a defined trading strategy suggest that initial stops degrade long-term portfolio performance.

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TRANS-TASMAN RELATIONS

The NZ term structure: going long in infrastructure, by Roger Bowden and Dawn Lorimer F Fin, Issue 3, pp. 24–29.

The growing need for infrastructure funding by central and regional government, on both sides of the Tasman, can be utilised to complete long-term debt markets. One possible structure is a sovereign infrastructure vehicle that invests in long-term primary debt securities written by state and local government to fund infrastructure projects and repackaged these into asset-backed securities issued to the public. Synergistic enhancements include lifecycle derivatives and retirement funding.

VALUATION

A practical comparison of firm valuation models: cash flow, dividend and income, by Paul Bailey F Fin, Paul Brown, Michael Potter and Peter Wells, Issue 2, pp. 22–28.

Our research, based on a sample of listed Australian firms, indicates that the residual income model provides better estimates of firm value than two other commonly used models. It also provides advantages in that there is less need to forecast returns as far into the future and, with this model, a terminal value based upon a constant future return (or relatively low growth rates) can be used. This obviates the need to estimate an expected long-term growth rate, which is always problematic.

Fair or not? Fair value measurement in the sub-prime crisis, by Jane Hronsky and David Robinson, Special Issue.

Fair value accounting has come under significant scrutiny in the wake of the sub-prime mortgage market crisis and subsequent global liquidity crisis. Commentators have questioned whether current market prices are consistent with the definition of fair value in Australian accounting standards, or whether current market prices are more indicative of distressed sales. We argue that these prices do indeed represent fair values and convey useful information for market participants.

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