

The Finsia Journal of Applied Finance

JASSA

issue 1 / 2009

- Announcing the 2008 JASSA awards** page 7
- Predicting Australian stock market annual returns** page 9
Graham Bornholt, Griffith University
- ABC Learning Centres Limited** page 14
– did the annual reports give enough warning?
Andrew McRobert SF Fin, McRobert & Associates
- Optimising a transition to retirement income stream** page 18
Hugh O'Reilly, Monash University
- Investing in Australia during climate change** page 25
Richard Cumpston, Geodynamics Limited
Richard Denniss, Australian National University
- Observations on residential housing: the shared equity loan** page 31
R.R. Officer SF Fin, University of Melbourne and Acorn Capital Ltd
- Effect of general economic mood on investor risk tolerance** page 35
– implications for financial planning
Lujer Santacruz, The University of Southern Queensland
- Listed infrastructure funds: funding and financial management** page 43
Kevin Davis SF Fin, University of Melbourne and Melbourne Centre
for Financial Services
- A 'perfect storm' in retirement savings** page 48
Norman Sinclair, St Clair Financial Services
- Book review** page 54
The ascent of money: a financial history of the world
- Book review** page 56
*The subprime solution: how today's global financial crisis happened,
and what to do about it?*
- Webmaster recommends** page 58

contents

4

From the Chair of the Editorial Board

7

Announcing the 2008 JASSA Awards

9

Predicting Australian stock market annual returns

GRAHAM BORNHOLT

In view of the current volatility in global equity markets, the outlook for Australian equities returns is a significant issue for funds managers and investors. There is strong evidence that returns in the Australian market are predictable from past US returns (two years earlier). In addition, Australian growth stocks are shown to be more influenced by the 'two-year' effect than are value stocks.

14

ABC Learning Centres Limited – did the annual reports give enough warning?

ANDREW MCROBERT SF Fin

Following the demise of ABC Learning Centres, lenders and investors have faced the question of whether its financial statements provided sufficient warning signals. Careful reading of the accounts indicates that, despite disclosure of ABC's relentless growth, there was no material strengthening of its financial position. More detailed analysis reveals ABC's increased gearing, the decline in shareholder returns and its capacity to service the group's debts, with the inevitable and predictable outcome.

18

Optimising a Transition to Retirement Income Stream

HUGH O'REILLY

For individuals who have reached their preservation age and who wish to maintain their working hours, this article demonstrates that adopting a unique optimal Transition to Retirement Income Stream is beneficial to their superannuation balance. This is likely to be of significant interest to investors in the current period of high volatility and diminishing returns from the equities market.

25

Investing in Australia during climate change

RICHARD CUMPSTON AND
RICHARD DENNISS

Treasury's October 2008 report on the economics of climate change mitigation was followed in December by the Government's White Paper on its carbon pollution reduction scheme. What guidance do these comprehensive reports, and other emerging data, provide to investors in climate-affected industries such as agriculture and tourism, which are now facing large long-term risks?

31

Observations on residential housing: the shared equity loan

R.R. OFFICER SF Fin

Most households rely on traditional interest-bearing debt which can expose them to significant risks, such as sudden changes in economic growth or interest rates. Such risks could be alleviated through a better mix of external debt and equity for households via shared equity loans. Shared equity loans also appear to be a good investment for the investment house sharing the equity. On the basis of limited data, they return significant abnormal returns or 'alpha' for their risk.

35

Effect of general economic mood on investor risk tolerance – implications for financial planning

LUJER SANTACRUZ

This study indicates that the risk tolerance of Australian investors is not affected by general economic mood and, therefore, it is not necessary to adjust risk tolerance scores to account for changes in the investment climate. However, financial planners should recognise that herding behaviour could still result from investors being influenced by recent events.

43

Listed infrastructure funds: funding and financial management

KEVIN DAVIS SF Fin

With the recent poor performance of many ASX-listed infrastructure funds, the financial management practices of these funds have faced considerable criticism. However, some of these practices can be consistent with principles of good financial management. Since the listed infrastructure fund model is an innovation with many good characteristics, it is important that the failings exposed by the current crisis are correctly identified to enable improvements to this model through better regulation, governance and market discipline.

48

A 'perfect storm' in retirement savings

NORMAN SINCLAIR

This study reveals that investors may be incorrectly assessing their investment risk. With a significant percentage of SMSF funds likely to face high levels of implementation risk, this could help create a 'perfect storm' in the Australian retirement savings pool. These results have far-reaching implications for the SMSF sector, trustees and their advisers, as well as the ATO, as the regulator.

54

Book Review: *The ascent of money: a financial history of the world* by Niall Ferguson

FRANK OLSSON F Fin

56

Book Review: *The subprime solution: how today's global financial crisis happened, and what to do about it?* by Robert J. Shiller

RUSSELL THOMAS SA Fin

58

Webmaster recommends