There is a strong view in Australia that the only way for a feedlot to work is if the cattle price is continuing to rise and that if the cattle price falls after you have spent a lot of money feeding your animal, the break-even selling price would become very high compared with non-stall fed animals. In this case, the only way to make it economic would be to have a "tied consumer" who was obliged to take the product. Another feedlot concept is to use it simply to hold cattle, not to put condition on them, while awaiting slaughter (particularly to extend the season at a seasonal works) and so the food required may be much less expensive.

Now a brief final word about meat company reporting. Borthwicks have gone on record on the subject of "how to fiddle meat company accounts" and it must be admitted that by balancing in mid-season at June 30, most companies have their maximum stock positions, so allowing substantial scope for "conservatism" in establishing the lower of cost or market (a difficult enough task anyway, when the forequarter of an animal bought at an identifiable price may already have been exported, the rump and loin sold but not yet paid for and the remainder held in stock). At the same time, this means the companies present, in their balance sheets, their worst possible liquidity positions. But when security analysts decide that the meat industry is "fashionable", this sort of problem is of no consequence; it only matters at the bottom of the cycle, when no-one is interested in the stock. Yet that is the very time to buy a cyclical stock; your large attendance here today and your interest in meat indicates that the cycle must be nearing its top and that it will soon be time to think about selling.

-oOo-

HOGGING THE BUSINESS
by Xerxes Y Zorba

Those associated with the sharemarket would agree that it is of benefit to all concerned (raisers of capital, middlemen, speculators and investors) if the market is able to allow without undue disruption the movement of reasonable quantities of shares.

Australia's stock market is renowned for its "thinness". An attempt to quickly accumulate or dispose of a large parcel of shares in any but the few biggest companies will usually prove to be very difficult and substantial price movements may result.

Several factors contribute to the inadequate depth of the Australian market:

- relatively small capital market.
- several important industries wholly overseas owned.
- many large companies have overseas parent with majority holding.
- gradual accumulation by local institutions and their unwillingness to sell.
Another factor is that a seemingly growing volume of business is being done away from the floor of the exchange. Much business in Australian securities is conducted in London. This of course takes some business away from Australian members. On the other hand it enables some Australian dealers to buy or sell somewhat larger blocks of stock. There may be difficulties caused by varying currency values and there is the disturbing absence of adequate statistics relating to business done on the London exchange. Overseas investors often seem to lead the market; periodic incursions and subsequent withdrawal by overseas investors have occasioned some of the most significant market fluctuations. Whether these overseas influences come to be curtailed by our new government in its endeavour to protect our sovereignty remains to be seen.

There is very little business done away from the exchanges (e.g. institution to institution) and it is difficult to see it becoming more important unless the stock exchange through avarice forfeits its position.

Concern is being voiced in more than one quarter at the tendency for a broker who has one side of a transaction to attempt also to do the other part. This takes business away from the floor of the exchange, although transactions of less than $100,000 being conducted at other than the market price must be approved by the committee. Values in excess of $100,000 are reasonably considered as being beyond significance to the market situation.

Brokers who try to cover both sides make the following points:

- The very thinness of the market makes it likely that any large line would either take a long time to transact or affect the price (or both).

- The original client usually prefers the deal to be expedited.

- It is best to keep knowledge of the line to as few as possible, i.e. only the most likely purchasers are contacted.

- There is no reason to share the business.

- With the level of business low, and members appearing as prolific as petrol stations, the additional commission is needed.

Some institutional investment managers will pontificate that in theory they believe in an effective market and that they prefer to originate business by placing orders. However, these same managers might in practice do much of their business on an offer basis because:

- They cannot afford to pass up big lines which will probably not reach the market due to some other institution taking them up.

- They may not operate in certain stocks because stock is not freely available, or because those stocks usually come in parcels.

- The price might be too favourable to refuse.

Some usually smaller institutions will often prefer to deal mainly on the offer and bid system:
- It is easy (for lazy managers).
- It is certain.
- It may cut costs.
- Bargains might sometimes be obtained (even if illusory).

All this does not seem to be of advantage to small investors or to those who really do wish to operate for themselves. Are not the larger institutions at the top of the list at an advantage?

Others would claim that the increase in married lines is really only affecting those firms which through lack of entrepreneurial flair (or ethics, policy or opportunity?) do not obtain the original business. They would also hold that the high sounding principles of the dissenting institutions are disproved by their actions.

Some will argue that the role of the broker should go even further, and that there is a need for more firms to take blocks as principal. (Although in this event there would perhaps be need to separate the broking role). It can be said that firms which initiate deals by recommendations to both the buyer and seller are assisting to free the market. (The question of proper practice needs to be considered here).

If it is accepted that it would be preferable to get more business back to the floor one of several courses could be followed:

- Marriages could be outlawed (too severe).
- Necessity to obtain permission in most cases.
- Agreement of buyer and seller required.
- Leave on floor of exchange for quarter hour.
- Half brokerage rates to apply.

If we are going to have a market, let it be used. If for every line of stock the original broker is going to 'phone around, it may be found that this can be done more cheaply by a non-member. Probably the main reason for trying to place blocks is that the market is too thin. In doing this the market is made more so. Will there in the end be any market of substance left?

Perhaps market thinness may come to be relieved by other measures.

- Reform taxation laws and in particular allow longer term investors to sell without penalty.
- Revival of large scale capital investment would increase the need for new fund raising.
- Incentives to overseas owned companies to allow local participation.
- Realistic approval for Australian investment overseas.
- Allow short selling.
- Competitive commission rates.