A tale of two cities

Rivalry between Australia’s two biggest cities dates back over 150 years and Jim Bain is on fertile ground with his new book. JOHN POYNTON AM CitWA SF FIN provides a review.

**A Financial Tale of Two Cities — Sydney and Melbourne’s Remarkable Contest for Commercial Supremacy**
By Jim Bain (UNSW Press, April 2007)

On subjective issues such as lifestyle, weather, sporting codes and landmarks, the debate between the two very different cities may be passionate but is unlikely to produce a clear winner.

Viewed through the eyes of a 40-year market veteran, Jim leaves no doubt here though. He takes us through the commercial and financial development of two centres, making his point with compelling facts and figures.

The book’s brief introduction reminds us of Sydney’s head start for the first 70 years after European settlement but then outlines how a small number of visionary individuals and their stockbroking firms put Melbourne on top.

The book details the powerful influence of J.B. Were from the time of his arrival in Melbourne in 1839 to the ongoing strength of Goldman Sachs J.B. Were in today’s markets. There is also detailed coverage of Ian Potter and A. C. Goode, the two major post-war challengers to Were.

Their firms helped cement Melbourne’s relative power over Sydney such that “by the early 1970s (they) were completely dominating the Australian stockbroking industry”.

A progressive thinker himself, Jim’s admiration for the boldness and entrepreneurship of these pioneers is clear. There is a sense of nostalgic disappointment when he talks about the Deutsche Bank takeover of his old firm, Bain & Co, lamenting as he does its inability to remain independent.

Melbourne’s 130 years as Australia’s financial capital was fuelled by many things; the 1850s gold rush, benign geography, a strong manufacturing base and the dominance of the local brokers and bankers.

But as Jim tells it, the seeds for Sydney’s clear lead in 2007 were sown over 20 years ago with incorporation of stockbrokers and the rise of (mostly foreign-owned) investment banks.

**Lest it be seen as just a story about stockbrokers, the majority of the book chronicles the growth and influence of merchant banks, trading banks, and fund managers in the Australian capital markets.**

Having lagged its more dynamic Melbourne counterparts until the 1970s, the Sydney Stock Exchange also fought back by improving listing rules, providing detailed statistics on the market and computerising transactions between brokers. Jim contends that Sydney’s early adoption of computer technology was an important factor in its early influence over the introduction of SEATS and CHESS. This in turn has led to ASX being a Sydney centric company.

Lest it be seen as just a story about stockbrokers, the majority of the book chronicles the growth and influence of merchant banks, trading banks, and fund managers in the Australian capital markets.

In these buoyant times it is fascinating to read of the travails of our trading banks following the property crash in the last years of the 80s and early 90s. Westpac’s story is covered in some detail in the book and is a sobering reminder of what can happen when markets actually go down.

While Melbourne and Sydney seem evenly balanced, each with their two major banks, the same can’t be said for fund managers, regulators, investment banks, insurance companies and regional head offices, where Sydney clearly dominates.

In his epilogue Jim’s Sydney bias can be detected. Obviously proud of his home city and not being content to just let the facts and figures decide the argument, Jim also notes that *Travel and Leisure* magazine named it “World’s Best City” for 2004/05.

Jim’s book is both entertaining and educational. For me it brought to life the financial history of our two biggest cities with stories and anecdotes on the many characters and larger-than-life personalities (including the author) who shaped the events of their times.

For those so inclined, the book also provides a wealth of empirical information throughout the text and in the appendices.

I recommend it to anyone with an interest in Australia’s capital markets.

John Poynton AM CitWA SF Fin, Principal Azure Capital
A roadmap for personal finance

Trying to steer a course to the good-life destination is often difficult. JENNIFER HORNSEY reviews a new book on personal financial planning that offers a useful roadmap.

Personal Financial Planning
By Lawrence J. Gitman, David S. Morrison and Michael D. Joehnk
(Thomson/Nelson Australia, 2006)

We all want to achieve the ‘good life’, whatever that means. We all have goals and objectives whether short-term such as buying that new car or long-term providing for the children’s education, paying off the mortgage or retiring in comfort. But how do we get there?

Personal Financial Planning attempts to provide a roadmap to help us all get to the place where each of us can achieve our own ‘good life’. The book starts at the most basic level and covers the whole financial planning process, including some helpful tips on using professional financial planners. It covers all steps in the financial planning process from defining financial goals through to strategies, investment, insurance, retirement, estate planning and finally the review process.

The ground covered in this book is not new. It is pitched at a basic level, uses a plain English style and addresses issues in a very practical manner. What makes it different is its structure. It contains some helpful tips and case studies and reinforces concepts, exercises and applications. It also provides numerous useful online sites for everything from research to assessing the fair market value of your car.

Although written by academics and educators, their approach is a practical one and they cover some very basic but very common issues. There is a whole chapter on ‘Making car and housing decisions’ and two on managing your credit. Each chapter also contains ‘Critical thinking questions’ designed to help you focus on the thought-provoking issues.

Although three chapters are devoted to stock markets, bonds and managed funds, they are only scratching the surface. But its objective is to cover the whole process, not just the specific areas. And yes, it does achieve its goal.

Like all publications of this kind it does suffer from currency problems. Many statistics contained in the book are sourced between 2002–2004 and the 2006 budget changes to superannuation, which in the most part will come into effect on 1 July 2007, are only flagged with little detail. Unfortunately these changes alter much of the superannuation landscape and have estate planning implications. Keeping up to date in the area of superannuation is critical and of great concern to most of us, particularly those on the final stretch into retirement.

Providing for retirement is the issue of the moment and the focus is on starting early. I like their focus on the three big mistakes most people fall victim to in retirement planning: they start too late, they put away too little and they invest too conservatively.

Concise, to the point and all too true. So who is this book for? It would be useful for a wide audience, particularly the retail market or student who is embarking on the world of personal finance or financial planning. For the professional financial planner it may very well be a useful resource to recommend to new clients who are coming to grips with their own financial issues or as a good grounding or education on the financial planning process. After all, a critical and often difficult component of the financial planning process is educating your clients. It may also answer some of their questions and therefore save you time.

The roadmap analogy is a good one and easily understood. Each chapter provides ‘financial road signs’ such as ‘Warning: critical life events ahead’ or ‘Unclutter your life’ or ‘A potential for disaster’ or ‘Beat the retirement clock’. These are enough to stop and make all of us think.

This book is one which financial planners should keep on their shelves and recommend to their clients before they start a journey along for what may be for some a very long road. The road to financial success is often winding, has pot holes, many speed limits and there is often a need to stop, revive, and survive along the way. A roadmap might be just what we need.

Jennifer Hornsey is a consultant and professional writer specialising in educational material for the financial services industry. She has almost 20 years experience in the financial markets including 10 years with the Securities Institute. She is currently assisting Finsia as an editor of its education courses.
The value of mining assets

China’s need for resources will continue to bolster the Australian mining industry, and it is more important than ever that investors have a clear picture of what projects are really worth. MIKE FARRELL reviews a new book on the subject.

The Valuation of Mining Assets
By Wayne Lonergan (Sydney University Press, 2006)

This timely book draws on Wayne Lonergan’s 35 year experience in the industry as a partner of Coopers & Lybrand (subsequently PricewaterhouseCoopers) and more recently a founding partner of the specialist valuer Lonergan Edwards & Associates. Over the years he has been involved at senior levels in the national accounting and financial services industry bodies. He is the author of the industry standard The Valuation of Businesses, Shares & Other Equity and is a well-known contributor to JASSA and other journals.

The China boom in metals prices and the revival of mining investment markets and mining-related financial transaction activity after a long period of relative decline has created an obvious need for this very useful manual, not least because a new generation of analysts has joined the industry since the last metals bull market.

The book has 20 chapters, a glossary and index and is organised into five parts:

Part I is an introduction giving an overview of valuation issues for mining assets, the JORC and VALMIN codes and the problems involved in defining and translating the project into cashflow models.

Part II cuts to the chase with a comprehensive treatment of the CAPM approach to selecting appropriate risk-adjusted discount rates. There is a good discussion of the problems and practicalities of forecasting variables such as foreign exchange rates, inflation and metals prices; choosing between real and nominal discount rates; reality checking forecasts against ratio-based valuations; and the use of real option valuation techniques to capture the value of assets and operating strategies that are invariably excluded or ignored in traditional discounted cash flow analysis.

Part III focuses on the special problems of valuing gold mining projects. Most important is the impact of gold price hedging and gold lending on project values, and the special accounting issues flowing from the use of gold financing instruments.

Part IV deals with subsidiary valuation issues such as the use of geotechnical and exploration data and their effect on exploration acreage values and methods of separately valuing different components of the same property. These include the distinction between the value of tangible assets such as land for stamp duty purposes and the total value of the mining property, and the value of the mine and the value of the associated metallurgical plant in complex projects that include both.

Part V deals with the important reporting issues — in which Lonergan is an acknowledged expert — of accounting for goodwill in the mining industry and acquisition accounting in mining takeover transactions, both under Australian accounting standards and the impact of IASB standards from January 2005. Lonergan brings a sound grasp of modern portfolio theory, financial economics and accounting to deal with the practical problems and pitfalls involved in valuing mining assets. He successfully translates textbook theory into a set of practical principles valid in “real world” financial markets and transactions.

Readers are guided through the correct definition and construction of cash flow models of mining projects, starting with estimating mineable tonnages from reserves and cut-off grades through to the validity of basing forecast mine revenues on futures prices and exchange rates. Discount rate selection using CAPM is treated in depth, with practical tips for deciding on appropriate beta factors in the light of incomplete market data.

Lonergan devotes considerable space to resolving the confusions between the correct use of real and nominal discount rates and the reasons why after tax discount rates should always be used. Even more space is allocated to the special problems involved in valuing gold assets that arise from the widespread use of gold financial instruments such as gold loans and forward-selling programs. He effectively quashes the (wrong) practice of making arbitrary variations in gold project discount rates to somehow capture the value of non-cashflow assets and the impact of gold hedging.

The usefulness of real option valuation techniques is convincingly explained. However I would like to have seen much more on this topic, since the practical use of real options has been promoted in the mining literature since the late 1980s, and it is now high time that we should be seeing more of this in the market.

Throughout the book, Lonergan uses practical examples to illuminate the text and to demonstrate the important issues. The book contains several case studies and tabulations of industry valuation practices, and represents a good practical handbook for the practitioner. Good value and strongly recommended. Michael Farrell is a member of the JASSA Editorial Board, Principal of Governan Securities Pty Limited and Director, World Mine Cost Data Exchange Inc. (Delaware), operator of minecost.com website.
Renew early and save

You can now enjoy fantastic discounts on selected books purchased online from the UNSW Bookshop, including a saving of $74 on the Finsia Financial Planning Pack. These prices won't last — order by 31 July 2007.

Make sure you visit My Finsia Member News for more great deals from the UNSW Bookshop, including books on China, leadership, mapping the markets and more.

You can also search the website for other great reads and enjoy a 10% discount. If you can’t find what you’re looking for, contact UNSW Bookshop at orders@bookshop.unsw.edu.au for help.

Finsia Financial Planning Pack 2007

RRP: $389
Finsia price: $315

SAVE $74

Each pack contains:
- Australian Master Superannuation Guide 2007 — due first week August 2007

Pre-order now for immediate delivery of each book upon publication.

Visit My Finsia Member News page Special Offers for further details on this special member offer at www.finsia.edu.au/Portal/Members/member_News

Social media: communication to all by all

To help JASSA readers come to terms with these new ways of communicating, whether for business or personal reasons, we refer you to the following definition from Wikipedia, the free encyclopedia at:

http://en.wikipedia.org/wiki/Social_media:

Social media describes the online technologies and practices that people use to share opinions, insights, experiences, and perspectives with each other on a global real-time basis.

Wikipedia gives examples of the various types of social media applications: Wikipedia (reference), MySpace (social networking), YouTube (video sharing), Second Life (virtual reality), Digg (news sharing), Flickr (photo sharing) and Miniclip (game sharing). These sites typically use technologies such as blogs, message boards, podcasts, wikis and vlogs to allow users to interact.

A live example is in Robert Scoble’s story on the term “Social Media” in his blog at http://scobleizer.com/2007/02/16/what-is-social-media/ where people discuss the pros and cons of the new media.

Google offers business homepage to all Australian businesses


Google announced on 12 June the launch of its Business Pages feature for AdWords™ in Australia. Intended for businesses without their own websites, AdWords Business Pages are informational webpages that advertisers can create when they sign up for an AdWords Starter Account. Businesses can use this hosted webpage to give users more information about their products and services when users click on their online ads.

In Australia, a very significant proportion of the one million plus SMEs do not have a website and thus cannot advertise on the Internet. AdWords Business Pages will offer these businesses a solution to broaden their customer base and potentially increase revenue through an online presence.

Investing information website launched to provide comprehensive investment information for exchange traded funds

www.eftspot.com

The ETFSpot.com Beta website has been launched to help investors make more informed choices when investing with exchange-traded funds by providing innovative one-screen views of popular exchange traded fund lists, ETF101 quick references, daily technical multi-charts, performance and relative-market ratings, forums — as well as the website’s Top 10 ETF funds list.

Disclaimer

Finsia offers the Webmaster page as guide only to what is available on the web. It does not endorse, promote or advocate any of the websites presented.