

Entrust Investment News December 2010



ENTRUST

Message from Graeme

This time of the year naturally lends itself to reflection and prediction so it's with interest that I cast my mind back 12 months and take stock of what we then thought the year would bring. As it happens, we were mostly on the money.

We saw the dollar reaching parity and as we all saw, it did so in a blaze of glory. We sensed that Aussie cash rates would reach 5% and they came in just shy at 4.75%. We felt that resources would, on the whole, outperform the banks.

Now as we move into 2011 we see some of the landscape remaining stable, with the dollar most likely to continue to trade around parity (+/- 10%). We think that there will be only modest rises in Australian cash rates, peaking around 5.5%. We do see commodity prices evening out, but remaining at relatively high levels.

And rather than continuing to call it the Global Financial Crisis – the GFC, let's call a spade a spade and use a more apt term; the North Atlantic Crisis. In as much as anyone can predict around this event, we expect that the lingering impact on household and government balance sheets will continue to hold back economic growth in the US, UK and Eurozone. We think there'll be GDP growth of 1-3%.

And even as official interest rates stay ultra low in these regions, we believe that yields on longer-term bond rates will rise.

TAKEOVER TARGETS – WHAT A FAMILY BUSINESS NEEDS TO KNOW

The New Year is often a time when people take stock, make changes and some times, decide to sell out of the family business. You see, it's not just large corporations that can become the target of a takeover. Just like a publically listed company, any family business can become an attractive target for, or subject of a merger or an acquisition by another entity.

There are a few reasons why this is a factor for consideration right now; one of which is that finance is becoming more readily available through buoyant capital markets and improved confidence. This environment is fuelling company desire for quality assets which may have lower market values, as well as value-add strategic alliances. Put simply, record amounts of cash sitting on corporate balance sheets combined with improved financing arrangements provide the perfect environment for companies to merge or be acquired by another –especially in a growing economy like ours.

So what does this mean for family business owners? Firstly, it means that your business could be the target of a takeover or acquisition – and this can present an incredible opportunity.

Things to bear in mind; It's important to understand that a merger or an acquisition can be a very long and complex process and may not always be in your organisation's best interest.

The Improved corporate environment may also present an opportunity for family business to raise capital (sell down equity or interest) via an initial public offer (IPO). This process can take up to 12 months – sometimes longer.

So the key is to ensure the calibre of your advisors. During the process, you'll need to consider appropriate advice in relation to the best investment structures to employ e.g. a family trust or a super fund. Getting the correct taxation advice is also critical and if the deal goes through to completion, the correct advice around how funds are allocated through to individual investment is absolutely critical.

BANKS OR RESOURCES IN 2011?

There has been a lot of coverage around the banking sector in the last half of this year. So what to expect going into 2011, particularly in the wake of the Government's recent release of the banking sector reform package?

We see still-high commodity prices and larger production volumes resulting in another strong year for resources stocks. We think that slow credit growth and higher costs will hold back the rise in bank earnings, but shareholders can still look forward to another solid increase in the already attractive bank dividends.

SPECIALIST KNOWLEDGE FOR THE FARMING SECTOR

Rowan Jones grew up on a farm in the mid west of WA. He knows first-hand the challenges faced by the farming industry and the different approach that can be required when dealing with those challenges.

While Rowan's focus involves providing personalised strategic advice and a comprehensive knowledge of financial markets and portfolio management, his farming background gives him the edge when dealing with clients on the land.

From all of us at Entrust, we wish you a safe, happy and restful Christmas break and look forward to a challenging and rewarding 2011.

DISCLAIMER:

Entrust Private Wealth Management Pty Ltd (Entrust) does not accept any liability for loss or damage suffered or incurred by any person however caused (including negligence) relating in any way to this Newsletter including, without limitation, the information contained in it, any errors or omissions however caused or any person placing any reliance on this presentation, its accuracy, completeness or reliability.

Entrust and its affiliates or any of its directors, agents, officers or employees do not make any representation or warranty, express or implied, as to or endorsement of, the accuracy or completeness of any information, statements, representations or forecasts contained in this Newsletter, and they do not accept any liability for any statement made in, or omitted from, this Newsletter. Entrust accepts no obligation to correct or update the information in this Newsletter.

This Newsletter is intended only to provide a summary and general overview of matters of interest. The Newsletter is not financial product advice, whether personal or general, for the purposes of Section 766B of the Corporations Act. The Newsletter does not involve or imply a recommendation or a statement of opinion in respect of whether to buy, sell or hold a financial product. The information in this Newsletter does not take into account the objectives, financial situation or needs of any person. You should not act on or rely on the contents of this Newsletter before first obtaining professional advice specific to your circumstances.

This Newsletter and contents has been made available in confidence and may not be reproduced or disclosed to third parties or made public in any way without the express written permission of the Fund or Entrust Private Wealth Management Limited.